FINANCING MEMORANDUM

The European Commission, hereinafter referred to as "THE COMMISSION", acting for and on behalf of the European Community, hereinafter referred to as "THE COMMUNITY"
on the one part, and

The Government of LITHUANIA, hereinafter referred to as "THE RECIPIENT"
on the other part,

HAVE AGREED AS FOLLOWS:

The measure referred to in Article I below shall be executed and financed out of the budget resources of THE COMMUNITY in accordance with the provisions set out in this Memorandum. The technical, legal, and administrative framework within which the measure referred to in Article I below shall be implemented is set out in the General Conditions annexed to the Framework Agreement of November 1991 between THE COMMISSION and THE RECIPIENT, and supplemented by the terms of this Memorandum and the Special Provisions annexed hereto.

ARTICLE 1 - NATURE AND SUBJECT

As part of its aid programme, THE COMMUNITY shall contribute, by way of grant, towards the financing of the following MEASURE:

Programme number: LI9919
Title: 1999 Special Programme to Support the Decommissioning of Nuclear Power Plants and Consequential Measures in the Energy Sector – Lithuania
Duration: Until 31/12/2001

ARTICLE 2 - COMMITMENT OF THE COMMUNITY

The financial contribution of THE COMMUNITY is fixed at a maximum of 10 million hereinafter referred to as "THE EC GRANT".

ARTICLE 3 - DURATION AND EXPIRY

For the present MEASURE, THE EC GRANT is hereby available for contracting until 31/12/2001 subject to the provisions of his Memorandum. All contracts must be signed by this date. Any balance of funds of the EC GRANT which have not been contracted by this date shall be cancelled. The deadline for disbursement of THE EC GRANT is 31/12/2002. All disbursements must be completed by the deadline for disbursement. THE COMMISSION may however, in exceptional circumstances, agree to an appropriate extension of the contracting period or of the disbursement period, should this be requested in due time and properly justified by THE RECIPIENT. This Memorandum
shall expire at the expiry of the disbursement period of the EC GRANT. All the funds which have not been disbursed shall be returned to the Commission.

ARTICLE 4 - ADDRESSES

Correspondence relating to the execution of THE MEASURE, stating THE MEASURE’S number and title, shall be addressed to the following:

for the COMMUNITY:

Delegation of the European Commission  
Naugarduko 10  
2001 Vilnius, Lithuania  
Tel. +370-2-31 31 91  
Fax: +370-2-31 31 92

for THE RECIPIENT:

Mr Algirdas SAUDARGAS, National Aid Co-ordinator  
Minister of Foreign Affairs  
J. Tumo-Vaizganto 2  
2600 Vilnius, Lithuania  
Tel.: +370-2-61 85 37  
Fax: +370-2-62 07 52

ARTICLE 5 - NUMBER OF ORIGINALS

This Memorandum is drawn up in duplicate in the English language.

ARTICLE 6 - ENTRY INTO FORCE

This Memorandum shall enter into force on the date on which it has been signed by both parties. No expenditure incurred before this date is eligible for the EC GRANT.

The Annexes shall be deemed an integral part of this Memorandum.

Done at Vilnius, Date 12.3.2022.  
Minister of Foreign Affairs  
Algirdas SAUDARGAS

Done at Vilnius, Date 12.3.2022.  
Head of EC Delegation in Lithuania  
Henrik SCHMIEGELOW

ANNEX C

SPECIAL PROVISIONS

1. OBJECTIVES AND DESCRIPTION

General objectives

The implementation of the National Energy Strategy requires a variety of steps and measures. The decommissioning of the INPP is an extended process, lasting for 50 years and more, consisting of pre-decommissioning work, the actual closure, spent fuel storage, and the final decommissioning of the power plant.

The multi-annual Special Programme in support of Lithuania intends to contribute to the international efforts to share the burden with the Lithuanian authorities.

This provision of special PHARE funds from the 1999 budget has the objective to support the inception phase of the decommissioning process and, in the conventional power sector, to strengthen the capacities in Lithuania to sustain the necessary restructuring of the energy sector, to implement the refurbishment of installed conventional power generation capacity and the diversification to new energy resources whilst transforming the sector to the regulatory environment necessary for a market economy.

