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QUARTERLY REPORT, 3RD QUARTER 2008

THE ENERGY CAPACITY INITIATIVE (TECI), CONTRACT NO.
DOT-I-00-04-00022-00, ORDER NO. DOT-I-03-04-00022-00



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ON THE COVER: THE FOREBAY OF THE ORTACHALA HYDROPOWER PROJECT, LOCATED ON THE MTKVARI RIVER IN TBILISI, JUST BELOW THE OLD CITY. ORTACHALA WAS CONSTRUCTED IN THE 1950s AND COMMISSIONED WITH AN INSTALLED CAPACITY OF 18 MW IN 1961.

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QUARTERLY REPORT, QUARTER 2008

3RD

THE ENERGY CAPACITY INITIATIVE (TECI), CONTRACT NO.
DOT-I-00-04-0022-00, ORDER NO. DOT-I-03-04-00022-00

DISCLAIMER:

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 Capacity Initiative (TECI), 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 and to requests by USAID, 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
- A complete financial overview

This is the second Quarterly Report submitted for the TECI Project.

TWO IMPORTANT EVENTS

At the outset, TECI addresses two important events that took place during the recently-concluded third quarter of 2008. First, in July the Prime Minister stated the view that the Government of Georgia (GoG) generally does not want recommendations on policy issues from donors or donor-funded projects, and that when it wanted such policy advice it would ask for it. USAID communicated this policy to TECI, with the result that the project underwent a certain amount of re-design. A major objective of the project was, after all, to improve the policy capabilities of the energy sector. Indeed, USAID named the project the "Energy Policy and Management Improvement Project." At a briefing for universities, nongovernmental organizations and think tanks in early July, TECI placed major emphasis on the extent to which the grants program under Sub-task 1.1 would serve and promote policy dialogue in the energy sector, particularly policy dialogue with the Government of Georgia (GoG). The Prime Minister's directive caused a major change of emphasis away from the original policy orientation of the grants program into more practical, educational, and international issues, as further described below. In part to reflect this change in project direction, on 27 August USAID's Regional Contracting Officer approved a change in the name of the project from Energy Policy and

Management Initiative to the Energy Capacity Initiative (which we are calling by the acronym TECI).¹

The second major event of the third quarter was, of course, Georgia's armed conflict with Russia in August. The conflict caused the evacuation of two TECI consultants who were in Georgia at the time (Dr. Hameed Nezhad and Lejla Uzicanin), delayed the schedules for many ongoing project activities, and caused the launch of the grants program to be postponed, and the grants program itself to be redesigned yet again.

SUMMARY OF CURRENT ACTIVITIES BY TASK²

Work Plan

At the end of June 2008, TECI submitted a revised Work Plan (including a narrative describing the work and a spreadsheet showing activities and schedule) to reflect USAID comments on earlier drafts. USAID responded with comments on the June draft a month later, on 27 July. USAID focused its comments in particular on the methodologies to be employed by TECI in the institutional and corporate assessments to be conducted under Sub-tasks 1.3 and 1.4, and the labor skills gap analysis to be undertaken under Task 2. In the several weeks that followed presentation of these comments, TECI and USAID discussed the methodology issues intensively, reaching tentative agreement on the approaches to be taken under the respective activities. These agreements were reflected in a revised draft Work Plan (narrative statement and spreadsheet) submitted by TECI to USAID on 25 August.

TECI submitted a revised Work Plan package to USAID on 29 August, to reflect the change in the project's name. The revised work plans remain with USAID, awaiting review and either approval or further comment. In the meantime, TECI is following the work plan so far as planned activities and schedules are concerned.

Performance Monitoring Plan (PMP)

On 11 June 2008 TECI submitted the draft PMP and supporting documentation to USAID for review and comment. As of the end of the third quarter TECI had received no comments from USAID on the draft PMP.

Branding Implementation and Marking Plan

TECI submitted its draft *Branding Implementation and Marking Plan* incorporating to USAID for CTO approval on 13 June 2008. In mid-July, USAID commented on the draft *Plan*, and TECI submitted a revised *Branding Implementation and Marking Plan* incorporating the comments on

¹ As used in this Report, "TECI" should be read to mean TECI or EPMI, as the context requires.

² In general, the text of this section follows the activity-by-activity schedule set out in TECI's Work Plan Spreadsheet, most recently updated on 29 August 2008.

29 July. After another round of comments from USAID, TECI submitted a final *Plan* for CTO approval on 9 August. On 29 August, TECI resubmitted the *Plan* to reflect the changed name of the Project. The *Branding Implementation and Marking Plan* awaits CTO approval.

On an issue related to branding and marking, by memorandum dated 8 August TECI requested guidance from USAID as to an apparent conflict between the requirements of the Graphics Standards Manual and those of the TECI contract relating to the contents of the cover page of Project documents. We would appreciate USAID's guidance on the issue addressed in the memorandum.

Public outreach. In August, TECI designed and developed a web site, www.aeai.ge. For now, the site includes a brief description of the project and, more importantly, a description of the Energy Scholarship Program and downloadable application package and form of application. TECI took the web site live during the first week in September.

Task 1: Policy Analysis and Dialogue

Sub-task 1.1 Independent Policy Analysis through Grants

TECI kicked off the grants program in the early part of the third quarter with a briefing for prospective grants applicants on 3 July. Earlier, TECI had identified universities, nongovernmental organizations (NGOs), and think tanks that might be interested in applying for grants. TECI contacted them by telephone and in writing in the week before the briefing to maximize attendance. With USAID's concurrence, TECI divided the 3 July briefing into morning and afternoon sessions. In the morning, TECI briefed NGOs and think tanks on the grants program. In the afternoon session, TECI briefed universities on the grants program, and also introduced TECI's higher education program, to be implemented with the universities under Task 2 later in the year.

