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**UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D. C. 20523**

DOMINICAN REPUBLIC

PROJECT PAPER

ELECTRICAL ENERGY SECTOR RESTRUCTURING

AID/LAC/P-834

PROJECT NUMBER: 517-0270

UNCLASSIFIED

PROJECT DATA SHEET

1. TRANSACTION CODE

A = Add
 C = Change
 D = Delete

Amendment Number

DOCUMENT CODE

3

2. COUNTRY/ENTITY
 Dominican Republic

3. PROJECT NUMBER
 517-0270

4. BUREAU/OFFICE
 LAC

5. PROJECT TITLE (maximum 40 characters)
 Electrical Energy Sector Restructuring

6. PROJECT ASSISTANCE COMPLETION DATE (PACD)
 MM DD YY
 01 31 916

7. ESTIMATED DATE OF OBLIGATION
 (Under "B" below, enter 1, 2, 3, or 4)
 A. Initial FY 913 B. Quarter 4 C. Final FY 913

8. COSTS (\$000 OR EQUIVALENT \$1 =)

A. FUNDING SOURCE	FIRST FY 93			LIFE OF PROJECT		
	B. FX	C. L/C	D. Total	E. FX	F. L/C	G. Total
AID Appropriated Total						
(Grant) DA	(3,402.2)	()	(3,402.2)	(4,000)	()	(4,000)
(Loan)	()	()	()	()	()	()
Other U.S.						
Host Country		970	970		1,970	1,970
Other Donor(s)						
TOTALS	3,402.2	970	4,372.2	4,000	1,970	5,970

9. SCHEDULE OF AID FUNDING (\$000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE		D. OBLIGATIONS TO DATE		E. AMOUNT APPROVED THIS ACTION		F. LIFE OF PROJECT	
		1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
(1) DA						3,402.2		4,000	
(2)									
(3)									
(4)									
TOTALS						3,402.2		4,000	

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each)

11. SECONDARY PURPOSE CODE

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)

A. Code

B. Amount

13. PROJECT PURPOSE (maximum 480 characters)

To facilitate the electrical energy sector restructuring strategy of the GODR by providing technical assistance and training needed to strengthen the institutional development of new regulatory and supervisory entities, and to maximize private sector participation for more reliable, accessible and environmentally sound electrical energy service.

14. SCHEDULED EVALUATIONS

Interim MM YY Final MM YY

15. SOURCE/ORIGIN OF GOODS AND SERVICES

000 941 Local Other (Specify)

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a _____ page PP Amendment.)

I have reviewed the methods of implementation and financing of this project and certify that they are in agreement with Payment Verification Policy Implementation Guidance and that adequate provisions for audit are included.

J. Wayne Butler
 Controller

17. APPROVED BY

Signature: Raymond F. Rifenburg

Title: Mission Director

Date Signed: MM DD YY
 09 14 913

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION

MM DD YY

PROJECT AUTHORIZATION

NAME OF COUNTRY: DOMINICAN REPUBLIC

NAME OF PROJECT: ELECTRICAL ENERGY SECTOR
RESTRUCTURING

NUMBER OF PROJECT: 517-0270

1. Pursuant to Part I, Chapter 1 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Electrical Energy Sector Restructuring Project for the Dominican Republic involving planned obligations of not to exceed Four Million United States Dollars (US\$4,000,000) in grant funds over two and one half years from the date of authorization, subject to the availability of funds in accordance with the A.I.D. OYB/allotment process, to help in financing foreign exchange and local currency costs for the project. The planned life of the project is two and one half years from the date of initial obligation.

2. The project consists of technical, training and commodity assistance in support of the GODR electrical energy sector reform and restructuring strategy, and for the development of corresponding supervisory and regulatory institutions. The project will also help mitigate the environmental impact and improve the quality of electrical energy generation by developing institutionalized norms and standards for electricity generation site selection, maintenance and operation.

3. The Project Agreement which may be negotiated and executed by the Officers to whom such authority is delegated in accordance with A.I.D. regulations and Delegations of Authority shall be subject to the following essential terms and covenants and major conditions, together with such other terms and conditions as A.I.D. may deem appropriate.

a. Source and Origin of Commodities, Nationality of Services

Commodities financed by A.I.D. under the Project shall have their source and origin in the United States or the Dominican Republic, except as A.I.D. may otherwise agree in writing. Except for ocean shipping, the suppliers of commodities or services shall have the United States or the Dominican Republic as their place of nationality, except as A.I.D. may otherwise agree in writing. Commodities or services from the Cooperating Country financed under the project are subject to the limitations set forth in Handbook 1B, Chapter 18.

Ocean shipping, financed by A.I.D. under the Project, shall, except as A.I.D. may otherwise agree in writing, be financed only on flag vessels of the United States.

Raymond F. Rifenburg
Raymond F. Rifenburg
Director
USAID/Dominican Republic

September 14, 1993
Date

Clearances:

RLA: EDragon

PDI: TMiller

PDO: ASchoepfer

PDO: RGarland

CON: JWButler

(draft)
[Signature]
[Signature]
[Signature]
[Signature]

Date: 8/27/93

Date: 9/9/93

Date: 9/14/93

Date: 7/6/93

Date: 9/13/93

On

USAID/DOMINICAN REPUBLIC
PROJECT PAPER
ELECTRICAL ENERGY SECTOR RESTRUCTURING
PROJECT NO. 517-0270

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ELECTRICAL ENERGY SECTOR RESTRUCTURING PROJECT
(No. 517-0270)

I. EXECUTIVE SUMMARY

During the past several years, the Dominican Republic has been plagued by persistent and sustained electric power shortages and poor management within the energy sector. As a result, the potential for economic expansion has been greatly impeded, particularly for industrial exports and tourism -- the country's two leading earners of foreign exchange. The USAID/Dominican Republic has provided assistance over the past five years to help define and implement solutions to the energy problems. These activities have promoted private sector participation in the energy sector as an essential element to resolving the Dominican electrical energy crisis.

Since August 1990, the economic stabilization program put forth by the Government of the Dominican Republic (GODR) has produced positive results. With economic improvements underway, the government is now focussing on the development of priority economic sectors. High on the list is the electrical energy sector, which is in urgent need of investment, restructuring and reform. Although electricity service has improved lately with a partial rehabilitation of the Dominican Electricity Corporation's (CDE) generation and distribution facilities under current loans and technical assistance from the World Bank (IBRD) and the Inter-American Development Bank (IDB), service is still poor and the sector demands considerable investment and assistance. Unplanned power outages are frequent, technical losses and the number of illegal connections high, with overall operational efficiency low. Only 40 percent of the population has access to electricity and available generating capacity is insufficient to meet the demand of even this reduced population.

In October, 1992, several joint meetings were held between representatives of the GODR, the IBRD and IDB, and USAID-funded technical experts. The participants concluded that the electric power sector required structural reform and should be organized to facilitate private sector investment and management. A work plan was developed for defining new laws/regulations for attracting private investment, restructuring the CDE and establishing procurement procedures for new electrical energy generation facilities. A new Energy Law is now in final draft and expected to be legislated by late 1993. USAID has recently provided funding for technical assistance to develop model supply contracts and a fuel pricing study for private sector investment in distribution and generation, and facilitate the proposed new energy reform loan projects of the IBRD and IDB. Loans of approximately \$100 million each from the IDB and the IBRD will

capitalize a fund to assist in financing privately owned and operated electrical energy generation facilities and services. The loans are expected to be approved by late FY '94 and '95 respectively.

The USAID/Dominican Republic Energy Privatization Project is a 2 1/2 year (30 month), \$4 million grant to the GODR to provide technical assistance in support of the GODR electrical energy sector restructuring. The project design has benefitted from a close working relationship between representatives of the GODR electrical energy sector and multilateral donors. The USAID Electrical Energy Sector Restructuring Project and the IERD/IDB loans are critical to implementation of the new Energy Law and advancing the GODR strategy for increasing private sector participation in the generation and distribution of electric services.

In support of the USAID/Dominican Republic long-term development strategy, the goal of the Electrical Energy Sector Restructuring Project is to increase and diversify external trade, and increase the socio-economic participation of the lower-income groups. The Project's specific purpose is to facilitate the electrical energy restructuring strategy of the GODR by providing technical assistance and training needed to strengthen the institutional development of new regulatory and supervisory entities, and to maximize private sector participation for more reliable, accessible and environmentally sound electrical energy service. The Project will provide broad-based technical assistance and training to achieve the following end-of-project-status: (1) an improved legal and regulatory framework for attracting foreign investment and private sector participation in the energy sector -- characterized by transparency of operation and greater awareness of privatization benefits on the part of policy decision makers; (2) cost/benefit and tariff studies for restructuring CDE and enabling private investment and management; and (3) enhanced environmental quality of electricity through development of institutionalized norms and standards, and an improved decision-making process for electricity generation site selection, maintenance and operation.

The primary counterpart entities to receive Project technical assistance include the **Technical Group** which reports directly to the **National Energy Commission**; the proposed **Regulatory Agency (Superintendency)**, charged with overseeing system, tariff and environmental regulations and standards; and the proposed **Energy Coordinating Agency**, comprised of private and public sector representatives responsible for planning the interconnect and dispatch systems operation and emergency maintenance program.

The following key outputs are essential to achieving project objectives: (1) improve the institutional effectiveness of energy

regulatory and supervisory entities; (2) increase private sector participation in energy distribution and generation systems; and, (3) environmentally sound private sector financed expansion of electrical energy generation and distribution systems.

PROJECT SUMMARY BUDGET
(U.S.\$ '000)

	<u>A.I.D.</u>	<u>HC</u>	<u>TOTAL</u>
I. Energy Privatization			
Technical Assistance	1,250	900	2,150
Training	110	28	138
Special Studies	<u>55</u>	<u>20</u>	<u>75</u>
Sub-total	1,415	948	2,363
 II. Institutional Strengthening			
Technical Assistance	1,283	-	1,283
Training	270	-	270
Operational Costs	<u>-</u>	<u>822</u>	<u>822</u>
Sub-total	1,553	822	2,375
 III. Energy Sector Environmental Norms and Standards			
Technical Assistance	500	-	500
Training	300	-	300
Materials and Support	32	-	32
Operational Costs	<u>-</u>	<u>200</u>	<u>200</u>
Sub-total	832	200	1032
 IV. USAID Project Management			
PSC or Contract	<u>100</u>	-	<u>100</u>
Sub-total	100	-	100
 V. Evaluation			
Audits	50	-	50
Audits	<u>50</u>	<u>-</u>	<u>50</u>
Sub-total	100	-	100
 Total Project	<u>\$4,000</u>	<u>\$1,970</u>	<u>\$5,970</u>

II. BACKGROUND AND SETTING

A. The Dominican Republic Energy Sector

Electrical energy plays a key role in the agricultural, industrial, and social development of the Dominican Republic. Approximately 50 percent of the electricity production in the D.R. is used by industry, with the remainder consumed in the agricultural, commercial, and residential sectors.

The Dominican Republic is comprised of an area of 48,700 square kilometers, with a total population of 7.5 million. There exists a total installed power capacity of roughly 2,070 megawatts (MW), which is about one tenth the installed capacity of Mexico or the state of Ohio. The Corporación Dominicana de Electricidad (CDE) currently controls 70% of the nationwide power capacity (1,450 MW). The remaining 30% (650 MW) is in the hands of the private sector. The actual installed capacity under the control of CDE is approximately 1,155 MW, of which 750 MW is oil-fired generation, 200 MW coal-fired and 205 MW hydroelectric. Another 900 MW of small, privately owned diesel sets are known to be operating at industrial, commercial and residential sites. Depending upon the performance of the Dominican economy, the annual load growth rate is projected at approximately 4 percent through the year 2002.

Over the last several years, the government has made only limited progress in reducing its external debt, regaining international creditworthiness and paying off arrears to multilateral and bilateral creditors. Unemployment and underemployment are estimated at 30%. The Dominican free trade zone (FTZ) program, however, is regarded as the most dynamic program of this kind in the region. There are currently 29 FTZs in operation, and seven new FTZs under development. Free trade zones are mostly tax exempt, and regarded as engines of growth -- employing some 150,000 workers. The tourism sector in the D.R. has grown an average of 12.5% annually over the last 10 years, with 23,000 hotel rooms now in operation, 7,500 under construction and 8,000 more in planning.

B. Legal/Regulatory Status of CDE and the Energy Sector

In 1954, the GODR nationalized the Compañía Eléctrica de Santo Domingo (formerly owned and operated by Stone and Webster) creating the Corporación Dominicana de Electricidad (CDE). In May of 1956, the Dominican congress published law No. 4447 granting CDE monopoly powers for electricity. Until 1989, all power generation, transmission and distribution operations were run by CDE as a government monopoly. Only recently has the private sector been allowed to install generating units for internal use, with the government having authority to purchase

available power produced by private generating facilities to fill gaps in public electric service coverage.

Law No. 14-90, enacted in late 1989, allowed the private sector to engage in the generation, transmission and distribution of electric power. The law also created the Directorio de Desarrollo y Reglamentación de la Industria de la Energía Eléctrica (Dominican Directorate for the Development and Regulation of the Electric Energy Industry, or DDRIE). DDRIE was designed to provide policy and institutional support for private power production by offering developers a number of incentives, including access to foreign exchange, a system of tax exemptions for the private power generator and a mechanism for development of a tariff between the generators and CDE. However, given the lack of an appropriate legal and regulatory system and transparency of operation, there was no significant private sector participation in developing electric service. In May, 1992, the government repealed Law No. 14-90. This appears to have been done, inter alia, as part of the GODR policy of abolishing legislation contemplating subsidies.

The government of the Dominican Republic has begun the process of reorganizing its electric sector. The Comisión Nacional de Energía (CNE) and corresponding Technical Group were created by executive decree No. 148-93 of May 31, 1993. The Commission, which will be advised by the Technical Group, is responsible for carrying out this reorganization. Following the full establishment of the Technical Group, the next important step will be the presentation for passage to the Dominican Congress of a new energy law. The draft law, developed with assistance from the IDB, aims to provide the Dominican Republic with a reliable source of electricity by doing away with CDE's monopoly and encouraging private sector participation. The law also creates a new regulatory framework. In addition to allowing for new competition in energy generation and distribution, the law calls for the restructuring of CDE into "sociedades anónimas", or corporate entities with shareholder ownership.

The World Bank and IDB intend to provide technical assistance to CDE to assist with the restructuring. It is expected that CDE will be reorganized into companies operating in three sectors -- i.e. generation, transmission and distribution. The manner in which this company is restructured will determine the subsequent privatization process. The draft law provides 360 days to complete the restructuring of CDE. The law is expected to be presented to the Dominican Congress in October 1993, and approved by January 1994.

Technical Group -- National Energy Commission:

The Technical Group reports directly to the CNE and is responsible for implementing the strategy for reorganizing the

Dominican electric sector. The capabilities and performance of this group will to a large extent determine the pace and degree of success of the Dominican energy sector reorganization.

Restructuring of CDE:

In early 1991, the IDB awarded a four year contract to a Spanish utility, Union FENOSA, to provide management assistance to CDE. The scope of work included reorganization and restructuring of the CDE. Union Fenosa will continue to carry out its reorganization so that CDE can easily be divided into three companies -- generation, transmission and distribution. The separation of assets and internal restructuring required to divide CDE into three entities is expected to be completed by December of this year. Once restructuring has been completed and the new energy sector law approved, consultants will assess the options and benefits of dividing CDE generation and/or distribution systems into one or more companies. Analysis of this second stage of restructuring will lay the foundation for privatization.

Demand Forecast and Least Cost Expansion Plan:

The World Bank is providing CDE with assistance to rehabilitate the transmission and distribution systems through a contract with the German consulting firm, Decon. Using information gathered at CDE over the last 18 months, Decon will complete a study of expected future demand for electricity by September 1993. In addition, Decon will carry out a least cost expansion plan for new electrical energy supply, to be completed by early 1994.

III. PROJECT RATIONALE AND STRATEGY

A. Project Rationale

The availability of electric power is a key constraint to the achievement of broad-based sustainable growth. Lack of reliable, reasonably priced power is an impediment to increased growth, efficiency, competition and investment in virtually all key sectors, both large and small businesses, and most specifically to non-traditional exports in terms of goods and services (tourism). Further, it directly impacts on promoting a stable, democratic society. Power problems exacerbate social tensions and undermine the technical credibility of the governance process.

New power generation needs of the Dominican Republic are estimated at 1,100 MW to the year 2000, including 920 MW of coal- and lignite-fired capacity and 175 MW of hydroelectric. All new electricity generation for the Dominican Republic is expected to come from the private sector, either as stand-alone systems, projects constructed under a build-operate-transfer (BOT) scheme, or as new capacity undertaken by a privatized utility. In the absence of significant structural change in the electrical energy sector, however, electrical power will continue to constitute a significant constraint to Dominican economic growth.

The Dominican electricity sector has deteriorated due primarily to the following constraints: (1) limited financial resources; (2) inefficiencies of production, transmission and distribution; and (3) the absence of a clear energy policy and regulatory framework. These obstacles, which greatly reduce electricity access and reliability, have become so acute as to force the business sector to turn to private generation, usually in the form of small generating sets. There are reportedly over 17,000 privately-owned generator sets in service, producing some 900 MW or more. No new commercial or industrial venture is attempted in the Dominican Republic without making acquisition of a generating set a top priority. Small and micro enterprises which often can afford a generating set suffer increase costs due to the frequent power outages.

Specific Problem Areas to be Resolved:

CDE is an inefficient monopoly that requires large annual subsidies -- while providing for the electricity needs of only 40% of the Dominican population. A study financed by USAID in 1989 estimated that, based on the relationship between GDP growth and electricity generation, the interruptions of electrical service cost the Dominican economy \$218.4 million annually between 1984 and 1988. By 1990, the system appears to have hit an all time low with CDE itself incurring a loss of \$245 million.

As power outages accelerated in 1990, it is safe to assume that the cost to the economy of the Dominican Republic along with the cost of propping up CDE reached \$500 million. Equivalent to 7% of GDP, these losses represent a tremendous drag on the \$7 billion Dominican economy.

Lessons Learned:

The IBRD has made two previous loans to the Dominican Republic for the power sector: one which was partially successful, and the other which is still being implemented. Lessons learned to date from these loans and the results of two recent studies can be summarized as follows:

- Power sector deterioration is attributable primarily to: (1) lack of clearly defined sectoral and operational objectives and responsibilities; (2) an absence of corporate independence, managerial autonomy and accountability; (3) deficient corporate planning and control; (4) an inadequate tariff structure which includes large subsidies, limited government financial resources, and an excessive dependence on external borrowing; and (5) lack of qualified management and technical personnel, inadequate salary levels, and high turnover among management and other key staff within CDE.
- Despite recent improvements electrical energy services, owing to management consulting and ongoing system upgrade projects, any sustained progress in rehabilitating and reforming CDE requires the involvement of the private sector.
- Continuation of a public transmission system is recommended, while at the same time privatizing generation and distribution is essential for effective development of the power sector.
- If the perception of risk by private investors is to be reduced, the Dominican Republic must recognize the general right of investors to binding international arbitration. Moreover, control of economic and commercial policies is highly concentrated within the GODR, thus increasing the perception of risk by local and foreign developers alike.

Crossed Accounts:

The true financial condition of CDE cannot be determined on the basis of current information. Financial information used in this report is derived from CDE's audited financial statements prepared by Price Waterhouse, which are based on a detailed

qualifying opinion which casts considerable doubt on CDE's financial veracity.

CDE's accounts are crossed between government entities, without reference as to the exact liability of each government entity. Most governmental organizations do not pay for their electricity, thereby generating significant accounts receivable. The government has implicitly assumed CDE's external debt service and provides annual subsidies to CDE of approximately \$35 million. None of these public resources has gone toward increasing the government's equity stake in CDE or reducing its outstanding receivables. It is important that the CDE and the government reconcile these accounts and certify their authenticity by publishing audited 1992 financial statements as soon as possible.

GODR Energy Sector Strategy:

A strong political backing and governmental will are crucial for implementing the proposed project and accomplishing sector reforms. On May 31, 1993, a Presidential Decree was issued to establish the **National Energy Commission**, as well as formalize the organization of the **Technical Group** responsible to the Commission for the analysis and resolution of technical issues, and, in particular, the elaboration of the Least Cost Energy Expansion Plan. The new Energy Law is expected to be sent to Congress by late 1993, and enacted after the first Congressional session next year, anticipated by May, 1994. The following is a summary of the primary elements of the GODR power sector strategy.

- Private sector participation in the expansion of electricity generating facilities.
- Establishment of a legal framework for the power sector that defines and allows for: (1) the policy and regulatory role of the Government; (2) competition in power supply; (3) access to the transmission system; and (4) transfer distribution and commercialization to the private sector.
- Restructuring CDE by dividing it into three parts: (1) generation, to compete with private generation; (2) transmission; and (3) distribution and commercialization systems, to be transferred to one or more private companies.
- Management contracts with the private sector for government owned power utilities (CDE-generation and CDE-transmission/distribution).

IDB has already financed the preparation of the Electricity Law and subsidiary legislation (the draft energy law is now being reviewed by government and donor officials), while the USAID has funded the development of model supply contracts and an initial fuel pricing study by means of a buy-in under the A.I.D. R&D/E&I Private Sector Energy Development (PSED) Project.

The IBRD and the IDB proposed Sector Loans entitled, Power Generation and Institutional Restructuring, will support the implementation of the GODR's strategy to improve the power sector efficiency, increase power supply and promote private participation in power supply. The proposed new IBRD and IDB loan Projects will include: (1) technical assistance to implement and/or strengthen the regulatory entity of the sector; (2) technical assistance for the corporatization of CDE's generation and transmission facilities, and privatization of its distribution system; (3) the provision of consultant services for the management of CDE's generating and transmission utilities; and (4) the establishment of a fund to provide long-term financing to private contractors for the installation and operation of generating units under the Buyer Owned and Operated (B.O.O.) modality.

In addition to on-going and committed installations (300 MW in 1993-1995), a preliminary assessment of new power needs estimates that 150 MW of coal-fired electricity are required by 1998. Potential bidders will receive information on market requirements, and the expected operation of the system, including new units and least cost solutions under assumptions made during the planning exercise. With the recent addition of a power purchase agreement with Smith Cogeneration to supply 130 MW of combined cycle power for Puerto Plata, electrical energy generation requirements through 1995 have been reduced to 170 MW. As such, the total financing to be provided under the proposed IBRD/IDB projects is estimated at \$200 million, with an additional \$50 million in financing to be derived from private investors.

New Energy Law:

The new energy law will clearly separate government regulatory, promotional and supervisory functions from management functions. To ensure performance of these functions, the law will create the following supervisory and regulatory institutions:

- National Energy Commission (CNE). The CNE is the Government Agency in the power sector, with broad-based autonomy, a high level of professional expertise and streamlined procedures, governed by a Board composed of six State Secretaries, managed by an Executive

Secretary appointed by the Dominican President. The Commission's primary functions are:

- Legal, to propose new legislation required by the power sector and establish corresponding standards and regulations.
- Policy-making and Planning, within the power sector, including the issuance of policies and norms that govern operations of the electrical energy sector. A key area will be the development of long-range policies and norms which serve to protect and mitigate damage to the environment.
- Promotional, promoting consistent sector development through strategic planning, studies of electric company investment plans and the attraction -- through incentives -- of private developers and investment companies to the Dominican electrical sector.
- Oversight, or monitoring energy sector operations to ensure compliance with the objectives of the new law, and adherence to environmental policy norms and standards.
- Approval of new franchises for sector development.
- Regulatory Agency, Superintendencia. Designed as an autonomous, independent agency with the following functions:
 - Analyze and set rates subject to regulation in accordance with the provisions of the law and corresponding regulations.
 - Ensure healthy competition in all areas where prices are not regulated.
 - Monitor the quality, regularity and safety of electric power service and compliance with the various obligations imposed by the law on power companies, and in particular, the supervision and enforcement of environmental policies, norms and standards.
 - Participation in the franchising process and transmit corresponding information to the Board for a decision.
- Coordinating Agency. Planned as the key private and public sector representative organization with the following functions:

- Interconnection and dispatch planning for systems operation and establishing a major facilities maintenance program.
- Maintenance scheduling for major work on distribution and generation affiliates to ensure facilities are operated under normal supply conditions; and
- Planning operations and establishing major facilities' mainstream and emergency plans for use in the event of power outages.

B. Project Strategy

The proposed USAID Energy Privatization Project and the IBRD/IDB loan projects will support one of the highest priorities of the GODR -- i.e. rehabilitation and development of the energy sector. The substantive changes planned for the power sector will ensure sustainable improvements in electricity service. The **legal and regulatory framework** will protect customers' interests and attract private participation. It will encourage the efficient utilization and development of power generation and promote the efficient operations of the grid and distribution networks, with costs and tariffs maintained as low as possible. **Management contracts and power purchase agreements for CDE's operations** will help to improve the reliability of its power plants and transmission system. **Privatization of the distribution system** will create confidence in potential private investors. As a result, financially sound distribution utilities will be the best protection for private generators to receive timely payments for the energy they produce.

Key Elements of the USAID Project Strategy:

- Facilitate implementation of the GODR strategy for private sector participation in the electric sector.
- Technical assistance funded initially by USAID through an AID/W buy-in, and support contemplated under the Energy Privatization project, are an important part of the GODR energy reform sector strategy. The Energy Privatization Project-funded activities include: (1) technical assistance and training programs for the Technical Group and members of the new Energy Commission in privatization of generation and distribution systems, and the division and valuation of CDE into three companies; (2) institutional strengthening for the proposed energy Regulatory Agency and Coordinating Committee; (3) technical assistance for privatizing the electricity distribution and new and existing generation systems; and (4) the mitigation of environmental impact for new expansion activities,

and the development of environmental institutional norms, standards and procedures.

- Project assistance will be targeted to the **Technical Group** which will in turn evolve into the Supervisory and Regulatory Agencies for the GODR energy sector. These activities will be the Project's key technical counterpart for privatization of the electricity distribution system, regulatory and environmental impact assistance. The Technical Group and the **Coordinating Agency** will work directly toward maximizing the participation of private enterprise in management and ownership within the energy sector, and help solidify public/private sector partnerships.
- The Project is capable of serving as a model for the privatization of other state-owned enterprises in the D.R.

IV. PROJECT DESCRIPTION

A. Project Goal and Purpose

The Project goal is to increase and diversify external trade and investment and increase socio-economic participation of the lower-income groups. The purpose of the Project is to facilitate the energy privatization strategy of the GODR by providing technical assistance and training needed to strengthen the institutional development of new regulatory and supervisory entities, and maximize private sector participation for more reliable, accessible and environmentally sound electrical energy service.

B. Project Components

The Project components and corresponding activities are: (1) Energy Privatization -- Strategy Support; (2) Institutional Strengthening; and (3) Energy Sector Environmental Norms and Standards. Although each project component contains a set of discreet tasks involving technical assistance and training, there is a significant amount of overlap and reinforcement among project components and activities. As a whole, the Project components will provide assistance to help accomplish the following broad objectives, which will occur in phases over the 30-month life of project.

Phase I. Legislative approval of the new Energy Law and the establishment of Regulatory and Supervisory Institutions; and initial environmental mitigation and assessment activities.
(3 months)

Phase II. Restructuring of the CDE into three corporate entities and preparation for the privatization process; and environmental training and development of environmental norms and standards.
(9 months)

Phase III. Implementation of the GODR privatization strategy, financial restructuring of CDE and competitive bidding for private sector procurement, ownership and management of electricity generation and distribution assets; and the institutionalization and implementation of energy sector environmental norms and standards.
(18 months)

1. Energy Privatization -- Strategy Support (Phase I: Short-term TA and Training)

Activities carried out and decisions made during the first three months of project implementation will have a lasting impact on energy sector reorganization and reform. During this period,

it is expected that the remaining members of the Technical Group will be selected, the draft Energy Law will be finalized and legislated, and the Technical Group will develop a strategy to implement reforms -- leading to the establishment of three new supervisory and regulatory entities within the energy sector (i.e. National Energy Commission, Regulatory Agency, Coordinating Committee).

The Project will provide the Technical Group with short-term technical expertise in utility privatization. An opportunity will be provided for the Technical Group and other project representatives to become knowledgeable in privatization technologies and to witness first hand reorganization efforts in Latin America.

Advance the GODR Energy Sector Strategy:

The Project will provide immediate, short-term technical assistance to the Technical Group in analyzing and implementing the current reorganization strategy. This will be arranged through an AID/W buy-in or AID/W IQC for one time, specific TA needs. Assistance will include the provision of a privatization expert to work with the Technical Group to review the draft law, share utility and privatization information and skills applied in other countries and assist in developing the GODR strategy. Included in this effort is a two week observational training program in Chile and/or Argentina and Brazil, to assess the privatization experience of these countries. The Technical Group (and possibly members of the National Energy Commission) will meet with the Chilean consultants who assisted in the preparation of the draft law and with Chilean utility and privatization authorities. The Technical Group members (i.e. coordinator, lawyer, engineer and economist) will meet with their counterparts in each country over a three month period during one or more visits to these countries. .

Assessment of the Energy Law:

The Technical Group has indicated the need to have the draft Energy Law reviewed by an experienced firm with respect to the reorganization and legal ramifications of the law, before presentation to Congress. The Project will fund a legal consultancy to review the law and provide recommendations for the eventual "Dominicanization" of the Law. It is imperative that this activity commence as soon as possible after the Project Agreement is signed so as to provide input to the Technical Group before the law is submitted to Congress -- now scheduled for October of this year.

Short-Term Technical Assistance to the Technical Group:

- Counterpart to the Technical Group Coordinator. The proposed technical assistance will work directly with the Coordinator of the Technical Group. An electric utility expert, with broad-based experience in the operation and management of a private sector utility -- preferably with an engineering background, will work to ensure that the privatization process is structured in such a way as to maximize private sector participation.
- Counterpart to the Technical Group Economist. An economist will provide assistance in conducting a preliminary cost/benefit analysis for different privatization and restructuring options. By helping assess the impact on the Dominican economy, the economist will help analyze options to maximize returns to the government for privatizing CDE.
- Privatization Expert. An expert in electric utility finance and privatization is needed early on to review with the Technical Group the current law and proposed reorganization strategy. Primarily a financial specialist, he/she will have a background in utility privatization and will assess the reorganization strategy as expressed in Aides Memoire and the proposed draft law from the perspective of privatization, investment and financial returns to private developers.
- Utility/Analyst. This person will have a clear understanding of how utilities are regulated, and will analyze the current reorganization strategy and the proposed draft law from a utility, regulatory, and investor perspective.
- Short-Term Legal Expertise. The above mentioned technical specialists will have access to local legal expertise in support of the energy sector reform strategy. Project-funded legal and regulatory assistance to the Technical Group will address the following outstanding issues related to the law and provide legal and technical justification for inclusion:
 - The need for a separate Commission and autonomous Superintendencia to regulate the electric sector, with a staff of 20 - 30 each.
 - The development of a framework and procedures for new generators and developers to operate in the country.

- Advantages and disadvantages of having extensive formulas for rates and tariffs incorporated in the law; and,
- The need for a preliminary assessment of the value of the companies to be privatized and the costs/benefits of privatization.

Short term technical expertise will also make a preliminary analysis of the value of the assets to be privatized and the costs and benefits of CDE privatization. The purpose of this is to reach a preliminary consensus on the value for the companies to be privatized. For example, the question of the amount of the CDE distribution system to be privatized -- e.g., \$50 million or \$500 million -- will be addressed, and a preliminary determination made of the cost to the GODR of maintaining CDE.

- Preliminary Cost/Benefit Analysis. Experts will review financial statements for the last five to ten years using existing and current financial information. A determination will be made as to the financial costs and benefits to the government of maintaining CDE. The analysis will include subsidies provided to CDE by the government. The cost of subsidizing CDE would be compared with any dividends the government received from continued ownership of CDE.
- Utility Economic Analysis. The utility expert will establish criteria for evaluating the cost to the Dominican Republic of power outages, including the need to invest in generating capacity by private entities and businesses.
- Public Opinion Survey. The consultants will also conduct an informal survey to obtain information on how the public views CDE and the potential for private ownership. The public's image of the government will be used as one indicator for measuring CDE performance.

The above short-term technical assistance will be provided during Phase I (i.e. October - January, 1994). The Phase I short-term experts will spend the bulk of their time (8 - 10 weeks) reviewing the law and defining/analyzing the reorganization strategy. The remaining time (2 - 4) weeks will be spent on the preliminary valuation and cost/benefit analyses. These analyses will be used to directly support the development of the GODR energy sector strategy, and as critical baseline data for use during Phases II and III.

(Phases II and III -- Institutional Contractor Support)

The following technical assistance and training activities will be provided by the Project's institutional contractor, to be selected through full and open competition. It is anticipated that an institutional contractor will be awarded a contract and have technical assistance in place during the first quarter, 1994.

One Long-Term Technical Specialist to the Technical Group:

- Public Utility Commission Adviser. The Technical Group will be responsible for leading the reorganization process. The Project will fund a specialist with a background in Public Utility Commission management. The proposed position entitled "Public Utility Commission Adviser" (PUCA), will require an individual with an engineering and financial background who has a clear understanding of how an electric utility and its accompanying regulatory agencies operate. This person will work to ensure maximum private sector participation and the development of an effective regulatory framework.

The PUCA will provide a total of 24 months of in-country support. Of this amount, the PUCA will allocate approximately 6 months for the privatization and strategy support activities. However, the majority of time spent by the long-term adviser will be applied toward the development and strengthening of new institutions to be established under the new Energy Law. (See Component 2, Institutional Support). The institutional contractor will also provide training resources and access training programs in support of privatization efforts.

The PUCA and other technical specialists will require considerable support in order to ensure that Project objectives are accomplished. The institutional contractor (IC) will provide a total of 56 person months of short-term technical assistance that includes assistance in privatization programs to the Technical Secretariat to the Presidency, and the provision of a team of consultants working closely with the PUCA and the World Bank in the restructuring of CDE.

Short Term Technical Assistance to the Technical Secretariat:

- Support for Privatization. At this point in the energy privatization process, there exists an opportunity and need to educate official representatives and decision-

makers in the GODR as to the importance of privatizing CDE. This can be achieved by providing assistance to the Technical Group, and in turn the National Energy Commission, as well as the Technical Secretariat of the Presidency. In addition to the technical analysis surrounding privatization, there is a need for a consensus building process whereby government and policy decision-makers fully understand the energy sector reform strategy and process. This assistance can help set the framework for privatization and frame the public debate that is certain to occur. Technical assistance to the Technical Secretariat will be employed to help provide a framework for overall privatization.

Technical assistance will also be provided to help the Central Bank develop a promotional program for foreign investment. The program will be linked closely to the energy sector reform strategy for attracting foreign investment to the Dominican Republic.

Short-Term Privatization Team:

- Technical Assistance to Assess Costs/Benefits. Once the Energy Law has been enacted, the World Bank will contract a firm to help restructure CDE. On a parallel track with this assistance, the Project will provide for several financial (privatization) specialists to work with the IBRD consultants. Specific tasks will include assessing various privatization alternatives and their respective costs and benefits. The Project-funded technical assistance will be initiated approximately two months after the World Bank restructuring team has started work. By that time, an initial plan will be established for the number of companies to be created for each sector (i.e., generation, transmission and distribution).

The Dominican Republic does not have a framework or promotional program for privatization activities. However, it is anticipated that the work of the USAID Project contractor will provide all of the analysis needed by the government to make a decision as to the costs and benefits of various restructuring alternatives. This will help provide the framework to the GODR for energy privatization as well as be useful for the development of future privatization strategies. The privatization expert's primary responsibility will be to value CDE and the various privatization alternatives that result from the restructuring process. Technical experts will perform the valuation exercises described above for each of CDE's

restructured companies. The discounted cash flow analysis performed by the financial expert will include detailed analyses and due diligence findings. These valuations will make clear to the government the anticipated revenues from the various privatization alternatives.

Based on the above analysis, and in conjunction with the Technical Group and CNE, the technical expert will help rank the different privatization alternatives, taking into account governmental priorities.

Financial Experts (eight months). Short-term technical assistance to analyze cost/benefits of privatization. In conjunction with World Bank financed consulting services for corporatizing CDE, the Project will provide financial/privatization expertise to analyze the costs and benefits to the government of the various restructuring options being discussed by the government. This will involve the provision of 8 months of short term expertise, to be closely coordinated with the technical group and the consultants provided under the IBRD project for assisting in the restructuring of CDE.

Utility Expert/Economists (eight months). An electric utility expert will be used to evaluate the costs and benefits to the government of the Dominican Republic and to the Dominican economy of retaining CDE generation, transmission and distribution systems. This expert will have a thorough understanding of how utilities function both from an economic and operational standpoint.

Asset Valuation Engineer for Generation (two months). A valuation engineer will be used to inspect and value CDE generating facilities and related equipment. The engineer will have experience in performing these types of appraisals in the utility industry, preferably in Latin America.

Asset Valuation Engineers Transmission/Distribution (two months). These experts will visit and value CDE transmission and distribution facilities and related equipment. A valuation engineer with experience performing these types of appraisals in the utility industry is required.

Other Institutional Support as Needed (ten months). The in-country technical team will need support on specific studies throughout the privatization process. The Institutional Contract will allow for approximately 10 months of short-term TA to be identified during the course of Phases II and III of project implementation.

**2. Institutional Regulatory and Supervisory Support
(Phases II and III -- Institutional Strengthening,
Technical Assistance and Training)**

The primary constraint to the establishment of the Superintendencia, as contemplated under the proposed new Energy Law, is the lack of precedent in the Dominican Republic for this type of organization. Establishing the Superintendencia will require full development of a new organization -- one whose express purpose is to regulate and supervise the participation of private sector entities in the reform of the Dominican energy sector. A certain amount of time is required to establish regulations and procedures, test out applications of the system, train personnel and orient the public and private sectors as a whole to the functions and authorities of the new organization. This will require a concerted effort with the close involvement of government organizations and the participation of non-profit and for-profit private sector entities. Structures, procedures, and regulations must be created and implemented for the effective operation of electric utilities. Salary levels and benefits must be sufficient to attract well qualified personnel to serve as these nucleus of expertise for the CNE, the Superintendencia and the Coordinating Agency.

Project assistance will focus on appropriate activities which serve to educate personnel and government officials responsible for the decisions and operations of the institution. The Superintendencia will be assisted in the following areas:

- Regulations required to administer the law.
- Training programs, in-country, for personnel and the Board Members of the Superintendencia
- Public and private sector opinion surveys to better assess the needs of the Superintendencia.
- Training programs in the U.S. for Rate Analysts and Public Utility Commission members (at a minimum 3 Directors).

To accomplish this, two advisers are required: a long-term Public Utility Commission Adviser -- PUCA (18 months); and a short-term Utility Rate Analyst (9 months). The L-T position will be filled by the PUCA, who will allocate approximately 18 months out of the total two-year assignment. The short-term Rate Analyst assignment will be allocated in different intervals over the course of Phases II and III of project implementation.

The PUCA will have an electric utility specification, and will advise on the overall regulatory, political, governmental/public sector utility operation. Specialized knowledge will be

required to transfer information and skills to the three Superintendencia Board Members and other members of the Superintendencia. The PUCA's assistance to the Technical Group will be allocated to helping develop and strengthen the CNE, the Superintendencia and the Coordinating Agency. A smaller portion of the PUCA's time will also be allocated to working with the STP in defining a plan for other types of privatization activities, which can benefit from the experience of the public utility model.

The short-term Rate Analyst will have the necessary specialization and orientation to analyze the financial information presented by the electric utilities in their response to the RFP(s) for privatizing distribution and generation. Both "mentors" will serve as key resources for the GODR counterparts.

The PUCA will be contracted under the IC and brought on board shortly after passage of the new Energy Law. The rate analyst position will be utilized almost on a full time basis, however, it is deemed more effective to bring this person in for 3 months at a time for a total of 9 person months over the 30 month LOP, with the option to vary the individual and his/her expertise depending upon the specific needs of the institution.

Technical Assistance and Training for Institutional Strengthening under the Institutional Contractor:

- Rate Analyst. As the privatization team finalizes analyses of privatization alternatives, the PUCA, and more specifically the Rate Analyst, will evaluate the rate structures proposed for a privatized system. Working with the Commissioners from the Superintendencia, the Rate Analyst will review the rate structure's attractiveness to the private sector. The Rate Analyst will make two or more follow-up visits in 1995 to ensure that the system is working smoothly and to help resolve any constraints that may arise.
- Dispatching Analyst. Under the proposed Institutional Contract, a power dispatching expert will be provided sometime in 1995 following privatization. This analyst will work with the Despacho Nacional de Carga to determine appropriate criteria for the dispatching of energy. (The law currently proposes that energy be dispatched on a marginal cost basis, while some think it should be dispatched on a minimum cost basis.)

Training and Education:

- Trip to U.S. for Commission Members/Directors of the Superintendencia (at a minimum 3 members).

Observational Training/Short Courses U.S. (two weeks). The purpose of this trip will be to visit US electric utilities and regulatory commissions to see how they operate. The organization of the Superintendencia is proposed as being similar to a U.S. public service commissions, except the Superintendencia will regulate only electric utilities.

The project law currently provides for three directors to be named to the Superintendencia, each for a period of six years. The Project will fund travel and course fees for members of the Commission to the United States for two weeks of training in the first half of 1994.

- Training in U.S. for Rate Analysts. Once the Superintendencia is staffed, USAID would finance another month of training for the staff members responsible for rate analyses. This training would take place once the privatization of distribution has been confirmed.
- Training in the U.S. for Dispatch Analysts. Once the privatization of CDE distribution is accomplished, the project will provide for travel and per diem of key members of the Despacho Nacional de Carga to the U.S. for observational training and short courses.

