



USAID
FROM THE AMERICAN PEOPLE

QUARTERLY REPORT 2ND QUARTER 2009

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



15 JULY 2009

This publication was produced for review by the United States Agency for International Development. It was prepared by Advanced Engineering Associates International, Inc. (AEAI)

Quarterly Report, 2st Quarter 2009

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

ON THE COVER: Project Management Workshop for Energy Professionals and Educators – Dr. Hameed Nezhad

QUARTERLY REPORT

2ND QUARTER 2009

**THE ENERGY CAPACITY INITIATIVE (ECI), 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 (ECI), 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 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 third Quarterly Report submitted for the ECI Project.

TWO IMPORTANT EVENTS

At the outset, this report addresses two important events that took place during the third quarter of 2008 which has had a continuing impact on the scope and timing of ECI project tasking.

- First, in July 2008 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 request it. USAID communicated the input from Prime Minister on policy advisory support to ECI, with the result that the project was partially redirected and the previously submitted work plan revised. A major objective of the original project scope was to improve the policy capabilities of the energy sector. The Prime Minister's directive dictated a major change of emphasis in the already defined grants program. In part to reflect this change in project direction, on 27 August 2008 USAID's Regional Contracting Officer (CO) approved a change in the name of the project from Energy Policy and Management Initiative to the Energy Capacity Initiative (ECI).¹

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

- The second major event occurring prior to the fourth quarter of 2008 was Georgia's armed conflict with Russia in August. During the conflict ECI project relocated its expatriate short-term consultants and Chief of Party (with his family) to its office in Armenia. Due to the uncertainty of the situation and the inability to complete the interviews and tasks requiring access to GoG and Georgian commercial company personnel it was decided in the best interests of project costs to have the short-term consultants (Dr. Hameed Nezhad and Lejla Uzicanin) return home and with the expectation that they would resume their work once the situation in Georgia normalized. This resulted in delays the work planned for the third and fourth quarters of 2008 and beyond. In addition, the launch of the grants programs were postponed and since Georgia was subsequently in a "post-conflict" situation the focus of the energy strategy related grants program necessarily was impacted and was redesigned to recognize this change in circumstances and the direction of the Prime Minister.

IMPLEMENTATION OF CURRENT ACTIVITIES BY TASK²

Work Plan

At the end of June 2008, ECI submitted a revised Year One 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 27 July 2008. USAID focused its comments in particular on the methodologies to be employed by ECI 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. Subsequently ECI and USAID discussed the methodology issues and reached a tentative agreement on the approaches to be taken under the respective project activities. These agreements were reflected in a revised draft Year One Work Plan (narrative statement and spreadsheet) submitted by ECI to USAID on 25 August.

ECI submitted a revised Year One Work Plan package to USAID on 29 August 2008, to reflect the change in the project's name. The Year One Work Plan was again revised to reflect input from USAID and the changes in the situation in Georgia relative to the energy sector in the initial "post-conflict" and a revised draft with project status information included was submitted for comment to USAID on 29 December 2008. ECI is following the general outline of tasks presented in the current draft Year One Work Plan work plan and is in regular communication with USAID concerning timing of tasks and deliverables as the needs of the GoG change in this dynamic period.

ECI submitted a draft Year Two Work Plan package to USAID on March 18, 2009 to document progress made in Year One of the project and to detail the work planned for Year Two of the project. This plan reflects the impacts of both the Prime Minister's direction on Policy support and the conflict with Russia on the objectives and tasking of the ECI project. ECI is following the general outline of tasks presented in the current draft Year Two Work Plan work plan and is in regular communication with USAID concerning timing of tasks and deliverables as the needs of the GoG change in this dynamic post conflict period.

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

Performance Monitoring Plan (PMP)

On 11 June 2008 ECI submitted the draft PMP and supporting documentation to USAID this PMP was revised to align with the Year Two Work Plan and was included as an attachment to the Year Two Work Plan.

Branding Implementation and Marking Plan

ECI submitted its draft *Branding Implementation and Marking Plan* to USAID for CTO approval on 13 June 2008. In mid-July 2008, USAID commented on the draft *Plan* and ECI submitted a revised *Branding Implementation and Marking Plan* incorporating the comments on 29 July 2008. After additional comments from USAID, ECI submitted a final *Plan* for CTO approval on 9 August 2008. On 29 August, ECI resubmitted the *Plan* to reflect the changed name of the Project.

On an issue related to branding and marking, by memorandum dated 8 August 2008 ECI requested guidance from USAID as to an apparent conflict between the requirements of the Graphics Standards Manual and those of the ECI contract relating to the contents of the cover page of Project documents. USAID guidance provided to ECI in the 4th Quarter of 2008 was that the USAID Graphics Standards Manual applies to all formally required submittals (e.g. ECI Quarterly Reports) and that the ECI Branding Implementation and Marking Plan applies to all other formal document submittals made to USAID.

