



# **ANNEX IX - 1<sup>st</sup> Year Country Work Programme Republic of AZERBAIJAN**

EU4Energy Programme Component 3 - Legislative and  
Regulatory Environment and Key Energy Infrastructure



## 1. Introduction

The overall purpose of the First Year Country Work Programme (CWP) is to define the EU4Energy activities to be carried out based on the explicit requests from the Partner Country. This document outlines the EnCS's and ECS's analysis of the current needs and priorities for support as well as the proposed strategy and rationale for intervention. The activities presented here take into account ongoing activities of other donors in the country. This country work programme has been drafted by EnCS and ECS in consultation with the Partner Country and the EU. Assistance will be provided in line with EU principles.

Within Component 3, the specific objective for the Republic of Azerbaijan is to support the implementation of policy recommendations stemming from country analyses (either from the Component 2, or from other international reports, including Inception Report for Component 3 of EU4Energy Programme) following EU's best practice in the areas proposed by the country.

## 2. Overall objective for the year

The overall objective for EU4Energy Component 3 activities in the first year are to assist the sustainable energy policy reforms by:

- (i) supporting the elaboration of relevant legislation on energy efficiency in line with best EU and international practice
- (ii) supporting the process of development of a Long-term energy strategy of Azerbaijan, by providing guidance and methodological advice
- (iii) supporting the setting up of an independent regulatory authority
- (iv) supporting development of greater technical capacity in key energy ministries and energy regulatory commission, other public stakeholders on identification of key energy infrastructure projects.

These objectives were identified following a comprehensive assessment regarding the status of the legislative, regulatory and institutional environment in the energy sector of the Republic of Azerbaijan, consultations with national authorities, EU Delegation to the Republic of Azerbaijan and other stakeholders.

## 3. Prioritised list of measures to be taken by the government

The priority areas for support under EU4Energy were identified during inception phase and are based on country proposals and analysis of current situation and existing policy recommendations (Annex III to the Inception report).

For the coming period (1<sup>st</sup> year Work Programme) the prioritised measures in the area of electricity sector reform are drawn from the following recommendations: i) Set up an independent regulatory authority to safeguard business and consumer interests. Strengthen consumer protection by introducing quality of service regulation, transparency and public consultation in tariff-setting and monitoring of price developments <sup>1</sup>; and ii) Consider establishment of an independent state agency to regulate the energy sector in a fair, transparent and predictable manner continue towards improving electricity and heat laws (including considerations for legal unbundling) and ensure their timely adoption<sup>2</sup>.

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<sup>1</sup> Energy Policy Review: Eastern Europe, Caucasus and Central Asia, International Energy Agency, 2015

<sup>2</sup> Azerbaijan Investment Climate and Market Structure report, Energy Charter Secretariat 2011



On energy efficiency numerous policy recommendations highlight the necessity to give high priority to the development of relevant legislative and regulatory framework. ECS energy efficiency policy review concludes that Government's energy policy should reflect the potential contribution of energy efficiency to increasing fuel export and supporting economic growth and the environment. Both ECS and IEA call for promptly adoption of an appropriate legal framework (primary and secondary) on energy efficiency and renewable energy.

Important recommendations made by IEA and ECS include the necessity to develop a comprehensive long-term sustainable energy strategy, including considerations of energy scenarios to 2030 and 2050 made on the basis of a robust assessment of energy supply and demand trends, and including the potential for renewables and energy efficiency. Future Government's energy policy needs to better reflect the potential contribution of energy efficiency to decreasing internal demand, increasing fuel export and supporting economic growth and the environment.

#### **4. Specific objectives in different sectors/areas/spheres, First Year Country Work Programme, approximate timetable of activities, assumptions and risks**

The specific objectives for the First Year Country Work Programme (period January 2017 – December 2017) are i) Operationalization of the agreed policy proposals from Component 2, ii) More efficient and effective procedures including cross-ministerial cooperation and public consultation process and iii) Greater Technical, institutional and Administrative capacity in key energy ministries and agencies, iv) Greater technical capacity in key energy ministries and energy regulatory commission, other public stakeholders on identification of key energy infrastructure projects.

The First Year Country Work Programme comprises: the list of activities to support implementation of selected priority measures, including individual measurable results expected in the area (see Table 1), approximate timetable of activities for the first year CWP (January – December 2017) to support the planning (see Table 2). Assumptions and risks relevant for implementation of the first year work programme for the Republic of Azerbaijan are specified in Table 3.