(Legal aspect of tariffs will be studied, in addition to the fuel price policy study funded under the USAID pre-project buy-in).

- Tariff Studies. The Project will fund a study of the proposed tariffs to assist the new regulatory institution to better establish and implement new tariff structures. The Project will provide short-term technical assistance to address, through studies and analyses, some of the anticipated tariff issues associated with the privatization of CDE distribution and generation facilities. The following is illustrative of the types of tariff issues the proposed studies will address:

Article 79 of the proposed New Energy Law states that tariff regulation will apply to clients within a zone of concession, and, based on operating size, may not be allowed to freely negotiate competitive contracts. These clients will be considered clients of a public service, and as such, the Superintendencia will determine the maximum amount of energy to be provided these clients and the price they should pay.

Article 81 refers to the following: The sale of electricity from a generator to a distributor will take place at prices resulting from competitive public bidding for long term contracts. The Superintendencia will regulate and supervise this bidding process. The law currently prohibits an "electric company" responsible for more than 50 MW to participate in more than one of the three sector activities - generation, transmission and distribution.

Article 82 - Article 93 refers to the following: Tariffs for public service users will be fixed by the Superintendencia. The above articles describe in detail how prices will be set. It is not clear at this stage why these tariffs are regulated by the Superintendencia, and why detailed formulas are included in the Energy Law reglamentos.

**3. Energy Sector Environmental Norms and Standards
(Phase I -- Support for Environmental Mitigation Activities)**

To support and expedite implementation of the GODR energy sector reform strategy and facilitate increased participation of private investment and availability of World Bank and IDB financing, the Project will provide technical assistance in support of the preparation of preliminary environmental assessment work, and the development of environmental norms and standards to be incorporated into the procedures and bylaws of the Superintendencia.

Specifically, this Project component is comprised of the following activities: (a) analysis of legal and regulatory framework for environmental control, description and environmental assessment of the Dominican electrical sector, including existing problems and potential impacts of projects in the "Least-cost Expansion Plan," and environmental evaluations of coal handling contamination at Port of Haina; (b) preliminary evaluation of the proposed Luperón site; and (c) the development and institutionalization of environmental standards and norms within the proposed Superintendencia Regulatory Agency.

The first activity under this Project component is a series of environmental studies and appraisals conducted in part on behalf of a World Bank request for assistance. More importantly, however, these activities have applications for the least cost energy expansion plan and the development of environmental norms and standards for eventual privatization within the energy sector.

a. IBRD Terms of Reference

- Legal and regulatory framework for environmental control.
- Description and environmental assessment of the Dominican electrical sector.
- Environmental problems existing in the environmental sector; potential impacts of projects included in the "Least-Cost Expansion Plan".
- Control of coal handling contamination in the Port of Haina.

The World Bank has requested a series of studies which are preliminary to an initial environmental screening of new generation sites related to IBRD/IDB proposed projects. Terms of reference also call for a preliminary assessment of environmental impacts of an on-going IBRD loan project for two generation plants located at the Port of Haina. The studies are to:

- Assess possible environmental impacts of specific projects, including the proposed IBRD restructuring project. Recommend (1) controls for contamination from coal handling in the Port of Haina, and (2) necessary equipment.
- Legal and regulatory framework for environmental control: (1) synthesis and evaluation of legal and regulatory system currently in force; (2) recommendations for improving and adapting current institutional system to mitigate environmental effects of electrical installations and operations.
- Description of the DR electrical sector. Report should include evaluation and review of existing power generation, transmission, and distribution facilities.
- Initial assessment of environmental problems in the electrical sector, and potential impact of projects included in the GODR/Decon Least-Cost Expansion Plan, with emphasis on the proposed Luperón site.
- Control of contamination produced by coal handling in the Port of Haina will include the following: (1) levels of contamination; (2) methodology for control of contamination; and (3) recommendations for equipment for control of contamination;

The PP proposes that studies should not include all energy installations but instead, be limited to larger representative

examples of each type of generation facility: (1) Haina (coal) and Itabo (oil); (2) Santo Domingo-La Mina (gas turbine); (3) CDE diesel generators (various areas); and, (4) Tavera (hydro).

There are no World Bank guidelines governing environmental reports for existing installations. The Bank's Environmental Assessment Source Book, Volume III, Energy and Industry, will serve as a the principal guide for the Project-funded activities.

**b. GODR/Decon Least Cost Expansion Plan
(Preliminary Evaluation of Luperón Site --
IBRD-Funded Manenco Study)**

The DR electrical sector expansion plan calls for a series of power generating facilities located throughout the country to minimize transmission losses. With the exception of one small hydroelectric facility, all the generating plants will burn fossil fuels, primarily coal. Other power sources, such as nuclear, solar, or wind, are not being proposed. The small hydroelectric plant is located in the interior; all other plants will be will be located on the coast for access to imported, ship-borne fuels.

Many of the facilities tentatively planned for generation sites are located near existing or proposed tourist areas, some of them in extremely sensitive ecological zones. For example, one of the largest generating plants could be located at Arroyo Barril, on Samaná Bay. Samaná peninsula and bay comprise one of the most scenic areas in the DR. It has been proposed for protected area status and also major tourist development.

The World Bank-funded Manenco study will assess and screen future generation sites and assign priorities to potential generation sites based on a variety of environmental, geological, and economic factors. The study will identify sites with environmental and industrial negative impacts, and compare them with the sites selected in the 1993-2005 expansion plan. It is anticipated that GODR officials from a number of agencies will either participate in the study or be apprised of its results as soon as possible. The information will serve as a valuable tool for determining the most appropriate energy generation sites, and for orienting the newly reformed energy sector and its respective officials toward appropriate decision-making techniques based on environmental cost alternatives. The World Bank screening study will include economic evaluation of additional transmission facilities and related costs.

Results of the DR Electrical Sector Expansion Plan, being prepared by the German consulting firm Decon, will be issued in September 1993. Individual environmental assessments (Eas) will be prepared for each plant as a precondition to obtaining World Bank financing.

A determination will be made as to what additional site screening is necessary to ensure mitigation of environmental impact. To expedite preparation of a Request for Proposal (RFP) for the Luperón plant, and if requested by the Technical Group, the Project will support a preliminary environmental site evaluation to ensure that no adverse conditions exist. The report will include an economic evaluation of environmental impacts and alternative site considerations. Complete environmental assessments must be performed by the prospective developers prior to start of construction of all new plants funded with World Bank or IDB loan funds.

At the present time the GODR exercises few environmental controls over energy operations. For example, the Informe Nacional (1991, pp. 72-73) prepared for the UNCED conference in Rio De Janeiro indicates that few regulations are in place, and little is done to control even flagrant pollution. Furthermore, there is no evidence that standards and regulations exist to control the private sector. Article No. 8 of the new Ley General de Electricidad, to be presented to the Congress, states only the following with respect to environmental considerations:

"Que para la aprobación, instalación, y operación de las diversas fuentes de electricidad posibles corresponde al Estado prevenir y evitar atentados o degradación del medio ambiente y sistema ecológico nacional, velando por su integridad y pureza."

The new law should be reviewed to ensure that it contains provisions for environmental standards, regulations and enforcement, assessments, and monitoring. By surveying and evaluating the entire Dominican energy sector and also the expansion plan, the studies conducted by the World Bank can provide an integrated, country-wide appraisal of potential environmental impacts of restructuring, privatizing and expansion.

Although the study of coal handling contamination is focussed on the Port of Haina facility, the problems will become country-wide under the proposed expansion plan. Findings regarding control technology and management in Haina could be applied elsewhere. To support and expedite the expansion process, and on the basis of findings and recommendations to be made known by the World Bank-funded Manenco environmental site study, the Project may perform a preliminary study of the Luperón site. This is a critical task, but one that by itself does not carry potential for environmental impact.

The new Energy Law will be reviewed and amended if necessary to ensure that it provides for adequate public and private sector environmental standards, controls, and assessments, and

establishes clear responsibility and procedures for enforcement. In addition, Project technical assistance and training will ensure that:

- Specific studies include overall, system-wide environmental analysis.
- Findings and recommendations from the Haina coal handling study are applied to appraisals of new installations.
- The evaluation of the Luperón site pay special attention to environmental and economic impacts of power plants, including internalizing environmental costs, and direct and indirect effects. The study will identify potential impacts, alternatives, and mitigating measures; and
- Environmental site screening include alternative site and no-action evaluations, and that public and NGO participation be incorporated in the site screening process.

c. Energy Sector Environmental Norms and Standards (Phases II and III)

Environmental Norms and Standards. Massive restructuring of the Dominican energy sector offers a once-in-a-lifetime opportunity to also restructure the relationship of this critical sector to the environment through awareness, standards, regulations, and assessments. The Project component will help establish a comprehensive environmental program in support of privatization. Rather than a deterrent to the private sector, in-place standards, regulations, and procedures reassure investors that the playing field is level and the rules are known. Commercial operators prefer the known costs of appropriate technology and management to the uncertainty of vaguely stated and likely-to-change standards and regulations.

It is essential that agreement be reached on common environmental standards (e.g., air, water quality) and environmental assessment procedures. Only in this way can public, private, donor, MDB, and NGO participants have a common understanding and language for environmental evaluation of particular elements of the program. The following guidelines are necessary to establish and implement standards and procedures, and to develop an environmental framework within which this expansion program can be implemented in an environmentally sound manner. There is immediate need to establish:

- Statutory responsibility for environmental controls of public and private installations and operations.

- Air and water quality standards.
- Regulatory mechanisms, including enforcement, for public and private sectors.
- Environmental assessment procedures for government and private sectors.
- Monitoring procedures.

Project-funded technical assistance and training, provided through the Regulatory Agency, will be tasked with the following objectives:

- GODR and other donor coordination and agreement on environmental standards and procedures for construction and operation of the Dominican electrical system.
- Appropriate environmental training to GODR personnel in developing environmental standards and procedures; and,
- Institutional regulatory and supervisory support.

Short-term technical assistance and institutional support will be funded by the Project to carry out the following tasks:

- Establish environmental standards, including air and water quality, that will apply to public and private sector construction and operation of the existing and expanded electrical system.
- Establish and enforce environmental regulations and assessment procedures that will apply to public and private sector construction and management of the energy system; and,
- Appropriate environmental training to GODR personnel in applying and enforcing environmental standards and procedures, including environmental assessments.

C. Project Outputs and End-of Project-Status

Project Outputs:

- Improve the institutional effectiveness of energy regulatory and supervisory entities.
 - National Energy Commission, Regulatory Superintendent, and Energy Coordinating Agency established and operational with respective Governing Boards.
- Increase private sector participation in energy distribution and generation systems.
 - Private sector responsible for all new energy generation, with electricity distribution privatized in part and based on competitive, market-driven prices.
 - Percentage of rural families with access to electricity increases from 40% in 1995 to 85% by 2000.
- Environmentally sound private sector financed expansion of electrical energy generation and distribution systems.
 - Unified and regulated environmental standards and norms developed and implemented, appropriate environment assessments carried out for new generation sites.
 - Increased percentage of electricity generated from plants having air and water pollution treatment equipment.
 - Reduced emissions of air pollutants (NO_x, SO_x, particulates, etc.).
 - Reduced emissions of untreated waste water.
 - Reduced number of violations of environmental standards.

End-of-Project-Status (EOPS):

- Improve the legal and regulatory framework for attracting foreign investment and private sector participation in the energy sector:

- 300 MW of new private generation (by yr. 1996);
- New private distribution (by year 1995);
- Marketing initiatives for increasing electricity services based on more competitive marginal and average cost pricing (by PACD).

Increased private sector participation in electricity generation and distribution through cost/benefit, tariff and fuel pricing studies.

- Technical assistance and training provided by Project and other donors as appropriate to Technical Group and National Commission, Regulatory Superintendent, Coordinating Agency, and CDE.
- Well coordinated public/private sector energy development, maintenance and operating systems.
- Enhanced environmental quality of electricity by improving environmental awareness and the decision-making process for energy site selection for public/private sector energy development, maintenance and operation, and by focusing more attention on environmental issues in this sector.
- GODR institutional capacity developed for implementation of environmental norms and standards for the energy sector. Superintendencia functioning as proposed.
- Guidelines and/or lessons learned established for other privatization initiatives.

D. Relationship of Project to GODR Energy Policies, Other Donor Assistance, and A.I.D. and Mission Strategies and Projects

1. Relationship of Project to GODR Energy Policies

The Project will provide technical, training and commodity assistance in support of the GODR Strategy for restructuring the electrical energy sector. The draft Energy Law was reviewed and approved by the Interagency Technical Group and the High-Level Review Committee in an Aide Memoir signed on April 23, 1993. The law serves as the basic legal framework in which the National Energy Commission will carry out the proposed strategy for restructuring the electrical energy sector. The Project will provide broad-based assistance in three key areas in support of the GODR strategy: (1) restructuring of CDE and technical skills,

analyses and training programs focused on the eventual privatization of electrical energy distribution systems, and the new generation of electrical power; (2) developing and strengthening regulatory and supervisory entities charged with planning and oversight for the participation of private companies and investors in the distribution and generation of electrical energy; and, (3) employment of unified and regulated environmental standards and norms and appropriate environment assessments carried out for new generation sites, and enhanced environmental quality of electricity by improving environmental awareness and the decision-making process and by focusing more attention on environmental issues in this sector.

2. Relationship of the Project to Other Donor Assistance

The IBRD and the IDB are playing an integral role in assisting the development of the electrical energy sector reform strategy of the GODR. In addition to key technical assistance to the CDE for restructuring and rehabilitating the electrical energy sector, and for the analysis and elaboration of the new draft Energy Law, the IBRD and IDB will provide approximately \$200 million to capitalize a fund for assisting private developers in financing new electrical energy generation for the Dominican Republic.

Moreover, the Japanese Development Agency has contributed funds in support of IBRD technical assistance to the CDE for management consulting and the eventual restructuring of the CDE.

3. A.I.D. and Mission Strategies and Projects

Strategic Objective No. 1: Increased and Diversified External Trade

Program Output No. 1.1: Market oriented economic policy and regulatory reforms adopted and maintained.

The Electrical Energy Sector Restructuring Project directly supports the Mission's program output No. 1.1. for adopting and maintaining market oriented economic policy and regulatory reforms. The restructuring of CDE into one or more corporate entities, and to be privatized for electricity distribution and new generation, will be areas in which the project will provide key assistance. The operation of these new private utilities will be based on market-determined tariffs and policies which allow for open competition in the contract licitation process. In addition, the Project will provide assistance for establishing regulatory and supervisory institutions for the participation of private sector developers and investors. Environmental norms and standards will be developed and applied as a result of project assistance provided to the CNE and the Superintendencia over the

assistance provided to the CNE and the Superintendencia over the 2 and 1/2 year life-of-project.

The Electrical Energy Sector Restructuring project is also complementary to other Mission projects which directly support program output 1.1. These projects include the Trade Practices and Productivity Improvement (0267), Economic Policy and Practice (0264), and the proposed Development Training II (0268) planned for FY 94. Increased access and reliability of electrical energy and the increased participation of private sector management, operation and ownership of CDE restructured entities, will serve to advance the objectives of the above mentioned USAID ongoing and planned projects.

Program Output No. 1.3: Increased availability and reliability of competitively priced energy:

- Indicator No. 1: GODR energy strategy completed.
- Indicator No. 2: Status of electric power law.
- Indicator No. 3: Private electric power generated to grid.

Passage of the new Energy Law, which will set in motion the entire process of restructuring the CDE into three or more companies and establishing the supervisory and regulatory entities needed for private sector oversight and environmental norms and standards, is expected to occur after the first legislative session of 1994 (i.e., May). Once tariffs are defined, established and enforced by the Superintendencia, electrical energy will be competitively priced through the new tariff structure for producers and consumers.

Strategic Objective No. 2: Increased Socio-economic Participation of the Lower Income Groups.

Program Output No. 2.3: Increased income generating opportunities.

- Indicator No. 1: New employment in Micro & Small Business Sector (i.e. jobs directly attributable to USAID project assistance).

Project Nos. 0254, Micro & Small Business Development; 0268 Development Training II; and 0247 PVO Co-Financing.

In addition to the contributions made to increasing income generating opportunities through new employment in the micro and small business sector, the Electrical Energy Sector Restructuring Project will have a significant impact on this program output and indicator. Increased access to and a reliable source of

electricity can make the difference between a successful micro or small enterprise, and one that experiences major constraints to establishing a market and becoming profitable. Micro and small enterprises that require the operation of machinery, refrigeration and/or night-time production, the provision of services to the public, and the use of electronic systems, are all highly dependent upon electrical energy. By means of preparing human and institutional resources for private sector participation in the provision and distribution of energy services, the Project will indirectly assist in making electrical energy available, at competitive prices, throughout low income urban and rural areas.

Strategic Objective No. 4: Participatory Democratic Reform.

Program Output No. 4.3: Other Policy and Regulatory Reforms: (e.g., Energy Sector Reform and regulatory reform within this sector).

Project Nos. 0265 Democratic Initiatives; 0268 Development Training II; 0273 Civil Service Reform; 0272 Administration of Justice; 0270 Energy Privatization.

To date, Dominican efforts to privatize state-owned enterprises have not shown much progress, with the exception of the telephone company and within the electrical energy sector. USAID will continue to focus on privatization of electric energy, where extensive negotiations among GODR, IBRD, IDB and USAID have greatly improved the planning and legal/regulatory foundation on which the electrical energy sector can be privatized and the anticipated improvements in access, reliability and cost effectiveness can be realized. The representatives of the GODR, IBRD and IDB produced an Aide Memoire, signed by the GODR on April 23, 1993, which includes a strategy to revamp the electric power sector during the next 18 months. The Aide Memoire commits the GODR to place new generation, distribution and management of the electric power sector in the hands of private owners. Through ESF conditionality, USAID fostered the use of local currency produced under the 1992 ESF program to offset the domestic debt of CDE in order to make the sale of the company more attractive to future private developers. Other privatization efforts will be supported to a lesser extent through the Economic Policy and Practice (EPP) project, and another small Privatization project to begin in FY 1995.

Through the USAID-funded EPP project, experienced NGOs are encouraging the GODR to carry out economic reforms, such as tariff and budget reforms, and to undertake additional reforms needed for long-term economic growth. Several of the proposals to receive funding have supported activities for analyzing the privatization of public enterprises, regional economic

integration, action plans for implementing approved economic reforms, and economic education at various levels.

The Mission's recently authorized Trade Practices and Productivity Improvement Project will help to advance trade liberalization and incorporate AID/W guidance on Section 599 of the FAA and related changes in U.S. free trade and labor policy. An important objective of the project is to create an effective legal, regulatory and judicial business climate, and remove administrative and structural distortions caused by GODR intervention in productive activities. The Electrical Energy Sector Restructuring project directly complements the new Trade Practices and Productivity Improvement Project by facilitating industrial exports and commercial trade through the provision of a more reliable and accessible source of electric power.

V. COST ESTIMATE AND FINANCIAL PLAN

Project Budget and Projected Expenditures:

The proposed Energy Privatization Project is a technical assistance and training project -- which are the two primary cost elements of the Project. The implementation strategy is to contract with an institution, most likely a consulting firm, to provide most of the TA and training requirements, including one long-term position and various short term specialists. This firm will procure the commodities (office furniture and equipment, vehicles and supplies) necessary for their use during the life of the project. Use of AID Buy-ins and/or AID/W IQCs for specific one-time tasks is also contemplated for the early stages of Project implementation, and for the development of environmental norms and standards and related training programs. AID/W IQCs will not be used for ongoing, long-term, non-task specific project implementation needs.

The total cost of the project for the two and one-half year life of the project is estimated to be \$5.97 million. Of this amount, A.I.D. will fund \$4 million and the GODR will provide \$1.97 million, or 33% of the cost of the project. The Budget Summary and Financial Plan is presented as Table I below. This is broken down into those costs to be expended in foreign exchange (FX) and those in local currency (LC).

The U.S. Dollar valuation of local currency contribution of the GODR is based on the current exchange rate of RD\$12.50 to US\$1.00.

TABLE I
SUMMARY COST ESTIMATE AND FINANCIAL PLAN
(US\$000)

Component	A.I.D.		Host Country		Total	
	FX	LC	FX	LC	FX	LC
I. Energy Privatization Strategy Support	1,198	217	-	948	1,198	1,165
II. Institutional Strengthening	1,285	268	-	822	1,285	1,290
III. Environmental Norms & Standards	652	180	-	200	652	180
IV. Project Management	100	-	-	-	100	-
V. Evaluation	50	-	-	-	50	-
VI. Audit	-	50	-	-	-	50

TABLE II

**PROJECT INPUT COSTS
(US\$000)**

<u>Input</u>	<u>A.I.D.</u>	<u>Host Country</u>	<u>Total</u>
Technical Assistance	3,033	900	3,933
Training	680	28	708
Materials & Equipment	32	-	32
Operational Costs	-	1,022	1,022
Special Studies	55	20	75
PSC/IQC	100	-	100
Audits	50	-	50
Evaluation	50	-	50
Total	<u>4,000</u>	<u>1,970</u>	<u>5,970</u>

* The disbursements by year, by component and by contributor are presented in Table III.

TABLE III

**PROJECTION OF EXPENDITURES BY FISCAL YEAR
(US\$000)**

<u>Component</u>	<u>Year 1</u>		<u>Year 2</u>		<u>Year 3</u>		<u>Total</u>	
	<u>A.I.D.</u>	<u>GODR</u>	<u>A.I.D.</u>	<u>GODR</u>	<u>A.I.D.</u>	<u>GODR</u>	<u>A.I.D.</u>	<u>GODR</u>
I. Energy Privatization Strategy Support	617	450	380	332	268	166	1,265	948
II. Institutional Strengthening	710	536	623	324	402	162	1,735	1,022
III. Environmental Norms & Standards	200	-	600	-	-	-	800	-
IV. Project Management	50	-	50	-	-	-	100	-
V. Evaluation	-	-	-	-	50	-	50	-
VI. Audit	-	-	25	-	25	-	50	-
Total Project	<u>1,577</u>	<u>986</u>	<u>1,678</u>	<u>656</u>	<u>745</u>	<u>328</u>	<u>4,000</u>	<u>1,970</u>

VI. PROJECT IMPLEMENTATION ARRANGEMENTS

A. Project Agreements and Contracting Requirements

The Project Agreement will be an A.I.D. Handbook 3 Grant Agreement, signed between A.I.D. and the Government of the Dominican Republic as represented by the Technical Secretariat of the Presidency (STP). STP will be required to meet all of the standard conditions of the A.I.D. Grant Agreement. The Agreement will include Annex 1, Project Description, which details the activities and funding requirements of the Project. Annex 1 will describe the relationship and contract between the USAID and the Institutional Contractor, to be procured through full and open competition by A.I.D. The other contract arrangements between A.I.D. and technical entities (e.g., A.I.D./W buy-ins and IQCs) will also be described in detail in Annex 1.

B. Project Evaluation/Monitoring

1. Arrangements for Monitoring and Evaluation

The USAID/Dominican Republic staff who will provide overall Mission monitoring of this project will include a PDI Officer responsible for Project backstopping. Compilation of monitoring and evaluation information will be the responsibility of the Institutional Contractor. All evaluation activities will be coordinated with the Mission's Evaluation Officer.

The monitoring and evaluation plan takes into account the need to focus closely not only on programmatic inputs and outputs, but also on impact assessments and institutional sustainability. As such, the plan for monitoring and evaluation includes a variety of evaluation methodologies, such as semi-annual reports, annual project reviews, management assessments, annual small-scale surveys, a final external evaluation, operations research and rapid appraisal surveys, and financial assessments as appropriate.

a. Collection and Recording of Project Progress and Data

Depending on specific project needs and the capabilities of the Institutional Contractor, project funds may be used to buy into A.I.D./W centrally funded policy and evaluation projects for small-scale secondary analyses, training for participating agencies in the use of tariff and service data for strategic planning, and/or development of impact indicators.

Individual project activities may require collection of baseline data during the first part of project year one. They will be assisted by the Institutional Contractor and/or appropriate buy-ins to A.I.D./W centrally-funded projects.

Annual implementation plans and quarterly data reports will serve as principal project monitoring instruments. These data will be collected on a routine basis by each implementing agency. The Institutional Contractor will assist them in developing and implementing standardized information formats for project components (e.g., Energy Privatization -- Strategy Support; Institutional Strengthening; and Environmental Site Screening). Each implementing agency will be responsible for maintaining its own data base. The Institutional Contractor will provide consolidated reports to the USAID/DR project monitor; the technical sections of these reports will also be distributed among the participating agencies.

The Institutional Contractor will be responsible for periodic and ad hoc field visits to project locations. Technical assistance from A.I.D./W centrally-funded projects will include trip reports for each TDY. These results will complement routine project reports and service statistics to monitor the extent to which individual outputs are being met and to identify problems in project implementation. Financial and management audits will be the principal monitoring devices in assessing the progress made by participating institutions in improving institutional sustainability and self-sufficiency. In addition to the indicators established in the logical framework, individualized output indicators will be specified in each agency's annual work plan.

Gender focus. Emphasis will be given to the role of women in terms of socio-economic improvements related to the Project's assistance for improving the reliability and access of electric power services within rural and urban areas, and for export-oriented industries. The socio-economic advancement of women as heads of households, and as workers and managers within free zone operations and rural and urban micro and small enterprises, will be assessed and tracked to the extent possible under the project. The institutional contractor's role in information, education and communication will promote the involvement of women in project funded activities. In addition, the institutional contractor will be responsible for establishing baseline data for tracking gender issues, and record and distribute this information to project participants and beneficiaries over the life-of-project.

C. Project Implementation Schedule

The first implementation stage will last three months; the second approximately six months; and the third will have a duration of 18 months. Key objectives for each of the three implementation stages of the Project are as follows:

- 1. Phase I: Legislative Approval of New Energy Law and Creation of New Regulatory and Supervisory Institutions (3 months)**

2. Phase II: CDE Restructuring/Environmental Norms and Standards/Institutional Strengthening (9 months)
3. Phase III: Privatization Strategy Implementation, Financial Restructuring, and Licitation for Private Sector Procurement/Ownership of Generation and Distribution Assets (18 months)

General Activities:

- Monitor Project strategies to assure continuity at EOPS.
- Progressive delegation of technical assistance activities to counterpart institutions.
- Program and execute the final Project evaluation. (See Annex F, Detailed Implementation Schedule.)

D. Procurement Plan

1. Contracting Responsibilities

The major portion of the technical service to be provided under the project will be procured through an institutional contract (IC). The Contractor will be responsible for procuring the limited commodities which are to be financed under the project. The Regional Contracts Officer will be responsible for advertising and contracting of the IC based on a draft RFP provided by the Mission along with the PIO/T, prepared by the Project Officer.

Additional technical services will be required early in the project before the contracting process for the IC is complete. Therefore, limited services for the project start-up will be procured through an A.I.D./W IQC or Buy-in A.I.D./W. The Project Officer will be responsible for the preparation of the PIO/T for these specific services. This scope of work and PIO/T will be drafted, as a pre-implementation action, in a timely way to assure the availability of the service promptly after the agreement is signed.

Technical Assistance will also be provided in addressing environmental issues. It is planned to procure these services through either an A.I.D./W IQC using specific task orders for one-time activities, or A.I.D./W buy-in. The Project Officer will prepare the PIO/T for this procurement. Also, the Project Officer will be responsible for the preparation of a PIO/T, including scope of work, for an evaluation of the project activities. It is contemplated that this procurement will be made through an A.I.D./W IQC or A.I.D./W buy-in.

2. Procurement Plan Table

Because of the small number of procurement actions required by the project, the level of procurement effort by A.I.D. and Mission time requirement are minimal and well within the ability of the Mission.

Presented below is a table which outlines the various procurement actions required and the estimated timing for each.

TABLE I

<u>Procurement Action</u>	<u>Draft Date</u>	<u>Date of Advertising</u>	<u>Contract Date</u>
a) Start-up TA through work order under A.I.D./W IQC or Buy-in PIO/T and contract actions	09/30/93	10/15/93*	10/31/93
b) Institutional Contract for TA PIO/T and contracts actions	10/31/93*	12/1/93	02/28/94
c) Environmental TA through work order under A.I.D./W IQC or Buy-in PIO/T and contract actions	09/30/93	10/17/93**	10/31/93
d) PSC or contract for Project Management support	09/30/93	10/31/93	11/15/93
e) Evaluation through Buy-in or contract action	09/15/95	10/15/95**	01/15/96
f) Audit(s) through Buy-in or contract actions	09/15/95 01/10/96	10/15/95** 01/31/96	01/15/96 02/15/96

* Date of approved PIO/T submission to RCO

** Date of submission to A.I.D./W

E. A.I.D. Project Management/Procurement Actions

Project management required during the early implementation stage of the Energy Privatization Project is described below. Based on the proposed design, there are two relatively urgent contracting requirements, and another larger contracting requirement (institutional contractor) which should proceed shortly after the first two contracts.

Phase I: Privatization - Strategy Support. Over the first three months project assistance to the Technical Group and members of the National Energy Commission is critical. Short-term assistance for observational training, legal and regulatory review of the current draft law, and expertise in various areas of privatization and restructuring of CDE will be needed. The Project design calls for a work order under an A.I.D./W IQC, or an A.I.D./W buy-in for this purpose. A PIO/T will be required with an accurate description of technical assistance needs and training requirements for an approximate three month period.

Phase I: Environmental Mitigation. The IBRD terms of reference call for gathering information for developing an environmental legal and regulatory framework; assessing the Dominican electrical sector for potential problem areas; estimating environmental impact associated with the updated site screening activities carried out under the Manenco study; and, assessing the control of coal handling contamination in the Port of Haina. An A.I.D./W buy-in or specific work orders under an A.I.D./W IQC are recommended as the most expeditious way of carrying this out. A list of contracts will be provided that have been used with success by other Missions.

Phase II: Institutional Contractor. Although the Project Financial Plan contains a detailed breakdown of costs allocated for the procurement of an institutional contractor to provide one L-T utility/privatization specialist, and approximately 56 person months of short-term technical assistance, plus the establishment of a minimal local office and administrative support group, scopes of work for key people must be done so that an RFP can be competitively bid by November or December. This would have to happen so that a contract and team could be in-country by February or March. By then, the Energy Law will be passed and the Technical Group and Regulatory Agencies will be operational.

The proposed design of the EP calls for a considerably high level of involvement on the part of A.I.D. during the initial phase of implementation. The first three months of implementation will be intensive in terms of monitoring, supervising and carrying out procurement activities. There will be a need for preparing several PIO/Ts for different types of procurement, including buy-ins and the services of an Institutional Contractor. To assure a timely occurrence of

- One direct-hire professional FSN at 50% of her/his time for a period of 30 months, who will act as Project Manager and be responsible for overseeing the entire implementation process. The incumbent will maintain a close relationship with the grantee and the Project implementing office (e.g., Technical Group). She/he will be responsible for preparing Project progress reports to the Division Chief and Project Committee, and will anticipate any possible problems or delays.
- One PSC person at 40% of her/his time is required during the first 6 months of the Project implementation period. The PSC will help the Project Manager develop SOWs and PIO/Ts for both the buy-ins and the RFP for the institutional contractor.
- Three-months of technical assistance from an experienced PDO type is required to help develop PIO/Ts, SOWs, and RFPs as needed. This assistance could be divided into three one-month periods; one at the beginning of implementation; another in November to coincide with developing the SOWs for the institutional contractor; and the last one in March 1994, when the institutional contractor arrives in-country. The incumbent will review PIO/Ts and other procurement documents prepared by the Project Manager and the PSC as mentioned above.
- Lastly, the Division Chief of the implementing office will be responsible for the overall success of the Project. He will provide the appropriate guidance to the other Project staff to assure a smooth and effective implementation process.

F. Role of the Institutional Contractor

1. Management and Administration for Project Technical Assistance and Training

One of the primary functions of the Project's Technical Assistance Institutional Contractor (IC) will be to help orchestrate and coordinate the various institutions and program activities which take place over the life of the project. An analogy can be made to the role of a coach. The IC will assist in developing a yearly work plan for each institution including their respective technical needs. Once approved by the USAID/Dominican Republic, the IC will help coordinate work plans and provide one long-term position (PUCA). The IC will also arrange for Stateside training programs for utility regulation and tariff analysis, and provide all short-term technical assistance in a timely way.

2. Technical Assistance Support Mechanism

The IC will be responsible for the provision of one long-term chief of party (2 years) and approximately 56 person months of short-term technical assistance and related training programs, both in-country and short-term observational travel, and short course activity offshore.

In addition, the IC will provide four (4) long-term, a local hire technical/administrative professionals and a management support staff for the operation of a local office.

3. Reporting Responsibilities to USAID

The IC will be responsible to the USAID Mission for the performance of all aspects of the contract's scope of work. The USAID/Dominican Republic project office will have significant involvement in the approval of yearly work plans for the IC. Decisions involving project funding levels, sub-contracted personnel, and other higher-order administrative decisions will also be presented to the Mission for approval/clearance as appropriate. Project results will be reported to the Mission on a semi-annual basis, in accordance with the SAR process.

4. Information, Education and Communications (IEC)

The Project's Information, Education and Communications (IEC) system will be established jointly by the Institutional Contractor and the Project implementing and policy-oriented organizations to ensure the effective and timely diffusion of Project messages to target audiences. The IC will provide one long-term chief of party for 24 months (PUCA), as well as short-term technical assistance as necessary. The IC will be responsible for local procurement of all materials and services needed to carry out publicity campaigns (with regard to passage of the new Energy Law and promotion of energy conservation activities) and the dissemination of Project information as necessary.

5. Monitoring and Evaluation

The IC will assist in establishing a monitoring and evaluation system to be used to better identify and address target project beneficiaries, assist in modifying program emphasis as changes in data occur, and as a mechanism for guiding and coordinating the direction of institutions assisted under the Project. Monitoring and evaluation will also be used to determine project economies of scale, and help establish incentives for motivating the implementing entities to collaborate and support one another in the achievement of project outputs and EOPS.

VII. PROJECT SUMMARY ANALYSES

A. Technical Analysis

1. Restructuring Strategy

Over the last year, the government has worked closely with international donor organizations (USAID, the IBRD and the IDB) to develop a strategy to address the country's inability to meet current or projected electricity needs. As outlined in "aides memoire" signed between the GODR and multilateral development banks, the GODR restructuring strategy aims to improve the reliability and efficiency of the Dominican electric system by maximizing private sector participation. The GODR intends to do away with the CDE monopoly by breaking up CDE into separate corporations ("sociedades anónimas") operating in the generation, transmission and distribution sectors, and by creating new regulatory and supervisory institutions.

2. Privatization Analysis

- **Deregulation of Electricity Generation**

The GODR initially intends to retain 100% of the shares of the newly created generation company - CDE Generation. Thus, the "privatization" contemplated for the generation sector is more appropriately called **deregulation and/or decentralization**. With the suspension of CDE monopoly powers, the government will encourage new private sector generators to build new generating capacity in the Dominican Republic. These new generators will compete with the government owned and operated CDE Generation. In addition, the government expects to enter into a management contract with a well qualified private utility consulting company to improve operational efficiency at CDE Generation.

- **Transmission**

The strategy calls for the government to retain 100% of CDE Transmission. A decision has been made to retain government control of transmission in order to ensure fair pricing and unlimited access to the various new generators expected to come into the system. Likewise, the government will enter into a management contract with a private company to improve operational efficiency.

- **Privatization of Distribution**

The restructuring strategy calls for the **privatization** of CDE distribution assets. Following the creation of a public share company - CDE Distribution - the government expects to **divest control** of this company through the sale of shares. The World Bank and IDB will finance a management consulting team to

evaluate the most efficient manner to "corporatize" CDE. The USAID Energy Privatization Project will finance assistance in determine the cost/benefits of each option. Based on this analysis, the GODR will determine how many generating and distribution companies will be created in each sector.

3. The Draft Law as it Relates to Privatization

The principal mechanism by which the GODR will implement its restructuring strategy is through the introduction and legislation of the new Energy Law. Draft legislation has been prepared by Chilean consultants financed by the IDB. The law establishes the following objectives which are in keeping with the strategy outlined above:

- Promote and guarantee the efficient supply of electricity needed for the development of the country.
- Promote "maximum private sector participation in the development of the electricity sector".
- Promote healthy competition where feasible.
- Regulate prices of those activities which are by their nature monopolistic.
- Make certain that the supply and commercialization of electricity is conducted in an impartial manner.
- Ensure the protection and the rights of the system's users.
- **Implementation of GODR Strategy**

Following the repeal of law 14-90, CDE returned to its monopoly position. As a result, private sector power generators are currently operating in a legal/regulatory void. The new law regularizes this situation by immediately annulling CDE monopoly privileges. The law also includes transitory articles which call for the "corporatization" of CDE within 360 days.

The new law provides the legal framework within which the restructuring of the Dominican energy sector will take place. Once approved by the Dominican Congress, the law is expected to provide the framework for electricity sector organization for years to come. As such, it is important to evaluate the draft law in terms of the strategy outlined above.

- **Legal Impact on Deregulation of Generation**

The new law will immediately deregulate the generation sector as enactment of this legislation annuls CDE monopoly

privileges, thereby enabling new private sector generators to come into the Dominican electric system. It is expected that the CNE, which has responsibility for the "elaboration of indicative plans for the efficient functioning and development of the electrical sector", will develop a set of guidelines for new private sector generation. Currently, the law does not provide for specific procedures for soliciting new private sector generators.

USAID will assist the GODR in the development of specific procedures through its model contract study, and via this project and the development of environmental norms and standards.

- **Legal Impact on Privatization of Distribution**

Although the law as currently drafted does not provide a framework by which by which the GODR can divest control of CDE's distribution assets, it does call for the "corporatization" of CDE into generating, transmission, and distribution companies. This corporatization process creates new share-holding companies which in turn will allow the government to begin to sell shares in these companies to the public. It is understood, however, that the government cannot divest control of any of these companies without Congressional approval. The government's legal strategy is to address the privatization issue following the approval of this law and the presidential elections next May.

The law does, however, provide for the deregulation of the **distribution sector**. Existing (CDE) distribution companies will have 18 months from the date of enactment of this law to regularize concessions and licenses. The concession accorded the CDE distribution companies will be limited to the existing customers which make up their grid. As for the extension of the existing grid to new customers, any entity can request that it be granted a concession to extend the grid to new customers. The petitioner would request the concession from the new Superintendencia. The owners of the distribution system are obligated to provide "rights of way" to any concessionaires approved by the Superintendencia.

4. Tariff Analysis

The proper objective of utility tariff pricing is to set prices such that the utility is able to earn an agreed upon return on its investment. It is difficult to evaluate whether or not CDE's tariffs are appropriate given CDE's annual losses. It is not clear if low base rates contribute to these losses, or given the considerable CDE operational inefficiencies.

• **The Current Tariff Structure**

The average price CDE charges is approximately \$.10 cents (U.S.) per kilowatt hour. The \$.10 cents per KWH charge is made up of a base rate that is adjusted upward for fuel costs and variations in the peso/dollar exchange rate. The average base rate represents the economic cost of operating and developing CDE's electric system. However, the base rate was last calculated in 1988.

In September 1990, CDE decided to apply an upward adjustment to base rates, to account for variations in both the fuel cost and the dollar/peso exchange rate. The introduction of these adjustments led to a doubling of the average electricity rates at that time. CDE continues to apply these adjustments without having changed the base rate charged since September 1990.

CDE customers are divided into six different categories with different rates applied to each customer. The categories are:

- residential low tension,
- general tariff non-residential,
- commercial tariff, medium tension,
- industrial tariff, medium tension,
- industrial tariff, high tension, and
- tariff for public lighting.

Residential customers are charged \$.0207 cents per KWH if they consume less than 50 KWH, \$.0434 cents per KWH for customers consuming between 51 - 300 KW, and \$.1118 cents per KWH for consumers consuming over 300 KW per month. In this way, CDE applies a direct subsidy to customers with lower electricity consumption who are presumed to be less well off economically.

Commercial customers are charged a tariff that is comprised of a meter charge of \$.0565 KWH and a transformer charge of \$5.49 per registered unit. Other customer categories which are as indicated above are charged a variety of rates.

In reviewing these various rates it is not apparent what rationale CDE applies in determining base rate tariffs. The new draft law provides a welcome departure as it clearly spells out the rationale for rate setting.

• **Rates Between Generators and Distributors**

The draft law states that existing power purchase agreements (PPAs) will be considered subscribed, where possible, by the newly restructured distribution company or companies.

As for new contracts, the law indicates that new power

As for new contracts, the law indicates that new power purchase agreements will be made between generators and distribution companies. The sale of electricity from the generator to the distributor will take place at prices resulting from competitive public bidding for long term contracts. The Superintendencia will regulate and supervise this bidding process. (The law safeguards against potential monopolies or price collusion by prohibiting an "electric company" responsible for more than 50 MW to participate in more than one of the three sector activities - generation, transmission and distribution.)

- **Rates Between Generators and Transmission**

Once the contracts are in place, generators will transfer power from their plants via the CDE transmission company to one or more distribution companies. Generators will be charged a wheeling fee, or a fee based on the use of CDE transmission facilities, for this service by the transmission company.

Article 58 of the stipulates that the rationale driving the fee charged generators will be a function of the total long term cost of the installations comprising the transmission system. The law states that the total long term cost will be determined based upon annual investments, and the cost of operation and maintenance for an efficiently operating system.

Articles 59 - 61 of the draft law and Articles 122 - 149 of the implementing regulations go into great detail describing how this concept of total long term cost will be applied in practice.

