

## ANNEX

### PROJECT FICHE PROJECT SUPPORT

Title	<b>Enhanced Energy Co-operation with the NIS Countries in the areas of Electricity and Energy Efficiency</b>		
Total cost	<b>11.0 MEUR</b>		
Aid Method	Project approach: <ul style="list-style-type: none"><li>• Component 1 (1.5 M €) – centralised</li><li>• Component 2 (9.5 M €) – centralised, joint management with the EBRD</li></ul>		
DAC-code	23010	Sector	Energy

## 1. RATIONALE

### 1.1. Strategic framework

The Baku Ministerial Conference on “Energy Co-operation between the EU, the Caspian Littoral States and their Neighbouring countries” which took place in November 2004, opened the door to expanded energy co-operation between the EU and the countries of the Caspian Littoral States, namely, Azerbaijan, Iran, Kazakhstan and the Russian Federation as well as the neighbouring countries of Armenia, Georgia, Kyrgyzstan, Moldova, Turkey, Ukraine and Uzbekistan.

The Conclusions of this Conference acknowledged the importance of further developing co-operation in the energy domain, with a view to:

1. harmonising the legal and technical standards in these countries with those of the EU and with international standards in order to prepare the ground for the creation of an integrated energy market in accordance with EU as well as international legal and regulatory frameworks (both for gas and electricity sectors);
2. enhancing the safety and security of energy supplies through:
  - a. the modernisation of existing infrastructure;
  - b. the substitution of old and dangerous power generation infrastructure, such as the Medzamor Nuclear Power Station, for environmentally-friendly power generation infrastructure;
  - c. the development of new infrastructure, particularly network interconnections;
  - d. the implementation of a more modern monitoring system for their operation;
3. improving energy supply and demand management; and
4. promoting financing of commercially and environmentally-viable energy projects of common interest, to be identified according to pre-defined criteria.

The project envisaged aims to increase EC support in the strategic areas of co-operation referred to above, with a particular focus on electricity standards harmonisation and on the promotion of energy efficiency measures in the industry and the household sectors.

## **1.2. Lessons learnt**

The rise of oil and gas prices in the course of 2005 and in the beginning of 2006 have further highlighted the interest of encouraging closer energy co-operation relationships between the countries of the region as well as between these and the EU, of interconnecting energy networks, and of reducing energy supply requirements through improved demand-side management and better energy efficiency.

## **1.3. Complementary actions**

A Tacis national project addresses the issue of harmonisation of electricity standards in the Russian Federation.

## **1.4. Donor coordination**

The project will take into account the existing as well as the planned initiatives from both bilateral donors and lending institutions (World Bank, EBRD, EIB) in the region in similar fields. Consistency with Tacis National programmes, particularly in relation to institution-building and legal approximation measures, will also be ensured.

## **2. COUNTRY AND REGIONAL CONTEXT**

### **2.1. Cooperation related policy in beneficiary countries**

Enhanced energy co-operation between the EU, the countries of the Black Sea Region, the Caspian Littoral States and their neighbouring countries is recognised as of mutual interest for consumer, producer and transit countries. Subject, in addition, to better co-ordination of energy policies, it is expected to have a positive effect on the mobilisation of investments from national authorities and from the donor community, including IFIs. In the framework of the EU Neighbourhood Policy, these countries should have, in the near future, a stake in EU's Internal Market, reinforced prospects for economic integration, as well as enlarged political cooperation opportunities. The project will help materialise these goals.

### **2.2. Sector context**

The Tacis Regional Programme has so far concentrated primarily its co-operation actions in the energy field on the oil and gas sectors. National programmes have also done so to a limited extent. However the Tacis Regional Cooperation Programme for 2004-2006 does provide a framework for broader activities, particularly harmonisation with EU standards and rules, in order to facilitate trade flows and avoid barriers to trade and to address security and safety aspects as well as environment and health impacts. The NIS commitments within the framework of international and regional conventions and agreements justify these priorities, too.

With regard to the second component of the project, energy wastage generates unnecessary energy costs in a context of rapidly increasing prices. Enhanced energy efficiency should contribute towards lowering energy bills and reducing the dependency of most of the countries concerned on imported fossil fuels.

While there is a huge need for investment in infrastructure development and modernisation, the limited Tacis resources cannot generally be used for direct investment. Accordingly, they should be targeted towards promoting modernisation and

reform in the energy sector, leveraging IFIs investment and encouraging private sector involvement, where appropriate.

### **3. DESCRIPTION**

#### **3.1. Objectives**

##### **3.1.1. General objectives**

The main objectives of the project are to reduce energy dependency and improve security of energy supply in the countries concerned (see 3.3 below) by improving prospects for energy market integration, through the harmonisation of electricity standards, and by promoting energy efficiency in the industry and household sectors through relevant support to IFIs' investment.

##### **3.1.2. Specific objectives**

###### **Component 1: Harmonisation of Electricity Standards**

The specific objectives pursued under this component are to:

- Achieve a common understanding on the rationale and need to jointly harmonise technical standards in the electricity sector;
- Develop a strategy for the harmonization of technical standards and practices in the electricity sector beyond national policies and encourage its adoption, taking into consideration the activities outlined by the national action plans in the framework of the European neighbourhood policy (for the countries of Eastern Europe and Caucasus);
- Identify a medium-term action plan for achieving harmonized technical standards and practices, including a set of legal measures to be initiated by the national authorities for the adoption of harmonized technical standards;
- Increase the knowledge of standards, rules and objectives of the EU internal electricity market;
- Assist in setting up the appropriate mechanisms at sub-regional level to facilitate the extensive use and the implementation of the EU internal electricity market rules and standards.