Public Outreach. In August 2008, ECI 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. ECI took the web site live during the first week in September. ECI, has used the website to announce and update information related to project activities such as the evolving grants topics issue and the scholarship programs.

Personnel. In December AEAI replaced Mr. Watkins as the Chief of Party (COP) for the ECI project. This was an AEAI management decision based upon internal issues related to the AEAI's concerns regarding the performance and actions of Mr. Watkins and the evolving situation/needs of the ECI project following the armed conflict between Georgia and Russia. Mr. Watkins was replaced as COP by Mr. Charles A. Burge. Due to the decision of the GoG to proceed to Membership status in the Energy Community, ECI increased the participation of Ms. Uzicanin through additional trips to Georgia in order to address the additional support requirements needed in this area. We anticipate that additional short term support will be needed in the second and third quarters of 2009 to adequately prepare the GoG for negotiations with the EC Secretariat. In this quarter, the CCN Grants Manager resigned and was replaced by Ms. Sophio Barrett. ECI contracted for legal support and hired local staff (Marina Imedashvili) to support the review of existing laws and regulations that would be most important to the GoG as it prepares to become a full member of the Energy Community.

Task 1: Policy Analysis and Dialogue

Sub-task 1.1. Independent Policy Analysis through Grants

ECI initiated the grants program in the early part of the third quarter of 2008 with a briefing for prospective grants applicants on 3 July 2008. Earlier, ECI had identified universities, nongovernmental organizations (NGOs), and think tanks that might be interested in applying for grants.

ECI concluded the briefing/workshop by confirming that the grants program would launch on 11 August 2008 as previously advertised.³ On 7 August 2008 ECI 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.

However, the launch did not take place as scheduled because of the conflict with Russia. With USAID's concurrence, ECI advised the community of prospective grants applicants by email that the grants program launch would be postponed until further notice. ECI subsequently revised the grants program to align with the "post-conflict" needs of the GoG. In particular, topics that related to Georgia's energy security and those relating to conservation of energy resources were highlighted.⁴ ECI, therefore, conducted a revision of appropriate topics/issues and prepared revised drafts for review and comment by USAID and the Ministry of Energy (drafts submitted on 27 August, 3 September, and 26 September 2008). 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, ECI submitted a revised Grants Manual for review and comment to USAID, with the new name of the project.

The revised program was re-launched in October 2008 and ECI received 38 grant applications in response to the request for proposals. The Ministry provided ECI with their assessment of which grant proposals were not considered to be a priority for the GoG at this time and the Technical Evaluation Committee (TEC) completed the review process based upon a prioritization of the grants by topic. Interviews were held with the top grant proposal candidates and six grant proposals were selected for final negotiations. Grant Agreements were negotiated and final version of the grants submitted to USAID at the end of this reporting period.

The selected grants were contracted and work commenced for the six awarded grants in this quarter. A summary of the progress of these grants follows:

ECI-GA-01 Development of the Emergency Management Action Plan and Regulatory Basis for Georgian Energy Sector

The consortium has finalized working on task 3 which was oriented on research on Energy emergency response experiences in the world, namely the US, Europe and CIS countries. Within the scope of the task, the grantee has used different methods of research: online, personal contacts abroad, interviews, correspondence with different energy organizations abroad etc. Three main directions were outlined: collaboration between difference

³ ECI reported to USAID on the 30 July 2008 workshop in its *Memorandum on Energy Sector Grants Workshop* (7 Aug 2008).

⁴ Shortly after the active conflict with Russia ended, the Ministry of Energy presented a list of items, or a "vision," consisting of GoG's urgent energy sector needs in light of the conflict.

government structures during emergencies, International collaboration during emergencies and customers and companies during emergencies.

Next task, energy emergency classification has been completed early and the report has been submitted to ECI. The report provides an in depth information about electricity and natural gas sector emergencies on regional and local levels, defines emergency situation stages, energy security, customer groups.

The grantee has met with the Energy Emergency Working Group at the Ministry of Energy of Georgia and discussed the directions of the project. The project team was advised by this group from the Ministry's perspective and an agreement was reached on collaboration between the consortium and the group. At the meeting it was decided that working on action plans for emergency situations should start from the energy sector and not from the state level.

The seventh task that the grantee has started working on developing emergency scenarios for electricity and natural gas sector. The report for this task is not due until the end of the seventh month. The grantee has started working on this task with Georgia's natural gas sector.

ECI-GA-02 Highway Lighting Using Solar Energy

Assessment of Gori-Igoeti Highway has been carried out to determine the technical conditions of the section of the highway where the lighting systems would have to be installed. The grantee has visited the site multiple times, photographed the highway section and compared the gathered information with aero photographs of the section of the highway which was obtained from the Department of Roads and Transportation.

