

AGENCY FOR INTERNATIONAL DEVELOPMENT

WASHINGTON, D C 20523

ACTION MEMORANDUM FOR THE ACTING ASSISTANT ADMINISTRATOR

FROM: LAC/DR, Dwight B. Johnson

SUBJECT: Guatemala - Electrical Power Reserve Project  
(520-0344)

Problem: Your approval is required to authorize the obligation of \$7.0 million in Selected Development Activities funds to finance the provision of electrical generation equipment and spare parts to be used in support of the Guatemala electrical power reserve system and to approve certain procurement waivers.

Discussion: As a result of growing concerns on the part of the Government of Guatemala (GOG) regarding its ability to provide adequate power supply to the country, a team of U.S. Army experts was sent to Guatemala in early May to review the local energy situation and identify problems giving rise to GOG concerns, particularly those which might be ameliorated with U.S. assistance. The essence of the team's findings was that while the technical competence of the personnel at the National Electricity Institute (INDE) and the Guatemala Electric Company (EEGA) was very high, the infrastructure system was weak, consisting of hydroelectric sites operating below capacity because of lack of water or technical problems, a series of aged thermal plants operating at or near capacity to compensate for the hydro problem, and no rotating reserve which would allow the thermal units to be pulled off line for much needed maintenance. The new, 300 MW Chixoy hydroelectric system is nearing completion and will be on line sometime in mid-1986.

Due to delays in getting the Chixoy generation started (it was originally slated to begin operations in 1983), Guatemala has experienced considerable difficulty in meeting electricity demand and has been using the existing plants well beyond their scheduled maintenance dates to meet the demand. The consequent strains to the system led to a major breakdown in mid-June, when Guatemala's largest thermal generator went down with a failed bearing, causing a loss of 53MW of power output. The resultant deficit had to be met through rotated blackouts, mainly in Guatemala City. The crisis has eased for the moment as seasonal rains have permitted some increased generation at hydroelectric facilities. However, this has not created a reserve power supply sufficient to allow overdue major maintenance work on overused units. Future outages could be substantially greater with more severe consequences.

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The GOG believes that electricity supplies will reach adequate levels when the Chixoy plant starts in 1986. This will allow existing plants to be rehabilitated in 1986/87, thus providing additional reliable reserve capacity. In the interim, however, additional installed capacity is needed on a temporary basis to provide reserve services in the event that the existing overused units break down.

As you know, the Central American initiative presently constitutes one of the main areas of emphasis of United States foreign policy. The United States government has launched a major effort in each of the Central American countries to develop and promote economic and political stability. Top priority concerns include increasing employment opportunities, particularly through the generation of private business investment, improvement of the situation in regard to human rights, and the promotion of lasting democratic governments.

The period between early November 1985 and mid-1986 will be particularly important to U.S. - Guatemala relations and U.S. foreign policy objectives in the Central American region, as Guatemala moves toward democratic elections this November, and the beginning of a new government early next year. This politically critical period coincides with Guatemala's dry season of November through February, which causes a decrease in hydroelectric generation and puts heavy demands on power reserves. Adequate economic performance and political stability are absolutely essential to assure an orderly and confident move from a government ruled by a military junta to the return of an effective, democratic government in an area of increasing importance to the security interests of the United States.

We are concerned that power failures due to inadequate reserves could result in unstable economic and social conditions which could disrupt the scheduled elections and impair an orderly return to democracy.

Projections indicate that the power output shortfalls discussed above could well occur at the worst possible time in relation to the political situation in the country. The country has recently reestablished a democratic form of government, with popular elections scheduled for early November 1985. Those elections and the resulting government formed by majority vote of the populace are considered critical to reinforce the

principle of well being stemming from such a system. Loss of electric power during this critical period, and the resulting economic strain and political unrest could well generate enough discontent in the country so as to trigger actions by some sections of the society to bypass democratic processes and seek to govern by force instead, with detrimental consequences for human rights.

Such actions could undermine development efforts in Guatemala, shut off external private sector investment urgently needed to stimulate increased productive employment, and foster a lessening of concern on the part of those in power for the human rights of all segments of the society.