The briefing on the grants program was designed fully to inform prospective applicants, and covered the following:

- Identification of energy policy issues
- The tentative schedule for the grants program
- Length of grants.
- Amount of grant pool.
- Substance of the grants.
- Topics.
- Examples of policy topics and questions.

- Regional or international element of program and grants.
- Gathering and use of data.
- Sustainability.

The afternoon session of the briefing for universities covered the foregoing topics and, in addition, the graduate education program, discussed below under Task 2.³

TECI's purpose in conducting the briefing was not only to introduce the grants program to prospective applicants, but also to challenge the energy community to develop and propose topics of their own. To that end, TECI invited the briefing participants to discuss prospective grants topics with TECI. Many did so in the following weeks; indeed, prospective applicants met with TECI throughout the third quarter, particularly as and after the program changed focus due to the Prime Minister's directive in mid-July.

TECI began developing a list of energy sector grants topics even before the 3 July briefing. As required by the contract, the bulk of the topics consisted of energy policy issues, because the objective of Subtask 1.1 was to promote independent policy analysis through grants to NGOs, think tanks, and universities and to promote energy sector policy dialogue between and among those entities and GoG. TECI had to change that approach radically, however, when the Prime Minister expressed the preference for extremely limited policy inputs to GoG by donor-funded programs. TECI began substantial revisions to the list of energy sector grants topics in mid-July, and continued to meet with prospective grants applicants. At the same time, TECI submitted draft grants program documents to USAID for review and comment, including the criteria for selection (17 July), a revised list of energy sector topics (20 July), a Request for Applications, with form of application attached (24 July), and a newly-revised list of energy sector topics (28 July).

This process of program development culminated with a workshop for prospective grants applicants on 30 July. A principal reason for the workshop was to alert prospective applicants to the fundamental change in approach caused by the Prime Minister's directive. Accordingly, TECI addressed the change in focus of the grants topics from policy-related issues to illustrative issues involving different aspects of Georgia's energy security. The workshop also covered:

- Draft documents (Request for Applications with Form of Application, draft copies of which were made available at the workshop)
- The list of energy issues (a draft of which was also made available at the workshop)
- TECI's web site, which was not yet but soon would be operational, and on which grants program documents would be posted

³ TECI reported to USAID on the 3 July briefing in its *Memorandum on Energy Sector Grants Briefings* (7 Jul 2008).

- English and Georgian languages suitable for applications
- The Request for Applications (a discussion of the principal features of the RFA)
- The form of application (a review of the form, item-by-item)

TECI concluded the workshop by confirming that the grants program would launch on 11 August, as previously advertised.⁴ Anticipating that launch date, on 7 August TECI submitted a complete package of final grants program documents to USAID, including the *Grants Manual*, the Request for Applications, the illustrative list of energy sector topics, and the form of applications (with attachments).

The launch did not take place as scheduled, however, because that very night the conflict with Russia began. With USAID's concurrence, TECI advised the community of prospective grants applicants by email that the launch would be postponed until further notice. TECI has kept the prospective grants community apprised of the status of the program since then by email.

In the meantime, the war has caused TECI again to revise its approach to the roster of topics appropriate for grants. Topics that seemed interesting or useful in July seemed not so important, or even frivolous, in the post-war environment. In particular, topics that related to Georgia's energy security and those relating to conservation of energy resources gained prominence.⁵ TECI therefore conducted another overhaul of topics, preparing revised drafts for review and comment by USAID and the Ministry of Energy (drafts submitted on 27 August, 3 September, 26 September). Some additional topics were proposed by the Ministry of Energy in light of the events of the conflict with Russia, and these were added to the list. And in mid-September, TECI submitted a revised Grants Manual for review and comment to USAID, with the new name of the project, with the dates for grants program implementation blank (to be inserted when TECI launches the program), and with the selection criteria revised according to earlier USAID comments.

Throughout late August and September, TECI continued to meet with prospective grants applicants as they sought to tailor their grant interests into appropriate post-conflict forms.

As of the end of the third quarter, TECI awaited USAID clearance to launch the grants program.

Sub-task 1.2 Independent Policy Dialogue Organized by the Contractor

⁴ TECI reported to USAID on the 30 July workshop in its *Memorandum on Energy Sector Grants Workshop* (7 Aug 2008).

⁵ Shortly after the shooting war with Russia ended, the Ministry of Energy presented a list of items, or a "vision," consisting of GoG's urgent energy sector need in light of the conflict. At USAID's request, TECI analyzed the Ministry's list to determine what projects TECI could undertake, within and without the contract (Attachment 1).

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

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

[R]esearch 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.

During the third quarter, TECI designed and submitted its comprehensive plan for database assessment, evaluation, and development, which it submitted to USAID in its draft Work Plan on 25 August. TECI proposed a phased approach; in broad outline (detailed in the Work Plan), TECI would:

- Assess the need for energy sector data (both raw data and information for decision-makers) by prospective users of the data
- Collect, test, and assess energy sector data
- Assess the quality of existing databases and access to data), including the structure and configuration of the databases
- Develop a recommendation for database development

TECI commenced its work under this Sub-task by developing a need for data questionnaire. In mid-September, after USAID had informally approved the work described in Sub-task 1.2 of the last draft Work Plan, TECI began meeting with energy sector counterparts to describe the database initiative and to present the data questionnaire. TECI met with electricity sector companies (both state- and privately-owned), natural gas companies (GOGC and Itera, for example), NGOs, universities, and GoG agencies. Of particular interest was a request by the Ministry of Energy that TECI consider development of a Geographic Information System, using an energy sector database, to show the locations of Georgia's energy infrastructure, including the locations of sites proposed for hydropower development. By the end of the third quarter, TECI had begun collecting the questionnaires, had conducted follow-up interviews with a number of enterprises and organizations, and had discussed next steps with USAID.