The grantee has carried out a comprehensive research on lighting standards, modern lighting systems, system and component specifications also developed switching schemes for solar sets and options on integrating them into conventional lighting systems. This process is still in process and is being updated with obtained information regularly.

Criteria for the selection process of the equipment has been developed based upon: Efficiency, price, durability and environmental impacts.

The optimal composition of lighting equipment based on results of technical and economical analysis is not fully complete due to the vast information about possible options. Because of this the grantee has already started communicating with possible providers and discussing available options which will allow the project to have a comprehensive full list of available equipment. The list of providers the project has been corresponding with includes: BP Solar, Solara, Kyicera, Unirac and Sunny Boy.

The grantee is currently working on determining procurement data; assessing installation work scope, procedures and installation times based on collected information.

The grantee has been communicating with the Ministry of Energy and the Department of Roads and Transportation on the section of the Highway beyond Igoeti which is not under construction yet. With ECI assistance the grantee was able to find out that the project for that

section of the Highway has been developed and is ready for a tender but is not available for public until the tender is finished.

ECI-GA-15 Lemniscopter Turbine Driven Micro Hydro Power Unit

The grantee has been working on hydrodynamic calculations and strength analysis of the runner blade and specific parts of the hydraulic unit. The report on the results of the hydrodynamic calculations has been presented to ECI.

The second task for the reporting period is on the second stage of its completion and includes determining technological specifications of the unit parts and detailed drawings. A list of specifications of the unit parts has been developed providing information on necessary quantities of parts, descriptions and specifications. The grantee is in process of working on detail drawings of these parts. At the same time the works on purchase orders and subcontracts is being carried out as well as actual manufacturing and processing works. All of these tasks are being carried out at simultaneously and the grantee will continue to work on them until the eighth month of the project.

ECI-GA-16 "Energy Online" – Online Energy Information Journal

A technical team has been assembled and tasks assigned. Domain has been registered. The main part of the website www.energyonline.ge has been created and menu, tools and components regulated and launched.

The grantee has established the Editorial Board for magazine and forum; 13 experts have been included in the Board among them research workers, engineers and economists.

Populating the website with information has started.

Working meetings were held with the members of Energy Academy, Georgian Technical University energy engineering department and were informed about the journal and proposals were made for cooperation and registration on the website.

Establishing contact with partners and stakeholders is a task which has starting in the third month of the project and will continue until the end of the project. The project director has just returned from Azerbaijan where he held working meetings with potential stakeholders and future contact persons.

ECI-GA-20 Potential of the Wood Energy Resources of Georgia and Its Effective Application

The planned activity to be completed by the third month of the project was study of legal and institutional environment applicable to wood fuel production and supply. The report has been submitted to ECI. A significant part of this task was completed in the second month of the project.

The grantee has started working on the overview of environmental and social aspects of wood fuel production and supply. The report which has already been submitted to ECI includes detail information on aspects of environment assessment and social aspects in regards of wood fuel.

The works have been started for designing technical methodology for local wood fuel production including technical and economical documents which will be marked by a demo project at the end of the fifth month of the project, which will also be the end of the first stage of the project.

ECI-GA-26 Cleaner Energy for IDPs

The grantee has established contacts with other international organizations working on IDP issues and obtained necessary information from them. A list of target IDP settlements has been developed and geographical and climate information on these settlements has been gathered. With the purpose of obtaining energy consumption information for IDPS, the project team has approached the Ministry of Energy of Georgia and has been provided with the necessary information.

The grantee has visited four IDP settlement sites with a purpose to assess current conditions and energy supply patterns. "General description of buildings in new IDP settlements" has been submitted and works on defining renewable energy potential of the IDP settlements have started.

Project team has established contact with the Ministry of Refugees and Accommodation of Georgia. The grantee has shared the developed criteria for selection of the IDP settlements with a new contact Ms. Julia Kharashili and is waiting for the feedback from the Ministry.

The project team has developed a market study structure. This task was planned for the fourth month of the project but was started earlier than planned. The first draft of the report on Market Study for Renewable and Energy Efficient technologies has been submitted to ECI.

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 ECI (as opposed to grantees under Subtask 1.1). We discuss each of these activities in turn.

Energy sector database. As stated in the contract, ECI 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.

During the third and continuing into the fourth quarter of 2008, ECI's short-term IT expert conducted a preliminary assessment of the data needs and data bases in use in the energy sector.

During the fourth quarter of 2008 it was determined that another USAID funded project (SYNERGY) had specific responsibilities related to energy sector data collection and assessment (modeling) and decision support. An initial meeting with the SYNERGY project was held and a description of the data sets needed to support the modeling tool to be

used (MARKAL/TIMES) was provided to ECI. Consequently and with input from the Ministry and USAID, to avoid possible duplication of efforts between SYNENERGY and ECI further assessment and analysis in this topic area was put on hold until after then next visit by the SYNENERGY project team to Georgia. This visit occurred in March of 2009 and additional reference materials were provided to ECI. These materials were reviewed and the database work will remain on hold until the SYNENERGY project data assessment is completed.