**Table 1 First Year Work Programme (January – December 2017)**

	Activities/months	Specific objective	Indicators/Sources of verification
	<b>Area 1 Energy Efficiency</b>		
<b>AZ 1.1.</b>	Law on energy saving and energy efficiency	SO1: Operationalization of the agreed policy proposals  SO2: More efficient and effective procedures including cross-ministerial cooperation and public consultation process  SO3: Greater Technical, institutional and Administrative capacity in key energy ministries and agencies	Facilitate the establishment of an Inter-ministerial working group and the organisation of 3 meetings
<b>AZ 1.1.1</b>	Organise inter-ministerial discussion to analyse specific country needs, internal capacity and requirements for the law		
<b>AZ 1.1.2.</b>	Support to the elaboration of a the draft law on energy saving and energy efficiency aligned to best EU practice		Draft law on energy saving and energy efficiency aligned to best EU practice
<b>AZ 1.1.3.</b>	Conduct stakeholders consultations in the process of law elaboration		Identify relevant business and civil society stakeholders and organise stakeholders consultation meeting to discuss draft law
<b>AZ 1.1.4.</b>	Organise capacity building and high level discussions to ensure follow up with draft law		National capacity building workshop on energy efficiency policy options is organised High-level policy event is organised
	<b>Area 2 Electricity Market</b>		
<b>AZ 2.1.</b>	Support to setting up an Independent energy regulatory authority		Facilitate the establishment of Institutional framework expert group and organise kick-off meeting
<b>AZ 2.1.1.</b>	Facilitate the establishment of Institutional framework expert group		
<b>AZ 2.1.2.</b>	Analysis and assessment of specific country needs and requirements (in coordination with ongoing USAID work on electricity market law) for setting up an independent energy regulatory authority		



Area 4 Energy Strategy			
<b>AZ 4.1</b>	Long term energy strategy and priorities for the development of the energy sector	SO1: Operationalization of the agreed policy proposals SO2: More efficient and effective procedures including cross-ministerial cooperation and public consultation process SO3: Greater Technical, institutional and Administrative capacity in key energy ministries and agencies	Energy Strategy Development Advisory Group established and Terms of Reference developed Kick off meeting is organised
<b>AZ 4.1.1</b>	Support to the establishment and provide assistance to the activities of an Energy Strategy advisory group		
<b>Az 4.1.2</b>	Facilitate the discussion on definition of long and short term priorities for the development of the energy sector		



**Table 2 Approximate Timetable of Activities for the First Year Work Program (January – December 2017)**

	Activities/months	Jan.20 17	Feb. 2017	Mar.20 17	Apr. 2017	May-17	Jun-17	Jul-17	Aug. 2017	Sep. 2017	Oct. 2017	Nov. 2017	Dec. 2017
		M 7	M 8	M 9	M10	M 11	M12	M13	M14	M15	M16	M17	M18
<b>Area 1 Energy Efficiency</b>													
AZ 1.1.	Law on energy saving and energy efficiency												
AZ 1.1.1	Organise inter-ministerial discussion to analyse specific country needs, internal capacity and requirements for the law												
AZ 1.1.2	Support to the elaboration of a the draft law on energy saving and energy efficiency aligned to best EU practice												
AZ 1.1.3	Conduct stakeholders consultations in the process of law elaboration												
AZ 1.1.4	Organise capacity building and high level discussions to ensure follow up with draft law												
<b>Area 2 Electricity Market</b>													
AZ 2.1.	Support to setting up an Independent energy regulatory authority												
AZ 2.1.1.	Facilitate the establishment of Institutional framework expert group												
AZ 2.1.2.	Analysis and assessment of specific country needs and requirements (in coordination with ongoing USAID work on electricity market law) for setting up an independent energy regulatory authority												
<b>Area 4 Energy Strategy</b>													
AZ 4.1.	Long term energy strategy and priorities for the development of the energy sector												
AZ 4.1.1.	Support to the establishment and provide assistance to the activities of an Energy Strategy Development Stakeholders Group												
AZ 4.1.2	Facilitate the discussion on definition of long and short term priorities for the development of the energy sector in												
<b>Regional Activities</b>													
AZ RA 1	Regional meeting/workshop to discuss the process of identification of key energy infrastructure projects with participation of the short term experts and EPA Unit, IFIs, other donors and stakeholders is conducted to ensure training and experience exchange												