- **Rates Between Distribution Companies and General Public**

In general, electricity prices to the public are freely negotiated when transactions can be effected in competitive conditions. The law provides for the regulation of rates applied to that portion of the public unable to negotiate competitive terms. These regulated rates are defined as regulated public service rates (RPSR). The implementing regulations stipulate that any user with an installed capacity of less than 2,000 KW is eligible for RPSR's.

The rates charged "public service" users will be fixed by the Superintendencia. Article 82 of the new law states that RPSR's will be calculated by taking into account the cost of supplying electricity to the distribution companies, added to the cost of supplying electricity to end users. The sum of these costs will be indexed according to a process further described in Articles 83 through 93 of the draft law.

B. Institutional Analysis

The GODR restructuring process will create new regulatory institutions which will function so as to encourage private sector participation, as well as provide assurances to the government that the public interest is protected. Finding the right balance between protecting public interest and over regulation, will be a difficult and on-going task. The GODR's skill in conducting this difficult process will largely determine the success or failure of the energy sector reform strategy.

• The National Energy Commission

The CNE is made up of the following governmental representatives:

- Secretary of Industry and Commerce;
- Secretary of Finance;
- Secretary of Agriculture;
- Secretary of Public Works;
- Technical Secretary of the Presidency;
- Governor of the Central Bank;
- Executive Director CDE;
- National Director of the Institute of Hydraulic Resources.

The decree stipulates that the Consejo -- which is chaired by the Technical Secretary of the Presidency -- should begin work immediately on the development and implementation of a restructuring strategy for the electricity sector. The draft law confirms the creation of the Comisión Nacional de Energía or the National Commission for Electricity (CNE). Although the draft law does not contain the name of the chairperson for the CNE, it is understood that the appointment of this position will be made by the President before ratification of the Energy Law.

Recommendations by the Technical Group are for the Secretary of Industry and Commerce to become the chairperson of the CNE. The draft law stipulates that the board (Dirección Superior) of the national electricity commission is made up of the following members:

- Technical Secretariat;
- Secretary of Industry and Commerce;
- Secretary of Finance;
- Governor of the Central Bank.

The CNE has the following responsibilities:

- Analyze the electric sector and propose changes to existing norms and policies;
- Propose and adopt policies and norms that lead to the smooth functioning of the sector;
- Study supply and demand projections and supervise their implementation;

In order to carry out these tasks the Commission will appoint an executive secretary to manage a staff of no more than 30 highly qualified employees. The executive secretary as well as the three highest professionals of the CNE within the Technical Group will be exempt from government pay scales, and will be paid at market prices.

• **The Technical Group**

In order to assist these high level government officials with the elaboration and implementation of this strategy, the decree authorizes the creation of a **Technical Group** which will have the following tasks:

- Propose and monitor the subsector strategy, and to coordinate with CDE the development and approval of the least cost energy expansion plan;
- Propose and monitor the action plan to implement that strategy;
- Recommend to CNE appropriate organizational structures and norms;
- Conduct themselves or contract with third parties for studies necessary to the implementation of the strategy;
- Serve as operational counterpart to the international technical assistance solicited by the CNE.

The decree further stipulates that the Technical Group will be able to make use of the various offices and departments of the diverse govt entities that elaborate and evaluate projects. During the period that the Technical Group is working to elaborate recommendations for the electric sector it will report to the general manager of the CDE, who will represent the technical group before the CNE. Once the law is enacted the Technical Group will assume new offices of their own.

The members of the Technical Group, named by the CNE, are comprised of the following specialists:

- A general coordinator: who will be responsible for the quality and technical depth of the studies as well as relations with all the other participating entities, public as well as private.
- An economist: who will be charged with the evaluation of the impact alternative solutions will have on the national economy.
- An engineer: who will study the technical feasibility of the actions recommended by the Technical Group and contracted specialists.
- A lawyer: who will analyze the legal aspects of the strategy and action plan.

- **The Superintendencia**

As described in article 113, the primary function of the Superintendencia is to systematically analyze the structure and level of prices as well as define which electricity rates are subject to regulation. Other tasks of the Superintendencia include:

- Supervise changes in rate levels according to automatic formulas of indexation;
- Budgetary planning and monitor compliance with regulations, technical norms; and in particular supervise the quality and continuity of service, the preservation of the environment and the general security of the system;
- Supervise the behavior of the electricity market in order to avoid monopolistic policies;
- Analyze and decide on concession applications;
- Decide on the conflicts of the sector when they come up.

Senior management of the Superintendencia will consist of three highly qualified people chosen by the President. They will be paid market prices and serve for a period of six years. The Superintendencia, like the CNE, will be financed from the general Dominican governmental budget. In addition, the Superintendencia will have an important role to play in tariff policy making during the transitory phase of the restructuring process. For example, the law provides that the Superintendencia has 180 days to fix the formulas for provisional tariffs for distribution companies. It also stipulates that the Superintendencia will have 18 months to obtain from the distribution companies and transmission company the information necessary to fix corresponding tariffs. So long as they are not fixed, existing tariff rates will remain in place. The first establishment of prices should be effected within 30 months of the enactment of the law, and those prices are expected to last for at least 3 years.

- **The Coordinating Agency**

Article 9 of the draft law indicates the need for generating companies and transmission companies to coordinate the operation of their respective facilities so as to ensure the "best service at minimum cost". In order to ensure this objective, the law provides that these entities join together to create a coordinating agency ("Organismo Coordinador") which has the following principal functions:

- Plan and coordinate the operation of generators and transmission in order to ensure a reliable supply of energy;
- Guarantee that generating companies sell their output;
- Calculate and value the transfers of energy among companies;
- Promote healthy competition and transparent and equal treatment in the electricity market.

The coordinating agency will be made up of representatives of generating companies, transmission companies, and distribution companies that have at least 2% of the system's installed capacity. Distribution companies will only have the right to observe proceedings but no right to vote.

- **The Operating Department (Dirección de Operación)**

The Operating Department (OD) will report to the board of the Coordinating Agency and will be made up of representatives of each of the generating, transmission and distribution companies as well as the General Manager, the National Head of Dispatch and a representative from the superintendencia. These last will have a voice but no vote.

The operating department will have the following principal tasks and responsibilities:

- Elaborate policies and programs for short, medium and long term operational planning;
- Monitor the implementation of these plans;
- Coordinate major maintenance for generators and transmission;
- Calculate the marginal cost for short term energy;
- Value marginal cost of short term energy between generating companies and transmission;
- Calculate the potential and actual energy capabilities of each of the generating companies;
- Value transfers from generators to transmitters;
- Elaborate procedures for recovering service;
- Propose "internal regulations" for board decisions;
- Propose budget to board;
- Solicit and contract studies from third parties.

Decisions will be made by simple majority with the same procedure for conflict arbitration, except that they go to the coordinating agency board before going on to the superintendencia.

- **General Administrator - Management**

Management will report to the Operating Department. It will be responsible for those technical studies necessary for the

operation of the system as established in the internal regulations. For these tasks it will count on highly qualified personnel.

- **National Dispatching Office (Despacho Nacional de Carga)**

The National Dispatching office will report to management. It will be headed by the national head of dispatching who will count on highly qualified personnel. This group will be responsible for the implementation of the daily operational programs and the completion of the technical norms of security and quality.

C. Economic Analysis

- **Overview**

The existence of a reliable, stable and sustainable electrical sub-sector in the Dominican Republic will have tremendous impact on the country's overall economic development process. In addition to the direct benefits derived from an accessible and reliable electrical service, the installation of new efficient generating plants will improve the competitiveness of Dominican industry in the world market. Especially, there will be a beneficial effect on the service industry such as Tourism and Free Trade Zones, which are the most dynamic sectors of the economy. High-cost, privately generated electricity detracts from comparative advantages in these industries, while making them less attractive for both domestic and foreign investors. In a world of global competition and high productivity, there is no room for unreliable, high cost and inefficient electrical services.

The cost effectiveness of the project is assured by leveraging USAID's investment with IBRD, IDB, and GODR financial resources to implement the new strategy. The economic benefit of the project extends beyond the LOP as it will make it possible for the country to change a key sub-sector from a mismanaged and unsustainable publicly owned energy sector, to one which is reliable, with a legal framework, active private sector participation and overall sustainability.

- **Cost of Continuing the Status Quo**

Inefficient and unreliable electrical energy has been costly to the Dominican Republic. It affects all business relationships as well as the country's competitiveness and ultimately individual well-being. Continuation of the current situation will not only prove to be unsustainable in the long-run, but will also prove to be extremely costly to the country.

There is a significant cost of foregone or lost investment opportunities given the present situation. First, an inefficient system increases both capital investment and operating costs for all sectors, particularly the service sector; crowding out lower return investment opportunities in the country. Second, unreliable electricity also directly effects the tourism industry as tourists are limited to places where electricity is assured. The industrial sector and other productive sectors are also effected as outages offset any comparative advantage that the country might have. The agricultural sector will be importantly affected as investment in high-cost, on-site generated electricity will only be possible in a modest portion of the sector. The cold chain for both domestic and export products will be expensive to maintain. Specifically, small and medium producers (both exporters and non-exporters) will be increasingly handicapped if the situation does not improve in the immediate future (2-3 years).

For each dollar spent in the privatization and re-organization of the electricity subsector, there will be an exponential spread effect on the economy as a whole. Placing monetary estimates on some of the variables will at best describe only a limited part of the whole situation. A detailed cost/benefit analysis of the different privatization options is recommended as part of this project to assess economic gains and costs to the Dominican economy.

A brief analysis will present an illustrative example of the potential economic benefits of the Project. The present energy sector is characterized by monopolist, unreliable, energy supply which reaches only 40% of the total population. With power plants becoming obsolete, the situation is expected to deteriorate rapidly. Even though a program for rehabilitation of some plants and transmission and distribution lines is currently being financed by the IBRD/IDB, overall deterioration is occurring as CDE cannot achieve economic efficiency. Energy shortages have been costly to the Dominican economy. It was estimated that from 1984 to 1988 the cost of outages amounted to \$218 million per year, or a total cost of over \$1.0 billion dollars for a five year period. Moreover, during 1990 the annual cost of outages doubled as CDE incurred corporate losses of some \$200 million. This alone accounted for costs to the Dominican economy due to unreliable and inefficient electrical service of approximately \$500 million for that year -- with total costs much larger.

Presently, around 900 MW per year is produced by on-site high-cost individual private providers. A conservative estimate is that privately generated electricity is produced at 20 cents per kilowatt-hour. An improved system (as proposed in the Energy Law and based on partial privatization) could provide for most of this generation at an estimated cost of 10 cents per kilowatt-

hour. Assuming that the improved system could provide for at least 78% of this high-cost electricity, the opportunity cost of not improving the system could be calculated as follows:

$$900 \text{ MW} = 900,000 \text{ KW}$$

$$900,000 \text{ KW} \times 0.78 \times .10 \text{ cents saving} = \$70,200 \text{ savings/hour.}$$

Assuming private generators run 25% of the 8,760 yearly hours, annual savings would be:

$$\$70,200 \times 8,760 \times 0.25 = \$153,738,000$$

Considering that the cost to the economy due to outages will be significantly reduced by the ongoing rehabilitation projects of the IBRD and IDB, one can safely assume that this cost will only be 50% of those costs estimated for the period 1984-88. Hence, the portion of the opportunity cost related to outages would be:

$$\$218 \text{ million} \times 0.50 = \$109 \text{ million per year}$$

In addition, due to the fact that CDE is not operated and run according to economic considerations (private mode) and is also a highly political government enterprise, it is safe to assume that it will continue to have annual corporate losses on the order of \$50 million per year.

Therefore, the total opportunity cost per year (TOCY) of continuing with the present situation can be estimated as follows:

$$\begin{aligned} \text{TOCY} &= \text{annual savings from improved generation} + \text{annual} \\ &\quad \text{cost of outages} + \text{annual CDE's losses} \\ \text{TOCY} &= \$153,738,000 + 109,000,000 + 50,000,000 \\ \text{TOCY} &= \$312,738,000 \end{aligned}$$

The annual cost to the economy of continuing with the present situation is on the order of \$313 million, which represents 4.5% of GDP. This figure is conservative since the calculation does not take into account the cost of private sector investment diverted to private generation (which must have cost close to \$900 million), nor does it include the opportunity cost of expensive, unreliable power. Further, new investment costs being currently incurred towards the improvement of distribution and transmission lines (made available through some \$200 million capital loans from IBRD/IDB) will have little impact over the longer-term as the present system is likely to deteriorate before it can yield adequate return on investment.

Another opportunity cost associated with continuing the present situation is the social cost rural families have to pay above that of high-cost, privately generated electricity. Rural

families in the DR are usually not able to invest in costly power generation plants, nor are they connected to the CDE grid. An improved electrical sector with an appropriate level of capital investment and efficient generation, transmission and distribution systems, will be able to reach 60% of the population as opposed to the 40% currently serviced by CDE. Increasing the portion of the population which has access to the system will bring about spread effects including information sharing, health treatment and living standards. However, assigning dollar values to the social effects of an expanded distribution system is not a straight forward task, and would require considerable data not available to the Project design team.

The economic benefits to the country of the proposed project should be clear. The electrical subsector is a key motor to economic development in the Dominican Republic. It affects all economic agents and production modes. It even effects the way Dominicans live. Thus, a significant improvement in the energy sector in terms of infrastructure, organization and privatization will have an exponential multiplier effect on the overall economy.

The foregoing analysis should serve to demonstrate that there is more than ample return to power sector improvement in general to make it economically attractive. The Energy Privatization Project will help channel new power investment into a more productive and environmentally sound configuration.

D. Financial Analysis

1. Project Cost Analysis

A key objective of the Energy Privatization Project is to provide the GODR, through a restructured Electric Energy Sector, the appropriate technical assistance and training for strengthening new regulatory and supervisory institutions to make them more efficient and privatize appropriate portions of CDE's operations. Also, the project will facilitate a financing program to be provided to the GODR, managed through the CB, from the World Bank (IBRD) and the Interamerican Development Bank (IDB). The Technical assistance and training provided under this project will help prepare the Dominican Energy Sector for increased participation of private sector investment and management, and for the implementation of the IBRD and IDB projects which are to follow the USAID Energy Privatization Project.

The beneficiaries of the technical assistance and training provided under this project, e.g. the Technical Group, the National Energy Commission, the Energy Regulatory Superintendency and the Coordinating Committee, established under the new Energy Law, are the organizations responsible for the efforts of this

project. Their costs are to be fully funded by the GODR and will not be directly generating any revenue during the life of the project. The financial analysis of the project must be approached as a non-commercial project. Therefore, an internal rate of return calculation is not possible. The appropriate financial analysis methodology for projects of this nature is to determine the reasonableness of the proposed costs and to assess the least costs for accomplishing the project objectives.

The project budgets were prepared on the basis of recent Mission experience in contracting of technical assistance, (See Annex C, for budget details) thereby attaining least costs for the implementation of the project. The best effort cost estimate is presented in Table I, Section V.,A. of this paper in current dollars.

2. Recurrent Costs Analysis

It is expected that the counterpart costs of this project will continue into the future. Therefore, a secure method of financing these costs must be assured. Since this project is not intended to provide a source of funding for these costs, the project agreement will provide a covenant that obligates the GODR to provide the support necessary to assure the continued functioning of the counterpart organizations. The experience by the Mission has been that the GODR has a good record of meeting its obligations of this nature and, therefore, recurrent costs financing for this project can be considered to be secure.

3. Methods of Implementation

The majority of Project technical assistance and training will be contracted and implemented through an institutional contract. The contractor will be responsible for providing technical assistance and training resources in a timely way, and all support required for contract personnel. In addition to the assistance implemented through the institutional contractor, it is anticipated that technical assistance through a specific work order under a A.I.D./W IQC, or an A.I.D. Buy-in, for up-front costs associated with contracting the services of privatization and legal specialists during the early stage of project implementation, will be necessary. Also, environmental TA needed during early Phase I of Project implementation, and later on for Phase II and III for the development of environmental standards and norms, will be procured through a specific work order under a A.I.D./W IQC, or A.I.D./W Buy-in. The methods of implementation are presented in Table I below:

TABLE I

METHODS OF IMPLEMENTATION (US\$000)		
<u>Method of Implementation</u>	<u>Financing Method</u>	<u>Approximate Amount</u>
TA-Direct Institutional Contract	Direct Pay	2,608
TA-Work order under A.I.D./W IQC/or Buy-in (Privatization)	Direct Pay	360
TA-Work order under A.I.D./W IQC/or Buy-in (Environmental)	Direct Pay	832
PSC or Contract (Proj. Mgt.)	Direct Pay	100
TA-Work order under A.I.D./W IQC/or Buy-in (Evaluation)	Direct Pay	50
TA-Work order under USAID/DR IQC (Audits)	Direct Pay	<u>50</u>
Total Project		<u>4,000</u>

All methods of financing contemplated under this project are those preferred under A.I.D. guidelines.

4. Audit and Reporting Requirements

a. Audit

The methods of implementation outlined above indicate a need for project specific audits financed by the project. The A.I.D. contribution to the project's institutional contractor (and other contractors as appropriate) will be audited twice during project implementation, and if necessary by the Office of the Inspector General. The counterpart contributions will be part of the general budget of the GODR, and they will also be included in the scope of related reports on internal control and compliance. The project audit will report any significant deficiencies related to the provision of and accounting for counterpart contributions. Moreover, the USAID through its project monitoring systems, will assure that the GODR contribution is provided on a timely basis as agreed.

b. Reporting requirements

It is not anticipated that any special or unusual reporting requirements will be required. The normal project management

reports required by the USAID and A.I.D./W will be adequate for management purposes. And likewise, the regular financial reporting through the Mission Accounting and Control Systems (MACS) will provide necessary financial and accounting reporting.

E. Social Soundness Analysis

After reviewing data and various social soundness documents pertaining to the Dominican energy sector, it was concluded that the project has taken into full account Dominican societal and sociological factors, and will be beneficial to the Dominican population as a whole. Beneficiaries of the project include consumers, entrepreneurs, exporters, savers and investors. The only groups likely to be negatively affected by the project are those that in the past have benefitted from highly subsidized electrical energy services or fraudulent use of power lines, including businesses, residences and public sector entities.

The Project is in harmony with several social factors, in particular the strong need by businesses and households to have a reliable and accessible source of competitively priced electric energy. The presence of an official regulatory body which governs the use and application of private sector participation in the provision of energy generation and distribution services, is another major factor in favor of the Project's social adaptability and spread effect throughout the economy. The attraction of private investors and developers for energy generation, system management and ownership of distribution networks will be positively enhanced by means of efficient regulatory and legal/policy-oriented institutions.

Lastly, the Project's attention to the environmental quality of electrical services and the potential impact of new power generation facilities on the ecology and aesthetics of the Dominican Republic, are other important aspects of the Project's social soundness.

VIII. PROJECT NEGOTIATING STATUS, CONDITIONS AND COVENANTS**A. Negotiating Status**

The GODR is in full agreement with the Project. However, in addition to the standard legal and statutory requirements included in the Project Agreement, the Project design team recommends the following Conditions Precedent. The proposed Conditions Precedent are based on project design concerns and the Aide Memoire signed by the GODR at the High Level Committee meeting on April 23, 1993.

1. Submission of the Draft Energy Law to Congress

Prior to disbursement under the Grant, or to issuance by A.I.D. of documentation pursuant to which disbursement will be made, for technical assistance for the proposed institutional contractor, the Technical Secretariat of the Presidency must furnish evidence to A.I.D. in form and substance satisfactory to A.I.D., that the new draft Energy Law has been submitted to the Dominican Congress for review.

2. Enactment of the New Energy Law

Prior to disbursement under the Grant, or to issuance by A.I.D. of documentation pursuant to which disbursement will be made after May 31, 1994, the Technical Secretariat of the Presidency must furnish evidence to A.I.D. in form and substance satisfactory to A.I.D., that the new draft Energy Law is enacted and effective.

**3. (a) Environmental Norms and Standards; and
(b) Privatization of the Electrical Energy
Distribution System**

Prior to disbursement under the Grant, or to issuance by A.I.D. of documentation pursuant to which disbursement will be made after January 1, 1995, the Grantee will, except as the Parties may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D.: (a) evidence that the proposed energy sector National Energy Commission, responsible for the emission of policies and norms, and the Regulatory Agency (the Superintendencia), responsible for monitoring and enforcing applications of the proposed new Energy Law and its corresponding

bylaws, have developed energy sector environmental norms and standards, that will apply to all future large scale, energy generation facilities regardless of source of financing; and, (b) evidence that the GODR is actively seeking to privatize the distribution of electricity, and is undertaking steps to privatize a portion of the electrical distribution system, through the issuance of a "request for proposal", as stated in the World Bank/GODR Aide Memoire signed on April 23, 1993.

ANNEX A
LOGICAL FRAMEWORK

LOGICAL FRAMEWORK
ELECTRICAL ENERGY SECTOR RESTRUCTURING PROJECT
NO. 517-0270

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p>GOAL:</p> <p>Increased and diversified external trade and increased socio-economic participation of the lower-income groups.</p>	<p>1) Improved organization of the electric power sector; e.g., implementation of management reforms, compliance with policy provisions of the GOOR power sector MOU with the IBRD/IDB, privatization of distribution and new generation facilities.</p> <p>2) More accessible, efficient, reliable, and less environmentally damaging electric power generation.</p> <p>3) Progress in privatization of government owned utilities and enterprises, and reform of fuel pricing and tax policies.</p>	<p>1) Project evaluation, studies and reports.</p> <p>2) Demographic and Socio-economic Surveys and other national statistics.</p> <p>3) Special studies, demographic and socio-economic surveys and other national statistics.</p>	<p>1) Approval by the President and Legislation by Congress of the New Energy Law.</p> <p>2) Continued domestic stability. National disasters do not affect electrification expansion program.</p> <p>3) Continued economic development and progress in the DR.</p>

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p>PURPOSE:</p> <p>To facilitate the energy privatization strategy of the Government of the Dominican Republic (GODR) by providing technical assistance and training needed to strengthen the institutional development of new regulatory and supervisory entities and maximize private sector participation for more reliable, accessible and environmentally sound electrical energy service.</p>	<p>EOPS:</p> <p>1) Improve the legal and regulatory framework for attracting foreign investment and private sector participation in the energy sector.</p> <p>a) 300 MW of new private generation (by yr. 1996). b) New private distribution (by yr. 1995). c) Marketing initiatives for increasing electricity services based on more competitive marginal and average cost pricing (by PACD).</p> <p>2) Increased private sector participation in electricity generation and distribution through cost/benefit, tariff and fuel pricing studies.</p> <p>a) Technical assistance and training provided by Project and other donors as appropriate to Technical Group and National Commission, Regulatory Superintendent, Coordinating Agency, and CDE.</p> <p>b) Well coordinated public/private sector energy development, maintenance and operating systems.</p> <p>3) Enhanced environmental quality of electricity by improving environmental awareness and the decision-making process for energy site selection for public/private sector energy development, maintenance and operation, and focusing more attention on environmental issues in this sector.</p> <p>a) GODR institutional capacity developed for implementation of environmental norms and standards for the energy sector. CNE and Superintendencia functioning as proposed.</p> <p>4) Guidelines and/or lessons learned established for other privatization initiatives.</p>	<p>1) Demographic and socio-economic surveys.</p> <p>2) Annual small-scale knowledge, attitude, and practice (KAP) surveys.</p> <p>3) Service statistics; Market survey reports; Retail audits; Agency reports; and Project Evaluation.</p> <p>4) Project evaluation and audit reports</p>	<p>1) CDE commitment to self-sustainability and co-management of energy related activities with private sector management agreements for generation and distribution.</p> <p>2) International donors (i.e., IBRD and IDB) support energy sector expansion and privatization as planned with sector loan assistance.</p> <p>No significant deterioration of consumer purchasing power.</p> <p>3) Superintendencia enforces regulation and reports all results publicly.</p> <p>4) GODR reform strategies continue to support restructuring and privatization of public entities</p>

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p>OUTPUTS:</p> <p>1) Improve the institutional effectiveness of energy regulatory and supervisory entities:</p> <p>2) Increase private sector participation in energy distribution and generation systems.</p> <p>3) Environmentally sound private sector financed expansion of electrical energy generation and distribution systems:</p>	<p>OUTPUT INDICATORS:</p> <p>1) National Energy Commission, Regulatory Superintendent, and Energy Coordinating Agency established and operational with respective governing boards.</p> <p>2a) Private sector responsible for all new energy generation, with electricity distribution privatized in part and based on competitive, market-driven prices.</p> <p>2b) Percentage of rural families with access to electricity increases from 40% in 1995 to 85% by 2000.</p> <p>3a) Unified and regulated environmental standards and norms developed and implemented, appropriate environment assessments carried out for new generation sites.</p> <p>3b) Increased percentage of electricity generated from plants having air and water pollution treatment equipment.</p> <p>3c) Reduced emissions of air pollutants (NOx, SOx, particulates, etc.).</p> <p>3d) Reduced emissions of untreated wastewater.</p> <p>3e) Reduced number of violations of environmental standards.</p>	<p>1) Service statistics, reports, field observations, special studies</p> <p>2) MIS, Budgets, Audits, Financial reports and audits.</p> <p>3) Environmental Impact Assessments, Project Reports, Evaluation.</p>	<p>1) Private foreign investors and energy firms seek to invest in the Dominican energy sector.</p> <p>2) Any continuing energy subsidies do not undercut competitively priced commercial generation and distribution.</p> <p>3) Adherence by the GOCR to environmental guidelines and enforcement of standards by the Regulatory Superintendent.</p>

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
INPUTS: 1) Energy Privatization, Strategy and Support: • Technical assistance • Training • Special Studies 2) Institutional Strengthening: • Technical assistance • Training • Operational Costs 3) Environmental Site Screening: • Technical assistance • Operational Costs 4) Proj. Mgt. IQC 5) Audits 6) Evaluation Total Grand Total	IMPLEMENTATION TARGET (TYPE AND QUANTITY): - (\$000) A.I.D. <u>GRANT</u> <u>GOOR</u> \$1,250.0 900 110.0 28 55.0 20 1,415.0 - 270.0 - - 822 832.0 - - 200 100.0 - 50.0 - <u>50.0</u> \$ 4,000.0 \$1,970.0 <u>\$5,970.0</u>		ASSUMPTIONS FOR PROVIDING INPUTS:

ANNEX B
TECHNICAL ANALYSIS

TECHNICAL ANALYSIS

1. SUPPORT FOR THE GODR RESTRUCTURING STRATEGY

The GODR has decided to restructure its energy sector. Over the last year the government has worked closely with international organizations to develop a strategy to restructure the Dominican energy sector.

The strategy calls for the break up of CDE into three separate corporate entities working in the generation, transmission and distribution of electricity. While the government intends to retain CDE's generating assets, it will deregulate generation activities encouraging private sector involvement. Transmission will stay in the hands of the government while CDE's distribution facilities are intended to be privatized.

The government will need to create a number of new institutions to successfully carry out and monitor this restructuring process. The Project will provide technical assistance and training to the GODR so as to ensure the successful restructuring of the Dominican electric sector.

2. LEGAL ANALYSIS

- The Purpose of the Law

The primary purpose of this law is to do away with CDE's monopoly, thereby legalizing new private sector generating capacity. CDE's monopoly is annulled by article 127.

Article 127 - Any and all legal dispositions or regulations that contradict this law are hereby voided and annulled.

Article 128 - CDE will have 360 days to restructure itself. The restructuring will be effected through an executive decree.

Article 129 - Existing power purchase agreements will be considered subscribed, where possible, by the newly restructured distribution company or companies.

Article 130 - The executive decree (mentioned above in article 128) will determine how existing contracts between CDE and its clients will be shared among the newly restructured sociedad anónimas.

In 1992, CDE purchased 16.5% of its generating capacity from private generators. (This number will go up with the Smith Cogeneration contract.) CDE did not need a new law in order to contract with private providers of energy in the past or present. Upon reading the transitory articles described above, it appears that CDE will still be contracting with new generators. Thus, so long as CDE Distribution is not privatized, the law represents no change in the current generating system.

More importantly, the law does not provide a clear framework for bringing new private sector generation to the Dominican Republic if CDE distribution is privatized. When Great Britain deregulated its generating capacity it established procedures to solicit licenses to provide generating capacity. Assuming the intent following the restructuring of CDE is to have CDE generation compete as an equal with other private sector generators, some new entity will have to plan for and regulate the entry of new private sector generators.

The current USAID-funded model contracts study will address this issue and make certain that their efforts are not unilateral, but rather lead to providing this new system with an on-going capacity to plan for and solicit new generation. The Project technical assistance and training will ensure that the environmental studies and findings are incorporated into the planning process.

- **Deregulation of the Distribution Sector**

Article 132 - Distribution companies will have 18 months from the date of enactment of this law to regularize concessions and licenses.

Following the restructuring of CDE, one, two or three, 100% government-owned, distribution companies will be created. The concession accorded the CDE distribution companies will be limited to the existing customers which make up the grid.

As for the extension of the existing grid to new customers, any entity can request that it be granted a concession to extend the grid to new customers. The petitioner would request the concession from the Superintendencia. The owners of the grid are obligated to provide "rights of way" to any concessionaires approved by the Superintendencia.

This process appears to deregulate the distribution of electricity. It is not clear how this deregulation will affect the privatization of CDE distribution. It is unlikely that new private sector operators will be disposed to invest in a system that is

limited by concessions granted by the superintendencia. While encouraging competition through deregulation, the proposed system would at the same time reduce the value of CDE distribution concessions.

Article 128 provides the government with the ability to privatize CDE by creating stock companies called "sociedades anónimas". Once these stock companies are set up, the government will have the ability to divest control to private sector investors by selling existing or new shares. The procedures for divesting control will be defined in an executive decree to be issued at a later date.

- **Power Purchase Agreement**

Article 58 - The PPA will be made between generators and distribution companies. Generators will pay a fee to the transmission company that will correspond to the "total long term cost of the transmission installations.

Total long term cost will be constituted by annual investments, and the cost of operation and maintenance.

- **Tariffs**

Article 79 - The following tariffs will be subject to regulation:

- Tariffs to clients within a zone of concession who, given their size, are not in condition to freely negotiate competitive contracts. These clients will be considered clients of a public service. The Superintendencia will determine the maximum amount of energy to be provided these clients and the price they should pay.

Article 81 - The sale of electricity from a generator to a distributor will take place at prices resulting from competitive public bidding for long term contracts. The Superintendencia will regulate and supervise this bidding process. (The law prohibits an "electric company", responsible for generating more than 50 MW of power from participating in more than one of the three sector activities - generation, transmission and distribution.)

Article 82 - Article 93 - Tariffs for public service users will be fixed by the Superintendencia.

"Reglamentos" - The "reglamentos" are not approved by Congress, nor are they necessarily reviewed with the law. The "reglamentos" are implemented at a later date by executive decree.

- **Regulatory Framework**

Article 104 - This article still leaves open who will be the President of the Commission Nacional de Energia (CNE). The president will be selected from the commission's board which will consist of:

- Secretario de Industria y Comercio
- Secretario de Estado de Finanzas
- Secretario de Estado de Agricultura
- Secretario de Estado de Obras Públicas
- Secretario Técnico de la Presidencia
- Gobernador del Banco Central

Article 107 - This article creates the position of Secretario Ejecutivo who will be in charge of the Commission. This person must be approved by the President of the Republic.

Article 109 - The resources allocated to the Commission will be allocated from the general budget of the nation.

Article 110 - The commission will have a maximum staff of 30 people.

Article 111 - The Executive Secretary and the three highest professionals of the commission will be paid market salaries.

Article 113 - The primary function of the Superintendencia is to systematically analyze the structure and level of prices.

Article 120 - Senior management of the superintendencia will consist of three highly qualified people chosen by the President. They will be paid a salary commensurate with the market.

Article 121 - They will serve for a period of six years.

Article 126 - The superintendencia will be financed by the budget.

Article 64 - Generation and transmission companies will be required to maintain facilities in accordance with the decisions adopted by the coordinating agency.

• **Implementing the Law - Transitory Dispositions**

Article 133 - The Superintendencia will have 18 months to obtain from the distribution companies and transmission company the information necessary to establish the corresponding tariffs.

Article 134 - The Superintendencia has 180 days to develop the formulas for provisional tariffs for distribution companies. So long as they are not fixed, existing tariff rates will remain in place.

Article 135 - The first establishment of prices will be effected within 30 months.

Article 136 - The Central Bank will have 180 days to establish the discount rate to be used for the above mentioned formulas. The rate will last for at least 3 years.

3. TARIFF ANALYSIS

The proper objective of utility tariff pricing is to set prices such that the utility is able to earn an agreed upon return on investment.

The average price for CDE service is approximately 10 cents per kilowatt hour (KWH). The 10 cents per KWH charge is made up of a basic tariff rate adjusted upward for fuel costs. Variations in the peso/dollar exchange rate affect utility rates.

The problem description depends upon an analysis of options.

- Status quo. CDE continues to lose \$20.00 per capita annually.
- An isolated problem: (a) Tariffs do not reflect costs of production resulting in economic distortions; (b) Tariffs are not rational in that they do not accurately measure peak demand of smaller wholesale customers.
- A systems analysis network illustrative of elements which go back to one primary constraint (i.e., lack of financial resources and lack of collections).
 - a. Flow of funds;
 - b. Cash reserves;
 - c. Borrowing capacity;
 - d. System losses of revenue:

- 1) System transmission losses of 17% from transmission through distribution.
 - 2) Non payment losses of 17% from non payment of private sector billings and fraud.
-
- e. Maintenance procedures - generation plants;
 - f. Distribution Network - Size and Location;
 - g. Transmission Network - Size and Location;
 - h. Outages;
 - i. Employee training.

The above is influenced by a lack of general awareness here of the complete economic costs of outages. The new electricity law provides for a new set of tariffs.

The constraint is that the tariff schedule is not, and cannot be (as CDE is now constituted) profit driven. Out of this flows all of A. in I.

At present there are the following tariffs:

- One residential;
- One "small usage" non-residential;
- A general commercial tariff with transformers furnished by customer;
- Three industrial tariffs, charges for the smaller user depend upon demand as expression in transformer capacity;
- A public lighting tariff.

Activities which make sense are divided into two categories:

Category A: Those relating to an understanding by governmental decision-makers of the true costs of production and distribution of electricity:

- 1) A consultant report which is an exhibition of reasonable, normal costs for the Dominican Republic, showing how the present situation disturbs these normal costs and raises them. The major costs in order of their magnitude are:
 - a) Cost of money or interest expense;
 - b) Fuel costs;
 - c) Depreciation and maintenance;
 - d) Management and labor expense.

At present all except fuel costs are distorted in an economic sense. For example, the Government does not properly maintain equipment, and depreciation costs go way up.

- 2) Participatory activities; one or more conference and semi-public meeting such as an Engineering Seminar. Such conferences would have to have proponents for privatization capable of debate, due to the views of various persons in the audience. Concerns as to decrease in sales of small home generators, the fear that the assets of the country (CDE is worth over US\$1B '93) are being sold, and other concerns have to be addressed if they come up in public.
- 3) A short term counterpart for the Government of the Dominican Republic (GODR) rate analyst for Superintendencia.

Category B: Those which would result in system changes due to their sensitivity within the overall cost structure. As an example, a reduction in peak demand brought about by a demand change which is high enough to substantially effect demand, tends to reduce peak demand, although this peak is affected by other factors. A reduction in peak demand keeps the distribution system within design limits, tending to reduce blackouts.

This activity would be support for peak electric demand reduction, (which is the reduction of the amount of electricity that has to be generated to meet customer requirements at a given instant) and would consist of a consultants report on peak demand reduction with particular attention to Dominican specifics and to reduction of peak demand through such measures as interruptable service contracts, (which are those contracts where rated by the utility can stop service to a large customer for a specific time, a certain number of times a year) can be used (many large users could transfer their operations to standby equipment), installation of florescent lights, and time of day rates for larger users, etc. Time-of-day rates charge different rates for different times of day, reducing demand.

A separate section on conservation could be included or added at a later date dealing with such matters as more efficient industrial processes. One large company in the capital in the D.R. has reduced its electrical costs by over 80% per ton of product through equipment changes and engineering studies.

Changes in the tariffs made by the new CDE should accomplish a rationalization of these tariffs. Rationalization (in summation) means full economic costing with resulting superior economic decisions by managers in the private sector. It also means protection for CDE, the private power producer, and the customer, from an unfair cost distributions resulting from changes in fuel

prices, or selective applications of tariffs. In addition, all rates can be more easily charges under a rational tariff. The new CDE should be paid for all electricity generated, less (approximately 10%) system losses.

A.I.D. can assist in this by sending CDE rate makers to confer with several U.S. electric utility rate makers and make use of the U.S. private electric utility association library in Washington, D.C. They also visit the D.C. Public Service Commission to talk to PUC rate analysis personnel, and possibly other public service commissions and/or commissioners.

The end of project status would be a realization by the parties involved (a consensus) of the need for tariff reform, a tool box of techniques to accomplish it, and some basic required concepts.

We are buying the services of a consulting U.S. rate analyst, another consultant for reports in energy conservation and reduction of peak demand, 4 training sessions for 4 days each for 3 persons in the USA, some sample fraud resistant meters to make a statistical study in fraud prevention, and computer support purchases of equipment and programs.

The resources are the consultants described in III. who would be brought in during the first six month period, training courses for rate makers (III.) in the second six months, and a peak demand reduction study in the third 6 months.

4. POWER GENERATION AND THE LEAST COST EXPANSION PLAN

The Dominican Republic has an electrical sector crisis that has been a major impediment on the development of the country and the wellbeing of the population. Only 50% of the Dominican households have electricity and the service is unreliable and inefficient.

The Government of the Dominican Republic has proposed a new law that will govern the generation, transmission and distribution of electricity, permit deregulation of some of the assets of the Government owned Corporación Dominicana de Electricidad (CDE) and the installation of electrical generation facilities by private power producers. Private ownership will encourage competition and improve the reliability and quality of the electrical sector.

The first electric generation facility was established in Santo Domingo in 1896 and was used mainly for street lighting and public facilities, within a few years several generating

installations were installed in other cities on the island, some of them operating with wood, bagasse or diesel engines. In 1929 the Compañía Eléctrica de Santo Domingo was created in the capital city owned and operated by the U.S. company Stone and Western. This company was nationalized in 1955 by the Dominican Government under the name of Corporación Dominicana de Electricidad (CDE), the Nationalization included generation, transmission and distribution. Several sector expansion plans were developed by CDE throughout the years, however none of them accomplished the forecasted generation.

<u>Expansion Plan</u>	<u>Forecast MW</u>	<u>Actual Installed MW</u>
Year 1955-1965	110	64.3
Year 1967-1978	614	278
Year 1973-1982	200	80
Year 1979-1992	400	133
Year 1991-2005	1,668	

The past and present expansion plans have not been realistic, the availability of resources due to the inefficient CDE and lack of financial resources by the D.R. does not allow for the type of unrealistic planning shown in each of the past and present plans.

The type of installed generation shows in many cases that the power plants have been installed in an emergency, looking for a fast construction solution with no regard for electricity price, with exception of Itabo I and II coal for burning plants most of the installed generation is oil or gas fired a very costly way of producing electricity, even the Itabo I and II plants that have the capability of burning low cost coal, in 1992 this fuel was used only 20% of the time.

As a result of the shortage of electrical energy private industry and individuals have installed generating facilities and more than 17,000 private generators with a installed capacity of over 800 MW exist in the Dominican Republic, CDE currently purchase 200 MW of generation from this capacity.

To the shortage of generation can be added the deterioration of transmission and distribution facilities due to poor maintenance and the lack of financial resources to expand the existing system to new costumers, it is calculated that the technical losses due to degradation of the transmission and distribution reach 18% of the generated energy, by comparison in a sound efficient system these losses are not more than 10%.

The total nominal capacity of CDE system is 1,461 MW of which only 1,000 MW can be considered reliable power, the generation of

hydroelectric power is subject to control agricultural irrigation and potable water supply to the population, have priority over electricity generation. The summer demand have reached in some cases over 950 MW leaving a reserve for peaking of only 50 MW, this is only 5% of the available total generation, the reserve for unforeseen events should be never less than the capacity of the larger unit on the system in this case one of the Itabo units with 125 MW capacity, it is considered that a 25% reserve should be the proper reserve for an utility system. As a result of the shortage of generation blackout are common in some areas of the country.

With the support of the German consulting firm DECON and the Spanish utility UNION FENOSA during the years 1991 and 1992, this critical situation has been improved. With the World Bank support DECON has upgraded the transmission system in the West area of the city of Santo Domingo and it is working on the upgrading of the East side, however the World Bank financing supporting this work is limited and unless additional financing is obtained to continue with the improvements the upgrading of the D.R. transmission system will not be completed.

DECON is also with CDE cooperation working on the revisions to the 1993-2005 expansion plan schedule to be published in September 1993. Union FENOSA has a very strong management advisory team at the CDE offices and has made suggestions for management improvements and reorganization of some of CDE operations in addition they have established training programs for operations and maintenance of CDE units.

The electrical supply in the city of Santo Domingo has improved although not completely, blackouts have not been eliminated and voltage drops are common. In the rest of the country the electrical supply is critical, blackouts last several hours a day.

Privatization of the electrical sector will resolve many of the existing problems, the conditions for privatization encourage reliable electrical generation by penalizing the private power producer in case he does not meet the level of generation required by his contract, this has been proved in many other countries.

The original 1991-2005 expansion plan is being updated at this time and the results of this update will be published shortly, of preliminary information indicates that the new plan is not realistic, however to support the plan an investment of over \$4.5 million dollars will be required, the only way to support even a small part this expansion plan will be through private investment.