###### **Component 2: Identification and Promotion of Energy Efficiency (EE) Investments**

The specific objectives of this component (the implementation of which will be entrusted to EBRD, in the light of its track record in this domain), are to:

- Increase the knowledge of the advantages and of the opportunities of EE in the countries concerned;
- Open the way to sound EE investment projects through the establishment of credit lines within appropriate local banks and the provision of technical, financial, legal and environmental expertise to potential beneficiaries (industries and the household sector where appropriate);
- Encourage spill over effects in the banking, industry and household sectors.

### **3.2. Expected results and main activities**

#### **Component 1 – Harmonisation of Electricity Standards**

The expected results of this project component are the following:

- A shared understanding of the rationale and of the need to harmonise technical standards in the electricity sector in the countries concerned with the EU standards;
- Drafted and agreed sub-regional strategies (in Eastern Europe, Caucasus and Central Asia) for the harmonization of technical standards in the electricity sector beyond national policies and in line with the EU internal electricity market rules and standards;
- Developed and agreed medium-term regional action plans for achieving harmonized technical standards and practices;
- Increased awareness of, and information on the EU's electricity sector norms, standards and market rules among involved stakeholders;
- Set of legal measures prepared on technical standards for the national authorities of the countries involved.

#### **Component 2 – Identification and Promotion of Energy Efficiency Investments**

The expected results of this project component are the following:

- Preliminary identification studies carried out in those NIS countries which may be potentially suitable for the implementation of energy efficiency measures;
- Legal and financial arrangements negotiated with local banks for the establishment of lending facilities, subject to the preliminary endorsement of these arrangements by the EC;
- Awareness and marketing campaigns developed on the benefits of energy efficiency in the areas targeted;
- Negotiations initiated with the industries and other parties interested in adopting energy efficiency measures and launching related investments;
- Energy efficiency audits undertaken in a significant number of firms (and wherever possible, in blocks of flats and private households), based on signing of preliminary agreements;
- Final technical and management verifications carried out, prior to the release of the funds by the banks participating in the project and the effective launch of the investments;
- Substantive and quantified energy savings/reductions in greenhouse gas emissions;
- Project findings publicised and widely disseminated.

### **3.3. Stakeholders**

#### **• Component 1 – Harmonisation of Electricity Standards**

The countries concerned would include: Azerbaijan, Armenia, Belarus, Georgia, Kyrgyz Republic, Kazakhstan, Moldova, Tajikistan, Turkmenistan, Ukraine and Uzbekistan. Acting on behalf of each of these countries, the project partners will be the Ministry of Energy and /or the National government agency responsible for setting and monitoring the implementation of norms and standards in the electricity sector.

- **Component 2 – Identification and Promotion, of Energy Efficiency Investments**

Based on preliminary market investigation by EBRD, the countries concerned would include: Ukraine and Moldova.

### 3.4. Risks and assumptions

Project success will depend on the fulfilment of the following conditions:

- Demonstrated willingness of beneficiary countries to extend regional energy cooperation, adapt their electricity standards, preferably in line with the EU standards, and manifest interest for EE;
- Positive attitude of the banking sector towards developing collaboration with the EBRD;
- Level of energy prices sufficient to justify and make profitable EE investments;
- Ability of the EC and of the EBRD to reach an agreement on project modus operandi (component 2);
- Interest of targeted industries and of the construction/household sector for such EE investments.

### 3.5. Conditionalities

Component 1 – explicit agreement of participating countries to work in the electricity sector with a regional perspective, along the lines of the project envisaged.

Component 2 – consensus reached between the EC and EBRD as regards project implementation method and planned legal and financial arrangements with the local banks.

### 3.6. Crosscutting issues

Good Governance	X
Integration into world economy	X
Environment	X

## 4. IMPLEMENTATION ISSUES

### 4.1. Implementation method

- Component 1 – Harmonisation of Electricity Standards – Centralised management
- Component 2 – Identification and Promotion of EE Investments – Centralised - joint management with the EBRD.

### 4.2. Budget and calendar

- Component 1: the overall indicative budget is 1.5 MEUR. The project duration is estimated at 18 months. A service contract is envisaged.
- Component 2: the overall indicative budget is 9.5 MEUR, of which up to a maximum of 5 MEUR will be allocated for activities in Moldova. The project

duration is estimated at 2 years. It will be implemented by joint management with the EBRD, where the leverage factor is expected to be around 3.

#### **4.3. Procurement and award of grants procedures**

All contracts implementing the financing agreements must be awarded and implemented in accordance with the procedures and standard documents laid down and published by the Commission for the implementation of external operations, in force at the time of the launch of the procedure in question.

All project estimates must respect the procedures and standard documents laid down by the Commission, in force at the time of the adoption of the project estimates in question.

#### **4.4. Performance monitoring**

Monitoring indicators will be developed in the terms of reference of the tender dossiers and, as far as Component 2 is concerned, in consultation with EBRD as a first step. The EC Delegations are expected to assist EC headquarters in their monitoring tasks, as well as relevant experts in charge of ensuring the follow up of TACIS regional programmes.

#### **4.5. Evaluation and audit**

Evaluations and audits will be carried out using standard EuropeAid procedures.

### **5. ANNEXES**

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Annex: Logical framework