To fail to address the electric power problems now when effective action can be taken to ameliorate this situation is to risk a result that will profoundly affect not only the U.S. national interest in reducing the threat to the security of the region and, in turn, to our own security, but will cast doubt upon our resolve to assist in alleviating the misery of the people in the region, including Guatemala, as well as our resolve to strengthen democratic institutions and provide support for the establishment of democratic governments. Many United States government officials, including some from the National Security Council, have also expressed concern recently about this problem and have requested that AID address the serious state of power generation shortfall in Guatemala.

After consulting with the Embassy and USAID, the bureau has determined that the risks and threat to the democratic process underway in Guatemala are such that A.I.D. should finance the purchase of a fossil fuel generator capable of generating up to 50MW of power for reserve purposes for temporary loan to the GOG, beginning in late October and until such time as the Chixoy system is fully operational, probably in mid 1986. Thereafter, we will make arrangements to have the generator made available for use elsewhere in the region on terms which remain to be decided.

Under the subject Project, we also propose to finance approximately \$1.0 million worth of spare parts for existing generators which have been identified by the GOG as being critically needed, and which it is unable to finance because of the severe foreign exchange shortage extant in Guatemala.

Achievement of the Project purpose, which is to assist Guatemala in maintaining an adequate electrical power supply reserve during the period of transition to a new democratically

elected government, requires that the generator be purchased and on line no later than October 31, 1985. For this reason, the Bureau intends to procure the generator on an expedited basis and seek the procurement waivers discussed below.

Congressional Notification: A Congressional Notification for this Project was sent to the Hill on July 12 and expires on July 27.

Recommendation:

That you authorize the obligation of up to \$7.0 million in Selected Development Activities funds for this Project.

Approved: Malcolm Smith

Disapproved: \_\_\_\_\_

Date: JUL 18 1985

Publicizing and Competition Waivers

Section 5.201 of the Federal Acquisition Regulations (FAR) requires agencies to publish notices in the CBD of proposed contract actions of \$10,000 and above and requires a lapse of at least 45 days before a contract can be awarded. Section 6.101 of the FAR requires contracting officers to promote and provide for full and open competition in soliciting offers and awarding government contracts.

Our projections indicate that at least 90 days will be required after contract award for completing the necessary technical and logistical operations in order to bring the generator on line. Given these technical and logistical constraints, and the fact that the shortfall in power generation is expected to become more severe by November, if we are to provide this assistance to Guatemala by October 31, we must award a contract on a more expedited basis.

Although we do not have time to publicize in the CBD, we do intend to provide for as much competition as is possible under the circumstances. Based upon our consultations with SER/COM, a market search is already underway. We have contacted all known sources which might supply this type of equipment. We

have compiled a list of eleven organizations who can or may be able to supply the equipment. We will conduct competitive procurement with those firms as well as with others that may be identified.

In order to make a timely response to the needs of the Guatemalan people, we propose to utilize the exception authorities for waiving requirements for publicizing and full and open competition (FAR Sections 5.202(a)(2) and 6.303-2) which provide that such exceptions may be made if the agency's need for the supplies or services is of such an unusual and compelling urgency that the government would be seriously injured unless the agency is permitted to limit the time periods specified for response and the number of sources from which it solicits bids or proposals.

Recommendation: That you certify as to the accuracy and completeness of the justification provided above to support the conclusion that the Agency's need for this equipment is of such an unusual and compelling urgency that the interests of the U.S. Government would be seriously injured if the requirements for advertising and full and open competition were not waived.

Approved:                     *Marcus Smith*                    

Disapproved: \_\_\_\_\_

Date:                     JUL 19 1985                    

Source and Origin Waiver

Under A.I.D. rules, goods procured with grant funds must have their source and origin in the United States. It is expected that the new generator to be procured will meet that standard, but variance could occur in some respect. For example, one generator that we know of which could probably meet our tight delivery schedule was manufactured in the United States by the Westinghouse Corporation, but is presently located at their generator facility in Canada. Thus its origin would be United States to comply with the regulation, but technically the source would be Canada. We believe that any deviation from source and origin regulations would be as minor as this situation described, but we should not enter into negotiations with a potential supplier unless we have the authority to procure the unit if it turns out to be the best course of action, price and other factors considered.

In addition, up to \$1,000,000 in spare parts will be procured for existing equipment in Guatemala. We do not yet have a complete parts list and thus can not check available sources for timely delivery. However, as we will have a compatibility consideration and tight delivery schedule we will need similar deviation authority for purchase of the spare parts. This authority will not be used if project dictates do not require it.