Specific objectives

The bulk of the PHARE support will be provided via an international grant fund. This fund will, as a priority, support two main areas of work, namely pre-decommissioning activities concerning the INPP and measures in the conventional power sector consequential to the decision to close and decommission the INPP. This pattern will determine the multi-annual approach in support of the implementation of the National Energy Strategy, also in the years to come. Some selected activities, in particular support to the regulatory authority, will be funded outside the planned grant fund.

The attached list contains illustrations of the kind of activities eligible for funding. Final decisions on eligibility as well as project selection will be taken by the steering body of the fund, taking into consideration the advice of relevant expert bodies, if needed. Under this programme, the European Commission will contribute to the implementation of selected activities. They cover a variety of fields which will need international support over the next years, to provide Lithuania with the means to effectively start decommissioning the Ignalina Nuclear Power Plant and to take the necessary consequential steps in the conventional energy sector to compensate for the closure of the plant. They will also be a subject of the regular National PHARE Programme for Lithuania, from 2000 onwards.

The selection of the projects will occur under the provisions of the “Ignalina Fund” indicated in Chapter 3 (“Implementation”) of this Financing Memorandum.

As already mentioned above, the timing of the decision to establish this programme is determined by the political imperatives of the European Union’s stance on nuclear safety improvements as an important parameter of accession. The Commission’s pre-accession support needs to be geared to this end.

The bulk of financial means available under this programme are intended to be made available to a special financial instrument, presently known under the working title of “Ignalina Fund”. This grant facility is designed to be managed by the European Bank for Reconstruction and Development (EBRD). The management regulations will be the subject of a separate arrangement between the European Commission and the EBRD.
2. **BUDGET (in million €)**

The total budget made available amounts to 10 M€.

An amount of 1.25% of the PHARE contribution to the grant fund shall be used for EBRD’s programme management fees for the implementation of the above-mentioned eligible activities.

3. **IMPLEMENTATION**

In principle, the funds allocated to support activities in Lithuania under this programme, will be made available to the beneficiary PHARE Partner Country by means of the “Ignalina Fund”, a grant fund which is intended to be managed by the European Bank for Reconstruction and Development (EBRD). This fund will enable the pooling of international grant support to the implementation of the Lithuanian National Energy Strategy, in particular the closure of the Ignalina NPP before 2005 (unit 1) and by 2009 (unit 2), from a variety of sources. Commitments to this fund will be invited to be made at a Donors’ Conference envisaged for early 2000 in Vilnius. Some selected activities, in particular PHARE support to the regulatory authorities, will be supported by means of the Decentralised Implementation System.

The Commission will make financial means from this “Special National Programme to Support the Decommissioning of Nuclear Power Plants and Consequential Measures in the Energy Sector – Republic of Lithuania” available to the “Ignalina Fund”. The management of the fund is to be undertaken by the EBRD within the framework of the Memorandum of Understanding between the European Commission, the European Bank for Reconstruction and Development and the International Bank for Reconstruction and Development on Co-operation for Pre-Accession Preparation of Central and European Countries, done in Brussels on 3 February 1998. Final decisions on eligibility as well as project selection will be taken by the steering body of the “Ignalina Fund”, taking into consideration, if needed, the advice of relevant expert bodies.

The salient elements of the collaboration between the Commission and the EBRD and of the use of the financial support allocated under this programme will be determined by an agreement between the Commission and the EBRD. The agreement will ensure that the Commission retains control of the selection of projects, receives regular progress reports from the Fund’s management and participates in the steering body of the fund. The agreement will also identify roles and responsibilities as well as general conditions related to the disbursement of PHARE financial assistance into the Fund. European Commission auditing institutions will be provided sufficient rights to audit the use of the Commission’s contributions to the fund. Rules on the eligibility of contractors from European Union Member and Partner States will be respected in the agreements with the EBRD, taking due regard of the possible need to procure specific items required for decommissioning from providers outside this group of countries due to the ex-Soviet design of the Ignalina Nuclear Power Plant as well as the contribution of the donors to the fund.