Energy sector policy dialogue organized by TECI. Under its contract, TECI is not to commence work on this Sub-task until after grants are awarded under Sub-task 1.1. TECI has, therefore, 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

In discussions with USAID in July, TECI formulated an acceptable methodology for its assessment of energy sector GoG institutions. At the same time, USAID decided to limit the

assessments to be conducted under this Sub-task to two. In consultation with and with the approval of USAID, TECI determined that the two most appropriate GoG institutions to assess would be the Ministry of Energy and the regulator, newly-designated the Georgian National Energy and Water Regulatory Commission (GNEWRC).

Short-term consultant Leszek Kasprovicz commenced TECI's assessment under this Sub-task upon his arrival in Georgia in early July.⁶ Mr. Kasprovicz first reviewed documents relevant to GNEWRC's legal authority, responsibilities, and functions, such as the Law on Electricity and Natural Gas, as amended. [He also reviewed reports on GNEWRC from prior years, many of them donor-funded.] Mr. Kasprovicz then spent more than a full week at GNEWRC, conducting interviews with the Chairman and the two other commissioners, the Executive Director, all department and section heads, and selected specialists. Mr. Kasprovicz also secured and reviewed records pertaining to internal operations, personnel rules, and staff and commissioner training.

Mr. Kasprovicz's assessment took place at an interesting time, because shortly before he began his assessment the Government directed GNEWRC to move to Kutaisi, some three and a half hours drive from Tbilisi. A number of staff members had decided not to make the move, but the situation was made complicated by vacations scheduled for August (some employees would apparently wait to resign until after their vacations, so that they would be paid) and, later, by the conflict with Russia. Mr. Kasprovicz will revisit GNEWRC during his October trip to Georgia to update his assessment after GNEWRC's move to Kutaisi.

Mr. Kasprovicz prepared the draft text regarding his assessment of GNEWRC, which will serve as the partial basis of the Report on Assessments to be submitted by TECI in November 2008.

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

Sub-task 1.4 is the energy sector enterprise (as opposed to GoG institutions) counterpart to Sub-task 1.3. As with the latter, TECI and USAID tentatively agreed on a methodology for the assessments, which was reflected in the draft Work Plan submitted to USAID on 25 August. TECI interviewed a number of electricity and natural gas sector enterprises in June and July, briefing management of the companies on the assessments to be undertaken and soliciting expressions of interest. In the electricity sector, the two distribution companies, Telasi and Energo-Pro, indicated that they were not interested in having TECI assess their enterprises (although they were keenly interested in TECI's educational initiatives under Task 2). In the gas sector, a United Nations Development Project-sponsored project had just completed an

⁶ TECI discussed its assessment of the Ministry of Energy with Ministry officials in late June or early July. The Ministry advised that it planned on moving its offices in July and also would undertake a reorganization during that period. That, plus the fact that many GoG employees take their vacations in August, caused the Ministry to suggest that TECI defer its assessment until September. TECI therefore selected GNEWRC for the initial GoG assessment.

institutional and personnel assessment of the Georgian Oil and Gas Corporation (GOGC).⁷ The gas distribution utility for Tbilisi, KazTransGaz, could not be interested in discussing the possibility of an assessment with TECI, and Itera, which also owned distribution facilities in widely-dispersed areas of Georgia, did not appear central to the energy sector. The response from two electricity sector enterprises, however, the Electricity System Commercial Operator (ESCO) and Georgia State Electrosystem (GSE) responded positively to TECI's assessment offer, and with USAID's approval, TECI selected the two enterprises for assessment.⁸

Short-term consultant Stanley Graves arrived in Georgia to commence his assessments of ESCO and GSE in mid-July. He began with ESCO, reviewing the British Petroleum-funded *Vocational Training Needs in Energy Sector of Georgia* (World Experience Georgia 2007), a document that the contract requires TECI to consider in the assessments, and a copy of the May 2008 UNDP-sponsored institutional capacity assessment of GOGC. Mr. Graves also reviewed documents describing or establishing ESCO's legal basis, principal functions, and modes of operation, including the Georgia Law on Electricity and Natural Gas and the Electricity Market Rules. Mr. Graves then interviewed the General Director and nine managers of ESCO. As he conducted these activities, Mr. Graves prepared text reflecting his assessment for ultimate use in the TECI assessment report.

Mr. Graves also commenced TECI's assessment of GSE, meeting with the General Director and additional managers prior to turning the field work over to another TECI short-term consultant, Lejla Uzicanin, when Mr. Graves returned to the United States. Ms. Uzicanin reviewed materials relevant to GSE's functions and authorities and commenced interviews with GSE staff, but the conflict with Russia intervened and Ms. Uzicanin evacuated to Armenia before the end of her scheduled trip.

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

Task 2 includes the development of an energy sector higher education program for Georgian universities, to be designed after completion of the labor skills gap analysis (and the assessments under Sub-tasks 1.3 and 1.4), and a program to award up to five scholarships for graduate energy studies in the United States. We address these activities in turn.

Georgia energy sector graduate program. TECI introduced the higher education program to representatives of Georgian universities at the 3 July briefing (described earlier in connection

⁷ The UNDP contractor had released its report in May. *Strengthening the Capacities of Georgian Oil and Gas Corporation for Sustainable Development and Energy Security, Report 1, Capacity Assessment and Capacity Development Strategy* (May 2008).

⁸ ESCO had been scheduled for an assessment by FORECAST/Caucasus under its Human and Institutional Capacity Development methodology at about the same time that TECI was to begin its assessment. With USAID's consent, FORECAST deferred to TECI on the ESCO assessment.

with the grants program). After presenting the grants program material, TECI covered the following items relevant to the higher education program:

- Energy sector skills gap analysis and interviews with universities
- Tentative schedule
- Scholarship program
- Duration of the educational program
- Amount of grant pool
- Other issues:

Enterprise employees.