Pursuant to A.I.D. Handbook IB Section 5B4a(7) you have the authority to grant a waiver of the source and origin requirement to include A.I.D. geographic code 935 when circumstances are present which are determined to be critical to the success of project objectives.

Recommendation: That you grant the requested waiver allowing procurement from A.I.D. Geographic Code 935 countries by certifying that exclusion of procurement from free world countries other than the cooperating country and countries included in Code 941 would seriously impede attainment of U.S. foreign policy objectives and objectives of the foreign assistance program.

Approved: *W. W. Smith*

Disapproved: \_\_\_\_\_

Date: JUL 19 1985

Used Equipment Authority

As stated earlier, several sources have been identified which may be able to furnish an electrical generator which meets the specifications established for use in Guatemala. Although a few of them are new generators, many which may be considered are used.

It is A.I.D. policy, set forth in A.I.D. Handbook 15, Section 2C3e, that only unused equipment may be financed. This section, in subsection (1) thereof, provides that procurement of used equipment may be authorized when justified.

Because it is not now certain whether new or used equipment will be purchased, your authorization to procure used equipment is appropriate so that we may make a timely response to circumstances which may present themselves during negotiation. If used equipment is purchased, we will do so only after inspection by an A.I.D.-designated engineer who will determine that the equipment meets the established specifications, that it is in good operating condition and will perform as required, and that the hours of prior use do not exceed the standards for this type of equipment for expected future use. The clearance of SER/COM on this memorandum signifies their concurrence with this procedure.

Recommendation: That you authorize procurement of used equipment for this project if after examination of all known eligible sources it is determined that the interests of the project will be best served thereby.

Approved: Malcolm Booth

Disapproved: \_\_\_\_\_

Date: JUL 19 1985

Clearances:

- GC/LAC:RBMeighan RM Date 7/19
- LAC/DR:ILevy IL Date 7/19
- LAC/DR:RMcDonald RM Date 7/19
- LAC/DR:LKlassen LK Date 7/19
- LAC/CEN:DFrederick DF Date 7/19/85
- LAC/CEN:PAskin PA Date 7/19/85
- SER/COM:PHagan (Phone) Date 7-18-85
- GC/CCM:KFries KF Date 7/18/85
- LAC/DP:JPurcell JP Date 7/19/85

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GC/LAC:PJohnson:sep:07/18/85:#0473P

AGENCY FOR INTERNATIONAL DEVELOPMENT  
ADVICE OF PROGRAM CHANGE

DATE:

COUNTRY : Guatemala  
PROJECT TITLE : Electrical Power Reserve  
PROJECT NUMBER : 520-0344  
FY 1985 CP REFERENCE : None  
APPROPRIATION CATEGORY : Selected Development  
Activities (SDA)  
LIFE-OF-PROJECT FUNDING : \$7,000,000 (G)  
INTENDED FY 1985 FUNDING : \$7,000,000 (G)

This is to advise that A.I.D. intends to obligate \$7 million in grant funds from the Selected Development Activities Account in FY 1985 to assist Guatemala on a temporary basis in maintaining adequate electrical power supplies until a new hydroelectric plant becomes operational. This project will provide important assistance during the period of transition to a new, democratically elected government.

This is a new project and was not listed in the FY 1985 Congressional Presentation.

ANNEX: Activity Data Sheet

10x

LAC/DR:DJohanson DPJ Date \_\_\_\_\_  
LAC/DP:JPurcell JP Date 7/10/85  
LAC/CEN:DFrederick DF Date 7/11  
LAC/CEN:RQueener (draft) Date \_\_\_\_\_  
GC/LAC:RHeighan RM Date 7-11  
GC/LP:GWinter GW Date 7/11  
AAA/LAC:RButler RB Date \_\_\_\_\_

LAC/DR/CEN:LKlassen:lk:(1179f):7/09/85:x23402

**AGENCY FOR INTERNATIONAL DEVELOPMENT  
ACTIVITY DATA SHEET**

PROGRAM: GUATEMALA

CP 81-05 (4-85)

<b>TITLE</b> Electrical Power Reserve		<b>FUNDING SOURCE</b> Selected Development Activities(SDA)	<b>PROPOSED OBLIGATION (In thousands of dollars)</b>	
NUMBER 520-0344		PRIOR REFERENCE None	FY 1985 7,000(G)	LIFE OF PROJECT (Auth.) 7,000 (G)
GRANT <input checked="" type="checkbox"/> LOAN <input type="checkbox"/>	NEW <input checked="" type="checkbox"/> CONTINUING <input type="checkbox"/>		INITIAL OBLIGATION FY 85	ESTIMATED FINAL OBLIGATION FY 85

Project Purpose: To assist Guatemala in maintaining an adequate electrical power supply reserve during the period of transition to a new, democratically elected government.

