

ACTION MEMORANDUM FOR THE DIRECTOR FOR THE OFFICE OF ENERGY AND INFRASTRUCTURE

FROM: R&D/EI, Alberto Sabadell *(Signature)*

SUBJECT: Authorization of Amendment for the Energy Policy Development and Conservation Project (EPDAC) (936-5728)

Problem: Your authorization is requested for Amendment 5 to the Energy Policy Development and Conservation Project (936-5728). The centrally-funded Energy Policy Development and Conservation Project was authorized on July 7, 1982. The project was amended on March 9, 1987 (authorizing, among other things, funds from the Section 103 account). On August 5, 1988 and June 3, 1989, the project was amended to increase LOP costs and extend the Final FY of Obligation to 1992. On April 15, 1991 the project was further amended to increase the LOP costs from \$25,232,000 to \$31,799,000. Your authorization is requested to:

- (a) increase the centrally-funded LOP costs from \$31,799,000 to \$36,799,000 from Section 103 and Section 106 accounts,
- (b) extend Final Year of Obligation to FY 93, and
- (c) extend the PACD to August 25, 1993.

Your approval is also requested to add other participatory financing arrangements for buy-ins other than R&D. Such funding may also be provided from the Economic Support Fund (ESF) or the Development Fund for Africa (DFA), as well as from the accounts authorized under this project.

Discussion: The EPDAC Project provides technical assistance in critical areas of energy policy and conservation to improve developing countries' economic efficiency and promote the introduction of market forces in energy policy and energy supply and demand. It focuses on pricing policy and institutional reform, development of private sector policies and capabilities, improved energy investment decision-making, and improving energy sector efficiency through energy audits and retrofits, training, pre-investment analysis and other related activities at the request of the Missions.

The EPDAC project was originally authorized July 7, 1982 as a five-year project with the first obligation taking place August 25, 1982. Due to the heavy demand for the project's services, the project was amended in 1987 to extend the PACD by five years to July 30, 1992. A successor project, the Energy Efficiency Project (EEP) has been designed to accelerate the rate at which energy efficiency improvements take place in developing countries, but a contractor will not be in place for at least six months.

The CIS Task Force lead by Richard Bissell, AA/R&D, has asked R&D/EI to assess its ability to provide emergency energy assistance

to the new Commonwealth of Independent States (CIS). The EPDAC Project is one of the best vehicles for providing this type of assistance. Emergency energy assistance has been provided to a number of countries under EPDAC, specifically through the Energy Conservation Services Program (ECSP) portion of the project. These anticipated activities are wholly within the current project purpose.

"Energy and environment" was one of five areas selected by Secretary Baker for early assistance to the CIS. Effective management of the CIS's energy sector will be critical to both its short- and long-term survival. Under the former Soviet Union, energy flowed among the republics without regard to metering or transaction costs. The republics now face the daunting task of determining cross border flows (there are no meters at the borders), developing inter-republic energy pricing and transfer policies, and preparing and negotiating contracts. Within each republic, new energy institutions and policies need to be established which will lead the way to the establishment of market-based energy development and use. Highly centralized industrial production and other infrastructure, such as massive district heating systems, need to make the transition to not only a market economy, but a competitive environment. These industrial facilities, which consumed over half of all the energy in the former Soviet Union, are extraordinarily inefficient. While the rest of the developed world significantly reduced its energy intensity (energy consumed per unit GNP) over the past two decades in the face of rapidly increasing world energy prices, the Soviet Union's energy intensity remained static.

Restructuring of industry and other infrastructure to improve efficiency will be a massive undertaking. For example, the more efficient continuous casting method of producing steel accounts for only 17% of production in the former Soviet Union whereas it accounts for 58% in the US and 93% in Japan. Other energy-intensive industries, such as cement, are equally far behind in technological development and create a significant drag on the economy due to their inefficiency. Similarly, the CIS's infrastructure is grossly inefficient. Many cities are heated with district heating systems where the temperature in buildings is controlled by opening the windows. The heat is not metered and thus is not priced based on consumption. And all of these inefficiencies combine to exacerbate already severe environmental problems.

