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QUARTERLY REPORT, 2ND QUARTER 2008

ENERGY POLICY AND MANAGEMENT IMPROVEMENT
(EPMI) PROGRAM, CONTRACT NO. DOT-I-00-04-00022-00,
ORDER NO. DOT-I-03-04-00022-00



15 JULY 2008

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ON THE COVER: THE SOVIET-ERA BAS-RELIEF AT THE END OF THE BUILDING AT 2 BARATASHVILI STREET, TBILISI, ONCE THE HOME OF SAKENERGO, THE VERTICALLY-INTEGRATED ELECTRIC SERVICE UTILITY. THE LANGUAGE IN THE CIRCLE, "SAK MTAVAR ENERGO," INDICATES THAT THE BUILDING HOUSED SAKENERGO'S HEADQUARTERS. PERHAPS SYMBOLICALLY, THE BAS-RELIEF HAS BEEN SUPERSEDED BY PROMOTIONAL ADVERTISING. SAKENERGO ITSELF HAS DISAPPEARED, AS THE GOVERNMENT HAS UNBUNDLED THE ELECTRICITY SECTOR AND PRIVATIZED MANY OF ITS COMPONENTS.

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QUARTERLY REPORT, QUARTER 2008

2ND

ENERGY POLICY AND MANAGEMENT IMPROVEMENT
(EPMI) PROGRAM, CONTRACT NO. DOT-I-00-04-0022-00,
ORDER NO. DOT-I-03-04-00022-00

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The author's views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.

INTRODUCTION

This is the Quarterly Report described in and required by the Contract for the Energy Policy and Management Improvement (EPMI) Program, which provides in relevant part (section F.5):

The Contractor shall submit quarterly progress reports to the USAID/Caucasus CTO within 15 days of the end of the quarter for the period covered by the report. The first quarterly report will cover the period from the start of the contract through June 2008.

The Quarterly Report is, according to section F.5, to include:

- A summary by task of all current activities
- The identification of major problem areas, together with recommendations for resolving these problems, schedules for resolution, and persons responsible for required actions
- Anticipated activities for the coming quarter
- Travel of short-term advisors to Georgia
- Travel of Georgian officials to regional events or Europe

This is the first Quarterly Report submitted in the EPMI Program.

SUMMARY OF CURRENT ACTIVITIES BY TASK

Work Plan

EPMI submitted a draft Work Plan on 9 May 2008, on the schedule required by the contract. The Work Plan consisted, as provided by the contract, of a narrative statement and a Gantt chart showing project time lines.

During the last week in May and the first week in June, EPMI and USAID met several times in intensive sessions to review and discuss the draft Work Plan. The review process yielded a revised draft Work Plan, which EPMI submitted on 9 June. The new package consisted of a revised narrative and Gantt charts and, at USAID's request, a spreadsheet showing project activities, deliverables, timelines and the due dates for deliverables, and whether CTO or RCO approval of a task or deliverable was required by the contract. USAID reviewed the revised draft Work Plan package and gave EPMI additional comments on the draft on 22 June, with a request that EPMI submit a responsive package by 27 June. EPMI did so and as of the end of the quarter awaits further guidance from USAID. In the meantime, however, EPMI proceeded with program activities as set out in the Work Plan.

Performance Monitoring Plan

USAID discussed the content and design of a Performance Monitoring Plan (PMP) with USAID during the last week of May and first week of June 2008. On 11 June 2008 EPMI submitted the PMP and supporting documentation to USAID for review and comment. As of the end of the quarter EPMI had received no comments from USAID on the draft PMP.

Branding Implementation and Marking Plan

EPMI prepared a draft Branding Implementation and Marking Plan, which it submitted to USAID for CTO approval on 13 June 2008. As of the end of the quarter EPMI had received no comments from USAID on the draft Branding Implementation and Marking Plan.

Public Outreach

Although not required by the contract, EPMI has proposed to prepare and implement a plan for public outreach respecting the EPMI program. During the quarter, EPMI consulted with the USAID-sponsored Rural Energy Program regarding its public outreach program, and secured a list of print and broadcast journalists that cover the energy sector. EPMI also began preparing its draft Public Outreach and Participation Plan for ultimate submittal to USAID for review and comment..