5. PRIVATIZATION OF CDE DISTRIBUTION SYSTEM

- **Additional Scope of Work for Privatization Cost/Benefit Analysis**

In addition to the analysis described earlier, the experts conducting the cost/benefit analyses of privatization alternatives should also develop a request for proposal inviting firms' advisors to advise the government on how to best execute the privatization of CDE. This group should also provide the government with a short list of candidates qualified to carry out this process.

The request for proposals (RFP) should describe the work to be conducted by the financial advisor. Basically, we expect the financial advisor to put together an information memorandum describing the company, its operations and the terms and conditions of the privatization. The advisor will then promote the sale of CDE distribution to private sector investors.

While the first group of advisors will have analyzed the various privatization alternatives for the government, this second set of financial advisors will confirm the best means to go forward with privatization and then implement that decision.

The bulk of the compensation for this second set of advisors will come from the proceeds of the sale of CDE distribution. USAID will help defer the out-of-pocket expenses that will be incurred by these advisors. We anticipate that these services can be purchased for \$50,000 per month for five months. (These funds can be considered an advance against future proceeds and could be returned to the project following successful privatization.)

The consultants should also provide a short list of commercial and investment banks and other firms capable of completing this task. They should also decide on the level of local participation in this process.

- **Example of Valuation**

Financial analysts use a number of different parameters to approximate the value of a company.

Book Value - According to the audited 1991 financial statements, CDE had net worth of \$548 million. CDE's net worth will be reduced by losses incurred in 1992 and 1993. Assuming annual losses of \$50 million CDE's net worth will be reduced to \$458 million by the end of this year.

Historical Cost - This is the accounting value of CDE's assets. CDE has assets worth \$1.5 billion. If the government were to absorb CDE's debt, CDE's financial statements tell us that the company would be worth \$1.5 billion.

Replacement Cost - This measures the cost of replacing the equipment. In the case of CDE, the analyst would ask how much would it cost to build brand new, 1000 MW of generating capacity and build a new transmission and distribution system. A very rough estimate would be \$1 billion for generating capacity and another \$1 billion for transmission and distribution.

Comparative Sales of Similar Systems - There is now much information available about the public sale of electric utilities. This comparative analysis adjusting for size and country risk should provide a good estimate of the value of the system.

Discounted Cash Flow Analysis - This analysis involves a detailed analysis of past trends and future prospects leading to a set of financial projections. Once the analyst has a reliable set of projections for the company, he/she will choose an appropriate multiple over cash flow to pay for the assets based on the analysis made above relating to similar sales and then choose an appropriate discount rate that takes into country and industry risk.

The experts should have no difficulty deriving the first four types of valuation in a short period of time, particularly with the anticipated assistance of the utility expert. However, this expert will not have time to conduct his/her own due diligence review of CDE operations resulting in detailed projections. (This will be done in the next phase of the project.) The expert can make a ballpark approximation of CDE's discounted cash value using the information gathered above and projections provided to them from CDE.

- **Investment Banking**

Description of the Problem - Once the government makes the decision to privatize CDE distribution (September 1994), it will have to find some way to sell those assets. At that point in time, the common industry practice is for a seller be it private or public to hire an investment or commercial bank to advise the entity on the sale. Investment/commercial banks are commonly hired because of their investor network and their financial engineering expertise.

ANNEX C

FINANCIAL ANALYSIS AND DETAILED BUDGETS

ANNEX C TABLE 1

ELECTRICAL ENERGY SECTOR RESTRUCTURING

Project No. 517-0270

BUDGET BY COMPONENT

(US\$'000)

COMPONENTS	AID CONTRIBUTION	GODR CONTRIBUTION	TOTAL
I. ENERGY PRIVATIZATION STRATEGY SUPPORT			
A. TECHNICAL ASSISTANCE	1,250.0	900.0	2,150.0
B. TRAINING	110.0	28.0	138.0
C. SPECIAL STUDIES	55.0	20.0	75.0
II. INSTITUTIONAL STRENGTHENING			
A. TECHNICAL ASSISTANCE	1,283.0	0.0	1,283.0
B. TRAINING	270.0	0.0	270.0
C. OPERATIONAL EXPENSES	0.0	822.0	822.0
III. ENERGY SECTOR ENVIRONMENTAL NORMS AND STANDARDS			
A. TECHNICAL ASSISTANCE	500.0		500.0
B. TRAINING	300.0		300.0
C. MATERIALS & EQUIPMENT	32.0		32.0
D. OPERATIONAL EXPENSES		200.0	
IV. PROJ MGT, EVALUATION AND AUDIT			
A. PROJECT MANAGEMENT	100.0		100.0
B. EVALUATION	50.0		50.0
C. AUDIT	50.0		50.0
TOTAL	4,000.0	1,970.0	5,970.0

ELECTRICAL ENERGY SECTOR RESTRUCTURING PROJECT
 No. 517-0270
 BUDGET BY ELEMENT
 (US\$000)

ELEMENTS	COMPONENT I	COMPONENT II	COMPONENT III	COMPONENT IV	TOTALS
TECHNICAL ASSISTANCE	1,250.0	1,283.0	500.0		3,033.0
TRAINING	110.0	270.0	300.0		680.0
MATERIALS & EQUIPMENT			32.0		32.0
SPECIAL STUDIES	55.0				55.0
PROJECT MANAGEMENT				100.0	100.0
EVALUATION				50.0	50.0
AUDIT				50.0	50.0
TOTAL	1,415.0	1,553.0	832.0	200.0	4,000.0

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ANNEX C TABLE 3
ELECTRICAL ENERGY SECTOR RESTRUCTURING PROJECT
PHASES I, II AND III

Description	Amount in US\$
PHASE I: OCTOBER 1993-FEBRUARY 1994	
COMPONENT I. ENERGY PRIVAT-STRATEGY SUPPORT	
A. Technical Assistance (9 mos) privatization, utility/economist/legal	250,000
B. Training Seminars/media promotion, observational trg	110,000
SUB-TOTAL PHASE I	<u>360,000</u>
PHASE II: MARCH 1994-DECEMBER 1994	
COMPONENT I. ENERGY PRIVAT-STRATEGY SUPPORT	
A. Technical Assistance (56 mos) Financial, utilities, economist, asset valuation and privatization specialist	544,180
B. Special Studies (Tariffs)	50,000
SUB-TOTAL COMPONENT I	594,180
COMPONENT II. INSTITUTIONAL STRENGTHENING	
A. Technical Assistance (42 mos) Post Dif., OH, Support Costs Local Office, Mgt. Fee Other TA and Training Rate & Dispatcher analysts, Privatization	1,704,186
B. Training Rate & Dispatcher Analysts short-term training in U.S.	200,000
SUB-TOTAL COMPONENT II	2,013,821
SUB-TOTAL PHASE II	<u>2,608,001</u>
PHASE III: JANUARY 1995-MARCH 1996	
COMPONENT II. INSTITUTIONAL STRENGTHENING	
A. Training & institut. environm. Strength GIJ Materials	32,000
COMPONENT III. ENVIRONMENTAL NORMS & STANDARDS	
A. Technical Assistance (48 mos) Harbor design, civil, environmental, power generat., transmission, field data collection engineers specialists, norms & Standards	800,000
COMPONENT IV. PSC/IQC USAID PROJECT MANAGEMENT	100,000
COMPONENT V. EVALUATION	50,000
COMPONENT VI. AUDIT	50,000
SUB-TOTAL PHASE III	<u>1,032,000</u>
TOTAL PHASES I TRHU III	<u>4,000,001</u>

**ENERGY PRIVATIZATION PROJECT
(No. 517-0270)
PHASE I
BUY-IN/IQC CONTRACT ESTIMATE**

A. TECHNICAL ASSISTANCE**1. SALARIES**

- 1 Privatization specialist (3 Mos.)	29,700
- 1 Utility/Economist (3 Mos.)	29,700
- 1 Legal assistance (3 Mos.)	29,700
- 1 coordinator (invitation travel to GODR officials) (1 Mo.)	6,600

2. POST DIFFERENTIAL (15% over 42 days each) 7,128

3. OVERHEAD (100%) 102,828

4. SUPPORT COST

-Per-diem & Transportation 44,344

SUB-TOTAL A. 250,000

B. SUB-CONTRACTS

1. SEMINARS/MEDIA PROMOTION 50,000

2. OBSERVATIONAL TRAINING
(7 people to Chile, Argentina, US, others
by 4 weeks) 60,000

SUB-TOTAL B. 110,000

GRAND TOTAL 360,000

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ELECTRICAL ENERGY SECTOR RESTRUCTURING PROJECT
No. 517-0270
PHASE II AND III
Institutional Contract Estimate

Description	<u>Amount in US\$</u>	
A. TECHNICAL ASSISTANCE (US\$ Cost)		
1. US Employees		
Long Term		
-PUCA		
(2 years at \$86,000+3% annual increment)	174,580	24 mos
Short Term		
Cost/Benefit support		
-2 Financial (\$6,600 p/mo)	52,800	8 mos
-2 Utility/specialist (8 mo at \$6,600 p/mo)	52,800	8 mos
-1 Asset valuation engineer gen.	13,200	2 mos
-1 Asset valuation trans/distrib, 2 economists	66,000	10 mos
-Privatization specialists	66,000	10 mos
Institutional Strengthening		
-1 Rate analyst	59,400	9 mos
-1 Dispatcher analyst	59,400	9 mos
		56 mos
Sub-Total 1	544,180	
2. POST DIFERENCIAL		
-(15% Long Term Adv)	26,187	
-(15% half short term specialists)	27,720	
-IQC Home Office Support	60,000	
Sub-Total 2	113,907	
3. OVERHEAD		
-100% US employees	544,180	
SUB-TOTAL/US 1+2+3	1 202,267 ✓	
4. SUPPORT COST		
-Housing (2 year at 24,000)	48,000	
-1 set household furnit, appliance, gen, etc	20,000	
-Education Allowance	18,000	
-Travel & Transportation	15,000	
-Per-diem & Transportation	350,000	
Sub-Total 4	451,000 ✓	
SUB-TOTAL A	1,653,267	

B. LOCAL SUPPORT COST (RD\$ in US\$)		
1. SALARIES		
-Professional Staff (At \$2,160/mo/2 years)	51,840	
-1 Secretary (At \$1,500/mo/2 years)	36,000	
-1 Adm. Assist. (At 1500/mo/2 years)	36,000	
-1 Driver/Messenger (At 500/mo/2 years)	12,000	
-Benefits (20% salaries)	27,168	
Sub-Total 1	<u>163,008</u>	
2. SUPPORT COST		
-Office Rent/Utilities (2 yrs at \$50,000)	100,000	
-1 vehicle	25,000	
-2 computers	5,000	
-Office Equip/Furnishing	15,000	
-Office supplies & expenses (2 yrs at \$25,000)	50,000	
Sub-Total 2	<u>195,000</u>	
SUB-TOTAL B	358,008	
C. TRAINING		
1. SHORT TERM TRAINING IN U.S. INSTITUTIONAL TRAINING		
-Rate Analysts	100,000	
-Dispatcher analysts	100,000	
Sub-Total 1	<u>200,000</u>	
2. SPECIAL STUDIES (TARIFFS)	<u>50,000</u>	
SUB-TOTAL C	250,000	
D. OTHER S-T TA & OFF SHORE TRAINING		
1. SHORT TERM TA (AVERAGE \$20,000 p/mo)	80,000	4 mos
2. TRAINING	29,635	
Sub-Total D	<u>109,635</u>	
ESTIMATED TOTAL COST (A+B+C+D)	2,370,910	
FEE: 10% OF TOTAL COST	237,091	
GRAND TOTAL	<u>2,608,001</u>	✓

ELECTRICAL ENERGY SECTOR RESTRUCTURING PROJECT
No. 517-0270
PHASES I, II AND III
BUY-IN/IQC Environmental Contract Estimate

Description	<u>Amount in US\$</u>
A. IBRD PROJECT (PORT OF HAINA)	
1. Feasibility study of coal unloading port	43,000
2. Contamination produced by coal unloading operations on the port of Haina	42,000
SUB-TOTAL A	<u>85,000</u>
B. IBRD ENVIRONMENTAL MITIGATION	
1. Legal & regulatory framework for environmental control	15,000
2. Description of the Dominican Electricity Sector	30,000
3. Potential impact of the projects (e.g. Luperon Site)	190,000
4. Control of level of contamination produced by handling of coal in the port of Haina	15,000
SUB-TOTAL B	<u>250,000</u>
C. ENVIRONMENTAL STUDIES (NORMS & STANDARDS TRAINING PROGRAMS)	465,000
SUB-TOTAL C	<u>465,000</u>
D. ENVIRONMENTAL MATERIAL	
1. GIS & DISTRIBUTION	32,000
SUB-TOTAL D	<u>32,000</u>
GRAND TOTAL (A+B+C+D)	<u><u>832,000</u></u> ~

ANNEX D
INSTITUTIONAL ANALYSIS

INSTITUTIONAL ANALYSIS

1. DECREE 148-93 ESTABLISHING THE NATIONAL ENERGY COMMISSION

On May 31, 1993, the president issued decree 148-93 which established a national energy commission (CNE). The CNE is made up of the following governmental representatives:

- Secretary of Industry and Commerce;
- Secretary of Finance;
- Secretary of Agriculture;
- Secretary of Public Works;
- Technical Secretary of the Presidency;
- Governor of the Central Bank;
- Executive Director CDE;
- National Director of the Institute of Hydraulic Resources.

The commission is expected to develop a strategy for the development of the DR's energy sector. The strategy should establish new regulations and define the appropriate institutional framework for each of the following sub-sectors: electricity, combustion fuels, biomass, hydroelectric, and other alternative energy sources.

The decree stipulates that the commission should begin work immediately on the strategies for the electricity and hydroelectric sub-sectors. To assist these high level government officials with the elaboration of this strategy the decree authorizes the creation of a technical group which will have the following tasks:

- Propose and monitor the subsector strategy;
- Propose and monitor the action plan to implement strategy;
- Recommend to CNE appropriate organizational structures and norms;
- Conduct themselves or contract with third parties for studies necessary to the implementation of the strategy;
- Serve as operational counterpart to the international technical assistance solicited by the CNE.

The decree further stipulates that the technical group will be able to make use of the various offices and departments of the diverse govt entities that elaborate and evaluate projects. During the period that the technical group is working to elaborate recommendations for the electric and hydroelectric

sectors it will report to the general manager of the CDE, who will represent the technical group before the CNE.

The Technical Group will be named by the CNE and will be made up of the following specialists:

- A general coordinator: who will be responsible for the quality and technical depth of the studies as well as relations with all the other participating entities, public as well as private.
- An economist: who will be charged with the evaluation of the impact alternative solutions will have on the national economy.
- An engineer: who will study the technical feasibility of the actions recommended by the technical consultants.
- A lawyer: who will analyze the legal aspects of the strategy and action plan.

It is expected that this technical group will drive the restructuring process in the electricity sector. The CNE has delayed the appointment of technical group members.

In addition to the decree, the government has hired Chilean advisors to draft a new law designed to restructure the Dominican electricity sector. This law will serve as a framework for the Dominican Republic's restructuring process.

The draft law aims to provide electricity to its citizens in an efficient and reliable manner. Toward that end, the law states that it will promote "maximum private sector participation" and "healthy competition".

The draft law provides for a new institutional framework for the electricity sector creating a national commission for electricity, a superintendencia and a coordinating agency.

2. NATIONAL COMMISSION FOR ENERGY -- CNE

The draft law confirms the creation of the Comisión Nacional de Energía or the National Commission for Electricity. The draft law stipulates that the board (Dirección Superior) of the national electricity commission is made up of the following members:

- Technical Secretariat;
- Secretary of Industry and Commerce;
- Secretary of Finance;
- Governor of the Central Bank.

This commission will be responsible for elaborating the electricity subsector reorganization strategy. More specifically it will:

- a) Analyze the electric sector and propose changes to existing norms and policies;
- b) Propose and adopt policies and norms that lead to the smooth functioning of the sector;
- c) Study supply and demand projections and supervise their implementation;
- i) Make certain that environmental concerns are taken into account.

In order to carry out these tasks the commission will appoint an executive secretary to manage a staff of no more than 30 highly qualified employees. These employees will be exempt from government pay scales and will be paid at market prices.

3. SUPERINTENDENCIA

The draft law contemplates the creation of a regulatory body called the "Superintendencia", or Regulatory Agency, that is responsible for:

Article 224

- a) Systematically analyzing the structure and level of prices and define the rates subject to regulation which will be established by supreme decree of the president;
- b) Supervise changes in rate levels according to automatic formulas of indexation;
- c) Budgetary planning and monitoring in compliance with regulations;
- d) Supervise the behavior of the electricity market in order to avoid monopoly policies Article 20 temporarily intervene in the management of the distribution sector concessions and determine who will operate concession;
- e) Analyze and decide on concession applications;
- n) Decide on the conflicts of the sector when they come up.

The Board will be made up of a board of three members.

4. COORDINATING AGENCY

This agency will coordinate generator/transmission operations. The coordinating agency is made up of representatives of generating companies, transmission companies, and distribution companies that have at least 2% of the system's installed capacity.

Its principal functions are (from the latest draft of 7/15/93):

- a) Plan and coordinate the operation of generators and transmission in order to ensure a reliable supply of energy;
- b) Guarantee that generating companies sell their output;
- c) Calculate and value the transfers of energy among companies;
- f) Promote healthy competition and transparent and equal treatment in the electricity market.

• **The Operating Department (Dirección de Operación):**

The Operating Department (OD) will report to the board and will be made up of reps of each of the generating, transmission and distribution companies as well as the General Manager, the National Head of Dispatch and a representative from the superintendencia. These last will have a voice but no vote.

The operating department will have the following tasks and responsibilities:

Article 17

- b) Adopt required agreements relative to methodology, mathematical models, values and parameters, methods, etc.;
- c) Elaborate policies and programs for short, medium and long term operational planning;
- d) Monitor the implementation of these plans;
- e) Coordinate major maintenance for generators and transmission;
- f) Calculate the marginal cost for short term energy;
- h) Value marginal cost of short term energy between generating companies and transmission;
- i) Calculate the potential and actual energy capabilities of each of the generator companies;
- j) Value transfers from generators to transmitters
- k) Elaborate emergency plans;

- l) Elaborate procedures for recovering service;
- m) Propose "internal regulations" for board decisions;
- n) Propose budget to board;
- p) Nominate technical committees when needed;
- q) Solicit and contract studies from third parties.

The operating department will meet as often as is indicated by the internal regulations that will be adopted. Decisions will be made by simple majority with the same procedure for conflicts except that they go to the coordinating board before going on to the superintendencia.

- **General Administrator - Management:**

Article 21 - Management will report to the Operating Department. It will be responsible for those technical studies necessary for the operation of the system as established in the internal regulations. For these tasks it will count on highly qualified personnel.

- **National Dispatching Office (Despacho Nacional de Carga):**

Article 22 - The National Dispatching office will report to management. It will be headed by The national head of dispatching who will count on highly qualified personnel. This group will be responsible for the implementation of the daily operational programs, the completion of the technical norms of security and quality.

Article 29 - Short, medium and long term forecasts will be carried out by Operating Department.

Plan of works to be conducted will agree with Supervisor's plan. Cost of rationing will be defined by the Supervisor.

Article 32 - Information relative to prices and cost and quality of fuel.

Article 143 - Billing will take place on a monthly basis.

- **Key Constraints to Be Alleviated or Resolved:**

The DR's restructuring process will create new regulatory institutions. It is important that these new institutions operate so that they encourage private sector participation as well as provide comfort to a government nervous about losing sovereignty. Finding the right balance between protecting public interest and over regulation will be a difficult and an on-going

task. The draft law already appears to over regulate. This is a constraint our project can alleviate by putting people on the ground who are committed to the private sector.

5. CDE

This introduction describes briefly the electric energy sector development from its beginning in the last century until now; and also makes a quick exposition of the legal evolution between 1954 and 1990.

Until 1954, the industry was completely private. At that time, the Dominican Government nationalized the utility and, in 1955, gave the monopoly to a branch of Government: Corporación Dominicana de Electricidad (CDE). In 1990, the passage of Law 14-90, again allowed private sector participation in the industry.

Approximately 1,140 MW of generation are controlled by CDE. The obsolescence of generators and absence of maintenance left the CDE in 1990 with a maximum capacity of only 590 MW.

The CDE has serious structural problems, which resulted in the interruption of service for 12 or more hours daily between 1984 and 1988.

The projected need is for new generation of 1,668 MW between 1994 and 2005 with an approximate cost of \$2.43 billion dollars (US-93). The needs for transmission lines for this period have a cost of \$400 million dollars (US-93). Taking a cost of \$500 million for repairs and modernization maintenance procedures between 1993 and 2005, the CDE will need, for the period mentioned, total investment between \$3-3.5 billion (US-93).

Due to the annual losses accumulated by CDE, the possibilities of getting the financing for that amount is remote. The only option to invite private sector participation to invest capital and to provide management to operate generating plants economically.

England and Chile are examples of successful privatization projects which can help as a guide to the GODR. Previous studies about the possibilities of the electrical public service privatization by A.I.D., World Bank, and others show interest by the private sector in participating in generation and distribution. The fundamental obstacles were of a legal nature, but this changed after the passage of Law 14-90 -- designed to encourage electrical industry development.

The Government has to define the beginning of the process, because only by knowing the objectives can implementation of an appropriate regulatory model be possible for CDE. The Government should restructure industry capital, permitting employees and users to purchase stock, as well as allow for larger investor groups to participate. It is anticipated that the GODR will strive to modify the generation, permitting competition, and will assign concessions for electric distribution accordingly.

The analysis of the actual situation in the CDE, their problems and impact on the Dominican economy, shows that it is necessary to restructure the industry. The management style that the GODR has imposed on the CDE over the last 30 years hasn't work and won't work in the future.

The possibilities that the CDE can obtain long-term financing for approximately \$3.5 billion, that is needed for investment between 1993 and 2005, is remote even if the present structure endures.

Simultaneously with these measures, the following steps should be taken:

- 1) The definition of the privatization objectives and technical assistance that will advise the GODR Technical Group during the process. The Government and the technical consultants should establish the evaluation criteria of alternatives.
- 2) After the consultants evaluate the industry and its expansion plans, they can suggest restructuring models using established evaluation techniques and criteria.

The central problem is that the structures of modern government and the organizational structure and operating methods necessary for an electric utility are not compatible for the following reasons:

GOVERNMENT	ELECTRIC UTILITY
A. Avoid accountability.	A. Provide reliable service with acceptable quality.
B. Short term fragmented planning in many fields.	B. Long term planning in a few fields (generating capacity, funding, increase sales).
C. Organization is sustained from outside through multi-lateral support.	C. Profitability is required.
D. Slow to build consensus; decision making influenced by special interests.	D. Fast response decision making has line type organization.
E. Group responsibility.	E. Individual responsibility.

The key constraint to be removed is government control over the operations of CDE. In effect, this means that, at a minimum, majority private ownership. Government participation should be on the order of 20% maximum, and this only as a political necessity.

In addition, if divestiture and privatization mean that CDE follows the path of other government-owned industries which have sought out private sector management and ownership (with only two notable exceptions: i.e. CODETEL and sugar production in La Romana), then an economic loss on the order of \$500-\$800 million is expected.

Those activities which build consensus are very important. It must be remembered that the assets of CDE are over US\$1.5 billion and there are over 4 million citizens directly effected. Typically, those with the most extreme orientation are prone to oppose any change.

An activity can be a report which clearly and non-technically reports all the steps and quantifies all the economic benefits and losses of privatization and private stock ownership. The report should be balanced, and take into consideration several points of view.

The report should serve as the justification for wider dissemination of this information through:

- Newspaper
- TV
- Radio
- Conferences
- Meetings
- Essay contests in schools

These activities should be supported during year one. There should be A.I.D. assistance in making the transition from a governmental agency to a private for profit corporation. This process must be "Dominicanized" if sustained impact is to occur. This assistance could be in the form of:

- a) One (or more) trips to our public service commissions, Federal regulatory agencies such as the Federal Energy Regulatory Commission (FERC); and
- b) Knowledgeable people contracted under the project to assist in the conceptual aspects of the move from government control (as opposed to government regulation), and the practical ways to achieve the desired framework and mechanisms to run the new branches of government -- i.e. the Superintendencia and the Coordinating Agency, and to a lesser degree, the Technical Group. At present it appears that only two are required: a Private Utility Commission Adviser; and a Rate Analyst.

The project should increase consensus and introduce ideas and methods that would otherwise not arise. The Stateside technical personnel should provide the new agencies with a starting point for the development of an organic Dominican organization, resulting in the efficient administration of these functions.

ANNEX E

INITIAL ENVIRONMENTAL EXAMINATION (I.E.E.)

INITIAL ENVIRONMENTAL EXAMINATION

Project location : Dominican Republic
Project title : Energy Privatization Project
Project number : 517-0270
Funding : \$4,000,000
IEE Prepared by : Gene Wilken, REA/C

Project description: The Energy Privatization Project (EP) (517-0270) is fully consonant with the objectives of the Bureau for Latin America and the Caribbean (LAC) to promote broad-based and sustainable economic growth within a democratic environment. The goal of the Project is increased and diversified external trade. The purpose of the Project is to facilitate the energy privatization strategy of the GODR by providing technical assistance and training needed to strengthen the institutional development of new regulatory and supervisory entities and maximize private sector participation for more reliable, accessible and environmentally sound electrical energy service.

The Project will provide broad-based technical assistance and training to achieve the following: (1) improved institutional effectiveness of energy regulatory and supervisory entities; (2) increased private sector participation in energy distribution and generation systems, and increased reliability and access to electricity by urban and rural populations and export-oriented companies; and (3) a mitigated environmental impact by the electric energy sector, and the development of environmental norms and standards to be institutionalized within the new electricity Regulatory Agency.

Determination: The Project will not involve activities that have a harmful effect on the natural or physical environment. The Project will not include assistance for the procurement or use of pesticides. On a purely technical basis, the activities which will be carried out under the Project qualify for Categorical Exclusion according to Section 216.2(c)-(2)(i and xiv) of 22 CFR as (1) "Education, technical assistance or training programs except to the extent such programs include activities directly affecting the environment (such as construction of facilities, etc.)," and (2) "Studies, projects or programs intended to develop the capability of recipient countries to engage in development planning, except to the extent designed to result in activities directly affecting the environment (such as construction of facilities, etc.)". However, the attached Initial Environmental Examination Supporting Analysis is the justification for the recommended Negative determination.

Environmental action recommended: Based on the attached Initial Environmental Examination Supporting Analysis, the Mission recommends that the Energy Privatization Project (EP) No. 517-0270 be given a Negative determination requiring no further environmental review.

Approved:


Larry Laird, TID
Mission Environmental Officer
USAID/Dominican Republic

Date: 8/19/93

Concurrence:


Raymond F. Rifenburg
Mission Director
USAID/Dominican Republic

Date: September 14, 1993



U.S. Agency for International Development
 Bureau for Latin America and the Caribbean
 Environment, Energy & Science Staff Rm. 2242
 Department of State
 Washington, D.C. 20523

FAX TRANSMITTAL

DATE: SEPT. 13 1993

TO: LARRY LAIRD

SEP 13 4 23 PM '93

ORGANIZATION: USAID / SANTO DOMINGO

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AID C&R

TELEPHONE NUMBER OF RECIPIENT:

FAX NUMBER SENT TO:

FROM: ALEX SEGARRA / J. BROKAW

FAX #: 202 - 647 - 8098

TELEPHONE: 202 - 647 - 5050

NUMBER OF PAGES SENT INCLUDING THIS COVER SHEET: 4

MESSAGE:

ADVANCE COPY OF CABLE + ETD.

Best Regards, Alex

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APPR: WN (WN)
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LAC/DR/E:JBROKAW

LAC/DR/E:KMENCZER

ROUTINE SANTO DOMINGO, BRIDGETOWN

AIDAC SANTO DOMINGO FOR LARRY LAIRD, BRIDGETOWN FOR G. WILKEN

E.O. 12356: N/A

TAGS:

SUBJECT: ENVIRONMENTAL THRESHOLD DECISION FOR THE ENERGY PRIVATIZATION PROJECT (517-0267)

REF: LAIRD/HESTER TELEFAX OF 08/17/1993

1. LAC ACTING CHIEF ENVIRONMENTAL OFFICER, WAYNE NILSESTUEN, HAS REVIEWED AND HEREBY APPROVES MISSION REQUEST FOR A NEGATIVE DETERMINATION FOR THE SUBJECT PROJECT. IEE NUMBER IS LAC-IEE-93-42. COPY OF THE ENVIRONMENTAL THRESHOLD DECISION IS BEING SENT TO THE MISSION.

2. APPROVAL IS CONTINGENT UPON INCORPORATING THE ENVIRONMENTAL MITIGATION RECOMMENDATIONS DESCRIBED IN THE MISSION'S IEC SUPPORTING ANALYSIS INTO THE PROJECT PAPER DESIGN TO THE FULLEST EXTENT POSSIBLE. TO ACHIEVE THIS OBJECTIVE, MEO SHALL BE INVOLVED IN DESIGN AND IMPLEMENTATION OF ALL PROJECT ACTIVITIES AND SHALL RECOMMEND MITIGATIVE MEASURES TO AVOID OR MINIMIZE POTENTIAL ENVIRONMENTAL IMPACTS. YY

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U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

LAC-IEE-93-42

ENVIRONMENTAL THRESHOLD DECISION

Project Location : Dominican Republic

Project Title : Energy Privatization Project

Project Number : 517-0270

Activity Funding : US\$ 4,000,000

Life of Project : 30 months

IEE Prepared by : Gene Wilken, REA/C

Recommended Threshold Decision: Negative Determination

Bureau Threshold Decision : Concur with Recommendation

Comments : Concurrence is contingent upon incorporating the environmental mitigation recommendations described in the Mission's IEE supporting analysis into the Project Paper design to the fullest extent possible. To achieve this objective, the Mission Environmental Officer shall be involved in design and implementation of all project activities and shall recommend mitigative measures to avoid or minimize potential environmental impacts.

Wayne Wilken 9/13/93
Wayne Wilken
Acting Chief Environmental Officer
Bureau for Latin America
and the Caribbean

Copy to : Raymond Rifenburg, Director
USAID/Dominican Republic

Copy to : Larry Laird, USAID/DR

Copy to : Gene Wilken, REA/CAR

Copy to : Joan Johnson, LAC/CAR
Copy to : Jim Hradsky, LAC/DR/CAR
Copy to : IFE File

IEE FOR ENERGY PRIVATIZATION PROJECT (No. 517-0270)

A. SUMMARY

The Energy Privatization (EP) Project is examined for possible negative environmental impacts. The project has three components: 1) support for privatization of the Dominican Republic (DR) energy sector; 2) institutional, regulatory, and supervisory support; and 3) environmental energy standards and norms. The 3rd component is a multi-element component, comprised of the following activities: 3a(1) analysis of legal and regulatory framework for environmental control, 3a(2-3), description and environmental assessment of the Dominican electrical sector, including existing problems and potential impacts of projects in the "Least-cost Expansion Plan," and 3a(4), environmental evaluations of coal handling contamination at Port of Haina; 3b, preliminary evaluation of the proposed Luperón site; and 3c, the development and institutionalizing of environmental standards and norms within the proposed Superintendencia energy Regulatory body.

Although EP deals with potentially threatening construction and operation of electrical power plants, the Project itself is limited to studies and assessments of existing operations and proposed construction sites. There are no construction or other activities that would directly disrupt the environment. Technically, EP could probably qualify for a Categorical Exclusion. However, to fully explain its distinctive features, and also take advantage of its substantial potential for controlling environmental degradation in the DR, all components of the Project are reviewed and an IEE is submitted. Findings are for a Negative Determination. Because of tight scheduling, the IEE was developed interactively with the Project Paper (PP), and all recommendations have been accepted for inclusion in the Project. Should any of the recommendations of the IEE not be incorporated in the final PP, a new IEE will be submitted for LAC/DR/E consideration.

B. BACKGROUND

The Energy Privatization Project is a 30-month, \$4 million grant to the Government of the Dominican Republic (GODR) in support of energy sector reform and expansion. The grant will be used to provide technical assistance and training needed to strengthen the institutional development of new regulatory and supervisory entities, and maximize private sector participation for more reliable, accessible, and environmentally sound electrical energy service.

Primary counterpart entities to receive Project technical assistance include the newly-formed Technical Assistance Group, which reports directly to the proposed Consejo Nacional de Energía (CNE), and the Regulatory Superintendency, charged with overseeing system, tariff, and environmental regulations and

standards. In the future, an Energy Coordinating Agency, comprised of private and public sector representatives will be responsible for planning the interconnect and dispatch systems operation and emergency maintenance program.

The proposed reform and expansion of the energy sector is of major proportions. The energy sector will be restructured by creating the CNE and the Superintendencia (Regulatory Agency), and dividing the present government energy monopoly Corporación Dominicana de Electricidad (CDE) into three corporations: generation, transmission, and distribution. Subsequently, distribution will be privatized, and generation partially privatized, putting CDE in competition with private electricity suppliers. The new electricity law, now in final draft and scheduled for presentation to the Congress in October, 1993, allows CDE 360 days to complete restructuring.

Between now and the year 2005, the expansion plan envisions a series of new power plants to increase installed capacity from roughly 2,000 MW to 3,500 MW. Currently about 70 percent of the country's installed capacity is operated by CDE (government), the remainder by private agencies. Government generation is approximately 65% oil fired, 17% coal-fired, and 18% hydroelectric. In addition, an estimated 17,000 diesel generators at industrial and commercial sites produce an undetermined amount of electricity.

The World Bank (IBRD), the Inter-american Development Bank (IDB), and USAID intend to provide technical assistance to CDE for restructuring. Much of the actual physical expansion will be financed by private sector investment. Energy reform loans of \$70 million each from IDB and IBRD will capitalize a fund for the procurement of privately owned and operated generation facilities and services. These two loans are expected to be approved by late FY 94 and 95 respectively.

Through an AID/W contract buy-in, USAID has previously provided technical assistance for preparation of model supply contracts, and a fuel pricing study for private sector investment in energy generation and distribution. To support and expedite implementation of the GODR development strategy and facilitate availability of World Bank and IDB financing, EP will provide technical assistance for the GODR sector reform and privatization, and support the preparation of preliminary environmental assessment work and the development of environmental norms and standards to be incorporated into the procedures and bylaws of the Superintendencia.

EP will facilitate implementation of GODR strategy by providing technical assistance in the following areas:

- Awareness and training programs;

- Institutional strengthening;
- Privatization
- Energy Sector Environmental Mitigation, Norms and Standards for the energy sector.

Funds will be allocated as follows (US\$ '000):

	<u>USAID</u>	<u>GODR</u>	<u>TOTAL</u>
- Energy privatization	1,415	948	2,363
- Institutional strengthening	1,553	822	2,375
- Environmental Training	832	200	1,032
- Project Mangement	100	-	100
- Evaluation	50	-	50
- Audit	<u>50</u>	<u>-</u>	<u>50</u>
 Project total	 US\$ 4,000	 1,970	 5,970

Environmental component:

As a percentage of USAID contribution = 20.0%

As a percentage of total project costs = 13.4%

C. PROJECT COMPONENTS

1. Energy Privatization - Strategy Support:

a) Short-term technical assistance to the Technical Group - early strategy support, Phase I:

- Preliminary cost/benefit analysis
- Economic analysis
- Training
- Observational training in Argentina, Brazil, and Chile
- Legal/technical assessment

(Provision of counterparts to Technical Group coordinator and economist; privatization expert; utility/economist; other technical assistance and experts)

b) Institutional contractor support, Phase II: Technical assistance to TAG to promote understanding of privatization and evaluate the costs and benefits of various restructuring and privatizing alternatives.

- Privatization support
- Long-term technical assistance to TAG
- Technical assistance to assess cost/benefit of privatization alternatives.

(Provision of utility expert/economist; asset valuation engineers for generation, transmission, and distribution; other institutional support as needed.)

2. Institutional regulatory and supervisory support.

- Technical assistance for institutional strengthening
- Observational training/short courses in the U.S., including environmental training.

(Provision of advisors; rate analyst and analysts; observational and training courses in the U.S. for Commission Members/Directors of the Superintendencia; training in the U.S. for rate and dispatch analysts.)

3. Energy Environmental mitigation activities

a) IBRD Terms of Reference

World Bank has requested a series of studies involving an initial environmental screening of new generation sites related to IBRD/IDB proposed projects. Terms of reference also call for a preliminary assessment of environmental impacts of an on-going IBRD loan project for two generation plants located at the Port of Haina. The studies are to:

- Assess possible environmental impacts of specific projects, including the proposed IBRD restructuring project;
- Recommend (a) controls for contamination from coal handling in the Port of Haina, and (b) necessary equipment.

To expedite implementation of GODR electrical sector development strategy and IBRD/IDB support, EP will support preparation of preliminary environmental assessment work.

Several studies will be required to perform the work.

1. Legal and regulatory framework for environmental control. Report should include:
 - Synthesis and evaluation of legal and regulatory system currently in force;
 - Recommendations for improving and adapting current institutional system to mitigate environmental effects of electrical installations and operations.
2. Description of the DR electrical sector. Report should include evaluation and review of existing power generation, transmission, and distribution facilities.
3. Examination of environmental problems in the electrical sector, and potential impact of projects included in the GODR/DECON Least-Cost Expansion Plan. Report should include:
 - Test results of atmospheric and aquatic contamination by existing plants, including analysis of fuels,

field measurements of existing conditions, and local meteorological data to construct analytical models of total impact.

- Global impacts of coal combustion, including ozone depletion, global warming, and ocean dumping.
 - Impacts of hydroelectric plants, including reservoirs;
4. Control of contamination produced by coal handling in the Port of Haina. Report should include:
- Levels of contamination;
 - Methodology for control of contamination;
 - Recommendations for equipment for control of contamination;

The PP proposes that studies should not include all energy installations but instead, be limited to larger representative examples of each type of generation facility:

- Haina (coal) and Itabo (oil)
- Santo Domingo-La Mina (gas turbine)
- CDE diesel generators (various areas)
- Tavera (hydro)

There are no World Bank guidelines governing environmental reports for existing installations. The Bank's Environmental Assessment Source Book, Volume III, Energy and Industry, could serve as a guide.

b. GODR/DECON Least Cost Expansion Plan

Results of the DR Electrical Sector Expansion Plan being prepared by the German consulting firm DECON will be issued in September 1993. The plan calls for a series of power plants and projects to be built between 1994 and 2005. Individual EAs will be prepared for each plant to obtain World Bank financing, where applicable (i.e., not privately financed). Although sites for generating plants have not been specified, several have been suggested by preliminary studies (e.g., Luperón; Arroyo Barril, Boca Chica, La Caldera). A World Bank contract with the Canadian firm Manenco, will fund an environmental site screening update of the original study carried out in 1983. The study update will be done in conjunction with the Least Cost Expansion Plan supply study carried out by DECON.

Once the results of the Manenco environmental study and site update are made known, a determination will be made as to what additional site screening is necessary to ensure mitigation of environmental impact. To expedite preparation of a Request for Proposal (RFP) for the Luperón plant, EP may support a preliminary environmental site evaluation to ensure that no

adverse conditions exist. The report will include an economic evaluation of environmental impacts and alternative site considerations. Complete Eas will be performed prior to start of construction of all new plants.

c. Future generation site environmental screening study

The DR electrical sector expansion plan calls for a series of power generating facilities located throughout the country to minimize transmission losses. With the exception of one small hydroelectric facility, all the generating plants will burn fossil fuels, primarily coal. Other power sources, such as nuclear, solar, or wind, are not being proposed. The small hydroelectric plant is located in the interior; all other plants will be located on the coast for access to imported, ship-borne fuels.

Many of the facilities are located near existing or planned tourist areas, some of them in extremely sensitive areas. For example, one of the largest generating plants could be located at Arroyo Barril, on Samaná Bay. Samaná peninsula and bay comprise one of the most scenic areas in the DR. It has been proposed for protected area status and also major tourist development. The bay is a refuge and breeding area for humpbacked whales and possibly manatees. The proposed plant would consume more than 200,000 tons of coal per month, requiring unloading facilities for coal bulk carriers up to 120,000 tons (the largest available). Clearly the environmental impact of such an operation could be disastrous. Although perhaps not as dramatic, the sites at Luperón, Boca Chica, and La Caldera are also vulnerable. The Project will support a preliminary evaluation of the Luperón site.

The World Bank-funded Manenco study will assess and screen future generation sites and assign priorities to potential generation sites based on a variety of environmental, geological, and economic factors. The study will identify sites with environmental and industrial negative impacts, and compare them with the sites selected in the 1993-2005 expansion plan. It is anticipated that GODR officials from a number of agencies will either participate in the study or be apprised of its results as soon as possible. The information will serve as a valuable tool for determining the most appropriate energy generation sites, and for orienting the newly reformed energy sector and its respective officials toward appropriate decision-making techniques based on environmental cost alternatives. The World Bank screening study will include economic evaluation of additional transmission facilities and related costs.

D. ANALYSIS OF PROJECT ACTIVITIES AND RECOMMENDATIONS

EP is distinctive in that although it does not itself

propose environmentally threatening activities, it occupies a pivotal position in the assessments of a major energy system construction and operation program that will be funded by private sector and multinational development banks (MDBs). Environmental assessment procedures among these participants range vary greatly in extent and rigor. It is essential, and in the best interest of all parties, to agree upon common environmental standards (e.g., air, water quality) and environmental assessment procedures. Only in this way can public, private, donor, MDB, and NGO participants have a common understanding and language for environmental evaluation of particular elements of the program. Recommendations following the analysis below include steps necessary to establish and implement standards and procedures, and to develop an environmental framework within which this expansion program can be implemented in an environmentally sound manner.