Energy sector policy dialogue organized by ECI. Under its contract, ECI was not to commence work on this Sub-task until after grants are awarded under Sub-task 1.1. ECI has, therefore, now begun to address the needs for dialog as required by this Sub-task and in its first outreach event provided a detailed workshop/strategy development panel discussion session on Hydro Power Investment. This session was attended by over forty energy sector experts, professionals and investors. Mr. John Gulliver of Pierce Atwood and Mr. Kenneth Weiner of Nixon Peabody provided expert input and workshop leadership for this event and First Deputy Minister Mariam Valishvili represented the Ministry on the panel. A series of pre and post workshop meetings were held with key energy sector investment stakeholders (USAID, World Bank, IFC, EBRD, KfW, ADB, Ministry of Energy, GNEWRC). A report detailing the findings of this event was to be provided to USAID in early July 2009.

Sub-task 1.3 Demand-driven Technical Assistance and Training to Support Policy Analysis, Policy Development, and Policy Implementation and Sub-task 1.4 Assistance to State-Owned and Private Companies

In discussions with USAID in July 2008, ECI formulated an acceptable methodology for its assessment of energy sector institutions. The preliminary reviews and assessment assignments were initially divided between three international short-term experts.

For Sub-task 1.3, the GoG assessments were focused upon the two key institutions – the Ministry of Energy and the regulator, newly-designated the Georgian National Energy and Water Regulatory Commission (GNEWRC).

For Sub-task 1.4 ECI interviewed a number of electricity and natural gas sector enterprises in June and July of 2008, briefing management of the companies on the assessments to be undertaken and soliciting expressions of interest. The Electricity System Commercial Operator (ESCO) and Georgia State Electrosystem (GSE) responded positively to ECI's assessment offer, and with USAID's approval, ECI selected the two enterprises for assessment.⁵

On sub-task 1.3, short-term consultant Leszek Kasproicz commenced ECI's assessment under this Sub-task upon his arrival in Georgia in early July 2008.⁶ Mr. Kasproicz first

⁵ ESCO had been scheduled for an assessment by FORECAST/Caucasus under its Human and Institutional Capacity Development methodology at about the same time that ECI was to begin its assessment. With USAID's consent, FORECAST deferred to ECI on the ESCO assessment.

⁶ ECI 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 of 2008 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 ECI defer its assessment until September 2008. ECI therefore selected GNEWRC for the initial GoG assessment.

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. Kasproicz 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. Kasproicz also secured and reviewed records pertaining to internal operations, personnel rules, and staff and commissioner training.

Shortly before Mr. Kasproicz's began his assessment the Government directed GNEWRC to move to Kutaisi, some three and a half hours drive from Tbilisi. A significant number of staff members decided not to make the move, and the interview situation was further complicated by vacations scheduled for August. and, later, by the conflict with Russia. Mr. Kasproicz revisited GNEWRC during his October 2008 trip to Georgia to update his assessment after GNEWRC's move to Kutaisi. Follow-up meetings with GNEWRC to confirm the information collected and initial assessments made were held in December by short term consultant Ms. Lijla Uzicanin. Clarification of issues additional input was provided by GNEWRC during Ms. Uzicanin's 1st Quarter 2009 trips and the draft report was reviewed by the Chairman and his staff and completed in March.

During his October 2008 trip Mr. Kasproicz interviewed and assessed the Ministry of Energy for this sub-task. Mr. Kasproicz completed his report of the interviews and assessments from his home office and submitted them to ECI in November 2008. Subsequent, interviews by Ms Uzicanin with the Ministry of Energy counterparts during her December trip indicated that a number of issues needed to be clarified and that more interviews would be needed to properly assess the needs for the Ministry. Some of these additional interviews were conducted during Ms. Uzicanin's two trips to Georgia in 1st Quarter of 2009. The details of the Ministry of Energy assessment will be completed during the conduct Emergency Planning Grant work and as a component of the EC Membership assistance that is described later in this report.

Regarding Sub-task 1.4 assessments, short-term consultant Stanley Graves arrived in Georgia to commence his assessments of ESCO and GSE in mid-July 2008. Mr. Graves reviewed pertinent documents and then interviewed the General Director and nine managers of ESCO. As he conducted these activities, Mr. Graves prepared his trip report reflecting his assessment for ultimate use in the ECI assessment report.

Mr. Graves also commenced ECI's assessment of GSE, meeting with the General Director and additional managers prior to turning the field work over to ECI short-term consultant, Ms. Lejla Uzicanin. 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 was relocated to AEAI's Armenia office and then sent back home before the end of her scheduled trip and the completion of all the required interviews and assessments.