Short-term, emergency energy assistance to the CIS will not be able to solve these problems overnight. However, emergency assistance can achieve two critical objectives: 1) rapid reduction in energy costs through targeted, cost-effective energy efficiency improvements, and 2) policy and planning guidance to help set the republics on a sustainable long-term trajectory. The immediate reduction in energy costs will be critical in helping inefficient industries sustain employment and production in the difficult economic times ahead. It will also improve their competitiveness

and help them make the transition to privatization.

Energy policy and planning guidance will be equally important in helping the energy sector make the transition to a market economy. There is no experience in the CIS in managing energy under market conditions. Policies need to be developed on how energy transfers should take place and how they should be priced; on which components of the energy system can be privatized and how. Long-term plans need to be developed with respect to the restructuring and privatization of industry to improve its efficiency, productivity and competitiveness. And cities and republics need to develop plans for improving and possibly privatizing inefficient public services, such as district heating and transportation. To respond to the request for emergency assistance to the CIS, the key areas of focus will be Transition Policy Development, Transition Energy Planning, and Emergency Efficiency Improvements.

These efforts can begin immediately under the EPDAC Project. The effort could be completed by August 25, 1993 and would require \$5 million, \$1 million of which would be for equipment. Continuity for projects requiring follow-on efforts could be provided by the successor Energy Efficiency Project and the Global Energy and Environmental Management Project.

PROJECT ISSUES:

SPECIAL INTEREST IN THE PROJECT: In order to respond to the request for emergency energy assistance and implement this program, the EPDAC Project would need the PACD extended one year and the life-of-project costs will need to be increased.

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 "cooperating country"* or the United States, except as A.I.D. may otherwise agree in writing. (Each country in which research, training, or technical or other assistance takes place under the project shall be considered a "cooperating country.") Except for ocean shipping, the suppliers of commodities or services shall have the cooperating country or the United States as their place of nationality, except as A.I.D. may otherwise agree in writing.

WAIVERS, SPECIAL CLEARANCE, PROVISIONS AND DETERMINATION: No waivers or other special conditions are required.

CONGRESSIONAL NOTIFICATION: Substantive Notification required since the LOP exceed the previously notified amount by \$5,000,000.

PROCUREMENT PLAN AND BUDGET: The anticipated activities will be implemented under current procurement arrangements. In discussion with OP, we are currently exploring extension of current procurement instruments to undertake the anticipated new effort. It is anticipated that funds will be transferred to the Office of

Energy and Infrastructure from other activities in the Agency. Additionally, cofinancing is expected from other U.S. government agencies, multilateral donors, and private sector costsharing, as well as in-kind country contributions.

AUTHORITY: You have been delegated the authority to approve this authorization amendment by action memo dated March 11, 1992 signed by Brad Langmaid, DAA/R&D, 3/11/92.

Recommendation: That you approve the attached PAF Amendment 5 increasing the centrally funded life-of-project costs by \$5,000,000 to \$36,799,000, extend the Final Year of Obligation to FY 93, and extend the PACD to August 25, 1993.

Attachment:

Project Amendment Number 5
Project Data Sheet
Action Memo dated 3/11/92

Clearances:

R&D/EI:SToth (draft) Date 2/11/92
R&D/PO:DSheldon *Defer* Date 4/2/92
GC/R&D:GWinter (draft) Date 2/04/92
FA/OP:TStephens (draft) Date 2/12/92

R&D/EI:Alberto Sabadell:cak
(docs/ein/kiser/epdacpp.cak)

DETAILED EXPENDITURES FOR EPDAC EXTENSION
July 30, 1992 to August 25, 1993
(\$ 000)

	<u>Core</u>
1. Technical Asst. Contractor	
A. Contract Administration	700
B. Transition Policy Development	
1. Policy Studies (10)	500
2. Workshops (2)	300
3. Study tours (3)	300
C. Transition Energy Planning	
1. Emergency Energy Planning (1)	100
2. Integrated Resource Planning (1)	200
3. Other transition assistance	150
4. Workshop (1)	150
5. Study tours (2)	150
D. Emergency Efficiency Improvements (energy audits and retrofitting for 20 industrial facilities)	
1. Preparation & Screening	106
2. In-plant Diagnostic Phase	475
3. Complete Audit Reports	67
4. Energy Efficiency Equipment Procurement & Retrofitting	1,202
5. Wrap-up conference & final report	150
E. Regional Energy Efficiency Workshop	200
F. Special Studies (2)	200
2. Final Report	<u>50</u>
TOTAL EXPENDITURES	\$ 5,000