Introduction of EPMI to counterparts and stakeholders

During the quarter, EPMI met with numerous agencies of the Government of Georgia (GoG), other donor agencies active in the energy sector, state- and privately-owned companies, Non-Governmental Organizations (NGOs) and think tanks, and universities to introduce the EPMI program, to seek information, to request cooperation, and otherwise to coordinate implementation of the program. EPMI met with (in no particular order): the European Bank for Reconstruction and Development; the World Bank; BP; Frontera Resources; Energo-Pro; KfW; Millennium Challenge Corporation; the Minister of Energy of the Republic of Georgia (and subsequent further meetings with Deputy Ministers of Energy and Ministry staff); the USAID-sponsored Rural Energy Project; United Nations Development Program; the Electricity System Commercial Operator (ESCO); the Georgia National Electricity and Water Regulatory Commission (GNEWRC); Transparency International; IREX (coordinator for the State Department's Muskie Fellowship program); World Experience Georgia (WEG); JSCTelasi; a Deputy Minister of Education; and Tbilisi State University. In addition, EPMI sat in on relevant workshops conducted by other USAID contractors, including the Alliance to Save Energy's *Urban Heating in Georgia: Issues and Future Agenda*, and the National Association of Regulatory Utility Commissions' workshop on regulation with GNEWRC.

Task 1: Policy Analysis and Dialogue

Sub-task 1.1 Independent Policy Analysis through Grants

Of all activities to be undertaken under the EPMI Program, it became apparent during Work Plan preparation that EPMI should give priority to implementation of the energy sector policy grants program. For one thing, the sooner that EPMI could begin the grants program and

award grants, the longer the potential period of grants will be. For another, the proposed schedule for the grants called for the release of the request for applications in early August, with grant applications due at the end of the September. Because that schedule might interfere with the August summer vacations traditional in Georgia, EPMI immediately addressed the grants program as a priority. In June:

- EPMI began assembling a list of energy policy issues, beginning with those identified by USAID in the Scope of Work for EPMI. EPMI added to the list throughout June and planned to continue the process into the next quarter.
- As noted above, EPMI met with numerous energy-sector stakeholders during the quarter to introduce the program. As part of that introduction, either at the initial meeting or in follow-up contacts later, EPMI solicited the views of representatives on energy-sector issues appropriate for inclusion in the list of policy topics.
- At the end of the quarter, EPMI had scheduled briefings to be held on 3 July at which it planned to introduce the grants program to NGOs, think tanks, and universities. By the end of June, EPMI had contacted a complete roster of potential participants (Attachment A) to alert them to the meeting schedule and anticipated content.

Sub-task 1.2 Independent Policy Dialogue Organized by the Contractor

This subtask includes two distinct activities, the development of an energy sector database and the pursuit of energy sector policy dialogue undertaken by EPMI (as opposed to grantees under Subtask 1.1). We discuss each of these activities in turn.

Energy sector database. As stated in the contract, EPMI is to:

Research available sources of data for policy analysis (including the Ministry of Energy and the Department of Statistics), develop a database for independent policy analysis, and determine where to house such a database.

On the theory that past is prologue, EPMI first researched an existing database assembled under an earlier USAID-sponsored project, Advisory Assistance to the Ministry of Energy of Georgia. The database, using the Microsoft Access database program, is loaded on the Ministry server. Access to the program is limited to Ministry personnel with a password to review data. Access to the program with authority to enter or manipulate data is limited to Department Heads and above, again with a password. The Ministry's database consists of different elements:

Chancellery
Oil and gas
Electricity
Renewables
Mass media
Staff (Human Resources)

As should be evident from its components, the Access package represents more of a Management Information System than, strictly speaking, an energy sector database,

although the “oil and gas” and “electricity” elements of the program do include information that could be called an energy database. The information appearing there is meager, however, and no new data have been entered in the program since 2006, which is when the USAID-sponsored assistance program ended. Indeed, the only part of the program currently in use by the Ministry is the “Chancellery” category. The Chancellery uses the database to control correspondence, and appears to make effective use of the program’s capabilities.

EPMI has discussed data-related issues with a number of operating energy companies and several NGOs active in the electricity sector, and plans to conduct further discussions as it continues to investigate the database issue during the next quarter.

Energy sector policy dialogue organized by EPMI. Except to the extent that the list of energy sector policy topics being assembled in connection with the grants program will ultimately affect future activities, EPMI has not yet commenced work under this Sub-task.