Mr. Graves submitted his interview and assessment input to ECI in October 2008 and Ms. Uzicanin conducted further meetings with GSE during her October 2008 trip to Georgia. During Ms. Uzicanin's December 2008 trip she was assigned overall Subtask 1.3 and 1.4 reporting coordinator and in this role she conducted follow-up interviews with all the counterparts as well as worked on developing a consistent and concise format for the

assessment report itself. Due to the timing range of interview follow-up that has been determined to be required, it was decided to provide reporting in two stages. ECI is providing individual reports to USAID for each entity assessed. Prior to this each assessment is having the counterpart review the draft reports.. ECI will consolidate key information from the individual preliminary reports into a single overall summary assessment report after review and concurrence input on the preliminary reports from USAID.

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 several scholarships for graduate energy studies in the United States.

Georgia energy sector graduate level educational program. ECI introduced the higher education program to representatives of Georgian universities at the 3 July 2008 briefing (described earlier as to the grants program). After presenting the grants program material, ECI 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. Subsequently, ECI began meeting with local universities to follow up on the briefing and to collect information about the universities and their programs for review by ECI's education experts.

ECI 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 2008, culminating in an agreement in principle on the form and content for the methodology. ECI submitted its draft *Professional Skills Gap Analysis Methodology Report* to USAID for review and comment on 4 September 2008. During this 2nd quarter of 2009 ECI:

- Conducted a workshop on Managerial Problem Solving and Decision Making Methods for over sixty educators and energy sector professionals. This workshop was conducted two times: (1) on April 29 – 30, 2009 the training was conducted for deans of universities (Akaki Tsereteli State University; Technical University of Georgia; Ivane Javakhishvile Tbilisi State University; International School of Economics at Tbilisi State University; Tbilisi Ilia Chavchavadze State University; International Black Sea University; Tbilisi G. Robakidze University; Tbilisi University of Economic Relations; Tbilisi State University of Economic Relations and Law; Caucasus University; University of Georgia; Free Universiti of Tbilisi); (2) on May 4 –

5, 2009 the training was conducted for Georgian government and private sector representatives (Ministry of Energy; GNEWRC; GSE; Electricity System Commercial Operator; Energo-Pro; Telasi). The training workshop addressed managerial problem solving and decision making methods as well as software tools for managerial problem solving and decision making.

- Completed plans for US based workshop (grant) for Educators and Energy Professionals to be held in mid July 2009. at University of Wisconsin, Madison Campus.
- Completed the selection of four candidate programs based upon the RFA for the local Graduate level education program and finalized Grant Agreements with the four Grantees.

US scholarship program.

August 2008 ECI 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, ECI prepared a package of scholarship program documents, including instructions and a form of application. ECI also submitted drafts of these documents to USAID for review and comment, and ECI 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 2008. ECI launched the program on 15 September 2008. In October the scholarships were clearly established as to be for a two year advanced degree program in energy.

With USAID input and concurrence it was decided to set the number of US Scholarships to be awarded at three and the process of scoring candidates based upon profile/testing was finalized and was used to select the finalist for this program. Five finalists were selected by the review committee and ECI is assisting them in applying to the selected US University programs for the fall semester of 2009.

The first three candidates were successful in their applications and have been awarded scholarships at three different Universities (University of Wisconsin; University of Minnesota; New York Institute of Technology) in the USA.

In the 2nd Quarter of 2009 ECI has prepared for the scholarship winners travel, visas, and other general logistics for their attendance at the three Universities.

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

Under Task 3, ECI is to support the attendance of Ministry of Energy and GNEWRC representatives at the meetings of the Athens Energy Community (EC). ECI 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, ECI's expert on the Athens Energy Community Treaty, visited Georgia in late July 2008 to begin ECI'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 ECI met with representatives of the Ministry of Energy, Georgia Oil & Gas Corporation, Georgia State Elektrosystem, and USAID on 7 August 2008 so that Ms. Uzicanin could present the basics of the Energy Community Treaty.

In August 2008, the Ministry of Energy requested that ECI 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 request. ECI will submit the analysis requested by the Ministry as a component of its support for the GoG becoming a full member in the Energy Community.

ECI continued its support of the GoG attendance at meetings of the Energy Community (including the EC's Ministerial Council, High Level Working Group, Regulatory Board, and Electricity and Gas Fora) in this quarter.