Existing vs. new programs.

The briefing on the higher education program produced significant interest among the attendees from local educational institutions. In subsequent weeks, TECI began meeting with local universities to follow up on the briefing and to collect information about the universities and their programs for TECI education experts.

TECI and USAID discussed the methodology for the energy sector labor skills gap analysis intensively during the last week in July and the month of August, culminating in an agreement in principle on the form and content for the methodology. TECI submitted its draft *Professional Skills Gap Analysis Methodology Report* to USAID for review and comment on 4 September. As of the end of the third quarter, USAID had not responded. While awaiting USAID action on the draft methodology, TECI:

- Solicited proposals from local companies and independent consultants with survey experience to conduct a quantitative survey of senior undergraduate and first-year graduate students, and some energy sector professionals, to assess their interest in energy sector educational programs to be developed under the TECI program.
- Met with virtually all energy sector enterprises (state- and privately-owned), universities, and NGOs and think tanks active in the energy sector to describe the labor skills gap analysis and education program, to preview the questionnaire, interviews, and focus groups to be conducted, and the graduate programs in energy that TECI will design and make available to energy sector employees (current and prospective).

As of the end of the quarter, TECI awaited USAID comments on the skills gap methodology to implement these aspects of the Task 2 program.

US scholarship program. With USAID's approval, TECI in June approached IREX, the Georgia coordinator for the State Department's Muskie Fellowships, to gain familiarity with the IREX methodology to serve as a model for TECI's US scholarship program. The discussions led to an IREX proposal that it manage, for a fee, the recruitment and selection of TECI's scholarship candidates and their placement in US graduate programs. The IREX proposal had two attractions: first, because IREX placed graduate students in bulk in Muskie-sponsored US graduate programs, it indicated that it could negotiate reduced tuition for the TECI students; and second, IREX indicated that it could place the TECI students directly in graduate programs without the candidate having to prepare applications and otherwise participate in the usual graduate admissions process. During July, TECI and IREX agreed on a Scope of Work for the services to be rendered (the selection and placement of five students for one year of graduate study). Eventually, IREX proposed \$375,000 for this program, which was far more than TECI believed it would cost if it implemented the program itself.

Accordingly, in August TECI prepared and submitted to USAID for review and comment an *Outline of Competitive Awards Process for United States Energy Scholarship Program*. At the same time, TECI prepared a package of scholarship program documents, including instructions and a form of application. TECI submitted drafts of these documents, too, to USAID for review and comment, and TECI discussed the drafts at several meetings with USAID. Eventually, after agreement on USAID's recommendations, the CTO approved the package of scholarship program documents on 12 September, a Friday. TECI launched the program on the following Monday, 15 September.

TECI launched the program by:

- Placing advertisements in English- and Georgia-language newspapers.
- Posting notice of the application on jobs.ge, a prominent Georgia web site for employment and related notices.
- Posting text regarding the program, and the application instructions and form of application, on the TECI web site, www.aeai.ge.

In the weeks that followed scholarship program launch and for the balance of September, TECI met with all of the principal energy sector GoG institutions, enterprises, and NGOs to publicize the Energy Scholarship Program and to distribute Program materials. The Program's materials establish a deadline for applications of 31 October 2008.

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

Under Task 3, TECI is to support the attendance of Ministry of Energy and GNEWRC representatives at the meetings of the Athens Energy Community (EC). TECI is also to "provide technical assistance and on-the-job training to the Ministry and GNERC on the terms and conditions applicable to full signatories of the Athens Energy Community". Lejla Uzicanin, TECI's expert on the Athens Energy Community Treaty, visited Georgia in late July to begin

TECI's work under Task 3 (and, as noted above, under Sub-task 1.4). She conducted an introductory presentation to the Ministry of Energy, GNEWRC, GOGC, and GSE on the EPMI met with representatives of the Ministry of Energy, Georgia Oil & Gas Corporation, Georgia State Elektrosystem, and USAID on 7 August so that Lejla Uzicanin could present the basics of the Energy Community Treaty. Her presentation included the history and background of the Energy Community, the parties to the Treaty and its main objectives, the significance of Georgia's participation as an Observer, the institutions of the Energy Community, the institutions of the EC and the functions of each, the principal commitments of the parties, and certain recommendations as to how Georgia may organize its participation in Treaty activities.⁹ After the presentation, a lively discussion of Georgia's participation in energy sector treaties and programs ensued. The questions and discussion suggested to Ms. Uzicanin that relevant counterparts lack understanding of the EC and its processes. In particular, Ms. Uzicanin concluded that there was little institutional memory as to the EC within the Ministry of Energy. She also observed limited coordination between Georgian entities who participate in the meetings. Accordingly, Ms. Uzicanin prepared a plan and schedule designed to remedy these deficiencies and to enhance Georgia's participation in the EC and other regional and international energy sector initiatives. Before Ms. Uzicanin could pursue these objectives, however, the conflict with Russia intervened. She will take up EC and other regional matters with counterparts on future trips to Georgia.

In August, the Ministry of Energy requested that TECI identify and study all of the energy sector and energy-related treaties, programs, and initiatives to which Georgia is a party and advise the Ministry of the requirements, costs and benefits of each, so that the Ministry (and thus GoG) would have a comprehensive, rather than a piecemeal, understanding of its commitments. Some of the treaties and programs wholly or partially devoted to energy are:

- The Energy Charter Treaty (signatory)
- The Energy Community Treaty (Observer)
- The EU Neighborhood Policy (participant)
- INOGATE (signatory)
- GUUAM (member)
- The Black Sea Transmission Project (participant)
- Intelligent Energy (EU Program) (tentative participant)
- The Baku Initiative (partner)

In consultation, USAID agreed that the Report on Strategic Regional Issue for Georgia to be prepared under Task 3 would serve as the appropriate vehicle for honoring the Ministry's

⁹ We have attached the slides of Ms. Uzicanin's presentation as Attachment 2 to this Report.

request. Accordingly, TECI will submit the analysis requested by the Ministry in the fourth quarter, as provided in the Work Plan.