Sub-task 1.3 Demand-driven Technical Assistance and Training to Support Policy Analysis, Policy Development, and Policy Implementation

EPMI is to begin work on its assessment of GoG institutions under this Sub-task in the third quarter of 2008.

Sub-task 1.4 Assistance to State-Owned and Private Companies

EPMI is to begin work on its assessments of state-owned and private companies under this Sub-task in the third quarter of 2008.

Task 2: Higher Education Programs to Supply a Professional Workforce for the Energy Sector

EPMI is scheduled to commence the bulk of its work under this Task during the third quarter of 2008. EPMI performed some preliminary work on Task 2 during the quarter, however, including:

- **Labor skills in the energy sector:** During its meetings to introduce the program EPMI sought the views of energy-sector enterprises and institutions on labor skills, and discussed with BP its 2007 labor survey of the sector and its proposed training program on project management.
- **Energy-sector scholarship program for graduate-level American studies:** In connection with the program to award scholarships to up to five candidates for a Masters-level energy policy degree program in the United States, EPMI canvassed of American universities to identify those offering Masters-level degrees in energy policy or economics, MBAs with a concentration in energy, and similar programs. The point of the canvass was to determine whether all deadlines for matriculation in the Fall of 2008 have passed, or even if so, whether any of the institutions can be flexible in admissions. The canvass allowed EPMI to conclude that the deadlines for admission to graduate programs for the academic year beginning in the fall of 2008 had passed, meaning that EPMI would focus on programs beginning the following academic year.

Given the schedule for graduate admissions, however, EPMI determined that it would implement a competitive scholarship award program with alacrity, and proposed an expedited schedule in the revised draft Work Plan submitted late in the quarter.

- **Muskie Fellowship model:** Given the urgency of the scholarship program, EPMI met with IREX, which administers Georgia's Muskie Fellowship program, to see whether the Muskie program might serve as a model for EPMI's scholarship competition for graduate-level energy sector degree studies in the United States. It appears that IREX's well-designed and administered Muskie program may offer an excellent model for EPMI's scholarship program. Just before the end of the quarter, EPMI received an unsolicited proposal from IREX to conduct a competitive scholarship award program for EPMI in conjunction with its administration of the Muskie Fellowship program. The attraction of the proposal, according to IREX, is that they can achieve discounts from American universities due to their leverage in sending hundreds of students annually to graduate programs. With USAID's approval, EPMI pursued the issue with IREX as the quarter ended.
- **Ministry of Education support for education program:** EPMI met with Deputy Minister of Education Anna Zhvania, who expressed the Ministry's solid support for EPMI's energy sector higher education program and offered a number of thoughtful suggestions on program implementation.

Task 3: Integration into European and Black Sea/Caspian Energy Markets

EPMI partially funded the attendance of a Ministry of Energy representative to the Energy Community's 26 June meeting of the Permanent High-Level Working Group in Brussels.¹ EPMI will commence the bulk of its work under this Task during the third quarter of 2008.

¹ EPMI was to have funded the attendance of the Minister of Energy at the Energy Community's 27 June Ministerial Council meeting in Brussels, but the Minister was instead called to an unrelated meeting in Astana, Kazakhstan.

MAJOR PROBLEM AREAS

The only major challenge that EPMI identified during the quarter was the apparent continued diminution in the independent authority of GNERC (now, with the addition of authority over the water sector, GNEWRC). As USAID noted in the scope of work for EPMI, “GNERC operates in an unstable environment”, made acute by “a loss of institutional capability through the departure of personnel, caused by its instability [and] changes in management”. If anything, these factors intensified during the quarter, as GoG formally notified GNEWRC that it would be physically relocated to the city of Kutaisi, in western Georgia. At quarter’s end, the move promised to disrupt ongoing regulatory activities to accommodate this major move. More importantly, it appeared that the move might cause a number of GNEWRC staff to resign their positions rather than make the move.

EPMI will explore (and has already discussed with USAID) several potential solutions to the problem of the marginalized regulator. One is simply for USAID to request the appropriate GoG authority (the Prime Minister, for example) to confirm that GNEWRC has the authority to exercise the tariff, licensing and other regulatory authorities given to it by law, and that GoG will take concrete steps to respect that authority. Another solution would be to acknowledge the doubt respecting GNEWRC’s authority, and simply to hold joint training or education programs with personnel from the Commission, the Ministry of Energy, and other stakeholders on selected topics related to regulation. Thus, EPMI could convene a training session on service quality standards with representatives from GNEWRC, the Ministry of Energy, and licensees, and leave it to GoG to determine who should have principal responsibility for formulating, applying, and enforcing regulatory requirements.