During the 2nd Quarter, ECI supported, in whole or in part, attendance at regional energy initiatives by Georgia representatives as follows:

April 14 - 22	Speaker at energy/pipelines conference; Presenter at Caspian Strategy prospects	Giorgi Vashakmadze, World Experience Georgia	Harriman Institute of Columbia University, New York, NY; Jamestown Foundation, Washington, DC
April 28 – May 1	Energy Community Workshop on renewable energy	Maia Avaliani - Deputy Minister's Assistant, Ministry of Energy	Athens, Greece
May 4 – May 7	National Energy Efficiency Action Planning for Building, Energy Efficiency Task Force meeting	Maia Makharashvili- Lead specialist, Ministry of Energy	Vienna, Austria
May 11 - 13	14 th Electricity forum, Energy Community	Maia Avaliani - Deputy Minister's Assistant, Ministry of Energy	Vienna Austria
June 13 - 22	Residential and E- learning course on	Irma Kavtaradze – Commissioner,	Florence, Italy

	Energy Utilities regulation, School of Regulation	GNERC	
June 24 – 27	PHLG Meeting and Ministerial Council	Nana Gurgendidze- Head of International Relations and Investments Dept. Mariam Valishvili – First Deputy Minsiter Ministry of Energy	Sarajevo, Bosnia - Herzegovina

During the 4th Quarter of 2008 the Ministry expressed its interest in understanding what it would require to become a full member of the Energy Community and in the 1st Quarter of 2009 the Minister requested support for this activity and the specifically to have Ms Uzicanin provide support for their Membership negotiations. ECI will provide this support as requested up to the limitation of our currently allocated LOE (80 days) for Ms. Uzicanin for year two of the project. She will also support and assist in the assessment of the Ministry's obligations related to a number of treaties and agreements that was requested earlier by the Ministry. ECI provided a statement of work and plan for this support but was informed that no additional funding would be provided at this time. Consequently, this was taken into account during the development of the Year 2 Work Plan and the development of ECI's request for budget realignment. During the 2nd Quarter Ms. Uzicanin provided both pre and post Energy Community meeting advisory support in this capacity.

It should be understood that the support for the full period of Membership negotiation and Membership advisory support subsequent to the negotiations would require a much greater level of support than is possible in our current budget. In addition, the probable timeline for membership processing (now through mid/late 2010) with the considerable work of membership commitment implementation that would follow their membership acceptance would extend their need for advisory support for a number of years beyond their membership acceptance date. ECI feels that this support would require not only Ms. Uzicanin's knowledge and process oversight, but also the expert advisory support from a number of local and international experts. ECI discussed the details of the Minister's request for support with the Ministry and developed a number of support options for USAID consideration.

ECI has established a team to review the Georgian laws and other obligations regarding the energy sector with a priority on those that will possibly need to be revised to meet EC membership requirements.

PROBLEM AREAS

Delays caused by the conflict with Russia. The August 2008 conflict between Georgia and Russia has caused delays and reorientation in nearly all areas of the project. Following the conflict which began on 7 August 2008 ECI had to relocate two of its short-term expatriate consultants and the COP and his family to our office in Armenia. We then sent the short-term expatriate consultants home because they could not meet with counterparts or

conduct their assessments and it was determined that this action would minimize project costs. The conflict created a period during which travel to Georgia by our experts was prohibited and during which, therefore, ECI could not make progress on project objectives. ECI addressed the possible delays in project implementation caused by the conflict in its draft work plans submitted on 25 August 2008, to the extent that such delays could then be identified. This impact has been further clarified in our latest Year One Work Plan submittal of 29 December, 2008 and our Year Two Work Plan submitted on 18 March 2009. The Work Plans submitted have not yet been commented upon by USAID. ECI is working on the project based upon the most recently submitted work plan draft and will continue to maintain regular dialog with the project CTO and USAID mission management as the current post conflict situation evolves.

Redesign of the grants program. As discussed above, ECI 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 ECI focused (in consultation with USAID and the Ministry of Energy) on topics more vital to Georgia in the post-conflict environment. Consequently, the grants program initiation process was delayed until October 2008.

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

Another problem that needs to be clearly addressed is the role and independence of the regulator. ECI recommends that we simply acknowledge the doubt regarding GNEWRC's authority, and continue 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. It is expected that the GoG's focus on becoming an energy exporter will necessarily result in the needed changes in this regulatory problem area due to investor and international funding entity (e.g. EBRD, WB, IFC) input and mandates related to maximizing the potential for investment in new renewable energy sources.

Limitation on Support for Task 3 Energy Community Membership

The project contract and funding anticipated this support to only consist of Year 1 activities. The GoG's decision to apply for full membership cannot be fully supported (advisory support or meeting support) from the current budget. A realignment of the budget will be required just to provide immediate support (through Q4 of 2009) for the membership negotiations. Additional support will be needed for such activities as the development of a grid code and although such support is within the scope of this contract these support elements are not funded in the current budget.

ANTICIPATED ACTIVITIES FOR THE COMING QUARTER

As reported in the ECI Year Two Work Plan (17 February 2009 draft), the program anticipates the following activities during the third quarter of 2009.

Overall Program

Gain approval for ECI Year Two Work Plan.