1. Energy privatization - strategy support.

The Project proposes to support privatization of the Dominican energy sector with a package of short- and long-term technical assistance, including provision of experts and counterparts, and training on technical, operational, and economic issues of power system management. No construction of facilities is scheduled, and there would be no direct impacts on the environment.

However, electrical generation, especially by coal-fired plants, carries environmental implications at every stage, including construction, fuel acquisition and storage, conversion of fuel-to heat-to electricity, and disposal of waste which can produce gaseous, particulate, and thermal air and water pollution, and ash residue problems of major proportions. The difference between polluting systems of the past and modern, relatively benign systems is a combination of technology and management.

The situation is complicated by the fact that the future Dominican electrical system will be partly government, partly private sector operated. Thus, there is immediate need to establish:

- Statutory responsibility for environmental controls of public and private installations and operations;
- Air and water quality standards;
- Regulatory mechanisms, including enforcement, for public and private sectors;
- Environmental assessment procedures for government and private sectors;
- Monitoring procedures.

Recommendations:

- 1-a. That EP seek GODR and donor coordination and agreement on environmental standards and procedures for construction and operation of the Dominican electrical system.
 - 1-b. That EP provide appropriate environmental training to GODR personnel in developing and environmental standards and procedures.
2. Institutional regulatory and supervisory support

The second EP component consists of institutional regulatory and supervisory support thorough technical assistance and training. The same arguments advanced with reference to environmental standards apply. Massive restructuring of the Dominican energy sector offers a once-in-a-lifetime opportunity to also restructure the relationship of this critical sector to the environment through awareness, standards, regulations, and assessments.

In addition, establishing a comprehensive environmental program will support privatization. Rather than a deterrent to the private sector, in-place standards, regulations, and procedures reassures investors that the playing field is level and the rules are known. Commercial operators prefer the known costs of appropriate technology and management to the uncertainty of vaguely stated and likely-to-change standards and regulations.

Recommendation.

- 2-a. That EP provide technical assistance and institutional support to GODR to establish environmental standards, including air and water quality, that will apply to public and private sector construction and operation of the existing and expanded electrical system;
- 2-b. That EP provide technical assistance and institutional support to GODR to establish and enforce environmental regulations and assessment procedures that will apply to public and private sector construction and management of the energy system.
- 2-c. That EP provide appropriate environmental training to GODR personnel in applying and enforcing environmental standards and procedures, including environmental assessments.

3. Environmental evaluations

The third component of EP is a series of environmental studies and appraisals conducted in part on behalf of a World

Bank request for assistance, but more importantly, because these activities have applications for the least cost energy expansion plan and for eventual privatization within the sector. The specific studies are:

a. IBRD terms of reference

- (1) Legal and regulatory framework for environmental control;
- (2) Description and environmental assessment of the Dominican electrical sector;
- (3) Environmental problems existing in the environmental sector; potential impacts of projects included in the "Lease-Cost Expansion Plan";
- (4) Control of coal handling contamination in Port of Haina.

b. GODR/DECON Least Cost Expansion Plan: Preliminary evaluation of Luperón site.

3a(1). At the present time GODR exercises few environmental controls over its operations. For example, the Informe Nacional (1991, pp. 72-73) prepared for the UNCED conference in Rio De Janeiro indicates that few regulations are in place, and little is done to control even flagrant pollution. Furthermore, there is no evidence that standards and regulations exist to control the private sector. Consideration 8 of the new Ley General de Electricidad currently before the DR Congress (15 July 1993) states only that:

Que para la aprobación, instalación, y operación de las diversas fuentes de electricidad posibles corresponde al Estado prevenir y evitar atentados o degradación del medio ambiente y sistema ecológico nacional, velando por su integridad y pureza.

The new law should be reviewed to ensure that it contains covers provisions for environmental standards, regulations and enforcement, assessments, and monitoring.

3a(2&3). By surveying and evaluating the entire Dominican energy sector and also the expansion plan, the studies conducted under EP can provide an integrated, country-wide appraisal of potential environmental impacts of restructuring, privatizing and expansion.

3a(4). Although the study of coal handling contamination is

focussed on the Port of Haina facility, the problems will become country-wide under the proposed expansion plan. Findings regarding control technology and management in Haina could be applied elsewhere.

3b. To support and expedite the expansion process, and on the basis of findings and recommendations to be made known throughout the World Bank-funded Manenco environmental site study, EP may perform a preliminary study of the Luperón site. This is a critical task, but one that by itself does not carry potential for environmental impact.

3c. Environmental site screening is one of the most important aspects of the energy sector reform strategy.

(1) It offers the opportunity to analyze specific site:

- (a) Environmental sensitivity;
- (b) Relation to other activities (e.g., tourism, protected areas; quality of life;
- (c) Benefit stream from increased electrical service versus costs of environmental degradation;
- (d) In terms of alternative sites;
- (e) Primary and secondary impacts of development occasioned by the improved electrical service;
- (f) Public participation in evaluating location energy plants. (World Bank also strongly encourages NGO and public participation in environmental assessments. (R. Haebuer, 1992, A citizens' guide to World Bank environmental assessment procedures.)

of

(2) In addition, the entire expansion plan can be evaluated in the aggregate in terms of overall impact on the Dominican environment, losses of environmental quality (including human health, resources, and wildlife habitat).

(3) Provision is made in the World Bank/Manenco study for economic analysis of environmental impacts. Although not specific, this suggests an opportunity to apply recently developed techniques to analyze economic values of environmental qualities, and to elevate environmental analysis to a level of importance normally reserved for economic and financial analysis.

(4) Of particular concern are plans for locating facilities in environmentally fragile areas. For example, the proposed Luperón site is in a sensitive coastal area. Samaná Bay has been proposed as a protected area and major eco-tourism center. Currently USAID is reviewing an NGO proposal for a comprehensive regional management plan. NGOs and the public

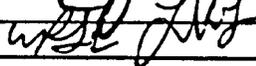
should be encouraged to participate in site evaluations, and deliberations on alternatives to the proposed energy expansion plan.

Recommendations:

- 3a(1). That the new Ley de Electricidad be reviewed, and amended if necessary, to ensure that it provides for adequate public and private sector environmental standards, controls, and assessments, and clear responsibility and procedures for enforcement.
- 3a(2&3) Ensure that specific studies also include overall, system-wide environmental analysis.
- 3a(4) That findings and recommendations from the Haina coal handling study are applied to appraisals of new installations.
- 3b. That evaluation of the Luperón site pay special attention to environmental and economic impacts of power plants, including internalizing environmental costs, and direct and indirect effects. The study will identify potential impacts, alternatives, and mitigating measures.
- 3c. That environmental site screening include alternative site and no-action evaluations, and that public and NGO participation be incorporated in the site screening process.

Drafted: PDI: M^{lv}Lofstrom: 08/16/93
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Clearance:

PDI:ELaureano		Date	8/17/93
PDI:TMiller		Date	8/17/93
TIO:LLaird		Date	8/16/93
PDO:RGarland		Date	8/16/93

ANNEX F

DETAILED IMPLEMENTATION SCHEDULE

SCHEDULE FOR THE ENERGY PRIVATIZATION PROJECT

<u>Activities</u>	<u>Date</u>	<u>Status/ Responsibility</u>
1) CN Expires	8/14/93	PDO
2) IEE Completed	8/17/93	Clearances: TIO/G.Wilken
3) Letter to M. Subero (Laws/Environment)	8/17/93	PDI/Clearance
4) Final Draft PP	8/20/93	M.Lofstrom
5) Distribute PP Summary (IBRD, IDB, Tech. Group)	8/23/93	Laureano/Lofstrom
6) Mission Review of PP	8/25/93	PDI/PDO
7) Finalize PP and Draft Pro-Ag.	8/31/93	PDI/M. Lofstrom, M. Rodríguez(CON)
8) Draft Pro-Ag Annex 1 Translation Complete	9/3/93	PDI/Lofstrom
9) Draft Authorization	9/3/93	PDI/Lofstrom
10) Distribute draft Pro-Ag. to STP/Tech. Group	9/3/93	PDI/PDO
11) Circulate Project Package (PP, Authorization, Pro-Ag.)	9/3/93	PDO
12) 1st draft PIL #1	9/8/93	PDI/PDO
13) Sign Project Package	9/9/93	DIR
14) Distribute Final Pro-Ag/PIL #1 draft to STP	9/9/93	PDO
15) Sign Pro-Ag.	9/15/93	DIR/AMB

<u>Activities</u>	<u>Date</u>	<u>Status/ Responsibility</u>
16) Draft Scopes of Work for PIO/T Buy-ins/Insti.Contract	9/20/93	PDO/Lofstrom
17) USAID Proj. Mgt. (PDI Off.) PSC or Contract	9/30/93	PDI/RCO
18) Buy-in/IQC Privatization (3 months)	10/15/93	PIO/T,Contract,PDI
19) Buy-in/IQC Environmental Mitigation	10/15/93	PIO/T,PDI/Contract,
20) Institutional Contractor (2 years)	12/31/93	PIO/T/Contract/RCO
21) IC contract signed Team In-country	1/15/94 2/15/94	RCO, PDI PDI
22) Buy-in/IQC Environmental Norms & Standards	2/15/94	PDI/RCO Contract Signed
23) Energy Law Enacted	6/1/94	STP
24) GODR Covenants Met: Environmental Norms, Privatize Distribution	1/1/95	Technical Group Superintendent
25) Project Audit (1)	2/15/95	PDI/Controllers
26) CDE Cost/Benefit Studies/Analyses complete	3/31/95	CNE/Superintend
27) Environmental Norms and Standards Implemented/Enforced	6/30/95	Superintendent
28) IBRD/IDB Loans Competitive Bidding Contract for New power Generation	6/30/95	MDB/USAID/CNE
29) Privatize CDE Distribution System	9/30/95	Superintendent CNE
30) Audit (2)	1/31/96	PDI/Controller
31) Project Evaluation Final IQC/Buy-in	3/31/96	PDI
32) PACD	3/31/96	PDI/CNE

ANNEX G

STATUTORY AND COUNTRY CHECKLIST

STATUTORY AND COUNTRY CHECKLISTS

5C(2) - ASSISTANCE CHECKLIST

Listed below are statutory criteria applicable to the assistance resources themselves, rather than to the eligibility of a country to receive assistance. This section is divided into three parts. Part A includes criteria applicable to both Development Assistance and Economic Support Fund resources. Part B includes criteria applicable only to Development Assistance resources. Part C includes criteria applicable only to Economic Support Funds.

Country Checklist was updated for FY 1993 and attached to the Project Paper (PP) of the Family Planning and Health Project (517-0259).

CROSS REFERENCE: IS COUNTRY CHECKLIST UP TO DATE?

Yes.

A. CRITERIA APPLICABLE TO BOTH DEVELOPMENT ASSISTANCE AND ECONOMIC SUPPORT FUNDS

A.

1. **Host Country Development Efforts** (FAA Sec. 601(a)): Information and conclusions on whether assistance will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions.

1. The new investment which will occur as a result of the restructuring of the electrical energy sector will be significant. New investments will be made in both generation and distribution systems.

2. **U.S. Private Trade and Investment** (FAA Sec. 601(b)): Information and conclusions on how assistance will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

2. The investments in "1." above will likely result in sales of U.S. equipment and direct U.S. investments in the electrical energy sector.

3. Congressional Notification

a. **General requirement** (FY 1993 Appropriations Act Sec. 522; FAA Sec. 634A): If money is to be obligated for an activity not previously justified to Congress, or for an amount in excess of amount previously justified to Congress; has Congress been properly notified (unless the Appropriations Act notification requirement has been waived because of substantial risk to human health or welfare)?

b. **Notice of new account obligation** (FY 1993 Appropriations Act Sec. 514): If funds are being obligated under an appropriation account to which they were not appropriated, has the President consulted with and provided a written justification to the House and Senate Appropriations Committees and has such obligation been subject to regular notification procedures?

c. **Cash transfers and non-project sector assistance** (FY 1993 Appropriations Act Sec. 571(b)(3)): If funds are to be made available in the form of cash transfer or non-project sector assistance, has the Congressional notice included a detailed description of how the funds will be used, with a discussion of U.S. interests to be served and a description of any economic policy reforms to be promoted?

4. Engineering and Financial Plans (FAA Sec. 611(a)): Prior to an obligation in excess of \$500,000, will there be: (a) engineering, financial or other plans necessary to carry out the assistance; and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?

5. Legislative Action (FAA Sec. 611(a)(2)): If legislative action is required within recipient country with respect to an obligation in excess of \$500,000, what is the

3.

a. Yes. CN expired, per fax dated August 15, 1993.

b. N/A

c. N/A

4.

(a) Yes

(b) Yes

5. Legislative action is expected during the life of the project. The IBRD and IDB loans for new

basis for a reasonable expectation that such action will be completed in time to permit orderly accomplishment of the purpose of the assistance?

electricity generation, totalling \$200 million, are conditioned to the passage of a new Energy Law. The Aide Memoire signed by the World Bank and the GODR on April 23, 1993, commits the GODR to advance the new Energy Law and Strategy for the electrical energy sector restructuring. Coordination between donor organizations and the GODR has been excellent. The Energy Law is expected to be passed by Congress by the end of May, 1994.

6. **Water Resources** (FAA Sec. 611(b); FY 1993 Appropriations Act Sec. 501): If project is for water or water-related land resource construction, have benefits and costs been computed to the extent practicable in accordance with the principles, standards, and procedures established pursuant to the Water Resources Planning Act (42 U.S.C. 1962, et seq.)? (See A.I.D. Handbook 3 for guidelines.)

6. N/A

7. **Cash Transfer and Sector Assistance** (FY 1993 Appropriations Act Sec. 571(b)): Will cash transfer or non-project sector assistance be maintained in a separate account and not commingled with other funds (unless such requirements are waived by Congressional notice for non-project sector assistance)?

7. N/A

8. **Capital Assistance** (FAA Sec. 611(e)): If project is capital assistance (e.g., construction), and total U.S. assistance for it will exceed \$1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability to maintain and utilize the project effectively?

8. N/A

9. **Multiple Country Objectives** (FAA Sec. 601(a)): Information and conclusions on

9. (See 5C (2).A.1)

whether projects will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions.

10. **U.S. Private Trade** (FAA Sec. 601(b)): Information and conclusions on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

10. (See 5C (2).A.2)

11. **Local Currencies**

11.

a. **Recipient Contributions** (FAA Secs. 612(b), 636(h)): Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars.

a. N/A

b. **U.S.-Owned Currency** (FAA Sec. 612(d)): Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?

b. No

c. **Separate Account** (FY 1993 Appropriations Act Sec. - 571). If assistance is furnished to a foreign government under arrangements which result in the generation of local currencies:

c.

(1) Has A.I.D. (a) required that local currencies be deposited in a separate account established by the recipient government, (b) entered into an agreement with that government providing the amount of

(1) N/A

local currencies to be generated and the terms and conditions under which the currencies so deposited may be utilized, and (c) established by agreement the responsibilities of A.I.D. and that government to monitor and account for deposits into and disbursements from the separate account?

(2) Will such local currencies, or an equivalent amount of local currencies, be used only to carry out the purposes of the DA or ESF chapters of the FAA (depending on which chapter is the source of the assistance) or for the administrative requirements of the United States Government?

(2) N/A

(3) Has A.I.D. taken all appropriate steps to ensure that the equivalent of local currencies

(3) N/A

disbursed from the separate account are used for the agreed purposes?

(4) If assistance is terminated to a country, will any unencumbered balances of funds remaining in a separate account be disposed of for purposes agreed to by the recipient government and the United States Government?

(4) N/A

12. Trade Restrictions

12.

a. **Surplus Commodities** (FY 1993 Appropriations Act Sec. 520(a)): If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity?

a. N/A

b. **Textiles (Lautenberg Amendment)** (FY 1993 Appropriations Act Sec. 520(c)): Will the assistance (except for programs in Caribbean Basin Initiative countries under U.S. Tariff Schedule "Section 807," which allows reduced tariffs on articles assembled abroad from U.S.-made components) be used directly to procure feasibility studies, prefeasibility studies, or project profiles of potential investment in, or to assist the establishment of facilities specifically designed for, the manufacture for export to the United States or to third country markets in direct competition with U.S. exports, of textiles, apparel, footwear, handbags, flat goods (such as wallets or coin purses worn on the person), work gloves or leather wearing apparel?

b. No

13. **Tropical Forests** (FY 1991 Appropriations Act Sec. 533(c)(3) (as referenced in section 532(d) of the FY 1993 Appropriations Act): Will funds be used for any program, project or activity which would (a) result in any significant loss of tropical forests, or (b) involve industrial timber extraction in primary tropical forest areas?

13. No

14.

a. N/A

14. **PVO Assistance**

a. **Auditing and registration** (FY 1993 Appropriations Act Sec. 536): If assistance is being made available to a PVO, has that organization provided upon timely request any document, file, or record necessary to the auditing requirements of A.I.D., and is the PVO registered with A.I.D.?

b. N/A

b. **Funding sources** (FY 1993 Appropriations Act, Title II, under heading "Private and Voluntary Organizations"): If assistance is to be made to a United States PVO (other than a

cooperative development organization), does it obtain at least 20 percent of its total annual funding for international activities from sources other than the United States Government?

15. **Project Agreement Documentation** (State Authorization Sec. 139 (as interpreted by conference report)): Has confirmation of the date of signing of the project agreement, including the amount involved, been cabled to State L/T and A.I.D. LEG within 60 days of the agreement's entry into force with respect to the United States, and has the full text of the agreement been pouched to those same offices? (See Handbook 3, Appendix 6G for agreements covered by this provision). 15. Yes

16. **Metric System** (Omnibus Trade and Competitiveness Act of 1988 Sec. 5164, as interpreted by conference report, amending Metric Conversion Act of 1975 Sec. 2, and as implemented through A.I.D. policy): Does the assistance activity use the metric system of measurement in its procurements, grants, and other business-related activities, except to the extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate? Will A.I.D. specifications use metric units of measure from the earliest programmatic stages, and from the earliest documentation of the assistance processes (for example, project papers) involving quantifiable measurements (length, area, volume, capacity, mass and weight), through the implementation stage? 16. Yes

17. **Women in Development** (FY 1993 Appropriations Act, Title II, under heading "Women in Development"): Will assistance be designed so that the percentage of women participants will be demonstrably increased? 17. No

18. **Regional and Multilateral Assistance** (FAA Sec. 209): Is assistance more efficiently and effectively provided through regional or multilateral organizations? If so, why is assistance not so provided? Information and conclusions on whether assistance will encourage developing countries to cooperate in regional development programs.

18. No. This project is designed to precede and facilitate financing to be provided by the IBRD and IDB, but this assistance cannot be provided as efficiently through those organizations.

19. **Abortions** (FY 1993 Appropriations Act, Title II, under heading "Population, DA," and Sec. 524):

19.

a. Will assistance be made available to any organization or program which, as determined by the President, supports or participates in the management of a program of coercive abortion or involuntary sterilization?

a. No

b. Will any funds be used to lobby for abortion?

b. No

20. **Cooperatives** (FAA Sec. 111): Will assistance help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward a better life?

20. No

21. **U.S.-Owned Foreign Currencies**

21.

a. **Use of currencies** (FAA Secs. 612(b), 636(h); FY 1993 Appropriations Act Secs. 507, 509): Are steps being taken to assure that, to the maximum extent possible, foreign currencies owned by the U.S. are utilized in lieu of dollars to meet the cost of contractual and other services.

a. N/A

b. **Release of currencies** (FAA Sec. 612(d)): Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?

b. No

22. Procurement

a. **Small business** (FAA Sec. 602(a)): Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed?

b. **U.S. procurement** (FAA Sec. 604(a) as amended by section 597 of the FY 1993 Appropriations Act): Will all procurement be from the U.S., the recipient country, or developing countries except as otherwise determined in accordance with the criteria of this section?

c. **Marine insurance** (FAA Sec. 604(d)): If the cooperating country discriminates against marine insurance companies authorized to do business in the U.S., will commodities be insured in the United States against marine risk with such a company?

d. **Non-U.S. agricultural procurement** (FAA Sec. 604(e)): If non-U.S. procurement of agricultural commodity or product thereof is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably be procured in U.S.)

e. **Construction or engineering services** (FAA Sec. 604(g)): Will construction or engineering services be procured from firms of advanced developing countries which are otherwise eligible under Code 941 and which have attained a competitive capability in international markets in one of these areas? (Exception for those countries which receive direct economic assistance under the FAA and permit United States firms to compete for construction or engineering services financed from assistance programs of these countries.)

22.

a. Yes. (Full and open competition for long-term institutional contractor).

b. Yes

c. Yes

d. N/A

e. No

- f. **Cargo preference shipping** (FAA Sec. 603)): Is the shipping excluded from compliance with the requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 percent of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S. flag commercial available at fair and reasonable rates? f. No
- g. **Technical assistance** (FAA Sec. 621(a)): If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? Will the facilities and resources of other Federal agencies be utilized, when they are particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs? g. Yes
- h. **U.S. air carriers** (International Air Transportation Fair Competitive Practices Act, 1974): If air transportation of persons or property is financed on grant basis, will U.S. carriers be used to the extent such service is available? h. Yes
- i. **Termination for convenience of U.S. Government** (FY 1993 Appropriations Act Sec. 504): If the U.S. Government is a party to a contract for procurement, does the contract contain a provision authorizing termination of such contract for the convenience of the United States? i. Yes
- j. **Consulting services** (FY 1993 Appropriations Act Sec. 523): If assistance is for consulting service through procurement contract pursuant to 5 U.S.C. 3109, are contract expenditures a matter of public record and available for public inspection (unless otherwise provided by law or Executive order)? j. Yes

k. Metric conversion (Omnibus Trade and Competitiveness Act of 1988, as interpreted by conference report, amending Metric Conversion Act of 1975 Sec. 2, and as implemented through A.I.D. policy): Does the assistance program use the metric system of measurement in its procurements, grants, and other business-related activities, except to the extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate? Will A.I.D. specifications use metric units of measure from the earliest programmatic stages, and from the earliest - 11 - documentation of the assistance processes (for example, project papers) involving quantifiable measurements (length, area, volume, capacity, mass and weight), through the implementation stage?

k. Yes

l. Competitive Selection Procedures (FAA Sec. 601(e)): Will the assistance utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?

l. Yes

23. Construction

23. N/A

a. Capital project (FAA Sec. 601(d)): If capital (e.g., construction) project, will U.S. engineering and professional services be used?

b. Construction contract (FAA Sec. 611(c)): If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable?

c. Large projects, Congressional approval (FAA Sec. 620(k)): If for

construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed \$100 million (except for productive enterprises in Egypt that were described in the Congressional Presentation), or does assistance have the express approval of Congress?

24. **U.S. Audit Rights** (FAA Sec. 301(d)): If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights? 24. N/A

25. **Communist Assistance** (FAA Sec. 620(h)). Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the Communist-bloc countries? 25. Yes

26. **Narcotics** 26.

a. **Cash reimbursements** (FAA Sec. 483): Will arrangements preclude use of financing to make reimbursements, in the form of cash payments, to persons whose illicit drug crops are eradicated? a. Yes

b. **Assistance to narcotics traffickers** (FAA Sec. 487): Will arrangements take "all reasonable steps" to preclude use of financing to or through individuals or entities which we know or have reason to believe have either: (1) been convicted of a violation of any law or regulation of the United States or a foreign country relating to narcotics (or other controlled substances); or (2) been an illicit trafficker in, or otherwise involved in the illicit trafficking of, any such controlled substance? b. Yes

27. **Expropriation and Land Reform** (FAA Sec. 620(g)): Will assistance preclude use of financing to compensate owners for 27. Yes

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expropriated or nationalized property, except to compensate foreign nationals in accordance with a land reform program certified by the President?

28. **Police and Prisons** (FAA Sec. 660): Will assistance preclude use of financing to provide training, advice, or any financial support for police, prisons, or other law enforcement forces, except for narcotics programs? 28. Yes
29. **CIA Activities** (FAA Sec. 662): Will assistance preclude use of financing for CIA activities? 29. Yes
30. **Motor Vehicles** (FAA Sec. 636(i)): Will assistance preclude use of financing for purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside U.S., unless a waiver is obtained? 30. Yes
31. **Military Personnel** (FY 1993 Appropriations Act Sec. 503): Will assistance preclude use of financing to pay pensions, annuities, retirement pay, or adjusted service compensation for prior or current military personnel? 31. Yes
32. **Payment of U.N. Assessments** (FY 1993 Appropriations Act Sec. 505): Will assistance preclude use of financing to pay U.N. assessments, arrearages or dues? 32. Yes
33. **Multilateral Organization Lending** (FY 1993 Appropriations Act Sec. 506): Will assistance preclude use of financing to carry out provisions of FAA section 209(d) (transfer of FAA funds to multilateral organizations for lending)? 33. Yes
34. **Export of Nuclear Resources** (FY 1993 Appropriations Act Sec. 510): Will assistance preclude use of financing to finance the export of nuclear equipment, fuel, or technology? 34. Yes

35. **Repression of Population** (FY 1993 Appropriations Act Sec. 511): Will assistance preclude use of financing for the purpose of aiding the efforts of the government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights? 35. Yes

36. **Publicity or Propaganda** (FY 1993 Appropriations Act Sec. 516): Will assistance be used for publicity or propaganda purposes designed to support or defeat legislation pending before Congress, to influence in any way the outcome of a political election in the United States, or for any publicity or propaganda purposes not authorized by Congress? 36. No

37. **Marine Insurance** (FY 1993 Appropriations Act Sec. 560): Will any A.I.D. contract and solicitation, and subcontract entered into under such contract, include a clause requiring that U.S. marine insurance companies have a fair opportunity to bid for marine insurance when such insurance is necessary or appropriate? 37. Yes

38. **Exchange for Prohibited Act** (FY 1993 Appropriations Act Sec. 565): Will any assistance be provided to any foreign government (including any instrumentality or agency thereof), foreign person, or United States person in exchange for that foreign government or person undertaking any action which is, if carried out by the United States Government, a United States official or employee, expressly prohibited by a provision of United States law? 38. No

39. **Commitment of Funds** (FAA Sec. 635(h)): Does a contract or agreement entail a commitment for the expenditure of funds during a period in excess of 5 years from the date of the contract or agreement? 39. No. The Project Agreement has an anticipated duration of two and one half years, but the institutional contract will be for two years only.

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40. **Impact on U.S. Jobs** (FY 1993 Appropriations Act, Sec. 599):

40.

(a) Will any financial incentive be provided to a business located in the U.S. for the purpose of inducing that business to relocate outside the U.S. in a manner that would likely reduce the number of U.S. employees of that business?

(a). No

(b) Will assistance be provided for the purpose of establishing or developing an export processing zone or designated area in which the country's tax, tariff, labor, environment, and safety laws do not apply? If so, has the President determined and certified that such assistance is not likely to cause a loss of jobs within the U.S.?

(b). No

(c) Will assistance be provided for a project or activity that contributes to the violation of internationally recognized workers rights, as defined in section 502(a)(4) of the Trade Act of 1974, of workers in the recipient country?

(c). No

B. CRITERIA APPLICABLE TO DEVELOPMENT ASSISTANCE ONLY

B.

1. **Agricultural Exports (Bumpers Amendment)** (FY 1993 Appropriations Act Sec. 521(b), as interpreted by conference report for original enactment): If assistance is for agricultural development activities (specifically, any testing or breeding feasibility study, variety improvement or introduction, consultancy, publication, conference, or training), are such activities: (1) specifically and principally designed to increase agricultural exports by the host country to a country other than the United States, where the export would lead to direct competition in that third country with exports of a similar commodity grown or produced in the United States, and can the activities

1. N/A

reasonably be expected to cause substantial injury to U.S. exporters of a similar agricultural commodity; or (2) in support of research that is intended primarily to benefit U.S. producers?

2. **Tied Aid Credits** (FY 1993 Appropriations Act, Title II, under heading "Economic Support Fund"): Will DA funds be used for tied aid credits? 2. No
3. **Appropriate Technology** (FAA Sec. 107): Is special emphasis placed on use of appropriate technology (defined as relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)? 3. N/A
4. **Indigenous Needs and Resources** (FAA Sec. 281(b)): Describe extent to which the activity recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civic education and training in skills required for effective participation in governmental and political processes essential to self-government. 4. N/A
5. **Economic Development** (FAA Sec. 101(a)): Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth? 5. Yes
6. **Special Development Emphases** (FAA Secs. 102(b), 113, 281(a)): Describe extent to which activity will: (a) effectively involve the poor in development by extending access to economy at local level, increasing labor-intensive production and the use of appropriate technology, dispersing investment from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using appropriate U.S. institutions; (b) encourage democratic private and local 6. N/A

governmental institutions; (c) support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (e) utilize and encourage regional cooperation by developing countries.

7. **Recipient Country Contribution** (FAA Secs. 110, 124(d)): Will the recipient country provide at least 25 percent of the costs of the program, project, or activity with respect to which the assistance is to be furnished (or is the latter cost-sharing requirement being waived for a "relatively least developed" country)?

7. Yes. No waiver required.

8. **Benefit to Poor Majority** (FAA Sec. 128(b)): If the activity attempts to increase the institutional capabilities of private organizations or the government of the country, or if it attempts to stimulate scientific and technological research, has it been designed and will it be monitored to ensure that the ultimate beneficiaries are the poor majority?

8. Yes

9. **Abortions** (FAA Sec. 104(f); FY 1993 Appropriations Act, Title II, under heading "Population, DA," and Sec. 534):

9. N/A

a. Are any of the funds to be used for the performance of abortions as a method of family planning or to motivate or coerce any person to practice abortions?

b. Are any of the funds to be used to pay for the performance of involuntary sterilization as a method of family planning or to coerce or provide any financial incentive to any person to undergo sterilizations?

c. Are any of the funds to be made available to any organization or program which, as determined by the President,

supports or participates in the management of a program of coercive abortion or involuntary sterilization?

d. Will funds be made available only to voluntary family planning projects which offer, either directly or through referral to, or information about access to, a broad range of family planning methods and services?

e. In awarding grants for natural family planning, will any applicant be discriminated against because of such applicant's religious or conscientious commitment to offer only natural family planning?

f. Are any of the funds to be used to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning?

g. Are any of the funds to be made available to any organization if the President certifies that the use of these funds by such organization would violate any of the above provisions related to abortions and involuntary sterilization?

10. **Contract Awards** (FAA Sec. 601(e)): Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?

10. Yes

11. **Disadvantaged Enterprises** (FY 1993 Appropriations Act Sec. 563): What portion of the funds will be available only for activities of economically and socially disadvantaged enterprises, historically black colleges and universities, colleges and universities having a student body in which more than 40 percent of the students are Hispanic Americans, and private and voluntary organizations which are controlled by individuals who are black Americans, Hispanic

11. None. The contractor will be chosen by open competition.

Americans, or Native Americans, or who are economically or socially disadvantaged (including women)?

12. **Biological Diversity** (FAA Sec. 119(g): Will the assistance: (a) support training and education efforts which improve the capacity of recipient countries to prevent loss of biological diversity; (b) be provided under a long-term agreement in which the recipient country agrees to protect ecosystems or other wildlife habitats; (c) support efforts to identify and survey ecosystems in recipient countries worthy of protection; or (d) by any direct or indirect means significantly degrade national parks or similar protected areas or introduce exotic plants or animals into such areas?

12. Yes. The project provides extensive environmental technical assistance.

13. **Tropical Forests** (FAA Sec. 118; FY 1991 Appropriations Act Sec. 533(c) as referenced in section 532(d) of the FY 1993 Appropriations Act):

13.

a. **A.I.D. Regulation 16:** Does the assistance comply with the environmental procedures set forth in A.I.D. Regulation 16?

a. Yes

b. **Conservation:** Does the assistance place a high priority on conservation and sustainable management of tropical forests? Specifically, does the assistance, to the fullest extent feasible: (1) stress the importance of conserving and sustainably managing forest resources; (2) support activities which offer employment and income alternatives to those who otherwise would cause destruction and loss of forests, and help countries identify and implement alternatives to colonizing forested areas; (3) support training programs, educational efforts, and the establishment or strengthening of institutions to improve forest management; (4) help end destructive slash-and-burn agriculture by supporting stable and productive farming practices;

b. N/A

(5) help conserve forests which have not yet been degraded by helping to increase production on lands already cleared or degraded; (6) conserve forested watersheds and rehabilitate those which have been deforested; (7) support training, research, and other actions which lead to sustainable and more environmentally sound practices for timber harvesting, removal, and processing; (8) support research to expand knowledge of tropical forests and identify alternatives which will prevent forest destruction, loss, or degradation; (9) conserve biological diversity in forest areas by supporting efforts to identify, establish, and maintain a representative network of protected tropical forest ecosystems on a worldwide basis, by making the establishment of protected areas a condition of support for activities involving forest clearance or degradation, and by helping to identify tropical forest ecosystems and species in need of protection and establish and maintain appropriate protected areas; (10) seek to increase the awareness of U.S. Government agencies and other donors of the immediate and long-term value of tropical forests; (11) utilize the resources and abilities of all relevant U.S. government agencies; (12) be based upon careful analysis of the alternatives available to achieve the best sustainable use of the land; and (13) take full account of the environmental impacts of the proposed activities on biological diversity?

c. **Forest degradation:** Will assistance be used for: (1) the procurement or use of logging equipment, unless an environmental assessment indicates that all timber harvesting operations involved will be conducted in an environmentally sound manner and that the proposed activity will produce positive economic benefits and sustainable forest management systems;

c. No

(2) actions which will significantly degrade national parks or similar protected areas which contain tropical forests, or introduce exotic plants or animals into such areas; (3) activities which would result in the conversion of forest lands to the rearing of livestock; (4) the construction, upgrading, or maintenance of roads (including temporary haul roads for logging or other extractive industries) which pass through relatively undergraded forest lands; (5) the colonization of forest lands; or (6) the construction of dams or other water control structures which flood relatively undergraded forest lands, unless with respect to each such activity an environmental assessment indicates that the activity will contribute significantly and directly to improving the livelihood of the rural poor and will be conducted in an environmentally sound manner which supports sustainable development?

d. **Sustainable forestry:** If assistance relates to tropical forests, will project assist countries in developing a systematic analysis of the appropriate use of their total tropical forest resources, with the goal of developing a national program for sustainable forestry?

d. Yes

e. **Environmental impact statements:** Will funds be made available in accordance with provisions of FAA Section 117(c) and applicable A.I.D. regulations requiring an environmental impact statement for activities significantly affecting the environment?

e. Yes

14. **Energy** (FY 1991 Appropriations Act Sec. 533(c) as referenced in section 532(d) of the FY 1993 Appropriations Act): If assistance relates to energy, will such assistance focus on: (a) end-use energy efficiency, least-cost energy planning, and renewable energy resources, and (b) the key

14. Yes. This project is to provide technical assistance to promote efficient electrical energy generation and distribution.

countries where assistance would have the greatest impact on reducing emissions from greenhouse gases?

15. **Debt-for-Nature Exchange** (FAA Sec. 463): If project will finance a debt-for-nature exchange, describe how the exchange will support protection of: (a) the world's oceans and atmosphere, (b) animal and plant species, and (c) parks and reserves; or describe how the exchange will promote: (d) natural resource management, (e) local conservation programs, (f) conservation training programs, (g) public commitment to conservation, (h) land and ecosystem management, and (i) regenerative approaches in farming, forestry, fishing, and watershed management. 15. N/A

16. **Deobligation/Reobligation** (FY 1993 Appropriations Act Sec. 515): If deob/reob authority is sought to be exercised in the provision of DA assistance, are the funds being obligated for the same general purpose, and for countries within the same region as originally obligated, and have the House and Senate Appropriations Committees been properly notified? 16. Yes

17. **Loans** 17.

a. **Repayment capacity** (FAA Sec. 122(b)): Information and conclusion on capacity of the country to repay the loan at a reasonable rate of interest. a. N/A

b. **Long-range plans** (FAA Sec. 122(b)): Does the activity give reasonable promise of assisting long-range plans and programs designed to develop economic resources and increase productive capacities? b. N/A

c. **Interest rate** (FAA Sec. 122(b)): If development loan is repayable in dollars, is interest rate at least 2 percent per annum during a grace period which is not to exceed ten years, and at least 3 percent per annum thereafter? c. N/A

d. **Exports to United States** (FAA Sec. 620(d)): If assistance is for any productive enterprise which will compete with U.S. enterprises, is there an agreement by the recipient country to prevent export to the U.S. of more than 20 percent of the enterprise's annual production during the life of the loan, or has the requirement to enter into such an agreement been waived by the President because of a national security interest?

d. N/A

18. **Development Objectives** (FAA Secs. 102(a), 111, 113, 281(a)): Extent to which activity will: (1) effectively involve the poor in development, by expanding access to economy at local level, increasing labor-intensive production and the use of appropriate technology, spreading investment out from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using the appropriate U.S. institutions; (2) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local governmental institutions; (3) support the self-help efforts of developing countries; (4) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (5) utilize and encourage regional cooperation by developing countries?

18. (See 5c (2) B.6)

19. **Agriculture, Rural Development and Nutrition, and Agricultural Research** (FAA Secs. 103 and 103A):

19.

a. **Rural poor and small farmers:** If assistance is being made available for agriculture, rural development or nutrition, describe extent to which activity is specifically designed to increase productivity and income of rural poor; or if assistance is being made available for agricultural research, has account been taken of the needs of small

a. N/A

farmers, and extensive use of field testing to adapt basic research to local conditions shall be made.

b. Nutrition: Describe extent to which assistance is used in coordination with efforts carried out under FAA Section 104 (Population and Health) to help improve nutrition of the people of developing countries through encouragement of increased production of crops with greater nutritional value; improvement of planning, research, and education with respect to nutrition, particularly with reference to improvement and expanded use of endogenously produced foodstuffs; and the undertaking of pilot or demonstration programs explicitly addressing the problem of malnutrition of poor and vulnerable people.

b. N/A

c. Food security: Describe extent to which activity increases national food security by improving food policies and management and by strengthening national food reserves, with particular concern for the needs of the poor, through measures encouraging domestic production, building national food reserves, expanding available storage facilities, reducing post harvest food losses, and improving food distribution.

c. N/A

20. Population and Health (FAA Secs. 104(b) and (c)): If assistance is being made available for population or health activities, describe extent to which activity emphasizes low-cost, integrated delivery systems for health, nutrition and family planning for the poorest people, with particular attention to the needs of mothers and young children, using paramedical and auxiliary medical personnel, clinics and health posts, commercial distribution systems, and other modes of community outreach.

20. N/A

21. Education and Human Resources Development (FAA Sec. 105): If assistance is

21. N/A

being made available for education, public administration, or human resource development, describe (a) extent to which activity strengthens non-formal education, makes formal education more relevant, especially for rural families and urban poor, and strengthens management capability of institutions enabling the poor to participate in development; and (b) extent to which assistance provides advanced education and training of people of developing countries in such disciplines as are required for planning and implementation of public and private development activities.

22. **Energy, Private Voluntary Organizations, and Selected Development Activities (FAA Sec. 106):** If assistance is being made available for energy, private voluntary organizations, and selected development problems, describe extent to which activity is:

a. concerned with data collection and analysis, the training of skilled personnel, research on and development of suitable energy sources, and pilot projects to test new methods of energy production; and facilitative of research on and development and use of small-scale, decentralized, renewable energy sources for rural areas, emphasizing development of energy resources which are environmentally acceptable and require minimum capital investment;

b. concerned with technical cooperation and development, especially with U.S. private and voluntary, or regional and international development, organizations;

22.

a. This project is concerned with the efficient distribution of electrical energy and with the privatization of that distribution as well as the possible privatization of electrical energy generation for national distribution. It is not, by its nature, directed at small-scale generation. Renewable resources will be addressed in the environmental studies financed under the project.

b. N/A

c. research into, and evaluation of, economic development processes and techniques; c. N/A

d. reconstruction after natural or manmade disaster and programs of disaster preparedness; d. N/A

e. for special development problems, and to enable proper utilization of infrastructure and related projects funded with earlier U.S. assistance; e. N/A

f. for urban development, especially small, labor-intensive enterprises, marketing systems for small producers, and financial or other institutions to help urban poor participate in economic and social development. f. N/A

23. **Capital Projects** (Jobs Through Export Act of 1992, Secs. 303 and 306(d)): If assistance is being provided for a capital project, is the project developmentally sound and will the project measurably alleviate the worst manifestations of poverty or directly promote environmental safety and sustainability at the community level? 23. N/A

C. CRITERIA APPLICABLE TO ECONOMIC SUPPORT FUNDS ONLY C. N/A

1. **Economic and Political Stability** (FAA Sec. 531(a)): Will this assistance promote economic and political stability? To the maximum extent feasible, is this assistance consistent with the policy directions, purposes, and programs of Part I of the FAA?

2. **Military Purposes** (FAA Sec. 531(e)): Will this assistance be used for military or paramilitary purposes?

3. **Commodity Grants/Separate Accounts** (FAA Sec. 609): If commodities are to be granted so that sale proceeds will accrue to

the recipient country, have Special Account (counterpart) arrangements been made? (For FY 1993, this provision is superseded by the separate account requirements of FY 1993 Appropriations Act Sec. 571(a), see Sec. 571(a)(5).)

4. Generation and Use of Local Currencies (FAA Sec. 531(d)): Will ESF funds made available for commodity import programs or other program assistance be used to generate local currencies? If so, will at least 50 percent of such local currencies be available to support activities consistent with the objectives of FAA sections 103 through 106? (For FY 1993, this provision is superseded by the separate account requirements of FY 1993 Appropriations Act Sec. 571(a), see Sec. 571(a)(5).)