EPMI’s McNeill Watkins and Leszek Kasprowicz will explore these and other solutions to the GNEWRC issue early in the third quarter.

ANTICIPATED ACTIVITIES FOR THE COMING QUARTER

As reported in the EPMI Year One Work Plan (27 June 2008 draft), the program anticipates the following activities during the third quarter of 2008.

Task 1 Policy Analysis and Dialogue

Subtask 1.1: Independent Policy Analysis through Grants

Develop criteria for evaluation and award of grants, with Ministry of Energy input.

Prepare and submit to USAID a Grant-making Manual (including evaluation criteria and award procedures).

Conduct pre-Request for Applications workshop for NGOs, think tanks, and universities who might submit grant applications.

Prepare a Memorandum on Pre-RFA workshop listing attendees and summarizing information presented, questions and answers, and outcomes, and submit to USAID.

Prepare, release, and publicize the Request for Applications for grants from candidate organizations.

Begin review and processing of grant applications when they are submitted (scheduled for the end of the third quarter).

Sub-task 1.2 Independent Policy Dialogue Organized by the Contractor

Energy sector database

Continue to survey existing sources of energy sector data, assess data gathering methodologies and identify possible repositories for the database.

Prepare and submit Report on Data Sources Available for Policy Analysis and Database Development Plan.

Energy sector policy dialogue organized by EPMI

EPMI is not schedule to work on this subtask during the third quarter 2008.

Sub-task 1.3 Demand-driven Technical Assistance and Training to Support Policy Analysis, Policy Development, and Policy Implementation

Determine through labor skills gap analysis, consultation, and other assessments the content of technical assistance to GoG institutions.

Prepare and submit to USAID the Report on Labor Skills Gap Analysis.

Sub-task 1.4 Assistance to State-Owned and Private Companies

Determine through labor skills gap analysis and consultation the content of technical assistance to state- and privately-owned energy sector companies.

Task 2: Higher Education Programs to Supply a Professional Workforce for the Energy Sector

Design a competitive process for US Energy policy program scholarships.

Prepare and submit to USAID an outline of the competitive awards process for US Energy policy program scholarships.

Conduct competition for scholarships for US-based programs.

Prepare and submit to USAID a US-Based Scholarship Memorandum (describing competitive process, criteria and scholarship winners).

Task 3: Integration into European and Black Sea/Caspian Energy Markets

Develop and submit to USAID a plan of Athens Energy Community and regional meetings for GoG/GNERC attendance to be supported by EPMI Project in Year One.

Conduct an analysis of strategic regional energy issues and support GoG attendance at relevant regional meetings.

Prepare and submit to USAID a Report on Strategic Regional Energy Issues for Georgia.

Conduct workshops or meetings with GoG/GNEWRC to review roles and responsibilities respecting the Athens Energy Community process and other regional energy issues, to discuss benefits and costs of moving to full membership based on Observer process, and to make a plan of action to move towards full member status.

TRAVEL OF SHORT-TERM ADVISORS TO GEORGIA

During the third quarter of 2008, EPMI expects the following short-term advisors to travel to Georgia:

Name	Month(s)Expected
Leszek Kasprowicz	July and August
Stanley Graves	July, August, and September
Lejla Uzicanin	July, August and September
Hameed Nezhad	July and September

TRAVEL OF GEORGIA OFFICIALS TO REGIONAL EVENTS OR EUROPE

EPMI expects to support attendance by Georgia officials at the following Energy Community meetings during the next quarter:

Name of Meeting	Date	Place	Eligible Organization
7 th Joint Working Group on Gas Infrastructure and Regulation	11 Sep 08	Vienna	GNEWRC
ECRB Electricity Working Group	17 Sep 08	Vienna	GNEWRC
ECRB Customer Working Group	18 Sep 08	Vienna	Ministry of Energy

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3rd Energy Efficiency Task Force	23 Sep 08	Vienna	GNEWRC
10th Permanent High Level Group	24 Sep 08	Vienna	Ministry of Energy
Energy Community Regulatory Board	30 Sep 08	Athens	GNEWRC