BUDGET AND SCHEDULE

The EPDAC extension will have an estimated budget of \$5 million, of which \$1 million will be for equipment. Additionally, cofinancing is expected from other U.S. government agencies, multilateral donors, and private sector cost-sharing, as well as in-kind country contributions. Funding commitments, with the exception of the

Technical Assistance Contractor-Contract Administration, are to be completed by June 30, 1993. The following outputs are expected:

- 10 transition policy development studies and recommendations
- 2 transition energy planning studies and recommendations
- emergency energy efficiency audits and retrofitting for 20 industrial facilities
- 4 workshops
- 5 study tours
- 2 special studies

PROJECT AUTHORIZATION AMENDMENT #5

Entity: Worldwide
Project Number: 936-5728
Project Name: Energy Policy Development and Conservation

1. Pursuant to Section 106 of the Foreign Assistance Act of 1961, as amended, the Energy Policy Development and Conservation Project, which is centrally funded, was authorized on July 7, 1982. This project was amended on March 9, 1987 (authorizing, among other things, funds from the Section 103 account), and was amended further on August 5, 1988, June 3, 1989, and April 15, 1991. That authorization is hereby further amended as follows:

to increase the Life of Project grant costs from \$31,799,000 to \$36,799,000,

to extend Final Year of Obligation to FY 93, and

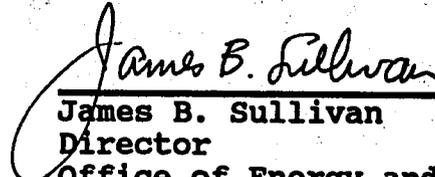
to extend the PACD to August 25, 1993.

Funds authorized under Section 103 and Section 106 may be used, subject to the availability of funds and in accordance with the A.I.D. OYB/Allotment process, without regard to previously authorized dollar limits for each appropriation so long as the total authorization of \$36,799,000 for the project is not exceeded.

The use of funds from the Economic Support Fund (ESF) account and from the Development Fund for Africa (DFA) for this project is hereby approved.

2. **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 "cooperating country"* or the United States, except as A.I.D. may otherwise agree in writing. (Each country in which research, training, or technical or other assistance takes place under the project shall be considered a "cooperating country.") Except for ocean shipping, the suppliers of commodities or services shall have the cooperating country or the United States as their place of nationality, except as A.I.D. may otherwise agree in writing.

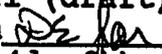
3. The authorization cited above remains in force except as hereby amended.



James B. Sullivan
Director
Office of Energy and Infrastructure
4/6/92

Date

Clearances:

R&D/EI:ASabadell (draft)	Date: 2/11/92
R&D/PO:DSheldon 	Date: 4/2/92
GC/R&D:GWinter (draft)	Date: 2/04/92

R&D/EI:CKiser:cak:1/30/92:875-4091

AGENCY FOR INTERNATIONAL DEVELOPMENT PROJECT DATA SHEET	1. TRANSACTION CODE <input type="checkbox"/> A = Add <input checked="" type="checkbox"/> C = Change <input type="checkbox"/> D = Delete	Amendment Number <u>5</u>	DOCUMENT CODE <u>3</u>
2. COUNTRY/ENTITY <u>Worldwide</u>	3. PROJECT NUMBER <u>936-5728</u>		

4. BUREAU/OFFICE <u>R&D/EI</u>	5. PROJECT TITLE (maximum 40 characters) <u>Energy Policy Development & Conservation</u>
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6. PROJECT ASSISTANCE COMPLETION DATE (PACD) MM DD YY <u>08/25/93</u>	7. ESTIMATED DATE OF OBLIGATION (Under "B:" below, enter 1, 2, 3, or 4) A. Initial FY <u>812</u> B. Quarter <u>3</u> C. Final FY <u>913</u>
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8. COSTS (\$000 OR EQUIVALENT \$1 =)						
A. FUNDING SOURCE	FIRST FY			LIFE OF PROJECT		
	B. FX	C. L/C	D. Total	E. FX	F. L/C	G. Total
AID Appropriated Total						
(Grant)	()	()	()	()	()	(36,799)
(Loan)	()	()	()	()	()	()
Other U.S.						
1. Host Country						11,938
2. Mission Buy-ins						
Other Donor(s)						
TOTALS						48,737.