Task 1 Policy Analysis and Dialogue

Subtask 1.1: Independent Policy Analysis through Grants

Continue grant program by initiation of the second round of grants and management of the tasks and activities of the first round of grants.

Sub-task 1.2 Independent Policy Dialogue Organized by the Contractor

Energy sector database

Collaboratively continue the assessment of the energy sector data needs based upon prior data and user assessments and surveys using the input from SYNENERGY project and propose a short term solution to the current data/information energy sector challenges.

Develop the recommendation for a sustainable energy sector database.

Energy sector policy dialogue organized by ECI

ECI will continue to work on this subtask during the third quarter 2009, through the use of the ECI Project website and the Energy Journal website as well as through targeted training and workshop sessions.

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

Continue to prepare and submit the Reports on Organizational Assessments and prepare the Plan for Technical Assistance and Training by major organizations.

With USAID approval, continue to provide technical assistance and training programs.(workshops, seminars and institutional course development).

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

Continue to prepare and submit the Reports on Organizational Assessments and prepare the Plan for Technical Assistance and Training by major organizations.

With USAID approval, continue to provide technical assistance and training programs (workshops, seminars and institutional course development).

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

Labor skills gap analysis

Continue to integrate results of the Professional Skills Gap Analysis and assessments into the appropriate program of workshops and training sessions.

As appropriate, assist grantee Universities in the design of their graduate education program(s) to address the priority skill areas identified in the gap analysis with the greatest market demand not met by current or planned university programs.

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.

Energy Scholarship Program

Prepare the three top finalist for their program at selected Universities in the US.

Develop the local higher education programs that includes US based energy program specific training for educators and specialists (train-the-trainers).

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

Expand the attendee participation in the 2009 Energy Community Meetings.

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

Continue to work with GoG/GNEWRC to review roles and responsibilities respecting the Energy Community process and other regional energy issues, to more completely present the benefits and impact of membership.

TRAVEL OF SHORT-TERM ADVISORS TO GEORGIA

During the third quarter of 2009, ECI expects the following short-term advisors to travel to Georgia:

Name	Month(s)Expected	Purpose of Trip
Lejla Uzicanin	September - November 2009	Provide expertise in assisting the GoG in EC pre membership activities plan for participation in regional/international initiatives under Sub-task
Hameed Nezhad	November 2009 Plus work from USA in support of scholarship participants and educators	Provide expertise in the development of local educational programs and scholarships prepare report on skills gap analysis

TRAVEL OF GEORGIA OFFICIALS TO REGIONAL EVENTS OR EUROPE

ECl expects to support attendance by key Georgia officials at the Energy Community meetings during the next quarter,

ATTACHMENT 1

**Performance Monitoring Plan (PMP) AND EXPLANATIONS OF INDICATORS FOR PMP
 ECI CONTRACT NO. DOT-I-00-04-00022-00, ORDER NO. DOT-I-03-04-00022
 Year 1-3 revised 12-01-09**

AEAI ECI Performance Monitoring Plan (PMP)			
Program Outcomes	Program Expected Results (ERs)	Results Indicators	Records of Performance or Source of Data
<p>Outcome 1: Energy Issues and Dialogue</p> <p>1. 1. Energy issues analysis through grants award Program;</p>	<p>1..1. 1 Capacity of potential grant applicants improved</p> <p>1.1.2 Direct grants to NGOs, think tanks and universities to undertake research and analysis awarded;</p> <p>1.1.3 Monitoring methodology for Grant program prepared and implemented</p>	<ul style="list-style-type: none"> • Topics for Grants program identified in consultation with GoG and USAID. • 2 training workshop for potential grants applicants. Number participants up to 60; • at least three grants awarded in the first year to NGOs, think tanks and or Universities; • At least three grants awarded during the second year • Regular Monitoring Plan approved by the USAID; 	<p>Grant-making Manual (including evaluation criteria) developed</p> <p>List of Policy Topics and Activities</p> <p>Draft manual;</p> <p>Workshop materials, presentations.</p> <p>Pre-bid workshop memo. Grantee records and reports;</p> <p>Grant evaluation reports</p> <p>Monitoring reports</p>
<p>1.2. Independent policy dialogue organized by the ECI</p>	<p>1.2.1 Energy Sector Database .</p> <p>1.2.2 Important energy issues not addressed by grantees identified.</p>	<ul style="list-style-type: none"> • Develop questionnaire • Potential data users determined • Establish preliminary data list <p>If creation of the database is determined to be feasible and useful, design database, populate database, and develop a plan with counterparts for database maintenance.</p> <ul style="list-style-type: none"> • Plan to address energy issues approved by USAID. • Organization of training workshops (on demand) with participation of 50 participants • 	<p>Report on database</p> <p>Database accessible through Internet for grant applicants, policy maker and general public.</p> <p>List of topics on policy issues;</p> <p>Workshop/conference materials, list of participants, reports.</p>