5. Cash Transfer Requirements (FY 1993 Appropriations Act, Title II, under heading "Economic Support Fund," and Sec. 571(b)). If assistance is in the form of a cash transfer:

a. Separate account: Are all such cash payments to be maintained by the country in a separate account and not to be commingled with any other funds?

b. Local currencies: Will all local currencies that may be generated with funds provided as a cash transfer to such a country also be deposited in a special account, and has A.I.D. entered into an agreement with that government setting forth the amount of the local currencies to be generated, the terms and conditions under which they are to be used, and the responsibilities of A.I.D. and that government to monitor and account for deposits and disbursements?

c. U.S. Government use of local currencies: Will all such local currencies also be made available to the U.S. government as the U.S. determines necessary for the requirements of the U.S. Government, or to carry out

development assistance (including DFA) or ESF purposes?

d. **Congressional notice:** Has Congress received prior notification providing in detail how the funds will be used, including the U.S. interests that will be served by the assistance, and, as appropriate, the economic policy reforms that will be promoted by the cash transfer assistance?

6. **Capital Projects** (Jobs Through Exports Act of 1992, Sec. 306, FY 1993 Appropriations Act, Sec. 595): If assistance is being provided for a capital project, will the project be developmentally-sound and sustainable, i.e., one that is (a) environmentally sustainable, (b) within the financial capacity of the government or recipient to maintain from its own resources, and (c) responsive to a significant development priority initiated by the country to which assistance is being provided. (Please note the definition of "capital project" contained in section 595 of the FY 1993 Appropriations Act.)

PROJECT DESCRIPTION

Elements of this amplified project description may be changed by written agreement of the authorized representatives of the parties named in the agreement without formal amendment of the agreement if the changes are within the scope of the project as set forth in the text of the agreement.

A. Project Goal and Purpose

The Project goal is to increase and diversify external trade and investment and increase socio-economic participation of the lower-income groups. The purpose of the Project is to facilitate the electrical energy restructuring strategy of the GODR by providing technical assistance and training needed to strengthen the institutional development of new regulatory and supervisory entities, and maximize private sector participation for more reliable, accessible and environmentally sound electrical energy service.

B. End-of-Project-Status (EOPS) and Project Outputs

1. End-of-Project-Status

- Improved legal and regulatory framework for attracting foreign investment and private sector participation in the energy sector:
 - 300 MW of new private generation (by yr. 1996);
 - New private distribution (by year 1995);
 - Marketing initiatives for increasing electricity services based on more competitive marginal and average cost pricing (by PACD).
- Increased private sector participation in electricity generation and distribution through cost/benefit, tariff and fuel pricing studies.
 - Technical assistance and training provided by Project and other donors as appropriate to Technical Group and National Commission, Regulatory Superintendent, Coordinating Agency, and CDE.
 - Well coordinated public/private sector energy development, maintenance and operating systems.
- Enhanced environmental quality of electricity by

improving environmental awareness and the decision-making process for energy site selection for public/private sector energy development, maintenance and operation, and by focusing more attention on environmental issues in this sector.

- GODR institutional capacity developed for implementation of environmental norms and standards for the energy sector. Superintendencia functioning as proposed.
- Guidelines and/or lessons learned established for other privatization initiatives.

2. Project Outputs

The following key outputs are essential to achieving project objectives: (1) improve the institutional effectiveness of energy regulatory and supervisory entities; (2) increase private sector participation in energy distribution and generation systems; and, (3) environmentally sound private sector financed expansion of electrical energy generation and distribution systems.

C. Project Components

The Project components and corresponding activities are: (1) Energy Privatization -- Strategy Support; (2) Institutional Strengthening; and (3) Energy Sector Environmental Norms and Standards. Although each project component contains a set of discreet tasks involving technical assistance and training, there is a significant amount of overlap and reinforcement among project components and activities. As a whole, the Project components will provide assistance to help accomplish the following broad objectives, which will occur in phases over the 30-month life of project.

Phase I. Legislative approval of the new Electricity Law and the establishment of Regulatory and Supervisory Institutions; and initial environmental mitigation and assessment activities.
(3 months)

Phase II. Restructuring of the CDE into three corporate entities and preparation for the privatization process; and environmental training and development of environmental norms and standards.
(9 months)

Phase III. Implementation of the GODR privatization strategy, financial restructuring of CDE and competitive bidding for private sector procurement, ownership and management of electricity generation and distribution assets; and the institutionalization and implementation of energy sector

environmental norms and standards.
(18 months)

1. Energy Privatization -- Strategy Support
(Phase I: Short-term TA and Training)

Activities carried out and decisions made during the first three months of project implementation will have a lasting impact on the energy sector reorganization and reform. During this period, it is expected that the draft Electricity Law will be finalized and legislated, and the Technical Group will develop a strategy to implement reforms -- leading to the establishment of three new supervisory and regulatory entities within the energy sector (i.e. National Energy Commission, Regulatory Agency, and the Coordinating Committee).

The Project will provide the Technical Group with short-term technical expertise in utility privatization. An opportunity will be provided for the Technical Group and other project representatives to become knowledgeable in privatization technologies and to witness first hand reorganization efforts in Latin America.

Advance the GODR Energy Sector Strategy:

The Project will provide immediate assistance to the Technical Group in analyzing and implementing the current reorganization strategy. Assistance will include the provision of a privatization expert to work with the Technical Group to review the draft law, share utility and privatization information and skills applied in other countries and assist in developing the GODR strategy. Included in this effort is a two week observational program in Chile and/or Argentina and Brazil, to assess the privatization experience of these countries. The Technical Group (and possibly members of the National Energy Commission) will meet with the Chilean consultants who developed the draft law and with Chilean utility and privatization authorities. The Technical Group members (i.e. coordinator, lawyer, engineer and economist) will meet with their respective counterparts in each country over a three month period during one or more visits to these countries.

Assessment of the Electricity Law:

The Technical Group has indicated the need to have the draft Electricity Law reviewed by an experienced firm. In particular, the firm will review the proposed energy sector reorganization and legal ramifications of the law, before presentation is made to Congress. The legal consultancy will review the law and provide recommendations for the eventual "Dominicanization" of the Law.

Short-Term Technical Assistance to the Technical Group:

- Counterpart to the Technical Group Coordinator. The proposed technical assistance will work directly with the Coordinator of the Technical Group. An electric utility expert, with broad-based experience in the operation and management of a private sector utility -- preferably with an engineering background, will work to ensure that the privatization process is structured in such a way as to maximize private sector participation.
- Counterpart to the Technical Group Economist. An economist will provide assistance in conducting a preliminary cost/benefit analysis for different privatization and restructuring options. By helping assess the impact on the Dominican economy, the economist will help analyze options to maximize returns to the government for privatizing CDE.
- Privatization Expert. An expert in electric utility finance and privatization is needed early on to review with the Technical Group the current law and proposed reorganization strategy. Primarily a financial specialist, he/she will have a background in utility privatization and will assess the reorganization strategy as expressed in Aides Memoire and the proposed draft law from the perspective of privatization, investment and financial returns to private developers.
- Utility/Analyst. This person will have a clear understanding of how utilities are regulated, and will analyze the current reorganization strategy and the proposed draft law from a utility, regulatory, and investor perspective.
- Short-Term Legal Expertise. The above mentioned technical specialists will have access to local legal expertise in support of the energy sector reform strategy. Project-funded legal and regulatory assistance to the Technical Group will address the outstanding issues related to the law and provide legal and technical justification for resolution and modification of the draft law as appropriate.

Additional short term technical expertise will be used to make a preliminary analysis of the value of the assets to be privatized and the costs and benefits of CDE privatization. The purpose of this is to reach a preliminary consensus on the value of companies to be privatized.

- Preliminary Cost/Benefit Analysis. Experts will review financial statements using historical and current financial information. A determination will be made as to the financial costs and benefits to the government of maintaining CDE. The analysis will include all subsidies provided to CDE by the government. The cost of subsidizing CDE will be compared with the returns and benefits the government would receive from continued ownership of CDE.
- Utility Economic Analysis. The utility expert will establish criteria for evaluating the cost to the Dominican Republic of power outages, including the investment costs of establishing new generating capacity by private entities and businesses.
- Public Opinion Survey. The consultants will also conduct an informal survey to obtain information on how the public views CDE and the potential for private ownership. The public's image of the government will be used as one indicator for measuring CDE performance.

(Phases II and III -- Institutional Contractor Support)

The following technical assistance and training activities will be provided by an institutional contractor, to be selected through full and open competition. It is anticipated that an institutional contractor will be awarded a contract and have technical assistance in place during the first quarter, 1994.

One Long-Term Technical Specialist to the Technical Group:

- Public Utility Commission Adviser. The Technical Group will be responsible for leading the reorganization process. The Project will fund a specialist with a background in Public Utility Commission management. The proposed position entitled "Public Utility Commission Adviser" (PUCA), will require an individual with an engineering and financial background who has a clear understanding of how an electric utility and its accompanying regulatory agencies operate. This person will work to ensure maximum private sector participation and the development of an effective regulatory framework.

The PUCA will provide a total of 24 months of in-country support. Of this amount, the PUCA will allocate approximately 6 months for the privatization and strategy support activities. However, the majority of time spent by the long-term adviser will be applied toward the development and strengthening of new institutions to be established under the new Electricity Law. (See Component 2, Institutional Support). The institutional

contractor will also provide training resources and access training programs in support of privatization efforts.

The PUCA and other technical specialists will require considerable support in order to ensure that Project objectives are accomplished. The institutional contractor (IC) will provide a total of 56 person months of short-term technical assistance that includes assistance in privatization programs to the Technical Secretariat to the Presidency, and the provision of a team of consultants working closely with the PUCA and the World Bank in the restructuring of CDE.

Short Term Technical Assistance to the Technical Secretariat:

- Support for Privatization. At this point in the energy privatization process, there exists an opportunity and need to educate official representatives and decision-makers in the GODR as to the importance of privatizing CDE. This can be achieved by providing assistance to the Technical Group, and in turn the National Energy Commission, as well as the Technical Secretariat of the Presidency. In addition to the technical analysis surrounding privatization, there is a need for a consensus building process whereby government and policy decision-makers fully understand the energy sector reform strategy and process. This assistance can help set the framework for privatization and frame the public debate that is certain to occur. Technical assistance to the Technical Secretariat will be employed to help provide a framework for overall privatization.

Technical assistance will also be provided to help the Central Bank develop a promotional program for foreign investment. The program will be linked closely to the energy sector reform strategy for attracting foreign investment to the Dominican Republic.

Short-Term Privatization Team:

- Technical Assistance to Assess Costs/Benefits. Once the Electricity Law has been enacted, the World Bank will contract a firm to help restructure CDE. On a parallel track with this assistance, the Project will provide for several financial (privatization) specialists to work with the IBRD consultants. Specific tasks will include assessing various privatization alternatives and their respective costs and benefits. The Project-funded technical assistance will be initiated approximately two months after the World Bank restructuring team has started work. By

that time, an initial plan will be established for the number of companies to be created for each sector (i.e. generation, transmission and distribution).

The Dominican Republic does not have a framework or promotional program for privatization activities. However, it is anticipated that the work of the USAID Project contractor will provide all of the analysis needed by the government to make a decision as to the costs and benefits of various restructuring alternatives. This will help provide the framework to the GODR for energy privatization as well as be useful for the development of future privatization strategies. The privatization expert's primary responsibility will be to value CDE and the various privatization alternatives that result from the restructuring process. Technical experts will perform the valuation exercises described above for each of CDE's restructured companies. The discounted cash flow analysis performed by the financial expert will include detailed analyses and due diligence findings. These valuations will make clear to the government the anticipated revenues from the various privatization alternatives.

Based on the above analysis, and in conjunction with the Technical Group and CNE, the technical expert will help rank the different privatization alternatives, taking into account governmental priorities.

Financial Experts (eight months). Short term technical assistance to analyze cost/benefits of privatization. In conjunction with World Bank financed consulting services for corporatizing CDE, the Project will provide financial expertise in energy privatization to help analyze the costs and benefits to the government of the various restructuring options being discussed. This will involve the provision of 8 months of short term expertise, to be closely coordinated with the technical group and the consultants provided under the IBRD project for assisting in the restructuring of CDE.

Utility Expert/Economists (eight months). An electric utility expert will be used to evaluate the costs and benefits to the GODR and to the Dominican economy of retaining CDE generation, transmission and distribution systems. This expert will have a thorough understanding of how utilities function both from an economic and operational standpoint.

Asset Valuation Engineer for Generation (two months). A valuation engineer will be used to inspect and value CDE generating facilities and related equipment. The engineer will have experience in performing these types of appraisals in the utility industry, preferably in Latin America.

Asset Valuation Engineers Transmission/Distribution (two months). These experts will inspect and value CDE transmission

and distribution facilities and related equipment. A valuation engineer is required with experience performing these types of appraisals in the utility industry.

Other Institutional Support as Needed (ten months). The in-country technical team will need support on specific studies throughout the privatization process. The Institutional Contract will allow for approximately 10 months of short-term TA to be identified during the course of Phases II and III of project implementation.

**2. Institutional Regulatory and Supervisory Support
(Phases II and III -- Institutional Strengthening
Technical Assistance and Training)**

The primary constraint to the establishment of the Superintendencia, as contemplated under the proposed new Electricity Law, is the lack of precedent in the Dominican Republic for this type of organization. Establishing the Superintendencia will require full development of a new organization -- one whose express purpose is to regulate and supervise the participation of private sector entities in the reform of the Dominican energy sector. A certain amount of time is required to establish regulations and procedures, test out applications of the system, train personnel and orient the public and private sectors as a whole to the functions and authorities of the new organization. This will require a concerted effort with the close involvement of government organizations and the participation of non-profit and for-profit private sector entities. Structures, procedures, and regulations must be created and implemented for the effective operation of electric utilities.

Project assistance will focus on appropriate activities which serve to educate the Superintendencia personnel and government officials responsible for the decisions and operations of the institution. The Superintendencia will be assisted in the following areas:

- Regulations required to administer the law.
- Training programs, in-country, for personnel and the Board Members of the Superintendencia
- Public and private sector opinion surveys to better assess the needs of the Superintendencia.
- Training programs in the U.S. for Rate Analysts and Public Utility Commission members (at a minimum 3 Directors).

To accomplish this, two advisers are required: a long-term Public Utility Commission Adviser -- PUCA (18 months); and a short-term Utility Rate Analyst (9 months). The L-T position will be filled by the PUCA, who will allocate approximately 18 months out of the total two-year assignment. The short-term Rate Analyst assignment will be allocated in different intervals over the course of Phases II and III of project implementation.

The PUCA will have an electric utility specification, and will advise on the overall regulatory, political, governmental/public sector utility operation. Specialized knowledge will be required to transfer information and skills to the three Superintendencia Board Members and other members of the Superintendencia. The PUCA's assistance to the Technical Group will be allocated to helping develop and strengthen the CNE, the Superintendencia and the Coordinating Agency. A smaller portion of the PUCA's time will also be allocated to working with the STP in defining a plan for other types of privatization activities, which can benefit from the experience of the public utility model.

The short-term Rate Analyst will have the necessary specialization and orientation to analyze the financial information presented by the electric utilities in their response to the RFP(s) for privatizing distribution and generation. Both "mentors" will serve as key resources for the GODR counterparts.

The PUCA will be contracted under the IC and brought on board shortly after passage of the new Electricity Law. The rate analyst position will be utilized almost on a full time basis, however, it is deemed more effective to bring this person in for 3 months at a time for a total of 9 person months over the 30 month LOP, with the option to vary the individual and his/her expertise depending upon the specific needs of the institution.

Technical Assistance and Training for Institutional Strengthening under the Institutional Contractor:

- Rate Analyst. As the privatization team finalizes analyses of privatization alternatives, the PUCA, and more specifically the Rate Analyst, will evaluate the rate structures proposed for a privatized system. Working with the Commissioners from the Superintendencia, the Rate Analyst will review the rate structure's attractiveness to the private sector. The Rate Analyst will make two or more follow-up visits in 1995 to ensure that the system is working smoothly and to help resolve any constraints that may arise.
- Dispatching Analyst. Under the proposed Institutional Contract, a power dispatching expert will be provided sometime in 1995 following privatization. This analyst

will work with the Despacho Nacional de Carga to determine appropriate criteria for the dispatching of energy. (The law currently proposes that energy be dispatched on a marginal cost basis, while other technical experts believe energy should be dispatched on a minimum cost basis.)

Training and Education:

- Trip to U.S. for Commission Members/Directors of the Superintendencia (at a minimum 3 members). Observational Training/Short Courses U.S. (two weeks). The purpose of this trip will be to visit U.S. electric utilities and regulatory commissions to see how they operate. The organization of the Superintendencia is proposed as being similar to a U.S. public service commission, except the Superintendencia will regulate only electric utilities.

The project law currently provides for three directors to be named to the Superintendencia, each for a period of six years. The Project will fund travel and course fees for members of the Commission to the U.S. for two weeks of training during the first half of 1994.

- Training in U.S. for Rate Analysts. Once the Superintendencia is staffed, USAID would finance another month of training for the staff members responsible for rate analyses. This training would take place once the privatization of distribution has been confirmed.
 - Training in the U.S. for Dispatch Analysts. Once partial privatization of CDE distribution is accomplished, the project will provide for travel and per diem of key members of the Despacho Nacional de Carga to the U.S. for observational training and short courses.
 - Tariff Studies. The Project will fund a study of the proposed tariffs to assist the new regulatory institution to better establish and implement tariff regimes. The Project will provide short-term technical assistance to address, through studies and analyses, some of the anticipated tariff issues associated with the privatization of CDE distribution and generation facilities.
3. Energy Sector Environmental Norms and Standards
(Phase I -- Support for Environmental Mitigation Activities)

To support and expedite implementation of the GODR energy sector reform strategy and facilitate increased participation of private investment and availability of World Bank and IDB financing, the Project will provide technical assistance in support of the preparation of preliminary environmental assessment work, and the development of environmental norms and standards consistent with IBRD and A.I.D. standards, to be incorporated into the procedures and bylaws of the Superintendencia.

Specifically, this Project component is comprised of the following activities: (a) analysis of legal and regulatory framework for environmental control, description and environmental assessment of the Dominican electrical sector, including existing problems and potential impacts of projects in the "Least-cost Expansion Plan," and environmental evaluations of coal handling contamination at the Port of Haina; (b) preliminary evaluation of the proposed Luperón site (in conjunction with the IBRD-funded environmental site assessment by the Canadian firm, Manenco); and (c) the development and institutionalization of environmental standards and norms, consistent with the IBRD and A.I.D., to be incorporated within the proposed Superintendencia Regulatory Agency.

The first activity under this Project component is a series of environmental studies conducted in part on behalf of a World Bank request for assistance. More importantly, however, these activities have applications for the GODR least cost energy expansion plan and the development of environmental norms and standards for eventual privatization within the energy sector.

a. IBRD Terms of Reference

- Legal and regulatory framework for environmental control.
- Description and environmental assessment of the Dominican electrical sector.
- Environmental problems existing in the environmental sector; potential impacts of projects included in the "Least-Cost Expansion Plan".
- Control of coal handling contamination in the Port of Haina.

The World Bank has requested a series of studies which are preliminary to an initial environmental screening of new generation sites related to IBRD/IDB proposed projects. Terms of reference also call for a preliminary assessment of environmental impacts of an on-going IBRD loan project for two generation plants located at the Port of Haina. The studies are to:

- Assess possible environmental impacts of specific projects, including the proposed IBRD restructuring project. Recommend (1) controls for contamination from coal handling in the Port of Haina, and (2) necessary equipment.
- Legal and regulatory framework for environmental control: (1) synthesis and evaluation of legal and regulatory system currently in force; (2) recommendations for improving and adapting current institutional system to mitigate environmental effects of electrical installations and operations.
- Description of the DR electrical sector. Report should include evaluation and review of existing power generation, transmission, and distribution facilities.
- Initial assessment of environmental problems in the electrical sector, and potential impact of projects included in the GODR/Decon Least-Cost Expansion Plan, with emphasis on the proposed Luperón site.
- Control of contamination produced by coal handling in the Port of Haina will include the following: (1) levels of contamination; (2) methodology for control of contamination; and (3) recommendations for equipment for control of contamination;

The PP proposes that studies should not include all energy installations but instead, be limited to larger representative examples of each type of generation facility: (1) Haina (coal) and Itabo (oil); (2) Santo Domingo-La Mina (gas turbine); (3) CDE diesel generators (various areas); and, (4) Tavera (hydro).

There are no World Bank guidelines governing environmental reports for existing installations. The Bank's Environmental Assessment Source Book, Volume III, Energy and Industry, will serve as the principal guide for the Project-funded activities.

**b. GODR/Decon Least Cost Expansion Plan
(Preliminary Evaluation of Luperón Site --
IBRD-Funded Manenco Study)**

The DR electrical sector expansion plan calls for a series of power generating facilities located throughout the country to minimize transmission losses. With the exception of one small hydroelectric facility, all the generating plants will burn fossil fuels, primarily coal. Other power sources, such as nuclear, solar, or wind, are not being proposed. The small hydroelectric plant is located in the interior; all other plants will be located on the coast for access to imported, ship-borne fuels.

Many of the facilities are located near existing or planned tourist areas, some of them in extremely sensitive areas. For example, one of the largest generating plants could be located at Arroyo Barril, on Samaná Bay. Samaná peninsula and bay comprise one of the most scenic areas in the DR. It has been proposed for protected area status and also major tourist development.

The World Bank-funded Manenco study will assess and screen future generation sites and assign priorities to potential generation sites based on a variety of environmental, geological, and economic factors. The study will identify sites with environmental and industrial negative impacts, and compare them with the sites selected in the 1993-2005 expansion plan. It is anticipated that GODR officials from a number of agencies will either participate in the study or be apprised of its results as soon as possible. The information will serve as a valuable tool for determining the most appropriate energy generation sites, and for orienting the newly reformed energy sector and its respective officials toward appropriate decision-making techniques based on environmental cost alternatives. The World Bank screening study will include economic evaluation of additional transmission facilities and related costs.

Results of the DR Electrical Sector Expansion Plan, being prepared by the German consulting firm Decon, will be issued in September 1993. Individual environmental assessments (EAS) will be prepared for each plant as a precondition to obtaining World Bank financing.

A determination will be made as to what additional site screening is necessary to ensure mitigation of environmental impact. To expedite preparation of a Request for Proposal (RFP) for the Luperón plant, and if requested by the Technical Group, the Project will support a preliminary environmental site evaluation to ensure that no adverse conditions exist. The report will include an economic evaluation of environmental impacts and alternative site considerations. Complete Eas must be performed by the prospective developers prior to start of construction of all new plants funded with World Bank or IDB loan funds.

At the present time the GODR exercises few environmental controls over energy operations. For example, the Informe Nacional (1991, pp. 72-73) prepared for the UNCED conference in Rio De Janeiro indicates that few regulations are in place, and little is done to control even flagrant pollution. Furthermore, there is no evidence that standards and regulations exist to control the private sector. Article No. 8 of the new Ley General de Electricidad, to be presented to the Congress, states only the following with respect to environmental considerations:

"Que para la aprobación, instalación, y operación de las diversas fuentes de electricidad posibles corresponde al Estado prevenir y evitar atentados o degradación del medio ambiente y sistema ecológico nacional, velando por su integridad y pureza."

The new law should be reviewed to ensure that it contains provisions for environmental standards, regulations and enforcement, assessments, and monitoring. By surveying and evaluating the entire Dominican energy sector and also the expansion plan, the studies conducted by the World Bank can provide an integrated, country-wide appraisal of potential environmental impacts of restructuring, privatizing and expansion.

Although the study of coal handling contamination is focussed on the Port of Haina facility, the problems will become country-wide under the proposed expansion plan. Findings regarding control technology and management in Haina could be applied elsewhere. To support and expedite the expansion process, and on the basis of findings and recommendations to be made known by the World Bank-funded Manenco environmental site study, the Project may perform a preliminary study of the Luperón site. This is a critical task, but one that by itself does not carry potential for environmental impact.

The new Electricity Law will be reviewed and amended if necessary to ensure that it provides for adequate public and private sector environmental standards, controls, and assessments, and establishes clear responsibility and procedures for enforcement. In addition, Project technical assistance and training will ensure that:

- Specific studies include overall, system-wide environmental analysis.
- Findings and recommendations from the Haina coal handling study are applied to appraisals of new installations.
- The evaluation of the Luperón site pay special attention to environmental and economic impacts of power plants, including internalizing environmental costs, and direct and indirect effects. The study will identify potential impacts, alternatives, and mitigating measures; and
- Environmental site screening include alternative site and no-action evaluations, and that public and NGO participation be incorporated in the site screening process.

c. Energy Sector Environmental Norms and Standards (Phases II and III)

Environmental Norms and Standards. Massive restructuring of the Dominican energy sector offers a once-in-a-lifetime opportunity to also restructure the relationship of this critical sector to the environment through awareness, standards, regulations, and assessments. The Project component will help establish a comprehensive environmental program in support of privatization. Rather than a deterrent to the private sector, in-place standards, regulations, and procedures reassure investors that the playing field is level and the rules are known. Commercial operators prefer the known costs of appropriate technology and management to the uncertainty of vaguely stated and likely-to-change standards and regulations.

It is essential that agreement be reached on common environmental standards (e.g., air, water quality) and environmental assessment procedures. The Project anticipates that all environmental norms and standards developed and implemented by the Superintendencia will be consistent with standards established by the IBRD and A.I.D. for energy projects. Only in this way can public, private, donor, MDB, and NGO participants have a common understanding and language for environmental evaluation of particular elements of the program. The following guidelines are necessary to develop an environmental framework within which the least cost energy expansion program can be implemented in an environmentally sound manner. There is immediate need to establish:

- Statutory responsibility for environmental controls of public and private installations and operations.
- Air and water quality standards.
- Regulatory mechanisms, including enforcement, for public and private sectors.
- Environmental assessment procedures for government and private sectors.
- Monitoring procedures.

Project-funded technical assistance and training, provided through the Regulatory Agency, will be tasked with the following objectives:

- GODR and other donor coordination and agreement on environmental standards and procedures for construction and operation of the Dominican electrical system.
- Appropriate environmental training to GODR personnel in

developing environmental standards and procedures; and,

- Institutional regulatory and supervisory support.

Short-term technical assistance and institutional support will be funded by the Project to carry out the following tasks:

- Establish environmental standards, including air and water quality, that will apply to public and private sector construction and operation of the existing and expanded electrical system, and which are consistent with standards established by the IBRD and A.I.D.;
- Establish and enforce environmental regulations and assessment procedures that will apply to public and private sector construction and management of the energy system; and,
- Appropriate environmental training to GODR personnel in applying and enforcing environmental standards and procedures, including environmental assessments.

D. Implementation Arrangements

1. Arrangements for Monitoring and Evaluation

The USAID/Dominican Republic staff responsible for providing overall Mission monitoring of this project will include a PDI Officer. Compilation of monitoring and evaluation information will be the responsibility of the Institutional Contractor. All evaluation activities will be coordinated through the Mission's Evaluation Officer.

The monitoring and evaluation plan takes into account the need to focus closely not only on programmatic inputs and outputs, but also on impact assessments and institutional sustainability. As such, the plan for monitoring and evaluation includes a variety of evaluation methodologies, such as semi-annual reports, annual project reviews, management assessments, annual small-scale surveys, a final external evaluation, operations research and rapid appraisal surveys, and financial assessments as appropriate.

a. Collection and Recording of Project Progress and Data

Depending on specific project needs and the capabilities of the Institutional Contractor, project funds may be used to buy into AID/W centrally funded policy and evaluation projects for small-scale secondary analyses, training for participating agencies in the use of tariff and service data for strategic planning, and/or development of impact indicators.

Individual project activities may require collection of baseline data during the first part of project year one. The Institutional Contractor and/or appropriate short-term buy-ins to AID/W centrally-funded projects will be utilized for this purpose.

Annual implementation plans and quarterly data reports will serve as principal project monitoring instruments. Data will be collected on a routine basis by each implementing agency. The Institutional Contractor will assist them in developing and implementing standardized information formats for project components (eg. Energy Privatization -- Strategy Support; Institutional Strengthening; and Environmental Site Screening). Each implementing agency will be responsible for maintaining its own data base. The Institutional Contractor will provide consolidated reports to the USAID/DR project manager; the technical sections of these reports will also be distributed among the participating agencies.

The Institutional Contractor will be responsible for periodic and ad hoc field visits to project locations. Technical assistance from AID/W centrally-funded projects will include trip reports for each assignment. These results will complement routine project reports and service statistics to monitor the extent to which individual outputs are being met and to identify problems in project implementation. Financial and management audits will be the principal monitoring devices in assessing the progress made by participating institutions in improving institutional capabilities and efficiency. In addition to the indicators established in the logical framework, individualized output indicators will be specified in each agency's annual work plan.

Gender focus. Emphasis will be given to the role of women in terms of socio-economic improvements related to the Project's emphasis on improving the reliability and access of electric power services within rural and urban areas, and for export-oriented industries.

Project Implementation Schedule

The first implementation stage will last three months; the second approximately six months; and the third will have a duration of 18 months. Key objectives for the Project's implementation stages will include the following:

<u>Activities</u>	<u>Date</u>	<u>Status/ Responsibility</u>
1) USAID Proj. Mgt. (PDI Office) PSC or contract	9/30/93	PDI/RCO
2) Buy-in/IQC Privatization (3 months)	9/30/93	PIO/T, Contract PDI
3) Buy-in/IQC Environmental Mitigation (3 months)	9/30/93	PIO/T, Contract PDI
4) Institutional Contractor (2 years)	10/31/93	PIO/T Review/ Select, PDI/RCO
5) IC Contract Signed Team In-country	12/15/94 1/30/94	RCO, PDI
6) Buy-in/IQC Environmental Norms & Standards	2/15/94	PDI/RCO Contract Signed
7) GODR Covenants Met, Environmental Norms Privatize Distribution	9/30/94	Technical Group Superintendent
8) Project Audit (1)	2/15/95	PDI/Controllers
9) CDE Cost/Benefit Studies/Analyses Complete	3/31/95	CNE/Superintend
10) Environmental Norms and Standards Implemented/Enforced	6/30/95	Superintendent
11) IBRD/IDB Loans Competitive Bidding Contract for new power generation	6/30/95	MDB/USAID/CNE
12) Privatization of CDE Distribution System	9/30/95	Superintendent CNE
13) Audit (2)	1/31/96	PDI/Controller
14) Project Evaluation Final IQC/Buy-in	3/31/96	PDI
15) PACD	3/31/96	PDI/CNE

E. A.I.D. Project Management/Procurement Actions

Phase I: Privatization - Strategy Support. Over the first three months project assistance to the Technical Group and members of the National Energy Commission is critical. Short-term assistance for observational training, legal and regulatory review of the current draft law, and expertise in various areas of privatization and restructuring of CDE will be needed. The Project design calls for a work order under an A.I.D./W IQC, or an A.I.D./W buy-in for this purpose. A PIO/T will be required with an accurate description of technical assistance needs and training requirements for an approximate three month period.

Phase I: Environmental Mitigation. The IBRD terms of reference call for gathering information for developing an environmental legal and regulatory framework; assessing the Dominican electrical sector for potential problem areas; estimating environmental impact associated with the updated site screening activities carried out under the Manenco study; and, assessing the control of coal handling contamination in the Port of Haina. An A.I.D./W buy-in or specific work orders under an A.I.D./W IQC are recommended as the most expeditious way of carrying this out. A list of contracts will be provided that have been used with success by other Missions.

Phase II: Institutional Contractor. Although the Project Financial Plan contains a detailed breakdown of costs allocated for the procurement of an institutional contractor to provide one L-T utility/privatization specialist, and approximately 56 person months of short-term technical assistance, plus the establishment of a minimal local office and administrative support group, scopes of work for key people must be done so that an RFP can be competitively bid by November or December. This would have to happen so that a contract and team could be in-country by February or March. By then, the Electricity Law will be passed and the Technical Group and Regulatory Agencies will be operational.

The proposed design of the Project calls for a considerably high level of involvement on the part of A.I.D. during the initial phase of implementation. The first three months of implementation will be intensive in terms of monitoring, supervising and carrying out procurement activities. There will be a need for preparing several PIO/Ts for different types of procurement, including buy-ins and the services of an Institutional Contractor.

F. Role of the Institutional Contractor

1. Management and Administration for Project Technical Assistance and Training

One of the primary functions of the Project's Technical Assistance Institutional Contractor (IC) will be to help orchestrate and coordinate the various institutions and program activities which take place over the life of the project. An analogy can be made to the role of a coach. The IC will assist in developing a yearly work plan for each institution including their respective technical needs. Once approved by the USAID/Dominican Republic, the IC will help coordinate work plans and provide one long-term position (PUCA). The IC will also arrange for Stateside training programs for utility regulation and tariff analysis, and provide all short-term technical assistance in a timely way.

2. Technical Assistance Support Mechanism

The IC will be responsible for the provision of one long-term chief of party (2 years) and approximately 56 person months of short-term technical assistance and related training programs, both in-country and short-term observational travel, and short course activity offshore.

In addition, the IC will provide four (4) long-term, a local hire technical/administrative professionals and a management support staff for the operation of a local office.

3. Reporting Responsibilities to USAID

The IC will be responsible to the USAID Mission for the performance of all aspects of the contract's scope of work. The USAID/Dominican Republic project office will have significant involvement in the approval of yearly work plans for the IC. Decisions involving project funding levels, sub-contracted personnel, and other higher-order administrative decisions will also be presented to the Mission for approval/clearance as appropriate. Project results will be reported to the Mission on a semi-annual basis, in accordance with the SAR process.

4. Information, Education and Communications (IEC)

The Project's Information, Education and Communications (IEC) system will be established jointly by the Institutional Contractor and the Project implementing and policy-oriented organizations to ensure the effective and timely diffusion of Project messages to target audiences. The IC will provide one long-term chief of party for 24 months (PUCA), as well as short-term technical assistance as necessary. The IC will be responsible for local procurement of all materials and services needed to carry out publicity campaigns (with regard to passage of the new Electricity Law and promotion of energy conservation activities) and the dissemination of Project information as necessary.

5. Monitoring and Evaluation

The IC will assist in establishing a monitoring and evaluation system to be used to better identify and address target project beneficiaries, assist in modifying program emphasis as changes in data occur, and as a mechanism for guiding and coordinating the direction of institutions assisted under the Project. Monitoring and evaluation will also be used to determine project economies of scale, and help establish incentives for motivating the implementing entities to collaborate and support one another in the achievement of project outputs and EOPS.

**PROJECT AGREEMENT FUTURE YEAR OBLIGATIONS
FX AND LC OBLIGATIONS BY FISCAL YEAR
(US\$000S)**

COMPONENT	YEAR 1			YEAR 2			CUMMULATIVE		
	FX	LC	TOTAL	FX	LC	TOTAL	FX	LC	TOTAL
I. Energy Privatization Strategy Support	1,008.0	207.0	1,215.0	190.0	10.0	200.0	1,198.0	217.0	1,415.0
II. Institutional Strengthening	1,138.0	217.2	1,355.2	147.0	50.8	197.8	1,285.0	268.0	1,553.0
III. Environmental Norms & Standards	493.0	139.0	632.0	159.0	41.0	200.0	652.0	180.0	832.0
IV. Project Mgt.	100.0	0.0	100.0	0.0	0.0	0.0	100.0	0.0	100.0
V. Evaluations	50.0	0.0	50.0	0.0	0.0	0.0	50.0	0.0	50.0
VI. Audits	0.0	50.0	50.0	0.0	0.0	0.0	0.0	50.0	50.0
Project Totals	2,789.0	613.2	3,402.2	496.0	101.8	597.8	3,285.0	715.0	4,000.0

DESCRIPCION DEL PROYECTO

Elementos de esta descripción ampliada del Proyecto pueden cambiarse por mutuo acuerdo de los representantes autorizados de las partes nombradas en el acuerdo, sin tener que enmendar formalmente el acuerdo, si los cambios están dentro del alcance del Proyecto, según se establece en el texto del acuerdo.

A. Meta y Propósito del Proyecto

La meta del Proyecto es aumentar y diversificar el comercio exterior y la inversión extranjera, y aumentar la participación socio-económica de los grupos de más bajos ingresos. El propósito del Proyecto es facilitar la estrategia de reestructuración de la energía eléctrica del GORD al proporcionarle la asistencia técnica y el adiestramiento que se necesitan para fortalecer el desarrollo institucional de nuevas entidades reglamentarias y de supervisión, y aumentar al máximo la participación del sector privado con miras a lograr un servicio de energía eléctrica más confiable, accesible y ambientalmente sano.

B. Situación al Término del Proyecto/Productos

1. Situación al Término del Proyecto

- ◆ Mejoramiento del marco legal y reglamentario para atraer inversión extranjera y la participación del sector privado en el sector de energía eléctrica:
 - 300 MV de nueva generación privada (para el año 1996);
 - Nueva distribución privada (para el año 1995);
 - Iniciativas de comercialización para aumentar los servicios de electricidad en base a la determinación más competitiva de precios en función de los costos medios y marginales (para la FFCP).
- ◆ Aumento de la participación del sector privado en la generación y distribución de electricidad, a través de estudios de costos/beneficios, de tarifas y de determinación de precios del combustible.
- Asistencia técnica y adiestramiento provistos por el Proyecto y otros donantes, según se estime conveniente, al Grupo Técnico y a la Comisión Nacional, a la Superintendencia (Agencia Reguladora), a la Agencia Coordinadora, y a la CDE.

- Sistemas bien coordinados de desarrollo, mantenimiento y operación de energía, tanto por el sector público como por el privado.
- ♦ Mejoramiento de la calidad ambiental de la electricidad al mejorar la toma de conciencia en materia ambiental y el proceso de toma de decisiones para la selección de sitios de generación de energía para el desarrollo, mantenimiento y operación de energía por parte de los sectores público y privado, y al prestar más atención a las cuestiones ambientales en este sector.
- Capacidad institucional del GORD desarrollada para la ejecución de normas y estándares ambientales para el sector de energía eléctrica. Superintendencia funcionando según lo propuesto.
- ♦ Pautas y/o lecciones aprendidas establecidas para otras iniciativas de privatización.

2. Productos

Los siguientes productos claves son esenciales para alcanzar los objetivos del Proyecto: (1) mejorar la eficiencia institucional de las entidades reguladoras y de supervisión; (2) aumentar la participación del sector privado en los sistemas de generación y distribución de energía eléctrica; y, (3) expansión ambientalmente sana, financiada por el sector privado, de sistemas de generación y distribución de energía eléctrica.

C. Componentes del Proyecto

Los componentes del Proyecto y actividades correspondientes son: (1) Privatización de la Energía -- Apoyo a la Estrategia; (2) Fortalecimiento Institucional; y (3) Normas y Estándares Ambientales del Sector de Energía Eléctrica. Aunque cada componente del Proyecto contiene un conjunto de tareas discretas que envuelven asistencia técnica y adiestramiento, existe una cantidad significativa de superposición y refuerzo entre las actividades y componentes del Proyecto. Como un solo ente, los componentes del Proyecto proporcionarán asistencia técnica para ayudar a alcanzar los siguientes amplios objetivos, que se lograrán en fases, durante los 30 meses de vida del Proyecto.

Fase I. Aprobación legislativa de la nueva Ley General de Electricidad y el establecimiento de las Instituciones Reguladoras y de Supervisión; y actividades iniciales de mitigación y evaluación ambientales.

(3 meses)

Fase II. Reestructuración de la CDE en tres personas jurídicas y preparación para el proceso de privatización; y adiestramiento en materia ambiental y desarrollo de estándares y normas ambientales.

(9 meses)

Fase III. Ejecución de la estrategia de privatización del GORD, reestructuración financiera de la CDE y licitación pública para la compra, posesión y administración por parte del sector privado de los activos de generación y distribución de electricidad; e institucionalización y ejecución de las normas y estándares ambientales del sector energético.

(18 meses)

**1. Privatización de la Energía -- Apoyo a la Estrategia
(Fase I: Adiestramiento y Asistencia Técnica a corto Plazo)**

Las actividades realizadas y las decisiones tomadas durante los primeros tres meses de ejecución del Proyecto tendrán un impacto duradero en la reforma y reorganización del sector energético. Durante este período, se espera que se finalice y legisle el proyecto de Ley General de Electricidad, y que el Grupo Técnico desarrolle una estrategia para ejecutar las reformas -- lo que conducirá al establecimiento de tres nuevas entidades reguladoras y de supervisión dentro del sector energético (i.e. Comisión Nacional de Energía, Agencia Reguladora, y Comité Coordinador).

El Proyecto le proporcionará al Grupo Técnico conocimientos técnicos especializados a corto plazo en la privatización de servicios públicos. Se le proporcionará la oportunidad al Grupo Técnico y a otros representantes del proyecto para que se conviertan en personas bien informadas sobre tecnologías de privatización y para presenciar esfuerzos de reorganización de primera mano en latinoamérica.

Adelantar la Estrategia del Sector Energético del GORD:

El Proyecto proporcionará asistencia inmediata al Grupo Técnico en el análisis y ejecución de la actual estrategia de reorganización. La asistencia incluirá la provisión de un experto en privatización para trabajar con el Grupo Técnico para revisar el proyecto de ley, compartir información sobre privatización y empresas de servicios públicos y habilidades aplicadas en otros países y asistir a desarrollar la estrategia del GORD. Se incluye en este esfuerzo un programa de observación de dos semanas en Chile y/o Argentina y Brasil, para evaluar la experiencia en privatización de estos países. El Grupo Técnico (y posiblemente miembros de la Comisión Nacional de Energía) se reunirá con los consultores chilenos que elaboraron el proyecto

de ley y con las personas experimentadas en materia de privatización y de empresas de servicios públicos. Los miembros del Grupo Técnico (i.e. el coordinador, el abogado, el ingeniero y el economista) se reunirán con sus respectivas contrapartes en cada país, por un período de tres meses, durante una o más visitas a estos países.