Also during the quarter, TECI prepared and submitted the initial *Plan of Meetings for Government of Georgia Participation in Regional Energy Initiatives* (8 Sep 08). The *Plan* identifies the meetings of the Energy Community (including the EC's Ministerial Council, High Level Working Group, Regulatory Board, and Electricity and Gas Fora) for which TECI will support attendance by GoG representatives. The *Plan* also identifies other energy sector conferences and meetings with a regional flavor for which TECI may support GoG representatives' attendance, including, for example, meetings of the Energy Regulators Regional Association (ERRA). TECI has proposed, and USAID has approved, to resubmit the *Plan* from time to time to reflect newly-scheduled meetings.

During the third quarter, TECI supported, in whole or in part, attendance at regional energy initiatives by Georgia representatives as follows:

Date	Meeting or Event	Entity to Send Representative	Comment
24 Sep 08	EC 10 th Permanent High Level Group, Zagreb, Croatia	Ministry of Energy (PHLG representative)	TECI financed attendance at the meeting by Elene Ghudianuri, Head of Department of International Relations, Ministry of Energy, and by Margalita Arabidze of the Ministry's International Relations and Investment Projects Department
25 Sep 08	EC Gas Distribution Conference, Zagreb, Croatia	Ministry of Energy; Gas Distribution and Transmission Companies	TECI financed attendance at the meeting by Elene Ghudianuri, Head of Department of International Relations, Ministry of Energy, and by Margalita Arabidze of the Ministry's International

			Relations and Investment Projects Department
29 Sep – 3 Oct 08	World Energy Engineering Congress, Washington, DC, USA	Georgia Chapter, Association of Energy Engineers	TECI financed attendance at the Congress by Dr. Archil Magalashvili, who accepted an Association award for Best Overall Chapter Performance

In connection with the Ministry of Energy’s attendance at the 24-25 meetings in Zagreb, TECI not only financed the trips but also coordinated assistance from the Energy Community Secretariat in securing visas from the Croatian Embassy in Istanbul.

During the third quarter, TECI also confirmed with the EC that Georgia, as an “Observer” country, has the right to reimbursement for travel of one registered representative to EC meetings. If GoG takes advantage of this financing, TECI funds would be freed up for other activities or for covering trips to meetings not financed by the EC. TECI has begun to explore mechanisms by which it could help to finance GoG travel expenses to Energy Community meetings that would subsequently be reimbursed by the EC Secretariat.

MAJOR PROBLEM AREAS

A few problems emerged during the third quarter.

Delays caused by the conflict. The August conflict between Georgia and Russia has caused a delay of project activities. Eruption of the conflict on 7 August required TECI to evacuate two of its short-term consultants then working in Georgia, and created a vacuum during which travel to Georgia was prohibited and during which, therefore, TECI could not make progress on project objectives. TECI addressed the possible delays in project implementation caused by the conflict in its draft work plans submitted on 25 August, to the extent that such delays could then be identified. We note, however, that some of the effects of the events of August continue to affect the project, and that TECI may propose further adjustments in the schedule. TECI’s Chief of Party will discuss any such adjustments with the CTO as the need becomes apparent.

Redesign of the grants program. As discussed above, TECI twice redesigned the grants program during the third quarter. The Prime Minister’s limitation on policy initiatives caused the first set of modifications, which included a major reorientation of the goals of the project and its list of illustrative energy sector topics suitable for grants applications. The conflict with Russia caused the second review and redesign of the grants program, as TECI focused (in consultation with USAID and the Ministry of Energy) on topics more vital to Georgia in the post-conflict

environment. Redesign of the grants program appears to be near completion, with review and approval of the revised grants topics by USAID and the Ministry expected in the near future.

The first of the grants program redesigns did not cause a delay in the 11 August launch date for the grants program. But the conflict with Russia caused the indefinite postponement of the program, and subsequent redesign has further delayed the program's launch. TECI's Chief of Party will discuss the grants program schedule with the CTO as the launch date approaches.

GNEWRC authority. As noted in this project's prior quarterly report, a major challenge identified by TECI was the apparent continued diminution in the independent authority of GNEWRC. As USAID noted in the scope of work for TECI, "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". As TECI noted, these factors intensified when GoG formally notified GNEWRC that it would be physically relocated to Kutaisi. Now that the move is complete, it appears that GNEWRC has lost approximately 20 employees (who did not want to make the move). The adverse effects of this loss of personnel are likely to be short-term, and TECI will address this issue in its assessment report.

Another problem symbolized by the move to Kutaisi, that of the marginalized regulator, remains unresolved. Two of the solutions earlier identified by TECI remain viable: 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. Or, 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. TECI's McNeill Watkins and Leszek Kasproicz will continue to explore these and other solutions to the GNEWRC institutional issue.

ANTICIPATED ACTIVITIES FOR THE COMING QUARTER

As reported in the TECI Year One Work Plan (29 August 2008 draft), the program anticipates the following activities during the fourth quarter of 2008.

Task 1 Policy Analysis and Dialogue

Subtask 1.1: Independent Policy Analysis through Grants

Secure final approval of the list of illustrative energy sector grants program topics.

Secure final approval of the Grant-making Manual (including evaluation criteria and award procedures) (most recent draft submitted 16 September).

Consider conducting another pre-Request for Applications workshop for NGOs, think tanks, and universities who might submit grant applications to review changes in the grants program caused by the Russia-Georgia conflict. If TECI holds such a workshop, 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.

Schedule permitting,¹⁰ prepare evaluation procedures and criteria for the evaluation committee.

Schedule permitting, begin review and processing of grant applications when they are submitted.