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) ARDN				14,753		2,770	
(2) PSEE				14,276		5,000		19,276	
(3)									
(4)									
TOTALS				29,029		7,770		36,799	

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	

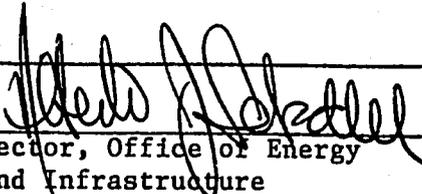
15. PROJECT PURPOSE (maximum 480 characters)

The purpose of this project is to provide technical assistance to developing countries so that they may effectively address their energy problems through analysis, institution building and policy development.

14. SCHEDULED EVALUATIONS	15. SOURCE/ORIGIN OF GOODS AND SERVICES
Interim MM YY MM YY Final MM YY <u>06/8/7</u> <u>06/8/9</u> <u>06/9/2</u>	<input checked="" type="checkbox"/> 000 <input type="checkbox"/> 941 <input checked="" type="checkbox"/> Local <input type="checkbox"/> Other (Specify)

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

To increase life of project grant cost: from \$31,799,000 to \$36,799,000, extend Final Year of Obligation to FY93, and extend PACD to 8/25/93.

17. APPROVED BY	Signature  Title Director, Office of Energy and Infrastructure	Date Signed MM DD YY <u>02/12/92</u>
		18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION MM DD YY <u> </u>



AGENCY FOR
INTERNATIONAL
DEVELOPMENT

MAR 11 1992

ACTION MEMORANDUM FOR THE ASSISTANT ADMINISTRATOR FOR THE RESEARCH AND DEVELOPMENT BUREAU

FROM: R&D/EI, James B. Sullivan *[Signature]*
SUBJECT: Waiver of R&D Committee Review for Energy Policy Development and Conservation (EPDAC) Project Extension

Problem: It is requested that you waive the review of the EPDAC project by the R&D review committee for a one year extension.

Discussion: On January 23, 1992, President Bush announced the immediate release of \$645 million in humanitarian assistance to the recently formed Newly Independent States (NIS). Subsequently, "energy and environment" was selected as one of five areas by Secretary Baker to be targeted for the emergency assistance. In order to respond to this request, R&D/EI proposes to extend the Energy Policy Development and Conservation (EPDAC) Project, currently due to expire July 30, 1992 for 12 months and to increase the life-of-project costs by \$5 million. The successor project, the Energy Efficiency Project (EEP) has been designed to replace EPDAC, but a contractor will not be in place for at least six months.

The extension proposed is not substantive. The EPDAC project has been providing both emergency and long-term energy efficiency technical assistance for ten years to developing countries. The assistance to the NIS would not require a change in the project paper scope of work or in the scope of work for the various contractors under this project. Indeed, the experience the project and the contractors have had in this same field is one of the significant advantages in using this vehicle to provide immediate assistance to the NIS.

Recommendation: That you waive the need for the EPDAC extension to be reviewed by the R&D review committee; and that you authorize me to sign the authorization of the amended Project Paper extending the project to July 30, 1993 and increasing the life-of-project costs by \$5 million by signing below.

Approved: Brad Langmaid
Disapproved: _____
Date: _____

Clearances:

R&D/EI:SToth ST Date 3-5-92

R&D/PO:DSeldon _____ Date _____

DAA/R&D:BLangmaid BL Date _____

GC/R&D:GWinter (Phone) _____ Date 3/11/92

R&D/EI:Alberto Sabadell: sat
(docs/ein/toth/miscorr)