Evaluación de la Ley General de Electricidad:

El Grupo Técnico ha indicado la necesidad de que una compañía experimentada revise el proyecto de Ley General de Electricidad. En particular, la compañía examinará la reorganización del sector energético y las ramificaciones legales de la ley que se proponen, antes de la presentación al Congreso. La consultoría legal revisará la ley y proporcionará recomendaciones para la eventual "Dominicanización" de la Ley.

Asistencia Técnica a Corto Plazo al Grupo Técnico:

- ♦ Contraparte del Coordinador del Grupo Técnico. La asistencia técnica propuesta trabajará directamente con el Coordinador del Grupo Técnico. Un experto en servicios públicos de energía eléctrica, con una amplia experiencia en la operación y administración de empresas de servicio público del sector privado -- preferiblemente con conocimientos de ingeniería, trabajará para asegurar que el proceso de privatización se estructure de manera tal que aumente al máximo la participación del sector privado.
- ♦ Contraparte del Economista del Grupo Técnico. Un economista proveerá asistencia técnica en la realización de un análisis preliminar de costos/beneficios para diferentes opciones de privatización y reestructuración. Al ayudar a evaluar el impacto en la economía dominicana, el economista ayudará a analizar opciones para aumentar al máximo las ganancias del gobierno como resultado de la privatización de la CDE.
- ♦ Experto en Privatización. Se necesita rápidamente un experto en privatización y en finanzas de empresas de servicio público de energía eléctrica para revisar con el Grupo Técnico la actual ley y la estrategia de reorganización propuesta. Esta persona será principalmente un especialista financiero, y tendrá antecedentes en privatización de empresas de servicio público y evaluará la estrategia de reorganización, según lo expresado en las Ayudas Memoria y en el proyecto de ley propuesto desde la perspectiva de privatización, inversión y ganancias financieras de los desarrolladores privados.
- ♦ Analista/Empresas de Servicio Público. Esta persona tendrá un claro entendimiento de cómo están reguladas las empresas de servicio público, y analizará la actual estrategia de reorganización y el propuesto proyecto de ley desde el punto de

vista de empresa de servicio público, entidad reguladora, y posibles inversionistas.

♦ Pericia Legal a Corto Plazo. Los especialistas técnicos arriba mencionados tendrán acceso a la pericia legal local en apoyo de la estrategia de reforma del sector energético. La asistencia en materia legal y reglamentaria al Grupo Técnico, financiada por el Proyecto, enfocará los asuntos pendientes relacionados con la ley y proveerá justificación legal y técnica para la resolución y modificación del proyecto de ley, según se estime conveniente.

Se utilizará pericia técnica adicional a corto plazo para hacer un análisis preliminar del valor de los activos a ser privatizados y de los costos y beneficios de la privatización de la CDE. El propósito de esto es lograr un consenso preliminar sobre el valor de las compañías a ser privatizadas.

♦ Análisis Preliminar de Costos/Beneficios. Expertos revisarán los estados financieros utilizando la información financiera actual y la histórica. Se tomará una determinación en cuanto a los costos y beneficios financieros para el gobierno de conservar a la CDE. El análisis incluirá todos los subsidios provistos a la CDE por el gobierno. Los costos de subsidiar a la CDE serán comparados con las ganancias y los beneficios que el gobierno recibiría si prosigue siendo propietario de la CDE.

♦ Análisis Económico de Servicios Públicos. El experto en servicios públicos establecerá los criterios para evaluar el costo que paga la República Dominicana por las interrupciones de energía, incluyendo los costos de inversión del establecimiento de una nueva capacidad generadora por entidades y negocios privados.

♦ Encuesta de la Opinión Pública. Los consultores también realizarán una encuesta informal para obtener información sobre la imagen que tiene el público de la CDE y sobre el potencial de que el sector privado sea propietario de la misma. La imagen del público sobre el gobierno se utilizará como indicador para medir el desempeño de la CDE.

(Fase II y III -- Apoyo del Contratista Institucional)

Las siguientes actividades de asistencia técnica y adiestramiento serán provistas por un contratista institucional, a ser seleccionado mediante competencia plena y abierta. Se anticipa que se le otorgará un contrato a un contratista institucional y que éste iniciará la asistencia técnica durante el primer trimestre de 1994.

Un Especialista Técnico a Largo Plazo para el Grupo Técnico:

♦ Asesor sobre Comisiones de Empresas de Servicio Público. El Grupo Técnico será el responsable de dirigir el proceso de reorganización. El Proyecto financiará un especialista con antecedentes en la administración de Comisiones de Empresas de Servicio Público. La posición propuesta, titulada "Asesor sobre Comisiones de Empresas de Servicio Público" (PUCA), requerirá de un individuo con conocimientos financieros y de ingeniería que tenga un claro entendimiento de cómo opera una empresa de servicio público y las agencias reguladoras que le acompañan. Esta persona trabajará para asegurar la máxima participación del sector privado y el desarrollo de un marco regulador efectivo.

El PUCA proporcionará un total de 24 meses de apoyo en el país. De esta cantidad, el PUCA asignará aproximadamente 6 meses para las actividades de apoyo a la estrategia y de privatización. Sin embargo, la mayor parte del tiempo empleado por el asesor a largo plazo será aplicada al desarrollo y fortalecimiento de nuevas instituciones que se establecerán bajo la nueva Ley General de Electricidad. (Ver el Componente 2, Apoyo Institucional). El contratista institucional proporcionará recursos de adiestramiento y accederá programas de adiestramiento en apoyo de los esfuerzos de privatización.

El PUCA y otros especialistas técnicos requerirán de apoyo considerable, a fin de asegurar que se logren los objetivos del Proyecto. El Contratista Institucional (CI) proporcionará un total de 56 meses-hombre de asistencia técnica a corto plazo que incluye asistencia en los programas de privatización al Secretariado Técnico de la Presidencia, y la provisión de un equipo de consultores que trabaje estrechamente con el PUCA y el Banco Mundial en la reestructuración de la CDE.

Asistencia Técnica a Corto Plazo al Secretariado Técnico:

♦ Apoyo para la Privatización. En este punto en el proceso de privatización de la energía eléctrica, existe la oportunidad y la necesidad de educar a los representantes oficiales y a los formuladores de políticas en el GORD, en cuanto a la importancia de privatizar la CDE. Esto puede lograrse al proporcionar asistencia al Grupo Técnico, y a su vez, a la Comisión Nacional de Energía, así como al Secretariado Técnico de la Presidencia. Además del análisis técnico que rodea a la privatización, existe la necesidad de un proceso de creación de consenso, por medio del cual el gobierno y los formuladores de políticas entiendan plenamente el proceso y la estrategia de reforma del sector energético. Esta asistencia puede ayudar a establecer la estructura para la privatización y enmarcar el debate público que de seguro ocurrirá. La asistencia técnica al Secretariado Técnico será empleada para ayudar a proporcionar una estructura para la privatización global.

También se proporcionará asistencia técnica para ayudar al Banco Central a desarrollar un programa promocional para la inversión extranjera. El programa estará estrechamente ligado a la estrategia de reforma del sector energético para atraer inversión extranjera a la República Dominicana.

Equipo de Privatización a Corto Plazo:

♦ Asistencia Técnica para Evaluar Costos/Beneficios. Una vez que se haya promulgado la Ley General de Electricidad, el Banco Mundial contratará una empresa para ayudar a reestructurar la CDE. Concomitantemente con esta asistencia, el Proyecto estipulará la utilización de varios especialistas (privatización) financieros para trabajar con los consultores del BIRF. Tareas específicas incluirán la evaluación de varias alternativas de privatización y sus costos y beneficios respectivos. La asistencia técnica financiada por el Proyecto se iniciará aproximadamente dos meses después de que el equipo de reestructuración del Banco Mundial haya empezado a trabajar. Para ese tiempo, se establecerá un plan inicial para el número de compañías a crearse para cada sector (i.e. generación, transmisión y distribución).

La República Dominicana no tiene una estructura o un programa promocional para las actividades de privatización. Sin embargo, se anticipa que el trabajo del contratista del Proyecto de la USAID proporcionará todos los análisis que necesita el gobierno para tomar una decisión en cuanto a los costos y beneficios de varias alternativas de reestructuración. Esto ayudará a proveerle al GORD el marco para la privatización de la energía eléctrica, y también será útil para el desarrollo de futuras estrategias de privatización. La principal responsabilidad del experto en privatización será valorar a la CDE y las distintas alternativas de privatización que resultan del proceso de reestructuración. Los expertos técnicos realizarán los ejercicios de valoración descritos anteriormente para cada una de las compañías reestructuradas de la CDE. El análisis de actualización de flujos de fondos realizado por el experto financiero incluirá análisis detallados y resultados de diligencias propias. Estas valoraciones le aclararán al gobierno los ingresos que se anticipan provenientes de las diferentes alternativas de privatización.

Basado en el análisis anterior, y conjuntamente con el Grupo Técnico y el CNE, el experto técnico ayudará a considerar las diferentes alternativas de privatización, tomando en cuenta las prioridades gubernamentales.

Expertos Financieros (ocho meses). Asistencia técnica a corto plazo para analizar los costos/beneficios de la privatización. Conjuntamente con los servicios de asesoría financiados por el Banco Mundial para convertir a la CDE en

sociedad anónima, el Proyecto proporcionará pericia financiera en la privatización de la energía para ayudar a analizar los costos y beneficios para el gobierno derivados de las diferentes opciones de reestructuración bajo discusión. Esto incluirá la provisión de 8 meses de pericia a corto plazo, a ser estrechamente coordinada con el grupo técnico y los consultores provistos bajo el proyecto del BIRF para asistir en la reestructuración de la CDE.

Economistas/Expertos en Empresas de Servicios Públicos (ocho meses). Se utilizarán expertos en empresas de servicio público de energía eléctrica para evaluar los costos y beneficios para el GORD y para la economía dominicana de retener los sistemas de generación, transmisión y distribución de la CDE. Este experto tendrá conocimientos profundos sobre cómo funcionan las empresas de servicios públicos, tanto desde un punto de vista económico como operacional.

Ingeniero de Valoración de Activos para las Instalaciones de Generación (dos meses). Se utilizará un ingeniero de valoración para inspeccionar y valorar las instalaciones generadoras de la CDE y el equipo relacionado. El ingeniero tendrá experiencia en la realización de estos tipos de estimaciones en la industria de servicios públicos, preferiblemente en latinoamérica.

Ingenieros de Valoración de Activos para las Instalaciones de Transmisión/Distribución (dos meses). Estos expertos inspeccionarán y valorarán las instalaciones de transmisión y distribución de la CDE y del equipo relacionado. Se requiere un ingeniero de valoración con experiencia en la ejecución de estos tipos de estimaciones en la industria de servicios públicos.

Otro Apoyo Institucional Según se Necesite (diez meses). El equipo técnico en el país necesitará apoyo en la realización de estudios específicos durante todo el período de privatización. El Contrato Institucional permitirá aproximadamente 10 meses de asistencia técnica a corto plazo a ser identificada durante el curso de las Fases II y III de ejecución del proyecto.

2. **Apoyo Institucional en Materia Reglamentaria y de Supervisión (Fases II y III -- Asistencia Técnica y Adiestramiento para el Fortalecimiento Institucional)**

La limitación principal en el establecimiento de la Superintendencia, según se contempla bajo la nueva Ley General de Electricidad propuesta, es la carencia de precedente en la República Dominicana para este tipo de organización. El establecimiento de la Superintendencia requerirá el pleno desarrollo de una nueva organización -- una cuyo propósito expreso sea el de regular y supervisar la participación de las entidades del sector privado en la reforma del sector energético

dominicano. Se requerirá una cierta cantidad de tiempo para establecer reglamentos y procedimientos, probar las aplicaciones del sistema, capacitar personal y orientar a los sectores público y privado en conjunto hacia las funciones y facultades de la nueva organización. Esto requerirá un esfuerzo concertado con la estrecha participación de las organizaciones del gobierno y la participación de entidades del sector privado, con fines o sin fines de lucro. Deben crearse y ejecutarse estructuras, procedimientos, y reglamentos para que las empresas de servicios públicos de energía eléctrica operen de manera efectiva.

La asistencia del Proyecto enfocará actividades apropiadas que sirvan para educar al personal de la Superintendencia y a los funcionarios del gobierno responsables de las decisiones y operaciones de la institución. La Superintendencia será asistida en las siguientes áreas:

- ◆ Reglamentos requeridos para administrar la ley.
- ◆ Programas de adiestramiento, en el país, para el personal y para los miembros del Consejo de la Superintendencia.
- ◆ Encuestas sobre las opiniones de los sectores público y privado para evaluar mejor las necesidades de la Superintendencia.
- ◆ Programas de adiestramiento en los Estados Unidos para Analistas de Tarifas y miembros de la Comisión de Empresas de Servicio Público (mínimo 3 Directores).

Para lograr esto, se necesitan dos asesores: un Asesor de Comisiones de Empresas de Servicios Públicos -- PUCA (18 meses); y un Analista de Tarifas de Servicios Públicos, a corto plazo (9 meses). La posición a largo plazo la ocupará el PUCA, quien asignará aproximadamente 18 meses de la asignación total de dos años. La asignación del Analista de Tarifas a corto plazo será asignada en diferentes intervalos durante el curso de las Fases II y III de ejecución del Proyecto.

El PUCA tendrá una certificación en servicios públicos de energía eléctrica y proporcionará asesoría general a los organismos gubernamentales encargados tanto de trazar políticas como de regular al sector energético. Se requerirá conocimientos especializados para transferirle información y habilidades a los tres miembros del Consejo de la Superintendencia y a otros miembros de la misma. La asistencia del PUCA al Grupo Técnico será asignada para ayudar a desarrollar y fortalecer al CNE, a la Superintendencia y a la Agencia Coordinadora. Una pequeña porción del tiempo del PUCA será asignada a trabajar con el STP en la definición de un plan para otros tipos de actividades de privatización, el cual puede beneficiarse de la experiencia del modelo de empresa de servicio público.

El Analista de Tarifas a corto plazo tendrá la especialización y orientación necesarias para analizar la información financiera presentada por las empresas de servicio público de energía eléctrica en su respuesta a las Solicitudes de Propuestas para privatizar la distribución y la generación. Ambos "mentores" servirán como recursos claves para las contrapartes del GORD.

El PUCA será contratado bajo el Contratista Institucional y traído a bordo poco después de la legislación de la nueva Ley General de Electricidad. La posición de Analista de Tarifas se utilizará casi a tiempo completo, sin embargo, se estima más efectivo traer a esta persona por 3 meses a la vez para un total de 9 meses-hombre durante los 30 meses de vida del Proyecto, con la opción de variar el individuo y sus conocimientos especializados, dependiendo de las necesidades específicas de la institución.

Asistencia Técnica y Adiestramiento para el Fortalecimiento Institucional bajo el Contratista Institucional:

♦ Analista de Tarifas. A medida que el equipo de privatización finalice los análisis de alternativas de privatización, el PUCA, y más específicamente el Analista de Tarifas, evaluará las estructuras de tarifas propuestas para un sistema privatizado. Trabajando con los Comisionados de la Superintendencia, el Analista de Tarifas revisará el atractivo de la estructura de tarifas para el sector privado. El Analista de Tarifas realizará una o más visitas de seguimiento en 1995 para asegurar que el sistema esté trabajando sin contratiempos y para ayudar a resolver cualquier limitación que pudiera surgir.

♦ Analista Despachador. Bajo el propuesto Contrato Institucional, se proporcionarán los servicios de un experto despachador de energía en 1995 después de la privatización. Este analista trabajará con el Despacho Nacional de Carga para determinar los criterios apropiados para el despacho de energía. (La ley actualmente propone que la energía sea despachada en base al costo marginal, mientras que otros expertos técnicos creen que la energía debe ser distribuida en base al costo mínimo).

Adiestramiento y Educación:

♦ Viaje a los E.U. para Miembros de la Comisión/Directores de la Superintendencia (mínimo 3 miembros). Adiestramiento observacional/Cursos cortos en los E.U. (dos semanas). El propósito de este viaje será el de visitar las empresas de servicio público de energía eléctrica y las comisiones reguladoras para ver como operan. La organización de la Superintendencia se propone de manera similar a una comisión de servicios públicos de E.U., excepto que la Superintendencia regulará solamente empresas de servicios de energía eléctrica.

El proyecto de ley actualmente estipula el nombramiento de tres directores en la Superintendencia, cada uno por un período de seis años. El Proyecto financiará los costos de los cursos y viajes para los miembros de la Comisión a los E.U. para dos semanas de adiestramiento durante la primera mitad de 1994.

♦ Adiestramiento en los Estados Unidos para los Analistas de Tarifas. Una vez que la Superintendencia esté provista de personal, la USAID financiará otro mes de adiestramiento para los miembros del personal responsables de los análisis de tarifas. Este adiestramiento ocurriría una vez que haya sido confirmada la privatización de la distribución.

♦ Adiestramiento en los E.U. para los Analistas de Despacho. Una vez que se haya logrado la privatización parcial de la distribución de la CDE, el Proyecto estipulará viajes y dietas para los miembros claves del Despacho Nacional de Carga a los E.U. para realizar cursos cortos y adiestramiento observacional.

♦ Estudios de Tarifas. El Proyecto financiará un estudio de las tarifas propuestas para asistir a la nueva institución reguladora para que establezca y ejecute mejor los regímenes de tarifas. El Proyecto proveerá asistencia técnica a corto plazo para enfocar, mediante estudios y análisis, algunas de las cuestiones de tarifas anticipadas, asociadas con la privatización de las instalaciones de distribución y generación de la CDE.

3. Estándares y Normas Ambientales del Sector Energético (Fase I -- Apoyo para las Actividades de Mitigación Ambiental)

Para apoyar y acelerar la ejecución de la estrategia de reforma del sector energético del GORD y facilitar una mayor participación de la inversión privada y la disponibilidad de financiamiento del Banco Mundial y del BID, el Proyecto proveerá asistencia técnica en apoyo de la preparación del trabajo preliminar de evaluación ambiental, y del desarrollo de estándares y normas ambientales compatibles con los estándares del BIRF y la A.I.D., a ser incorporados a los procedimientos y reglamentos de la Superintendencia.

Específicamente, este componente del Proyecto comprende las siguientes actividades: (a) análisis del marco legal y reglamentario para el control ambiental, descripción y evaluación ambiental del sector eléctrico dominicano, incluyendo los problemas existentes e impactos potenciales de las obras incluidas en el "Plan de Expansión de Menor Costo", y evaluaciones ambientales de la contaminación producida por el manejo de carbón en el Puerto de Haina; (b) evaluación preliminar del propuesto sitio en Luperón (conjuntamente con la evaluación ambiental de sitios realizada por la empresa canadiense, Manenco, y financiada por el BIRF); y (c) desarrollo e

institucionalización de normas y estándares ambientales, compatibles con el BIRF y la A.I.D., a ser incorporados a la propuesta Agencia Reguladora, la Superintendencia.

La primera actividad bajo este componente del Proyecto es una serie de estudios ambientales efectuados en parte en nombre de una solicitud de asistencia del Banco Mundial. Más importante aún, sin embargo, estas actividades tienen aplicaciones en el plan de expansión del sector eléctrico de menor costo del GORD y en el desarrollo de estándares y normas ambientales para la eventual privatización dentro del sector energético.

a. Términos de Referencia del BIRF

- ◆ Marco legal y reglamentario para el control ambiental.
- ◆ Descripción y evaluación ambiental del sector eléctrico dominicano.
- ◆ Examen de los obstáculos existentes en el sector ambiental; impactos potenciales de las obras incluidas en el "Plan de Expansión del Sector Eléctrico de Menor Costo".
- ◆ Control de la contaminación producida por el manejo de carbón en el Puerto de Haina.

El Banco Mundial ha solicitado una serie de estudios que son preliminares para la investigación ambiental inicial de nuevos sitios de generación relacionados con los proyectos propuestos del BIRF/BID. Los términos de referencia también exigen una evaluación preliminar de los impactos ambientales de un proyecto vigente financiado con un préstamo del BIRF para dos plantas de generación localizadas en el Puerto de Haina. Los estudios son para:

- ◆ Evaluar los posibles impactos en el medio ambiente de proyectos específicos, incluyendo el propuesto proyecto de reestructuración del BIRF. Recomendar (1) controles para la contaminación producida por el manejo de carbón en el Puerto de Haina, y (2) los equipos necesarios.
- ◆ Marco legal y reglamentario para el control ambiental: (1) síntesis y evaluación del sistema legal y reglamentario actualmente vigente; (2) recomendaciones sobre mejoras o adaptaciones del sistema institucional vigente para mitigar los efectos ambientales de las operaciones e instalaciones eléctricas.
- ◆ Descripción del sector eléctrico dominicano. El informe deberá incluir la evaluación y revisión de las instalaciones de generación, transmisión y distribución de energía existentes.

- ♦ Evaluación inicial de los problemas ambientales en el sector eléctrico, y el impacto potencial de las obras incluidas en el Plan de Expansión de Menor Costo del GORD/Decon, con énfasis en el propuesto sitio en Luperón.
- ♦ El control de la contaminación producida por el manejo de carbón en el Puerto de Haina incluirá lo siguiente: (1) niveles de contaminación; (2) metodología para el control de la contaminación; y (3) recomendaciones de equipos para el control de la contaminación;

El Documento del Proyecto propone que los estudios no deberán incluir todas las instalaciones de energía eléctrica pero, en cambio, deberá limitarse a mayores ejemplos representativos de cada tipo de instalación de generación: (1) Haina (carbón) e Itabo (petróleo); (2) Santo Domingo-La Mina (turbina de gas); (3) generadores diesel de la CDE (varias áreas); y, (4) Presa de Tavera (hidroeléctrica).

No existen directrices del Banco Mundial que rijan los informes ambientales para las instalaciones existentes. El Libro de Fuentes de Evaluaciones Ambientales del Banco, Volumen III, Energía e Industria, servirá como guía principal para las actividades financiadas por el Proyecto.

**b. Plan de Expansión de Menor Costo del GORD/Decon
(Evaluación Preliminar del Sitio en Luperón --
Estudio de Manenco Financiado por el BIRF)**

El plan de expansión del sector eléctrico de la RD exige una serie de instalaciones generadoras de energía localizadas en todo el país para minimizar las pérdidas en la transmisión. Con excepción de una pequeña instalación hidroeléctrica, todas las plantas generadoras quemarán combustibles fósiles, principalmente carbón. No se proponen otras fuentes de energía, tales como fuentes nucleares, solares, o de viento. La pequeña planta hidroeléctrica está ubicada en el interior; todas las otras plantas estarán ubicadas en la costa para tener acceso a los combustibles importados traídos en barco.

Muchas de las instalaciones están ubicadas cerca de áreas turísticas existentes o en planificación, algunas de ellas en áreas extremadamente sensibles. Por ejemplo, una de las mayores plantas generadoras podría estar ubicada en Arroyo Barril, en la Bahía de Samaná. La bahía y península de Samaná comprenden una de las áreas más escénicas en la RD. Se ha propuesto que la misma se declare área protegida y también que se desarrolle como área turística principal.

El estudio de Manenco, financiado por el Banco Mundial, evaluará y revisará sitios futuros de generación y asignará prioridades a los sitios potenciales de generación en base a una

variedad de factores económicos, geológicos y ambientales. El estudio identificará sitios con impactos ambientales e industriales negativos, y los comparará con los sitios seleccionados en el plan de expansión para 1993-2005. Se anticipa que funcionarios del GORD de varias agencias participarán en el estudio o estarán informados sobre sus resultados tan pronto como sea posible. La información servirá como una herramienta valiosa para determinar los sitios de generación de energía más apropiados, y para orientar al sector energético recién reformado y a sus respectivos funcionarios en cuanto a técnicas apropiadas de toma de decisiones, basadas en alternativas de costos ambientales. El estudio de depuración del Banco Mundial incluirá una evaluación económica de las instalaciones adicionales de transmisión y costos relacionados.

Los resultados del Plan de Expansión del Sector Eléctrico de la RD, que está siendo preparado por la empresa consultora alemana Decon, serán dados a conocer en septiembre de 1993. Se prepararán evaluaciones ambientales individuales (EAs) para cada planta como precondition para obtener financiamiento del Banco Mundial.

Se tomará una determinación en cuanto a cuál depuración adicional de sitios es necesaria para asegurar la mitigación del impacto ambiental. Para agilizar la preparación de una Solicitud de Propuesta (RFP) para la planta de Luperón, y si así lo solicita el Grupo Técnico, el Proyecto apoyará una evaluación ambiental preliminar del sitio para asegurar que no existan condiciones adversas. El informe incluirá una evaluación económica de los impactos ambientales y de consideraciones alternativas de sitios. Los desarrolladores eventuales deberán realizar evaluaciones ambientales completas antes de comenzar la construcción de nuevas plantas financiadas con fondos de préstamos del Banco Mundial o del BID.

En estos momentos, el GORD realiza pocos controles ambientales sobre las operaciones de energía. Por ejemplo, el Informe Nacional (1991, págs. 72-73), preparado por la conferencia UNCED en Río de Janeiro, indica que existen pocos reglamentos vigentes, y poco se hace para controlar aún la contaminación flagrante. Además, no hay evidencia de que existen estándares y reglamentos para controlar al sector privado. El Artículo No. 8 de la nueva Ley General de Electricidad, a ser presentada al Congreso, establece solamente lo siguiente, con respecto a las consideraciones ambientales:

"Que para la aprobación, instalación, y operación de las diversas fuentes de electricidad posibles corresponde al Estado prevenir y evitar atentados o degradación del medio ambiente y sistema ecológico nacional, velando por su integridad y pureza".

La nueva ley debería ser revisada para asegurar que esta contenga disposiciones en cuanto a estándares ambientales, reglamentos y aplicación, evaluaciones, y seguimiento. Al estudiar y evaluar al sector energético dominicano completo y también al plan de expansión, los estudios realizados por el Banco Mundial pueden proporcionar una estimación integrada, a nivel del país, de los impactos ambientales potenciales de la reestructuración, privatización y expansión.

Aunque el estudio de la contaminación por manejo de carbón está enfocado en la instalación del Puerto de Haina, los problemas surgirán en todo el país bajo el propuesto plan de expansión. Los resultados en relación con la tecnología de control y administración en Haina podrían aplicarse en otros lugares. Para apoyar y agilizar el proceso de expansión, y en base a los resultados y recomendaciones que dará a conocer el estudio ambiental de sitios de Manenco, financiado por el Banco Mundial, el proyecto puede realizar un estudio preliminar del sitio en Luperón. Esta es una tarea crítica, pero una que por sí misma no conlleva potencial de impacto en el medio ambiente.

Si es necesario, la nueva Ley General de Electricidad será revisada y enmendada para asegurar que ésta estipule evaluaciones, controles y estándares ambientales adecuados para los sectores público y privado, y establezca responsabilidad clara y procedimientos de cumplimiento. Además, la asistencia técnica del Proyecto y el adiestramiento asegurarán que:

- ♦ Los estudios específicos incluyan un análisis global del medio ambiente y que abarque todo el sistema.
- ♦ Los resultados y recomendaciones producto del estudio sobre el manejo de carbón en Haina sean aplicados a las evaluaciones de nuevas instalaciones.
- ♦ La evaluación del sitio en Luperón preste especial atención a los impactos ambientales y económicos de las plantas generadoras, incluyendo la incorporación de los costos ambientales, y de los efectos directos e indirectos. El estudio identificará alternativas, medidas mitigantes e impactos potenciales; y
- ♦ La revisión ambiental de sitios incluya un sitio alternativo y evaluaciones que no generen acciones, y de que se incorpore la participación pública y de ONGs en el proceso de depuración de sitios.

c. Estándares y Normas Ambientales del Sector Energético (Fase: II y III)

Estándares y Normas Ambientales. La reestructuración masiva del sector energético dominicano ofrece una oportunidad única en

la vida para también reestructurar la relación de este sector crítico con el medio ambiente mediante la toma de conciencia, estándares, reglamentos, y evaluaciones. El componente del Proyecto ayudará a establecer un amplio programa ambiental en apoyo de la privatización. En vez de disuadir al sector privado, los estándares, reglamentos, y procedimientos en su lugar apropiado les reaseguran a los inversionistas que las reglas de juego son iguales para todos y que éstas son conocidas. Los operadores comerciales prefieren los costos conocidos de una administración y tecnología apropiadas a la incertidumbre de reglamentos y estándares vagamente establecidos y con probabilidades de cambio.

Resulta esencial que se logre un acuerdo sobre estándares ambientales comunes (v.g. calidad del agua, del aire) y sobre procedimientos de evaluación del medio ambiente. El Proyecto anticipa que todas las normas y estándares ambientales desarrollados y ejecutados por la Superintendencia serán compatibles con los estándares establecidos por el BIRF y la A.I.D. para los proyectos de energía. Sólo de esta manera pueden los participantes públicos, privados, donantes, Banco de Desarrollo Multilateral (BDM), y ONGs tener un entendimiento y lenguaje comunes para la evaluación ambiental de elementos particulares del programa. Las siguientes pautas son necesarias para desarrollar un marco ambiental dentro del cual pueda ejecutarse el programa de expansión de energía de menor costo, de manera ambientalmente sana. Existe la necesidad inmediata de establecer:

- ◆ Responsabilidad estatutaria para los controles ambientales de las operaciones e instalaciones públicas y privadas.
- ◆ Estándares de calidad del agua y del aire.
- ◆ Mecanismos reglamentarios, incluyendo su aplicación, para los sectores público y privado.
- ◆ Procedimientos de evaluación ambiental para el gobierno y el sector privado.
- ◆ Procedimientos de monitoreo.

La asistencia técnica y el adiestramiento financiados por el Proyecto, provistos a través de la Agencia Reguladora, serán encomendados con los siguientes objetivos:

- ◆ Coordinación y acuerdo con el GORD y otros donantes sobre procedimientos y estándares ambientales para la construcción y operación del sistema eléctrico dominicano.
- ◆ Adiestramiento ambiental apropiado al personal del GORD en el desarrollo de procedimientos y estándares ambientales; y,

♦ Apoyo institucional reglamentario y de supervisión.

La asistencia técnica a corto plazo y el apoyo institucional serán financiados por el Proyecto para realizar las siguientes tareas:

- ♦ Establecer estándares ambientales, incluyendo la calidad del aire y del agua, que aplicarán en la operación y construcción, por parte de los sectores público y privado, del sistema eléctrico existente y expandido, y que sean compatibles con los estándares establecidos por el BIRF y la A.I.D.;
- ♦ Establecer y hacer cumplir los reglamentos ambientales y los procedimientos de evaluación que aplicarán en la administración y construcción, por parte de los sectores público y privado, del sistema energético; y,
- ♦ Adiestramiento ambiental adecuado al personal del GORD en la aplicación y cumplimiento de los procedimientos y estándares ambientales, incluyendo evaluaciones ambientales.

D. Formas de Ejecución

1. Formas de Monitoreo y Evaluación

El personal de la USAID/República Dominicana responsable de proveer el monitoreo global de la Misión de este proyecto incluirá un funcionario de PDI. La compilación de información sobre monitoreo y evaluación será responsabilidad del Contratista Institucional. Todas las actividades de evaluación serán coordinadas a través del Oficial de Evaluación de la Misión.

El plan de evaluación y monitoreo toma en cuenta la necesidad de enfocar estrechamente no sólo los insumos y productos programáticos, sino también las evaluaciones de impacto y la capacidad de sostenimiento institucional. Como tal, el plan para monitoreo y evaluación incluye una variedad de metodologías de evaluación, tales como informes semestrales, revisiones anuales del proyecto, evaluaciones sobre administración, estudios anuales a pequeña escala, una evaluación final externa, investigación sobre operaciones y estudios de estimación rápida, y evaluaciones financieras, según se estime apropiado.

a. Colección y Registro del Progreso y de los Datos Relacionados con el Proyecto

Dependiendo de las necesidades específicas del proyecto y de las capacidades del Contratista Institucional, los fondos del proyecto pudieran usarse para adquirir servicios bajo proyectos de evaluación y de políticas con financiamiento centralizado en AID/W, para análisis secundarios a menor escala, adiestramiento

para las agencias participantes en el uso de datos sobre tarifas y servicios para planificación estratégica, y/o desarrollo de indicadores de impacto.

Las actividades individuales del proyecto pueden requerir la colección de datos de referencia durante la primera parte del primer año del proyecto. El Contratista Institucional y/o contratos apropiados a corto plazo serán utilizados para este propósito.

Los planes anuales de ejecución y los informes de datos trimestrales servirán como instrumentos principales de monitoreo del proyecto. Los datos serán colectados como rutina por cada agencia ejecutora. El Contratista Institucional las asistirá a desarrollar y ejecutar formatos de información estandarizados para los componentes del proyecto (v.g. Privatización de la Energía -- Apoyo a la Estrategia; Fortalecimiento Institucional; y Depuración Ambiental de Sitios). Cada agencia ejecutora será responsable de mantener su propia base de datos. El Contratista Institucional proporcionará informes consolidados al administrador del proyecto de la USAID/DR; las secciones técnicas de estos informes también serán distribuidas entre las agencias participantes.

El Contratista Institucional será responsable de visitas de campo periódicas y ad hoc a las localizaciones del proyecto. La asistencia técnica de los proyectos con financiamiento centralizado en por AID/W incluirá informes de viajes para cada asignación. Estos resultados complementarán los informes de rutina del proyecto y las estadísticas de servicios para comprobar hasta que punto se están logrando los productos individuales y para identificar problemas en la ejecución del proyecto. Las auditorías financieras y en materia de administración serán los principales dispositivos de comprobación en la evaluación del progreso logrado por las instituciones participantes en el mejoramiento de la eficiencia y capacidades institucionales. Además de los indicadores establecidos en el marco lógico, se especificarán indicadores individualizados de productos en cada plan anual de trabajo de las agencias.

Énfasis en el Género. Se le dará énfasis al papel de la mujer en términos de mejoras socio-económicas relacionadas al énfasis del Proyecto en mejorar la fiabilidad y acceso de los servicios de energía eléctrica dentro de las áreas urbanas y rurales, y para industrias orientadas hacia la exportación.

Programa de Ejecución del Proyecto

La primera etapa de ejecución durará tres meses; la segunda aproximadamente seis meses, y la tercera tendrá una duración de 18 meses. Objetivos claves para las etapas de ejecución del Proyecto incluirán lo siguiente:

	<u>ACTIVIDADES</u>	<u>FECHA</u>	<u>SITUACION/ Responsabilidad</u>
1)	Administración Proyecto USAID contratada (Oficina de PDI) (Contrato Servicios Personales o contrato)	30/9/93	PDI/RCO
2)	Contratos Privatización (3 meses)	30/9/93	Orden de Ejecución, Contrato PDI
3)	Contratos Mitigación Ambiental (3 meses)	30/9/93	Orden de Ejecución, Contrato PDI
4)	Contratista Institucional (2 años)	31/10/93	Orden de Ejecución, Revisar/Seleccionar PDI/RCO
5)	Contrato del CI firmado Equipo en el País	15/12/94 30/1/94	RCO PDI
6)	Contratos Normas y Estándares Ambientales	15/2/94	PDI/RCO Contrato Firmado
7)	Condiciones GORD cumplidas, Normas Ambientales Privatizar Distribución	01/95	Grupo Técnico Superintendencia
8)	Auditoría del Proyecto (1)	15/2/95	PDI/Contraloría
9)	Estudios/Análisis Costos/Beneficios completos	31/3/95	CNE/Superintendencia
10)	Estándares y Normas Ambientales Ejecutadas/ Aplicadas	30/6/95	Superintendencia
11)	Préstamos BIRF/BID Licitación Pública Contrato para nueva generación de energía	30/6/95	BDMS/USAID/CNE

12)	Privatización de la CDE Sistema de Distribución	30/9/95	Superintendente CNE
13)	Auditoría (2)	31/1/96	PDI/Contraloría
14)	Evaluación Proyecto Final Contratos	31/3/96	PDI
15)	FFCP	31/3/96	PDI/CNE

E. Administración del Proyecto por la A.I.D./Acciones para Compras

Fase I: Privatización - Apoyo a la Estrategia. Durante los primeros tres meses, la asistencia del proyecto al Grupo Técnico y a los miembros de la Comisión Nacional de Energía es crítica. Se necesitará asistencia a corto plazo para adiestramiento observacional, revisión legal y reglamentaria del actual proyecto de ley, y pericia en varias áreas de privatización y reestructuración de la CDE. Para estos fines, el diseño del proyecto requiere de una orden de trabajo bajo un Contrato de Cantidad Indefinida (CCI) de A.I.D./W o un contrato bajo un proyecto de la A.I.D./W para este propósito. Se requerirá una Orden de Ejecución de Proyectos (PIO/T) con una descripción exacta de las necesidades de asistencia técnica y de requerimientos de adiestramiento para un período aproximado de tres meses.

Fase I: Mitigación Ambiental. Los términos de referencia del BIRF exigen la recolección de información para desarrollar un marco ambiental legal y reglamentario; evaluar al sector eléctrico dominicano para detectar áreas problemas potenciales; estimar el impacto ambiental asociado con la actualización de las actividades de depuración de sitios realizadas bajo el estudio de Manenco; y, evaluar el control de la contaminación por manejo de carbón en el Puerto de Haina. Se recomienda un contrato bajo un proyecto de A.I.D./W o unos ordenes específicas de trabajo bajo un CCI de A.I.D./W como la forma más expedita de realizar esto. Se proporcionará una lista de contratos que han sido usados con éxito por otras Misiones.

Fase II: Contratista Institucional. Aunque el Plan Financiero del Proyecto contiene un desglose detallado de los costos asignados para la adquisición de un contratista institucional para proveer a un especialista a largo plazo en privatización/servicios públicos, y aproximadamente 56 meses-hombre de asistencia técnica a corto plazo, más el establecimiento de una oficina local mínima y un grupo de apoyo administrativo, deben hacerse los alcances de trabajo para las personas claves, de manera tal que pueda ofertarse públicamente

una Solicitud de Propuesta para noviembre o diciembre. Esto tendría que suceder de manera tal que se efectúe un contrato y de que esté en el país un equipo para febrero o marzo. Para entonces, la Ley General de Electricidad será legislada y el Grupo Técnico y las Agencias Reguladoras estarán funcionando.

El diseño propuesto del Proyecto de Reestructuración del Sector de Energía Eléctrica exige un nivel considerablemente alto de participación por parte de la A.I.D. durante la fase inicial de ejecución. Los primeros tres meses de ejecución serán intensivos en términos de monitoreo, supervisión y realización de las actividades de compras. Existirá la necesidad de preparar varias Ordenes de Ejecución para diferentes tipos de compras, incluyendo contratos bajo otros proyectos y los servicios de un Contratista Institucional.

F. Papel del Contratista Institucional

1. Manejo y Administración para la Asistencia Técnica y el Adiestramiento bajo el Proyecto

Una de las funciones principales del Contratista Institucional para la Asistencia Técnica del Proyecto (CI) será la de ayudar a orquestar y coordinar las diferentes instituciones y actividades de programa que ocurren durante la vida del proyecto. Puede hacerse una analogía con el papel de un entrenador. El CI asistirá en el desarrollo de un plan de trabajo anual para cada institución incluyendo sus respectivas necesidades técnicas. Una vez obtenida la aprobación de la USAID/RD, el CI ayudará a coordinar los planes de trabajo y proveerá una posición a largo plazo (PUCA). El CI también gestionará programas de adiestramiento estadounidenses en regulación de empresas de servicios públicos y análisis de tarifas, y proporcionará toda la asistencia técnica a corto plazo de manera oportuna.

2. Mecanismo de Apoyo de la Asistencia Técnica

El CI será responsable de la provisión de un Jefe de Equipo a largo plazo (2 años) y aproximadamente 56 meses-hombre de asistencia técnica a corto plazo y programas relacionados de adiestramiento, en el país, y viajes de observación a corto plazo, y actividades de cursos cortos en el extranjero.

Además, el CI proporcionará cuatro (4) profesionales locales administrativos/técnicos, a largo plazo y un personal de apoyo administrativo para la operación de una oficina local.

3. Responsabilidades de Presentación de Informes a la USAID

El CI será responsable ante la Misión de la USAID del desempeño de todos los aspectos del alcance de trabajo del contrato. La oficina de proyecto de la USAID/RD tendrá una participación significativa en la aprobación de los planes anuales de trabajo para el CI. Las decisiones que involucren niveles de financiamiento del proyecto, personal subcontratado, y otras decisiones administrativas de mayor orden serán también presentadas a la Misión para su aprobación/visto bueno, según se estime conveniente. Los resultados del Proyecto serán reportados a la Misión semestralmente, de acuerdo con el proceso de informes semestrales.

4. Información, Educación y Comunicaciones (IEC)

El sistema de Información, Educación y Comunicaciones del Proyecto (IEC) será establecido conjuntamente por el Contratista Institucional y las organizaciones ejecutoras del Proyecto y orientadas hacia la elaboración de políticas para asegurar la difusión efectiva y oportuna de los mensajes del Proyecto hacia las audiencias a quienes va dirigido. El CI proveerá un Jefe de Equipo a largo plazo por 24 meses (PUCA), así como asistencia técnica a corto plazo, según sea necesario. El CI será responsable de la compra local de todos los materiales y servicios que se necesiten para realizar las campañas de publicidad (con relación a la aprobación de la nueva Ley General de Electricidad y la promoción de las actividades de conservación de energía) y la diseminación de información del Proyecto, según se estime necesario.