Sub-task 1.2 Independent Policy Dialogue Organized by the Contractor

Energy sector database

Continue to assess the need for energy sector data (both raw data and information for decision-makers) by prospective users of the data by collecting questionnaires and, where appropriate, interviewing energy sector institutions.

Collect, test, and assess energy sector data.

Assess the quality of existing databases and access to data), including the structure and configuration of the databases.

Develop a recommendation for database development.

Energy sector policy dialogue organized by TECI

TECI is not scheduled to work on this subtask during the fourth quarter 2008.

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

Complete the assessments of GNEWRC and the Ministry of Energy.

Prepare and submit the Report on Organizational Assessments and the Plan for Technical Assistance and Training by major organizations.

With USAID approval, commence implementing technical assistance and training programs.

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

¹⁰ As used in this section of the report, "schedule permitting" simply means that if there is time to commence the activity before the end of the quarter, TECI will do so. In all cases, if the quarter ends before the activity is commenced, TECI will almost certainly commence the activity in the following quarter.

Complete the assessments of ESCO and GSE.

Prepare and submit the Report on Organizational Assessments and the Plan for Technical Assistance and Training by major organizations.

With USAID approval, commence implementing technical assistance and training programs.

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

Labor skills gap analysis

If approved by USAID, implement the Professional Skills Gap Analysis Methodology by distributing questionnaires and reviewing responses, conducting interviews, convening focus groups, conducting student surveys, and evaluating results.

Schedule permitting, design education program(s) to address the priority skill areas identified in the gap analysis with the greatest market demand not met by current university programs.

Schedule permitting, after identification of priority areas, develop an action plan for long-and medium-term education programs to meet the prioritized energy sector workforce development needs, including a plan for development of curricula, courses, and case studies.

Schedule permitting, hold a workshop to share the results of the skills gap analysis and the proposed education program(s) with potential implementers of higher education programs (universities and other institutions of higher learning); share report with U.S. institutions, if relevant, who may also compete and potentially form partnerships with Georgian institutions.

Energy Scholarship Program

Prepare instructions and procedures for the Energy Scholarship Program selection committee.

Review and evaluate scholarship applications.

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

Initiate process of selecting US universities for scholarship winners, arrange for any required testing and submittal of applications.

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

Update the *Plan of Meetings for Government of Georgia Participation in Regional Energy Initiatives* as appropriate to list newly-scheduled events.

Support GoG representation at meetings and other events listed in the *Plan for Meetings* during the fourth quarter.

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, TECI expects the following short-term advisors to travel to Georgia:

Name	Month(s)Expected	Purpose of Trip
Leszek Kasprowicz	October and perhaps November	Complete assessments of GoG institutions under Sub-task 1.3
Lejla Uzicanin	October and November	Complete assessments of energy sector enterprises under Sub-task 1.4; continue evaluation of GoG knowledge of Athens Community and plan for participation in regional/international initiatives under Sub-task 3
Hameed Nezhad	November and perhaps December	Participate in interviews and focus groups, prepare report on skills gap analysis

TRAVEL OF GEORGIA OFFICIALS TO REGIONAL EVENTS OR EUROPE

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

7 Oct 08	Energy Community Secretariat, Investment Conference	Ministry of Energy	
16 Oct 08	Energy Community 3 rd Gas Forum	Ministry of Energy GNEWRC GOGC	
17 Oct 08	Energy Community Regulatory Board Gas Working Group	GNEWRC	
23 Oct 08	Energy Community Workshop on Competition	Georgian Competition Authority	Workshop still in preparation by the EC Secretariat. It will focus on application of competition law in the energy markets. No limitation on a number of participants from any country. Invitation will be extended to competition authorities, ministries, regulators law firms.
27-31 Oct 08	Florence School of Regulation, Course on Regulation of Energy Utilities	GNEWRC	Course consists of four days of training on site, followed by seven months of online e-learning courses
03 Nov 08	Energy Community 4 th Energy Efficiency Task Force	Ministry of Energy	
6-7 Nov 08	Energy Regulators Regional Association (ERRA) Legal Regulation Working Group Meeting	GNEWRC	Sofia, Bulgaria

Quarterly Report, 3rd Quarter 2008

The Energy Capacity Initiative, Contract No. DOT-I-00-04-00022-00, Order No. DOT-I-03-04-00022-00

11 Nov 08	Energy Community Regulatory Board Electricity Working Group	GNEWRC	
17-21 Nov 08	ERRA Introduction to Gas and District Heating Regulation	GNEWRC, Ministry of Energy	Budapest, Hungary
18-19 Nov 08	Energy Community Social Forum	Ministry of Energy Ministry of Social Affairs	
20 Nov 08	Energy Community Regulatory Board Customer Working Group (tbc)	GNEWRC	
02 Dec 08	Energy Community 13 th Athens Forum Electricity	Ministry of Energy GNEWRC	Designated representative attending PHLG and relevant ECRB meetings/workshops
10 Dec 08	Energy Community 11 th Permanent High Level Group	Ministry of Energy	
11 Dec 08	Energy Community 5 th Ministerial Council	Minister, Ministry of Energy	Meeting should also be attended by the PHLG representative (as support to the Minister)

ATTACHMENT 1

Issues for Energy Sector Ministry of Energy Vision

First Priority for the GoG:

Engineering field:

- 1) Assistance to the GoG in prioritizing potential HPPs provided to Investors for construction, according to their annual output. Year round generation. Run-of-river hydropower (0.5 to 30MW). 78 sites identified by Assistance to the GoG in producing feasibility Studies for the 78 HPPs identified with good generation potential. Phased approach:
 - Conduct technical review of geology and hydrology at each site, and rank order sites in terms of highest winter production potential
 - Conduct pre-feasibility analyses of the top sites (possibly top third)
 - Conduct full feasibility studies of best sites (10 estimated)
 - Develop financial plans and promote investor awareness for ten sites

Although this is not in the scope of our current project or funding, AEAI has been involved in significant hydropower studies in Afghanistan including geology and hydrology studies in support of increasing reservoir levels, small and medium size run-of-river systems assessments and feasibility studies of all types of energy facilities. These studies have include financial planning and pre-investment due diligence. We recently performed a pre-loan due diligence assessment for a 20M Euro EBRD loan in the Ukraine. We conducted a river basin assessment for the water-energy nexus in Central Asia for USAID. AEAI is certain it can field qualified resources to perform this work and its recent work in Afghanistan can be seen as clear evidence that AEAI can perform such work under difficult and time critical circumstances. AEAI is prepared to assist in this effort as needed.