Background: The period between early November 1985 and mid - 1986 will be particularly important to U.S. - Guatemala relations and U.S. foreign policy objectives in the Central American region, as Guatemala moves toward democratic elections this November, and the beginning of a new government early next year. This politically critical period coincides with Guatemala's dry season of November through February, which causes a decrease in hydroelectric generation and puts heavy demands on power reserves. We are concerned that power failures due to inadequate reserves could result in unstable economic and social conditions which could disrupt the scheduled elections and impair an orderly return to democracy. The same risk of power failure could also diminish the effectiveness of and support for an elected government in the first months of its administration. Either of these events runs counter to U.S. interests in the establishment of effective, democratic government in Guatemala.

Due to delays in the start of the new, 300MW Chixoy hydroelectric plant (originally scheduled for 1983), Guatemala has experienced considerable difficulty in meeting electricity demand, and has been using existing plants well beyond their scheduled maintenance dates to meet ever increasing demand. The resultant strains to the system led to a major breakdown in mid June, when Guatemala's largest thermal generator went down with a burnt bearing, causing a loss of 525MW of power output. The deficit had to be met through rotated blackouts, mainly in Guatemala City. This event, following closely on the Government of Guatemala's (GOG) attempt to impose an economic austerity package and its subsequent withdrawal, momentarily threatened support for the current government. The crisis has eased temporarily as seasonal rains have permitted some increased generation at hydroelectric facilities. However, even this development has failed to create a reserve supply sufficient to allow overdue major maintenance work on overused units.

The GOG believes that electricity supplies will reach adequate levels when the Chixoy plant starts in 1986. This will allow existing plants to be rehabilitated in 1986/87, thus providing additional reliable reserve capacity. In the interim, however, additional installed capacity is needed to provide reserve services in the event that one or more of the existing overused units break down.

Project Description: This project will finance the temporary use of a fossil fuel generator capable of generating up to 40MW of power beginning in early November and until such time as the Chixoy system comes fully on line in 1986. Thereafter, it can be made available to other countries as required. Given the temporary nature of this assistance, A.I.D. has determined that grant funding of the generator is appropriate. Project resources will also be used to purchase spare parts for any units which might go down in the next nine to twelve months.

Relation of Project to A.I.D. Country Strategy: The USG has a high interest in Guatemala's return to civilian rule and democratic government. Given Guatemala's seriously weakened economic state, any prolonged power outages could very well bring about economic disorder and social unrest with it. A crisis of these proportions would serve to derail effective economic recovery and sidetrack the democratization process. This project will help to hold the risk of such events to a minimum.

Host Country and Other Donors: The GOG is marshalling its scarce foreign exchange to purchase fuel for its thermal generators. At the same time, it is planning a project with the World Bank intended to rehabilitate Guatemala's major thermal and hydroelectric power generation plants beginning in late 1986.

Beneficiaries: The primary beneficiaries will be Guatemala's urban and industrial workers, who would bear the brunt of blackouts. Rural electrification so far has not suffered greatly. In the broader sense, all citizens will benefit from an augmented power supply and the consequent minimization of risk to the electoral process.

Major Outputs: All Years

Reserve power generator in place	1
Power generators repaired	X

A.I.D. Financed Inputs: Life-of-Project  
(\$000)

Power generator	6,000
Spare parts	1,000
Total	7,000

U.S. FINANCING (in thousands of dollars)				PRINCIPAL CONTRACTORS OR AGENCIES
	Obligations	Expenditures	Unliquidated	
Through September 30				
Estimated Fiscal Year				
Estimated Through September 30,				
		Future Year Obligations	Estimated Total Cost	
Proposed Fiscal Year 1985	7,000		7,000	National Electrification Institute

BEST AVAILABLE DOCUMENT