5. Monitoreo y Evaluación

El CI asistirá en el establecimiento de un sistema de evaluación y monitoreo a ser usado para identificar y enfocar mejor a los beneficiarios a quienes va dirigido el proyecto, asistirá en la modificación del énfasis de programa, a medida que ocurran cambios en los datos, y como un mecanismo para guiar y coordinar la dirección de las instituciones asistidas bajo el Proyecto. El monitoreo y evaluación también se usarán para determinar las economías de escala del proyecto, y ayudar a establecer incentivos para motivar a las entidades ejecutoras a que colaboren y se apoyen entre sí en el logro de los productos del proyecto y de resultados al término del Proyecto.

OBLIGACIONES ANUALES DEL ACUERDO DEL PROYECTO
OBLIGACIONES FX Y ML POR AÑO FISCAL
(US\$000S)

COMPONENTE	AÑO 1			AÑO 2			CUMULATIVO		
	FX	ML	TOTAL	FX	ML	TOTAL	FX	ML	TOTAL
I. Apoyo a la Estrategia de Privatizac. Energetica	1,008.0	207.0	1,215.0	190.0	10.0	200.0	1,198.0	217.0	1,415.0
II. Fortalecimiento Institucional	1,138.0	217.2	1,355.2	147.0	50.8	197.8	1,285.0	268.0	1,553.0
III. Normas & Estandares Ambientales	493.0	139.0	632.0	159.0	41.0	200.0	652.0	180.0	832.0
IV. Adm. Proyecto	100.0	0.0	100.0	0.0	0.0	0.0	100.0	0.0	100.0
V. Evaluaciones	50.0	0.0	50.0	0.0	0.0	0.0	50.0	0.0	50.0
VI. Auditorias	0.0	50.0	50.0	0.0	0.0	0.0	0.0	50.0	50.0
Totales/Proyecto	2,789.0	613.2	3,402.2	496.0	101.8	597.8	3,285.0	715.0	4,000.0

JPT3CONT.WK1

Project Grant Standard

Provisions Annex

Definitions: As used in this Annex, the "Agreement" refers to the Project Grant Agreement to which this Annex is attached and of which this Annex forms a part. Terms used in this Annex have the same meaning or reference as in the Agreement.

Article A: Project Implementation Letters

To assist Grantee in the implementation of the Project, A.I.D., from time to time, will issue Project Implementation Letters that will furnish additional information about matters stated in this Agreement. The parties may also use jointly agreed-upon Project Implementation Letters to confirm and record their mutual understanding on aspects of the implementation of this Agreement. Project Implementation Letters will not be used to amend the text of the Agreement, but can be used to record revisions or exceptions which are permitted by the Agreement, including the revision of elements of the amplified description of the Project in Annex 1.

Article B: General Covenants

SECTION B.1. Consultation. The Parties will cooperate to assure that the purpose of this Agreement will be accomplished. To this end, the Parties, at the request of either, will exchange views on the progress of the Project, the performance of obligations under this Agreement, the performance of any consultants, contractors, or suppliers engaged on the Project, and other matters relating to the Project.

SECTION B.2. Execution of Project. The Grantee will:

(a) carry out the Project or cause it to be carried out with due diligence and efficiency, in conformity with sound technical, financial, and management practices, and in conformity with those documents, plans, specifications, contracts, schedules or other arrangements, and with any modifications therein, approved by A.I.D. pursuant to this Agreement; and

(b) provide qualified and experienced management for, and train such staff as may be appropriate for the maintenance and operation of the Project, and, as applicable for continuing activities, cause the Project to be operated and maintained in such manner as to assure the continuing and successful achievement of the purposes of the Project.

SECTION B.3. Utilization of Goods and Services.

(a) Any resources financed under the Grant will, unless otherwise agreed in writing by A.I.D., be devoted to the Project until the completion of the Project, and thereafter will be used so as to further the objectives sought in carrying out the Project.

(b) Goods or services financed under the Grant, except as A.I.D. may otherwise agree in writing, will not be used to promote or assist a foreign aid project or activity associated with or financed by a country not included in Code 935 of the A.I.D. Geographic Code Book as in effect at the time of such use.

SECTION B.4. Taxation.

(a) This Agreement and the Grant will be free from any taxation or fees imposed under laws in effect in the territory of the Grantee.

(b) To the extent that (1) any contractor, including any consulting firm, any personnel of such contractor financed under the Grant, and any property or transaction relating to such contracts and (2) any commodity procurement transaction financed under the Grant, are not exempt from identifiable taxes, tariffs, duties or other levies imposed under laws in effect in the territory of the Grantee, the Grantee will, as and to the extent provided in and pursuant to Project Implementation Letters, pay or reimburse the same with funds other than those provided under the Grant.

SECTION B.5. Reports, Accounting Records, Audits, Inspections.

(a) The Grantee shall furnish A.I.D. such information and reports relating to the Project and to this Agreement as A.I.D. may reasonably request;

(b) The Grantee shall maintain accounting books, records, documents, and other evidence relating to the Project and to this Agreement, adequate to show, without limitation, all costs incurred under the Grant, the receipt and use of goods and services acquired under the Grant, the costs of the Project supplied from other sources, the nature and extent of solicitations of prospective suppliers of goods and services acquired, the basis of award of contracts and orders, and the overall progress of the Project toward completion ("Project Books and Records"). At the Grantee's option, with approval by A.I.D., Project books and records shall be maintained in accordance with one of the following methods: (1) generally accepted accounting principles prevailing in the United States, (2) generally accepted accounting principles prevailing in the country of the Grantee, (3) accounting principles prescribed by the

International Accounting Standards Committee (an affiliate of the International Federation of Accountants), or (4) such other accounting principles as the Parties may agree to in writing. Project books and records shall be maintained for at least three years after the date of last disbursement by A.I.D.

(c) If \$25,000 or more is disbursed directly to the Grantee in any one calendar year under the Grant, the Grantee, except as the Parties may otherwise agree in writing, shall have financial audits made of the funds disbursed to the Grantee under the Grant in accordance with the following terms:

(1) The Grantee shall select an independent auditor in accordance with the "Guidelines for Financial Audits contracted by Foreign Recipients" issued by the A.I.D. Inspector General ("Guidelines"), and the audits shall be performed in accordance with the "Guidelines".

(2) An audit of the funds provided under the Grant shall be conducted for each fiscal year of the Grantee. The audit shall determine whether the receipt and expenditure of the funds provided under the Grant are presented in accordance with generally accepted accounting principles agreed to in Section (b) above and whether the Grantee has complied with the terms of the Agreement. Each audit shall be completed no later than one year after the close of the Grantee's fiscal year.

(d) The Grantee shall submit an audit report to A.I.D. within 30 days after completion of each audit arranged for by the Grantee in accordance with this Section. The A.I.D. Inspector General will review each report to determine whether it complies with the audit requirements of this Agreement. Subject to A.I.D. approval, costs of audits performed in accordance with the terms of this Section may be charged to the Grant. In cases of continued inability or unwillingness to have an audit performed in accordance with the terms of this Section, A.I.D. will consider appropriate sanctions which include suspension of all or a portion of disbursements until the audit is satisfactorily completed or A.I.D. performs its own audit.

(e) The Grantee shall submit to A.I.D., in form and substance satisfactory to A.I.D., a plan by which the Grantee will ensure that funds made available to subrecipients that receive \$25,000 or more in any one calendar year under the Grant are audited in accordance with this Agreement. The plan should describe the methodology to be used by the Grantee to satisfy its audit responsibilities with respect to any subrecipient to which this section applies. Such audit responsibilities with respect to subrecipients may be satisfied by relying on independent audits of the subrecipients or on appropriate procedures performed by the internal audit or program staff of the Grantee, by expanding the scope of the independent financial audit of the Grantee to encompass testing of subrecipients' accounts, or by a combination of these procedures. The Plan should identify the

funds made available to subrecipients that will be covered by audits conducted in accordance with other audit provisions that would satisfy the Grantee's audit responsibilities (a nonprofit organization organized in the United States is required to arrange for its own audits; a non-profit contractor organized in the United States that has direct contract with A.I.D. is audited by the cognizant U.S. Government agency; a Private Voluntary Organization organized outside the United States with a direct grant from A.I.D. is required to arrange for its own audits; and a host-country contractor should be audited by the cognizant grantee contracting agency). The Grantee shall ensure that appropriate corrective actions are taken on the recommendations contained in the subrecipients' audit reports; consider whether subrecipients' audit reports; consider whether subrecipients' audits necessitate adjustment of its own records; and require each subrecipient to permit independent auditors to have access to records and financial statements as necessary.

(f) A.I.D. may, at its discretion, perform the audits required under this Agreement on behalf of the Grantee by utilizing funds under the Grant or other resources available to A.I.D. for this purpose. The Grantee shall afford authorized representatives of A.I.D. the opportunity at all reasonable times to audit or inspect the Project, the utilization of goods and services financed by A.I.D. and books, records and other documents relating to the Project and the Grant.

SECTION B.6. Completeness of Information. The Grantee confirms:

(a) that the facts and circumstances of which it has informed A.I.D., or cause A.I.D. to be informed, in the course of reaching agreement with A.I.D. on the Grant, are accurate and complete, and include all facts and circumstances that might materially affect the Project and the discharge of responsibilities under this Agreement;

(b) that it will inform A.I.D. in timely fashion of any subsequent facts and circumstances that might materially affect, or that it is reasonable to believe might so affect, the Project or the discharge of responsibilities under this Agreement.

SECTION B.7. Other Payments. Grantee affirms that no payments have been or will be received by any official of the Grantee in connection with the procurement of goods or services financed under the Grant, except fees, taxes, or similar payments legally established in the country of the Grantee.

SECTION B.8. Information and Marking. The Grantee will give appropriate publicity to the Grant and the Project as a program to which the United States has contributed, identify the Project site or sites, and mark goods financed by A.I.D., as described in Project Implementation Letters.

Article C: Procurement Provisions

SECTION C.1. Special Rules.

(a) The source and origin of ocean and air shipping will be deemed to be the ocean vessel's or aircrafts's country of registry at the time of shipment.

(b) Premiums for marine insurance placed in the territory of the Grantee will be deemed an eligible Foreign Exchange Cost, if otherwise eligible under Section C.7(a).

(c) Any motor vehicles financed under the Grant will be of United States Manufacture, except as A.I.D. may otherwise agree in writing.

(d) Transportation by air, financed under the Grant, of property or persons, will be on carriers holding United States certification, to the extent service by such carriers is available. Details on this requirement will be described in a Project Implementation Letter.

SECTION C.2. Eligibility Date. No goods or services may be financed under the Grant which are procured pursuant to orders or contracts firmly placed or entered into prior to the date of this Agreement, except as the Parties may otherwise agree in writing.

SECTION C.3. Plans, Specifications, and Contracts. In order for there to be mutual agreement on the following matters, and except as the Parties may otherwise agree in writing:

(a) The Grantee will furnish to A.I.D. upon preparation,

(1) any plans, specifications, procurement or construction schedules, contracts, or other documentation relating to goods or services to be financed under the Grant, including documentation relating to the prequalification and selection of contractors and to the solicitation of bids and proposals. Material modifications in such documentation will likewise be furnished A.I.D. on preparation;

(2) such documentation will also be furnished to A.I.D., upon preparation, relating to any goods or services, which, though not financed under the Grant, are deemed by A.I.D. to be of major importance to the Project. Aspects of the Project involving matters under this subsection (a)(2) will be identified in Project Implementation Letters;

(b) Documents related to the prequalification of contractors, and to the solicitation of bids or proposals for goods and services financed under the Grant will be approved by A.I.D. in writing prior to their issuance, and their terms will include United States standards and measurements;

(c) Contracts and contractors financed under the Grant for engineering and other professional services, for construction services, and for such other services, equipment or materials as may be specified in Project Implementation Letters, will be approved by A.I.D. in writing prior to execution of the contracts. Material modifications in such contracts will also be approved in writing by A.I.D. prior to execution; and

d) Consulting firms used by the Grantee for the Project but not financed under the Grant, the scope of their services and such of their personnel assigned to the Project as A.I.D. may specify, and construction contractors used by the Grantee for the Project but not financed under the Grant, shall be acceptable to A.I.D.

SECTION C.4. Reasonable Price. No more than reasonable prices will be paid for any goods or services financed, in whole or in part, under the Grant. Such items will be procured on a fair and, to the maximum extent practicable, on a competitive basis.

SECTION C.5. Notification to Potential Suppliers. To permit all United States firms to have the opportunity to participate in furnishing good and services to be financed under the Grant, the Grantee will furnish A.I.D. such information with regard thereto, and at such times, as A.I.D. may request in Project Implementation Letters.

SECTION C.6. Shipping.

(a) Goods which are to be transported to the territory of the Grantee may not be financed under the Grant if transported either: (1) on an ocean vessel or aircraft under the flag of a country which is not included in A.I.D. Geographic Code 935 as in effect at the time of shipment, or (2) on an ocean vessel which A.I.D., by written notice to the Grantee has designated as ineligible; or (3) under an ocean or air charter which has not received prior A.I.D. approval.

(b) Costs of ocean or air transportation (of goods or persons) and related delivery services may not be financed under the Grant, if such goods or persons are carried: (1) on an ocean vessel under the flag of a country not, at the time of shipment, identified under the paragraph of the Agreement entitled "Procurement Source: Foreign Exchange Cost," without prior written A.I.D. approval or on a non-U.S. flag air carrier if a U.S. flag carrier is available (in accordance with criteria which may be contained in Project Implementation Letters) without prior written A.I.D. approval; or (2) on an ocean vessel which A.I.D., by written notice to the Grantee, has designated as ineligible; or (3) under an ocean vessel or air charter which has not received prior A.I.D. approval.

(c) Unless A.I.D. determines that privately owned United States-flag commercial ocean vessels are not available at fair and reasonable rates for such vessels, (1) at least fifty percent (50%) of the gross tonnage of all goods (computed separately for dry bulk carriers, dry cargo liners and tankers) financed by A.I.D. which may be transported on ocean vessels will be transported on privately owned United States-flag commercial vessels, and (2) at least fifty percent (50%) of the gross freight revenue generated by all shipments financed by A.I.D. and transported to the territory of the Grantee on dry cargo liners shall be paid to or for the benefit of privately owned United States-flag commercial vessels. Compliance with the requirements of (1) and (2) of this sub-section must be achieved with respect to both any cargo transported from U.S. ports and any cargo transported from non-U.S. ports, computed separately.

SECTION C.7. Insurance.

(a) Marine insurance on goods financed by A.I.D. which are to be transported to the territory of the Grantee may be financed as a Foreign Exchange Cost under this Agreement provided (1) such insurance is placed at the lowest available competitive rate, and (2) claims thereunder are payable in U.S. dollars or, as A.I.D. may agree in writing, in the currency in which such goods were financed or in any freely convertible currency. If the Grantee (or government of Grantee), by statute, decree, rule, regulation, or practice discriminates with respect to A.I.D.-financed procurement against any marine insurance company authorized to do business in any State of the United States, then all goods shipped to the territory of the Grantee financed by A.I.D. hereunder will be insured against marine risks and such insurance will be placed in the United States with a company or companies authorized to do a marine insurance business in a State of the United States.

(b) Except as A.I.D. may otherwise agree in writing, the Grantee will insure, or cause to be insured, goods financed under the Grant imported for the Project against risks incident to their transit to the point of their use in the Project; such insurance will be issued on terms and conditions consistent with sound commercial practice and will insure the full value of the goods. Any indemnification received by the Grantee under such insurance will be used to replace or repair any material damage or any loss of the goods insured or will be used to reimburse the Grantee for the replacement or repair of such goods. Any such replacements will be of source and origin of countries listed in A.I.D. Geographic Code 935 as in effect at the time of replacement, and, except as the Parties may agree in writing, will be otherwise subject to the provisions of the Agreement.

SECTION C.8 U.S. Government-Owned Excess Property.

The Grantee agrees that wherever practicable, United States

Government-owned excess personal property, in lieu of new items financed under the Grant, should be utilized. Funds under the Grant may be used to finance the costs of obtaining such property for the Project.

Article D: Termination; Remedies.

SECTION D.1. Termination. Either Party may terminate this Agreement by giving the other Party thirty (30) days written notice. Termination of this Agreement will terminate any obligations of the Parties to provide financial or other resources to the Project pursuant to this Agreement, except for payment which they are committed to make pursuant to noncancellable commitments entered into with third parties prior to the termination of this Agreement. In addition, upon such termination A.I.D. may, at A.I.D.'s expense, direct that title to goods financed under the Grant be transferred to A.I.D. if the goods are from a source outside Grantee's country, are in a deliverable state and have not been offloaded in ports of entry of Grantee's country.

SECTION D.2. Refunds.

(a) In the case of any disbursement which is not supported by valid documentation in accordance with this Agreement, or which is not made or used in accordance with this Agreement, or which was for goods or services not used in accordance with this Agreement, A.I.D., notwithstanding the availability or exercise of any other remedies under this Agreement, may require the Grantee to refund the amount of such disbursement in U.S. Dollars to A.I.D. within sixty (60) days after receipt of a request therefor.

(b) If the failure of Grantee to comply with any of its obligations under this Agreement has the result that goods or services financed under the Grant are not used effectively in accordance with this Agreement, A.I.D. may require the Grantee to refund all or any part of the amount of the disbursements under this Agreement for such goods or services in U.S. Dollars to A.I.D. within sixty (60) days after receipt of a request thereof.

(c) The right under subsection (a) or (b) to require a refund of a disbursement will continue, notwithstanding any other provision of this Agreement, for three years from the date of the last disbursement under this Agreement.

(d) (1) Any refund under subsection (a) or (b), or (2) any refund to A.I.D. from a contractor, supplier, bank or other third party with respect to goods or services financed under the Grant, which refund relates to an unreasonable price for or erroneous invoicing of goods or services, or to goods that did not conform to specifications, or to services that were inadequate, will (A) be made available first for the cost of goods and services required for the Project, to the extent justified, and (B) the

remainder, if any, will be applied to reduce the amount of the Grant.

(e) Any interest or other earnings on Grant funds disbursed by A.I.D. to the Grantee under this Agreement prior to the authorized use of such funds for the Project will be returned to A.I.D. in U.S. Dollars by the Grantee.

SECTION D.3. Nonwaiver of Remedies. No delay in exercising any right or remedy accruing to a Party in connection with its financing under this Agreement will be construed as a waiver of such right or remedy.

SECTION D.4. Assignment. The Grantee Agrees, upon request, to execute an assignment to A.I.D. of any cause of action which may accrue to the Grantee in connection with or arising out of the contractual performance or breach of performance by a party to a direct U.S. Dollar contract with A.I.D. financed in whole or in part out of funds granted by A.I.D. under this Agreement.

Normas del Proyecto de Donación

Anexo de las Disposiciones

Definiciones: Según se usa en este Anexo, el "Acuerdo" se refiere al Acuerdo de Proyecto de Donación al cual se adjunta este Anexo y del cual el mismo forma parte. Los términos utilizados en este Anexo tienen el mismo significado o referencia que en el Acuerdo.

Artículo A: Cartas de Ejecución del Proyecto

Para asistir al Donatario en la ejecución del Proyecto, la A.I.D. periódicamente emitirá Cartas de Ejecución que proporcionarán información adicional sobre los asuntos tratados en este Acuerdo. Las Partes podrán también utilizar Cartas de Ejecución del Proyecto mutuamente convenidas para confirmar e indicar su mutuo entendimiento de los aspectos de ejecución de este Acuerdo. Las Cartas de Ejecución del Proyecto no se utilizarán para modificar el texto del Acuerdo, pero podrán utilizarse para asentar revisiones o excepciones permitidas por el Acuerdo, incluyendo la revisión de los componentes de la descripción ampliada del Proyecto en el Anexo 1.

Artículo B Compromisos Generales

SECCION B.1. Consulta. Las Partes cooperarán para garantizar el cumplimiento del propósito de este Acuerdo. A este fin, las Partes, a solicitud de cualquiera de ellas, intercambiarán opiniones sobre el progreso del Proyecto, el cumplimiento de las obligaciones según este Acuerdo, el desempeño de cualquier consultor, contratista o suplidor involucrado en el Proyecto y sobre los demás asuntos relacionados al Proyecto.

SECCION B.2. Ejecución del Proyecto. El Donatario se compromete a:

(a) llevar a cabo el Proyecto o hacer que sea realizado con la debida diligencia y eficiencia de conformidad con las sólidas prácticas técnicas, financieras y administrativas, y de conformidad con los documentos, planes, especificaciones, contratos, itinerarios y demás arreglos, y con cualquier modificación de los mismos, aprobados por la A.I.D. de conformidad con este Acuerdo; y

(b) proveer una gerencia calificada y con experiencia y adiestrar al personal correspondiente según sea necesario para el mantenimiento y operación del Proyecto y, según sea aplicable

para actividades continuadas, motivar que el Proyecto sea operado y mantenido en una forma que asegure el continuado y exitoso logro de los propósitos del Proyecto.

SECCION B.3. Utilización de Bienes y Servicios.

(a) Cualquier recurso financiado con fondos de la Donación será destinado, a menos que la A.I.D. convenga lo contrario por escrito, al Proyecto mientras dure el Proyecto y subsecuentemente será utilizado para promover los mismos objetivos del Proyecto.

(b) Ningún bien o servicio financiado con fondos provenientes de esta Donación podrá usarse, a menos que la A.I.D. convenga lo contrario por escrito, para promover o asistir en un proyecto de asistencia externa o actividad asociada con o financiada por un país no incluido en el Código 935 del libro de Códigos Geográficos de la A.I.D. vigente a la fecha de su utilización. (Ver Manual 18)

SECCION B.4. Impuestos

(a) Este Acuerdo y la propia Donación estarán exentos de impuestos o gravámenes de cualquier índole, vigentes en el país del Donatario.

(b) En la medida que (1) cualquier contratista, incluyendo firmas consultoras y el personal de dichas firmas financiadas con fondos de la Donación, y cualesquiera bienes y transacciones relacionados a dichos contratos; y (2) cualquier transacción de compra de mercancía financiada con fondos de la Donación, no están exentos de impuestos, tarifas, derechos de aduanas o demás gravámenes identificables, vigentes en la República Dominicana, el Donatario pagará o reembolsará dichos impuestos, derechos o gravámenes hasta el alcance provisto y de conformidad con las Cartas de Ejecución con recursos que no sean de la Donación.

SECCION B.5. Informes, Registros Contables, Auditorías, Inspecciones.

(a) El Donatario deberá suministrar a la A.I.D. la información y documentación relacionados con el Proyecto y con este Acuerdo, según la A.I.D. pueda razonablemente solicitar;

(b) El Donatario deberá mantener los libros, registros y documentos contables, y otra evidencia relacionada con el Proyecto y este Acuerdo, que sean adecuados para mostrar, sin restricciones, todos los gastos incurridos bajo la Donación, el recibo y utilización de bienes y servicios adquiridos al amparo de la Donación, los gastos del Proyecto suministrados de otras fuentes, la naturaleza y el alcance de las solicitudes de posibles proveedores de bienes y servicios adquiridos, la base de adjudicación de contratos y órdenes, y el progreso global del

Proyecto en vías de terminación ("Libros y Registros del Proyecto"). A disposición del Donatario, con la aprobación de la A.I.D., los libros y registros del proyecto deberán mantenerse de acuerdo con uno de los siguientes métodos: (1) principios contables generalmente aceptados predominantes en los Estados Unidos, (2) principios contables generalmente aceptados predominantes en el país del Donatario, (3) principios contables prescritos por el Comité Internacional de Normas Contables (un afiliado de la federación Internacional de Contadores) o (4) tales otros principios contables que puedan ser acordados por las Partes por escrito. Los libros y registros del proyecto deberán mantenerse al menos por tres años a partir de la fecha del último desembolso de la A.I.D.

(c) Si se desembolsan \$25,000 o más, directamente al Donatario en cualquier año calendario con fondos de la Donación, el Donatario, a no ser que las partes acuerden de otra forma por escrito, deberá someter bajo auditorías financieras los fondos desembolsados al Donatario al amparo de la Donación de conformidad con los siguientes términos:

(1) El Donatario deberá seleccionar un auditor independiente de acuerdo con la "Guía para Auditorías Financieras Contratadas por Beneficiarios del Exterior" emitida por el Inspector General de la A.I.D. ("Guía"), y las auditorías deberán llevarse a cabo de acuerdo con esta "Guía".

(2) Para cada año fiscal del Donatario se llevará a cabo una auditoría de los fondos suministrados al amparo de la Donación. La auditoría determinará si el recibo y gasto de los fondos provistos al amparo de la Donación se presentan de conformidad con los principios contables generalmente aceptados acordados en la Sección (b) anterior, y si el Donatario ha cumplido con los términos del Acuerdo. Cada auditoría deberá ser terminada a más tardar un año después del cierre del año fiscal del Donatario.

(d) El Donatario presentará un informe de auditoría a la A.I.D. dentro de los 30 días posteriores a la terminación de cada auditoría efectuada por el Donatario de acuerdo con esta Sección. El Inspector General de la A.I.D. revisará cada informe con el fin de determinar si el mismo cumple con los requisitos de auditoría de este Acuerdo. Sujeto a la aprobación de la A.I.D., los costos de auditorías realizadas de acuerdo con los términos de esta Sección pueden cargarse a la Donación. En caso de continua incapacidad o falta de disposición para llevar a cabo una auditoría de acuerdo con los términos de esta Sección, la A.I.D. considerará las sanciones del caso que incluye la suspensión de todo o parte de los desembolsos hasta que no se haya terminado la auditoría satisfactoriamente o la A.I.D. lleve a cabo su propia auditoría.

(e) El Donatario deberá presentar a la A.I.D., en forma y con el contenido satisfactorios a la A.I.D., un plan mediante el

cual el Donatario asegurará que los fondos suministrados a los beneficiarios que reciban \$25,000 o más en cualquier año calendario bajo la Donación sean sometidos bajo auditoría de conformidad con este Acuerdo. El plan deberá describir la metodología que empleará el Donatario para cumplir sus responsabilidades de auditoría con respecto a cualquier sub-beneficiario al que aplique esta sección. Dichas responsabilidades con respecto a sub-beneficiarios pueden cumplirse en base a auditorías independientes de sub-beneficiarios o los procedimientos adecuados utilizados por la auditoría interna o el personal del programa del Donatario, también expandiendo el alcance de la auditoría financiera independiente del Donatario para incluir la verificación de las cuentas del sub-beneficiario, o mediante una combinación de estos procedimientos. El Plan deberá identificar los fondos suministrados a sub-beneficiarios que estarán bajo auditorías efectuadas de acuerdo con otras disposiciones de auditoría que cumplirían con las responsabilidades de auditoría del Donatario (una organización no lucrativa instituida en Estados Unidos debe programar sus propias auditorías; un contratista sin fines de lucro establecido en los Estados Unidos bajo contratación directa de la A.I.D. es auditado por la correspondiente entidad del Gobierno de los E.E.U.U.; una Organización Privada Voluntaria instituida fuera de los Estados Unidos con una donación directa de la A.I.D. debe programar sus propias auditorías; y un contratista del país cooperante debe ser auditado por la entidad contratista del Donatario que corresponda). El Donatario deberá asegurar que se tomen las medidas correctivas apropiadas recomendadas en los informes de auditoría de los sub-beneficiarios; determinar si las auditorías de los sub-beneficiarios necesitan ajustar sus propios registros; y solicitar a cada sub-beneficiario permitir a los auditores independientes el acceso a los registros y estados financieros según sea necesario.

(f) la A.I.D. podrá, a opción suya, llevar a cabo las auditorías requeridas bajo este Acuerdo en nombre del Donatario utilizando fondos de la Donación u otros recursos que estén disponibles a la A.I.D. para ese fin. El Donatario brindará a representantes autorizados de la A.I.D. en todo momento que sea razonable, la oportunidad de realizar una auditoría o inspeccionar el Proyecto, la utilización de bienes y servicios financiados por la A.I.D., los libros, registros y otros documentos relacionados con el Proyecto y la Donación.

SECCION B.6 Integridad de Información. El Donatario hace constar:

(a) que todos los hechos y circunstancias sobre los cuales ha informado o ha hecho que se informe a la A.I.D., en el transcurso de la obtención de esta Donación, son precisos y completos y que incluyen todos los hechos y circunstancias que puedan materialmente afectar al Proyecto y el descargo de las

obligaciones bajo este Acuerdo;

(b) que le informará a la A.I.D. puntualmente de cualquier hecho o circunstancia subsiguiente que pueda materialmente afectar, o que sea razonable creer que pudiera afectar, al Proyecto y el descargo de las obligaciones bajo este Acuerdo.

SECCION B.7. Otros Pagos. El Donatario afirma que ningún pago ha sido o será recibido por ninguno de sus funcionarios en relación con la obtención de bienes o servicios financiados por la Donación, exceptuando derechos, impuestos o pagos similares legalmente establecidos en el país del Donatario.

SECCION B.8. Información y Marcas. El Donatario dará publicidad adecuada a la Donación y al Proyecto como programa al que los Estados Unidos han contribuido, identificará la localización del Proyecto y marcará los bienes financiados por la A.I.D., según se especifique en las Cartas de Ejecución.

Artículo C: Disposiciones de Compras

SECCION C.1. Reglas Especiales.

(a) Se considerará como el origen y procedencia de los servicios de transporte marítimo y aéreo, el país donde el barco o avión esté registrado en el momento del embarque.

(b) Las primas de las pólizas de seguros marítimos colocadas en la República Dominicana serán consideradas como Costos en Divisas, siempre que tales primas sean elegibles según lo provisto en la Sección C.7 (a).

(c) Los vehículos de motor financiados con fondos de la Donación deberán ser de fabricación estadounidense, a menos cuando la A.I.D. convenga lo contrario por escrito.

(d) El transporte aéreo, financiado por la Donación, de bienes o personas, deberá efectuarse en aviones con certificación de los Estados Unidos, en la medida que dichos servicios estén disponibles. Los detalles de este requisito serán descritos en Cartas de Ejecución del Proyecto.

SECCION C.2. Fecha de Elegibilidad. No se financiarán con fondos provenientes de la Donación bienes y servicios adquiridos por medio de órdenes de compra o contratos contraídos antes de la fecha de suscripción de este Acuerdo, a menos que las Partes convengan lo contrario por escrito.

SECCION C.3. Planos, Especificaciones y Contratos. Para que los asuntos tratados a continuación gocen del mutuo acuerdo de las Partes, las siguientes disposiciones regirán el Proyecto, a menos que las Partes convengan lo contrario por escrito:

(a) El Donatario proporcionará a la A.I.D. los siguientes

documentos tan pronto sean preparados:

(1) cualesquiera planos, diseños, especificaciones, programas de compras y construcción, contratos u otra documentación relacionada a bienes o servicios a ser financiados bajo la Donación, incluyendo documentación relativa a la precalificación y selección de contratistas y a la solicitud de licitaciones y propuestas. Las enmiendas y demás modificaciones significativas de dichos documentos también serán suministradas a la A.I.D. tan pronto se hayan preparado;

(2) los documentos relacionados a bienes y servicios, una vez preparados también serán suministrados a la A.I.D., aquellos que aún no sean financiados con fondos de la Donación, sean considerados por la A.I.D. de vital importancia para el Proyecto. Los aspectos del Proyecto que caigan bajo esta subsección (a)(2) serán señaladas en las Cartas de Ejecución;

(b) los documentos relativos a la precalificación de contratistas y a la solicitud de licitaciones o propuestas para bienes y servicios financiados bajo esta Donación serán aprobados por la A.I.D. por escrito antes de su emisión, y los términos de los mismos incluirán las especificaciones y medidas generalmente utilizadas en los Estados Unidos;

(c) los contratos y contratistas financiados con fondos de la Donación para servicios de ingeniería y demás servicios profesionales, para servicios de construcción y para tales otros servicios, equipos o materiales que la A.I.D. pueda especificar en Cartas de Ejecución, serán aprobados por la A.I.D. por escrito antes de contraer los contratos. Las enmiendas y demás modificaciones significativas de tales contratos también serán aprobadas por la A.I.D. por escrito antes de ser ejecutadas; y

(d) las firmas consultoras utilizadas por el Donatario para el Proyecto, pero no financiadas por la Donación, el alcance de los servicios que prestan y del personal asignado al Proyecto que la A.I.D. pueda especificar, así como las firmas constructoras contratadas por el Donatario para el Proyecto pero que no están financiadas bajo la Donación, deberán ser aceptables a la A.I.D.

SECCION C.4. Precios Razonables. No se pagarán precios por encima de los razonables por bienes y servicios financiados, en su totalidad o en parte, con fondos de la Donación. Tales artículos se adquirirán en base justa y hasta donde sea posible, por concurso.

SECCION C.5. Notificación a Suplidores Potenciales. Para permitir que todas las firmas estadounidenses tengan la oportunidad de suministrar bienes y servicios a ser financiados con fondos de la Donación, el Donatario proporcionará a la A.I.D. la información relacionada con tales adquisiciones en la forma y en el momento que la A.I.D. lo solicite por medio de Cartas de Ejecución.

SECCION C.6 Embarques.

(a) No se financiarán con fondos de la Donación bienes transportados a la República Dominicana en los siguientes casos: (1) si el buque o avión ostenta bandera de un país no incluido en el Código Geográfico 935 de la A.I.D., vigente en el momento de efectuar el embarque; o (2) si la A.I.D. notifica al Donatario por escrito que el buque no es elegible; o (3) si el buque o avión ha sido fletado sin la previa aprobación de la A.I.D.

(b) Los costos de transportes marítimos o aéreos (de bienes y personas) y los servicios de entrega pertinentes no podrán ser financiados bajo la Donación si dichos bienes y personas se transportan: (1) en un buque con bandera de un país, que al momento del embarque, no está señalado en el párrafo del Acuerdo titulado "Fuente de Compra. Costos en Divisas", sin la previa autorización por escrito de la A.I.D.; o (2) en un buque que la A.I.D., mediante aviso por escrito al Donatario, haya designado como no elegible; o (3) en un buque marítimo o aéreo que no haya recibido la previa aprobación de la A.I.D.

(c) A menos que la A.I.D. determine que los buques comerciales o de propiedad privada con bandera de los Estados Unidos no están disponibles a tasas justas y razonables para tales buques marítimos, (1) por lo menos cincuenta por ciento (50%) del tonelaje bruto de todos los bienes (calculado por separado para los buques de carga seca a agranel o carga cesa de buques tanque) financiados por la A.I.D. que puedan transportarse en buques marítimos serán transportados en buques comerciales de propiedad privada bajo bandera de los Estados Unidos y (2) por lo menos cincuenta (50%) de los ingresos de flete bruto generados por todos los embarques financiados por la A.I.D. y transportados al territorio del Donatario en cargueros de carga seca serán pagados a o a favor de buques comerciales de propiedad privada bajo bandera de los Estados Unidos. El cumplimiento de los requisitos de (1) y (2) de esta subsección deberán lograrse con respecto a ambas cualquier carga transportada de puertos de los Estados Unidos y cualquier carga transportada de puertos no estadounidenses, calculados por separado.

SECCION C.7 Seguros

(a) Los seguros marítimos de bienes financiados por la A.I.D. a ser transportados a la República Dominicana podrán ser financiados como Costos en Divisas con fondos de la Donación siempre que: (1) dicho seguro sea colocado a la tasa competitiva más baja; y (2) los reclamos derivados de tales seguros sean pagaderos en la misma moneda en que fueron financiados los bienes o como la A.I.D. lo acuerde por escrito en cualquier otra moneda libremente convertible. Si el Donatario (o gobierno del Donatario) discrimina en lo que respecta a bienes financiados por la A.I.D., ya sea por estatuto, decreto, acuerdo, reglamento o práctica, contra cualquier compañía de seguros marítimos autorizada para emitir pólizas en cualquier estado de los Estados

Unidos, entonces todos los bienes embarcados al territorio del Donatario financiados por la A.I.D. por la presente serán asegurados contra riesgos marítimos y dicha póliza será colocada en los Estados Unidos con una o más compañías autorizadas a emitir pólizas de seguro en un estado de los Estados Unidos.

(b) A menos que la A.I.D. convenga lo contrario por escrito, el Donatario tomará o hará que se tomen las medidas necesarias para que los bienes importados para el Proyecto y financiados con fondos de la Donación sean asegurados contra los riesgos inherentes al transporte hasta el lugar de su utilización en el Proyecto; dichas pólizas serán emitidas de conformidad a los términos y condiciones compatibles con las buenas prácticas comerciales y asegurarán el valor total de los bienes. Cualquier indemnización recibida por el Donatario bajo tales pólizas será utilizada para reemplazar o reparar cualquier daño material o pérdida de los bienes asegurados o será utilizada para reembolsar al Donatario por el remplazo o reparación de los mismos. Cualquier indemnización recibida por el Donatario bajo dicha póliza se utilizará para reembolsar al Donatario por el remplazo de reparación de dichos bienes. Cualesquiera de estos reemplazos será de fuente y origen de países especificados en el Código Geográfico 935 de la A.I.D. vigente al momento del reemplazo, y excepto cuando las partes acuerden lo contrario por escrito, serán de lo contrario sujetos a las disposiciones del Acuerdo.

SECCION C.8 Excedentes Propiedad del Gobierno de los Estados Unidos.

El Donatario se compromete a utilizar, siempre que sea factible, bienes disponibles bajo el Programa de Excedentes Propiedad del Gobierno de los Estados Unidos en vez de bienes nuevos financiados bajo la Donación. Los costos relacionados con la adquisición de bienes bajo este proyecto podrán financiarse con fondos de la Donación.

Artículo D: Terminación Medidas Correctivas.

SECCION D.1. Terminación. Cualquiera de las Partes puede cancelar este Acuerdo, dándole a la otra Parte 30 días de notificación por escrito. La terminación de este Acuerdo cancelará cualquier compromiso de las Partes de proveer recursos financieros o de otra índole al Proyecto de conformidad con este Acuerdo, excepto en lo que se refiere a los pagos a que están comprometidos a hacer de conformidad con los compromisos no cancelables concertados con terceras partes antes de la terminación de este Acuerdo. Además, a partir de dicha cancelación, la A.I.D. puede, a expensas de la A.I.D., ordenar que los títulos de los bienes financiados bajo esta Donación sean transferidos a la A.I.D., si tales bienes provienen de fuentes fuera del país del Donatario, se encuentran en estado de envío y no han sido descargados en los puertos de entrada del país del Donatario.

SECCION D.2. Reembolsos.

(a) En el caso de cualquier desembolso que no estuviera respaldado por documentación válida de conformidad con lo previsto en este Acuerdo, o que no se haya hecho o utilizado de conformidad con lo previsto en este Acuerdo; o que hayan sido por bienes o servicios no utilizados de conformidad a este Acuerdo, la A.I.D., no obstante la disponibilidad o uso de cualesquiera otras medidas correctivas bajo este Acuerdo, podrá requerirle al Donatario reembolsar a la A.I.D. la cantidad de dicho desembolso en dólares estadounidenses dentro de los sesenta (60) días subsiguientes al recibo de una solicitud por el mismo.

(b) Si la falta del Donatario de cumplir con cualesquiera de sus obligaciones bajo este Acuerdo tiene como resultado que los bienes y servicios financiados bajo esta Donación no hayan sido utilizados de manera efectiva de conformidad con este Acuerdo, la A.I.D. podrá requerirle al Donatario reembolsar la totalidad o parte de la cantidad de los desembolsos bajo este Acuerdo por dichos bienes y servicios en dólares estadounidenses a la A.I.D. dentro de los sesenta días subsiguientes a la presentación de la solicitud.

(c) El derecho concedido bajo la subsección (a) o (b) de requerir el reembolso de un desembolso continuará, no obstante cualquier disposición de este Acuerdo, por tres años a partir de la fecha del último desembolso bajo este Acuerdo.

(d) (1) Cualquier reembolso bajo la subsección (a) o (b) o (2) cualquier reembolso a la A.I.D. de parte de un contratista, suplidor, banco u otras terceras partes con respecto a bienes o servicios financiados con fondos de la Donación cuyo reembolso se relacione a un precio no razonable o a la facturación errónea de bienes y servicios o a bienes que no se conformaron a las especificaciones o a servicios inadecuados, (A) se pondrá a disponibilidad primero por los costos de los bienes y servicios requeridos para el Proyecto en la medida posible y (B) el remanente, si lo hubiera, se aplicará para reducir la cantidad de la Donación.

(e) Cualquier interés u otros ingresos generados por fondos de la Donación, desembolsados por la A.I.D. al Donatario bajo este Acuerdo, con anterioridad a la autorización para utilizar dichos fondos para el Proyecto, serán devueltos por el Donatario en dólares estadounidenses a la A.I.D.

SECCION D.3. La No-exención de Medidas Correctivas. Ningún atraso en el ejercicio de un derecho o medida correctiva de una Parte en relación a su financiamiento bajo este Acuerdo, será considerado como exención de tal derecho o medida correctiva.

SECCION D.4. Cesión. El Donatario acuerda, al serle solicitado, ejecutar una cesión a la A.I.D. de cualquier motivo de acción que le pueda resultar al Donatario en relación con o

que surja de la ejecución contractual o por el incumplimiento de la ejecución por una de las partes de un contrato directo en dólares estadounidenses con la A.I.D., financiado en su totalidad o en parte con los fondos donados por la A.I.D. bajo este Acuerdo.