- Providing Assistance to the GoG in purchasing and installing a Gas Metering Station on the border with Azerbaijan. The existing meter is flawed and unreliable.

This appears to be beyond the scope of the current project, but AEAI has been involved in metering systems and has assisted in the procurement and installation of metering systems and could assist in this effort.

- Assist the GoG in procuring mobile emergency response equipment for the GSE. Along with the TA provide training for the especially selected group of technicians who will be formed as an emergency group, in usage of the equipment and required activities in emergency situations.

Although this appears to be beyond the scope of the current project, AEAI has assisted in supporting procurement of equipment (fixed and mobile) in support of energy systems implementation (power systems, support equipment etc.) in Armenia and other countries. We have placed and implemented, staffed and trained personnel for main power, emergency and co-generation equipment in Afghanistan and Armenia. We are currently developing a national Energy Sector Capacity Building Training program in Afghanistan that includes technical support personnel.

- Assistance in introducing new renewable energy technologies for lighting on highways, and other strategic sites.

This could be a grants project and AEAI has developed preliminary studies for such systems, including technologies, sources of supply, reliability, spare parts and sustainability in support of rural and security issues for Afghanistan. These technologies can greatly reduce energy use while providing added safety and security.

Other:

- Assisting Georgia in creating a large scale map showing Country's energy sector infrastructure based on GPS data. Possible association with Tbilisui Technical University, NGOs and/or BP.

As you know, this is already on our list of illustrative grants topics.

- Help in arranging the on job training business trips of the Georgian Energy professionals into the neighboring Country's Energy sectors. Middle management should get well introduced to each other and exchange information on Regional system related issues timely.

This would appear to be within the scope of the training and other TA to be offered under Sub-task 1.4: "The Contractor shall determine . . . what technical assistance (TA) is needed by these organizations [state- and privately-owned energy companies] and recommend TA and training based on clear demand from the organization and support, as appropriate, from the GoG." We note that working on regional issues might especially be appropriate in light of the policy in favor of regional cooperation and coordination in Task 3, and the de-emphasis of the policy element in Sub-tasks 1.3 and 1.4.

Education

- Support and incentivize studies on Energy faculty at Tbilisi Technical University by Inviting professors from well known Institutions for conducting lectures/courses in all fields of Energy and provide introduction courses into new technologies.

This appears to be covered at least conceptually by the energy sector skills gap analysis and resultant education program. If the analysis shows the need for this type of education (and the Ministry may express the need), then the education program will consider it.

- Based on international professors' assessments and recommendations, sending best students for international internships for enhancing locally gained knowledge in the given field.

This appears to be beyond the scope of our project, but we will put on our thinking caps.

ATTACHMENT 2



Treaty Establishing the Energy Community

USAID EPMI Project
Tbilisi
August 7, 2008

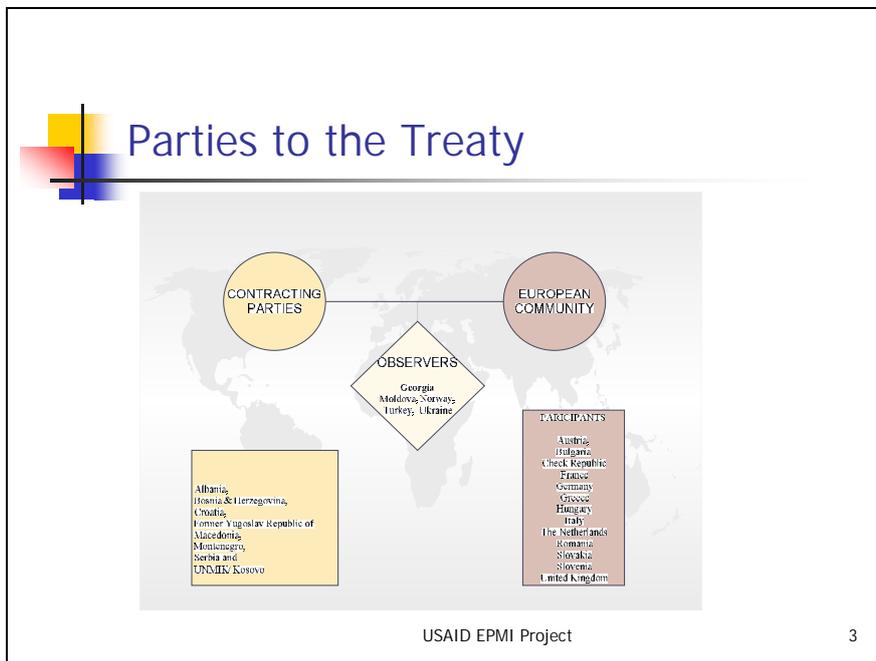


Background

- The Treaty establishing the Energy Community (The Treaty) signed on 25 October 2005 in Athens by the European Community and then nine Contracting Parties from South East Europe.
- Subsequent to ratification, the Treaty entered into force on 1 July 2006.
- Treaty paves way to a set of common institutions and a legal framework within which these institutions operate.
- Treaty defines the rights and obligations of the Parties to the Treaty.