The described provisions for the implementation of the programme will be the subject of a Financial Memorandum or an Exchange of Letters between the Commission and the Government of Lithuania.

4. **RISK**

The Government of Lithuania might delay the drafting of the “Decommissioning Law” necessary to close and decommission the Ignalina NPP, starting with the closure of Unit 1 before 2005. This law needs to be passed by Parliament in accordance with the provisions of article 6 paragraph 3 of the Lithuanian Law on Nuclear Safety of 14 November 1996. The Government might equally fail to elaborate the Action Plan for the implementation of the 1999 National Energy Strategy which is due by 31 March 2000, at the latest. On the other hand, the Lithuanian Parliament (Seimas) might fail to adopt the said decommissioning law or delay its adoption by filibustering moves. In the worst case scenario, it could rescind some substantial parts of the Seimas’s decision of 5 October 1999 on the 1999 National Energy Strategy under changed majority conditions after the general election of 2000. All such action would affect the energy strategy decision which is both the basis of this programme as well as of the
Commission’s Regular Report of 13 October 1999. It would also delay the convocation of a Donors’ Conference and the establishment of the envisaged grant fund.

5. MONITORING AND ASSESSMENT

Implementation will be monitored by a Monitoring Sub-Committee (MSC) of the Joint Monitoring Committee (JMC) established for Lithuania in the context of the PHARE JMC mechanism.

The Commission services shall monitor the implementation of the Financing Proposal. This will be done on the basis of regular progress reports prepared by the EBRD under the arrangement to be made between the Commission and the EBRD and other relevant information available to the Commission.

These reports will assess progress both at the Facility and project levels, indicating compliance with this Financing Proposal and with the criteria set down in the original project application forms.

The Commission shall exercise its responsibility over the use of funds through these regular reports and audited accounts. Further funding of the “Ignalina Fund” as set out in the arrangement with the EBRD may be terminated if the EBRD fails to perform any of its material obligations under the arrangement.

In addition, the Commission monitoring and evaluation units may also carry out operational assessments and one ex-post evaluation if required.

6. AUDIT AND EVALUATION

The accounts and operations of the PHARE grant under the “Ignalina Fund” and, if applicable, of the National Fund and the CFCU, may be checked at the Commission’s discretion by an outside auditor contracted by the Commission, without prejudice to the responsibilities of the Commission and European Union’s Court of Auditors as referred to in the General Conditions relating to the Financing Memorandum attached to the Framework Agreement.

In addition, the use of Phare funds under the Facility and the operations of the Facility shall be audited by the EBRD and the resulting findings shall be reported in the Annual Report of the EBRD. There shall be full co-ordination between the EBRD; the Commission and Court of Auditors to minimise any potential disruption to activities.

The Commission services shall ensure that an ex-post evaluation is carried out after completion of the Programme.

7. VISIBILITY/PUBLICITY

The arrangement to be concluded between the Commission and the EBRD will ensure that the necessary measures are taken to ensure appropriate publicity for the EU for all activities that it finances from the programme.

8. SPECIAL CONDITIONS

In the event that agreed commitments are not met for reasons which are within the control of the Government of Lithuania, the Commission may review the programme with a view, at the Commission’s discretion, to cancelling all or part of it and/or to reallocate unused funds for other purposes consistent with the objectives of the global Phare programme.

The funding of the “Ignalina Fund” from the 1999 PHARE budget can be terminated, if the resources as outlined in this Financing Proposal are not designated for projects by the steering body of the fund.
The funding of the “Ignalina Fund” may be terminated if the EBRD or Commission fails to perform any of their material obligations under the Facility.

Any PHARE funds in the “Ignalina Fund” at termination shall be returned to the Commission in accordance with the rules and regulations of the Special Fund. Any funds remaining due to the Special Fund at termination shall be returned to the Commission when such resources are received in the Special Fund.