Program Outcomes	Program Expected Results (ERs)	Results Indicators	Records of Performance or Source of Data
<p>1.3. Demand-driven Technical Assistance and Training to support Policy Analysis, Policy Development and Policy Implementation;</p>	<p>1.3.1 Assessment methodology developed</p> <p>1.3.2 Training plan for top energy policy makers from Government institutions on demand from these institutions;</p> <p>Impact assessment of completed TA and Trainings for year 2 Update Training Plan for year 3</p>	<ul style="list-style-type: none"> • At least two Governmental Organizations, one, regulatory body, 2 state utilities and civil society organizations undertaking capacity assessments as a result of USG assistance <p>Training Plans were approved by the beneficiaries and USAID;</p>	<p>Reports on human and institutional capacity assessments of GoG.</p> <p>Draft Training Plans Impact assessment reports</p> <p>List of training participants</p>
<p>1.4 Assistance to State-owned and private companies on their demand</p>	<p>1.3.1 Assessment methodology developed</p> <p>1.4.1 Plan for capacity building in the State owned energy Companies</p>	<ul style="list-style-type: none"> • Plan was approved by the beneficiaries and USAID; • Capacity of at least two state owned companies (GSE and ESCO) improved • Capacity of at least 2 private energy company improved 	<p>Report on human and institutional capacity assessments of the State Owned Companies.</p> <p>Training materials and List of participants</p>
<p>Outcome 2: Higher Education Programs to Supply a Professional Workforce for the Energy Sector</p> <p>2. 1. General/strategic management skills developed in the energy sector workforce,.</p>	<p>2.1.1 skills gap analysis in Energy Sector;</p> <p>High Education Grant Award</p> <p>2.1.3. Training plan to train local faculty in delivering curricula and courses;</p> <p>Capacity building of the selected high education institutions</p>	<ul style="list-style-type: none"> • Methodology for skill gap analysis survey prepared and approved by the USAID • At least 200 persons participated in survey • Skills gap analysis report approved by the USAID and the Ministry serves as a basis for the development of an action plan and Graduate Program • Training Plan was approved by the Ministry of Energy, USAID and Partner Universities • 5-10 lecturers trained in the preparation of modern curricula; 	<p>Report on survey methodology. questionnaires</p> <p>Report on skill gap analysis.</p> <p>Action Plan</p> <p>Training materials. List of participants.</p> <p>List of participants, training materials</p> <p>Draft of curricula and study materials</p> <p>Workshop, TECI reports</p>

Program Outcomes	Program Expected Results (ERs)	Results Indicators	Records of Performance or Source of Data
<p>2.2 Technical management developed in the energy sector workforce</p>	<p>2.2.1 Scholarship and Internship program implemented ,students supported, and certificates and degrees issued</p> <p>2.2.2Outline of Competitive process for US scholarships</p> <p>Training Plan for Education Institutions</p> <p>2.2.3 Outline of Competitive process for Local Scholarship</p> <p>Education Program Sustainability Plan</p>	<p>Higher Education Scholarships awarded and managed for at least 55 students, including 3 in the USA and at least 50 in Georgia</p> <p>Selection criteria for US scholarship prepared and approved by USAID and the Ministry</p> <p>Relevant universities for US Scholarship Program selected</p> <p>Curricula for graduate program prepared and study course implemented in the selected universities in Georgia</p> <p>Cooperation agreements between Universities and Energy companies signed</p>	<p>List of Scholarship awards</p> <p>Semi-annual report on curricula, energy focused courses, and case studies developed per action plan</p> <p>Memo to US scholarship winners</p> <p>Memo to local scholarship winners</p> <p>Report on internship and post-training/degree placement process and funding sources</p>
<p>Outcome 3: Integration into European and Black Sea/Caspian Energy Markets</p> <p>3.1 Ministry of Energy and GNERC Commissioners familiarized with EU Energy Laws and Regulations</p>	<p>3.1.1 Year One Plan for GoG/GNERC participation in Athens Energy Community Treaty.</p> <p>Assessment of knowledge of the GoG Institutions about the Energy Community process</p> <p>Support through funding of he attendance of the Energy Community and other relevant meetings</p> <p>Year 2 Plan for Government Participation in Regional Energy Initiatives</p> <p>Assistance in attending of meetings and preparation of presentations</p>	<ul style="list-style-type: none"> • Plan was approved by the Ministry, GNERC and USAID • Up to 10 top staff members from the Ministry and GNERC participated in Athens Energy Community Treaty Meetings • Up to 6 key persons from the Ministry, GNERC staff participated in trainings in USA and EU organized by different donors/ International organizations, Regulatory Associations 	<p>List of persons attended the Athens Energy Community Treaty meetings; Presentations, working documents.</p> <p>Report on workshops and meetings.</p> <p>Drafts of presentation, meeting materials.</p> <p>List of participants</p>