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2





Main Objectives

Article 2 of the Energy Community Treaty specifies that the task of the Energy Community is to organize the relations between the Parties and create a legal and economic framework in relation to Network Energy in order to:

- Create a stable regulatory and market framework;
- Create a single regulatory space;
- Enhance the security of supply of the single regulatory space;
- Improve the environmental situation;
- Develop market competition on a broader geographic scale and exploit economies of scale.

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Observers

- The Treaty:

“Any neighboring third country (to the Energy Community) may be accepted as an Observer to the Energy Community. Under the Observer status, a country may attend the meetings of the institutions, without taking part in the discussions and voting.”
- Procedural Act No. 2006/04 on Acceptance of Countries as Observers to the Energy Community and Rights and Obligations of Observers

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Procedural Act No. 2006/04

Principle Rights and Obligations of Observers:

- To be represented at the meetings of the Ministerial Council, The Permanent High Level Group, The Regulatory Board, The Fora.
Representatives: 1 per meeting; up to 3 for Fora
- To receive any information distributed before, during and after the relevant meetings;
- Make statements upon request and subsequent permission by the chair of the meeting;
- To follow requirements for confidentiality;
- *No voting rights.*

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Institutions of the Energy Community

- Ministerial Council
- Permanent High Level Group (PHLG)
- Regulatory Board
- Electricity and Gas Fora
- Secretariat

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Ministerial Council

- The principal decision-making institution of the Energy Community.
- Takes the key policy decisions and adopts the Energy Community's rules and procedures.
- Composed of one representative from each Contracting Party and of two representatives from the European Community.
 - Who? Ministry of Energy representative, the Minister or Deputy Minister. *Representatives of Contracting Parties usually accompanied by a member of the PHLG*
- The Presidency of the Council is held in turn by each Contracting Party for a term of six months.

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The Permanent High Level Group (PHLG)

- The PHLG consist of senior officials from each Contracting Party and two representatives of the European Community.
 - Who? Representatives from the Ministries, senior level officials - for example, Permanent Secretary; Head of Strategy and Policy Department.
- Prepares the work of the Ministerial Council, gives assent to technical assistance requests made by donors, take Measures, if so empowered by Ministerial Council, adopts Procedural Acts.

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Regulatory Board

- Regulators from each Contracting Party and officials from the European Commission.
- It advises the Ministerial Council and PHLG on details of statutory, technical and regulatory rules and makes recommendations.
- Issues Recommendations on cross-border disputes involving two or more Regulators, upon request of any of them.

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Electricity and Gas Forum

- The Electricity (Athens) Forum advises the Energy Community on electricity issues. Composed of representatives of all interested stakeholders.
- The Gas Forum advises the Energy Community on gas issues. Composed of representatives of all interested stakeholders.
- Brings together all interested stakeholders from the industry, regulators, industry representative groups and consumers.
 - Who?: Ministries, usually PHLG representative, Regulators, TSOs, Donors, Companies
- Their conclusions, agreed by consensus, addressed to the Permanent High Level Group.
- The Athens Electricity met for the first time in 2002. The terms governing the Gas Forum were established in 2006 and Maribor, Slovenia.

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Secretariat

- Administers the day-to-day activities of the Energy Community;
- Provide administrative support to the MC, PHLG, ECRB, the For a;
- Review of contracting parties' fulfillment of obligations under the Treaty;
- Facilitates the successful implementation of the Energy Community Treaty;
- Ensures that the Energy Community's budget is correctly spent and accounted for;
- Located in Vienna; as of April 2008 consists of a staff of 16 originating from 9 different countries.



Commitments of the Parties I

For Contracting Parties: Implementation of core parts of the EC acquis communautaire, both sectoral and general:

- The Acquis on Electricity
- The Acquis on Gas
- The Acquis on Environment
- The Acquis on Competition
- The Acquis on Renewables

The Contracting Parties are required to adopt plans with a view to bringing their energy sectors in line with generally applicable standards of the EC.

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Obligations of the Parties II

Addressing Contracting Parties as well as EU Member states connected to the Region (Austria, Bulgaria, Greece, Hungary, Italy, Romania, Slovenia)

- mechanisms for long-distance transportation of Network Energy;
- adopting security of supply statements;
- efforts on harmonization of market designs,
- mutual recognition of licenses;
- a framework for safeguard measures in the event of a sudden crisis.

Addressing the Contracting Parties as well as the entire European Community

- Provides for the free movement of network energy and allows for further measures to be taken with a view to creating a single energy market.
- Provides for establishment of an external energy trade policy and a mechanism of mutual assistance between the Parties in the event of energy disruption.

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Implementation of Acquis

Acquis on Energy

- Electricity Directive 2003/54/EC
- Natural Gas Directive 2003/55/EC
- EC Regulation on conditions for access to the network for cross-border exchanges in electricity 1228/2003/EC

Acquis on Environment

- Endeavour to accede to Kyoto Protocol
- Directive 85/337/EEC
- Directive 1999/32/EC
- Directive 2001/80/EC
- Article 4(2) of Directive 79/409/EEC

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Implementation of Acquis I– what does it mean? Cont.

Acquison Renewables

- Directive 2001/77/EC
- Directive 2003/30/EC

Acquison Competition

- Implement the Articles 81, 82, 86(1),86(2) and 87 of the Treaty establishing the European Community

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Recommendations

- Designate 1-2 people who will be attending the relevant meetings. Often changes of representatives are not recommended.
 - EMPI Project needs this information to create list of institutions who participate in the relevant meetings and their representatives
- Coordination and communication between institutions is important. Sharing of information, documents, lessons learned etc. is necessary for successful representation (and for Contracting Parties, a requirement for successful implementation of the requirements).
 - EMPI will compile a list of meetings and distribute. For some meetings the decision on necessity for attendance may be made subsequent to further information about the agenda.

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