9. CONDITIONALITY

This programme is designed to support Lithuania’s effort to decommission the Ignalina NPP in accordance with the National Energy Strategy adopted by the Lithuanian Parliament on 5 October 1999. This strategy spells out implementation priorities already mentioned under Chapter 2 (“Summary”). These priority steps need to be undertaken both in the legal and regulatory as well as the technical fields. The disbursement of means allocated under this programme has both to encourage and to support the swift progress to implement the priority steps. Neither will support be held hostage to delay, nor will it flow without due regard to progress made by the Lithuanian legislative, administrative and regulatory bodies as well as the Lithuanian State as sole owner of the operator (INPP). Particular attention will be paid to the adoption of the “Decommissioning Law”, without delay, by the Lithuanian Seimas and the elaboration of the Action Plan for the implementation of the National Energy Strategy by the Lithuanian Government. The representation of the Commission in the steering body of the “Ignalina Fund” will therefore be charged to bring about decisions on the disbursement of available means in a sequence that will best promote progress to achieve the aim of early closure and state-of-the-art decommissioning within the time frame described in the Lithuanian National Energy Strategy and the Progress Report on Lithuania published by the European Commission on 13 October 1999 as well as the implementation of consequential measures in the Lithuanian energy sector.
Annex to Special Provisions

Indicative list of eligible activities

Up-front needs:

Activities to support the INPP pre-decommissioning activities at the operator, administrative and regulatory levels:
- Development of regulatory framework for decommissioning
- Preparation of Terms of Reference and Technical Specifications for pre-decommissioning facilities
- Detailed planning of the overall decommissioning process and preparation of licensing submittals
- Technical and management support in the licensing review process (first tranche)
- Technical assistance to technical support organisations (TSOs)
- Safety case for single unit operation
- Legislation on the funding of the Nuclear Waste Management Agency

Projects to support measures in the energy sector consequential to the closure of the INPP:
- Technical audits of conventional power plants
- (eventually) Contribution to the Energy Conservation Fund

General needs (by beneficiary):

Beneficiary - Ministry of Economy

- Support to the Government’s capacity to administer the decommissioning and sector restructuring process
- Support to a Government information campaign
- Study of the effects of the single Baltic energy market (“Baltpool”) on the INPP
- Review of the pricing policy under market economy conditions
- Legislation on the funding of the Nuclear Waste Management Agency
- Support to the Energy Efficiency Programme
- Support to the Energy Conservation Fund
- Complementary support to PHARE 99 twinning
Beneficiary – VATESI (the Lithuanian nuclear regulatory body)

Technical assistance to define the regulatory requirements for a decommissioning plan

Technical assistance to license the decommissioning plan

Beneficiary - Lithuanian TSOs (Technical Support Organisations)

Technical assistance to TSOs (research institutes, universities etc.)

Beneficiary – INPP (Ignalina Nuclear Power Plant)

Safety case for single unit operation

Support to establish a Decommissioning Unit and a decommissioning plan

Spent fuel and operational waste management support and investments

Continued safety-related support for unit 2 safe operation

Managing the new accounting situation

Beneficiary - the Visaginas area

Separation of the Visaginas heat supply

Energy efficiency audit

Socio-economic support and motivation (the latter as far as relevant to operational safety)

Beneficiary – Lietuvos Energija

Technical study on the interconnection possibilities of the power systems of the three Baltic States with UCTE

Technical study of the Lithuanian-Polish Link

Technical Audit of Lithuanian Power Plant (“Elektrinai”)

Technical Audit of Kaunas Hydro Power Plant

Reconstruction of the 35-110 kV substations of the Lithuanian Power Transmission Grid

Adjustment of the Least Cost Plan

Beneficiary – Lietuvos Dujos (Lithuanian Gas)
Engineering of a second pipeline to Kaliningrad

Modernisation of a gas metering and regulation station (MRS) in Kaunas

Installation of a MRS at the Latvian frontier

Establishment of a gas pipeline from Utena to Visaginas

Investment into the in-house training centre

**Beneficiary – Vilnius CHP (Combined Heat and Power Station)**

Support to various upgrades

**Beneficiary – Industry, Large Electricity Consumers**

Improvement of energy efficiency in selected industrial enterprises

**Beneficiary – Pricing Commission**

Review and adjustment of overall tariff policies and methodologies

**Alia**

Support to educational needs in view of Chapter 7 of the National Energy Strategy