**Table 3 Assumptions and Risks**

Risks	Risk level (H/M/L)	Mitigating measures
<b>Unstable political situation in the country - change in government priorities</b>	M	Building on the positive experience of past projects, the EU will continue a regular policy dialogue with the Government to facilitate collaboration on energy issues. This will help to maintain continuity with achievements made so far and strengthen trust between the Government, the EU and implementing partners. Commitments under the Eastern Partnership Platform III on Energy Security represent additional key frameworks for closer collaboration. The regional dimension of the action also contributes to reduce the impact of this risk. The EnCS and ECS will contribute to this process by providing inputs and updates for such meetings and platforms regarding the national and regional developments and how they affect Action implementation.
<b>Energy is not a political priority - lack of political will to collaborate with the EU on energy issues</b>	H	This risk will be mitigated by ensuring appropriate steering of the action through the Steering Committee meetings. Partner Country's commitment at a high political level will be required for a successful outcome of the action.
<b>Lack/discontinuity of human resources - weak institutional memory</b>	M	The action will work with a wide number of experts including local experts to help develop local capacity. This will be supplemented by training (following the work program) in order to create skilled human resources.
<b>Lack of will to address energy policy reforms on a sound economic basis</b>	H	The action will provide the necessary information and support to Partner Country to make appropriate choices. Partner Country's commitment at high political level will however be required for a successful outcome of the action.
<b>Lack of commitment to participate in some of the activities (sharing data, experience exchange, coordination and working meetings)</b>	M	The provision of assistance under Component 3 is based on country specific work programs developed in consultation with all the relevant stakeholders. Partner Country's commitment at high political level will however be required for a successful outcome of the action.
<b>Overlapping activities with bilateral support activities funded by EU or other donors</b>	M	It should be mitigated by effective coordination mechanisms, keeping regular contact with EU Delegations and other donors (where relevant) and applying flexible implementation methods.
<b>Assumptions: the Work Program is timely approved; Political and economic stability; Political commitment; Sufficient administrative capacity; Timely implementation of agreed work programs and availability of agreed input from the beneficiary country authorities; Provision of relevant expertise; Willingness of senior management in beneficiary ministries/agencies to allocate appropriate human resources to contribute to the process; Political willingness to introduce proposed changes to legislation</b>		



Таблица 1: Программа работы, 2017 (неофициальный перевод)

	Деятельность	Конкретные цели	Показатели
	<b>Раздел 1 Энергоэффективность</b>		
<b>AZ 1.1.</b>	Закон по энергосбережению и энергоэффективности.	<p>КЦ1: Введение в действие согласованных политических предложений</p> <p>КЦ2: Более эффективные и действенные процедуры, включая сотрудничество между министерствами и процесс открытых консультаций.</p> <p>КЦ3: Повышение технического, институционального и административного потенциала в ключевых энергетических министерствах и агентствах.</p>	<p>Содействие в создании меж-министерской рабочей группы и организация трех встреч.</p> <p>Проект закона по энергосбережению и энергоэффективности в соответствии с наилучшими практиками ЕС</p> <p>Выявление соответствующих заинтересованных сторон и проведение консультаций для обсуждения проекта закона.</p> <p>Проведение специализированных мероприятий по наращиванию потенциала</p>
<b>AZ 1.1.1</b>	Анализ и оценка особых нужд страны, внутреннего потенциала и требований.		
<b>AZ 1.1.2.</b>	Поддержка в разработке проекта закона в соответствии с наилучшими практиками ЕС.		
<b>AZ 1.1.3.</b>	Проведение консультаций заинтересованных сторон		
<b>AZ 1.1.4.</b>	Организация наращивания потенциала и обсуждения на высоком уровне для продолжения работы по проекту закона.		
	<b>Раздел 2 Рынок электричества</b>		
<b>AZ 2.1.</b>	Поддержка в создании независимого регулирующего органа в энергетике		<p>Содействие в создании экспертной группы по институциональным рамкам.</p>
<b>AZ 2.1.1.</b>	Содействие в создании экспертной группы по институциональным рамкам.		
<b>AZ 2.1.2.</b>	Анализ и оценка особых нужд страны и требований (в координации с текущей работой USAID) для создания независимого регулирующего органа в энергетике.		





Раздел 4 Энергетическая стратегия			
<b>AZ 4.1</b>	Долгосрочная энергетическая стратегия и приоритеты развития энергетического сектора	КЦ1: Введение в действие согласованных политических предложений	Первое заседания Консультативной Группы по разработке энергетической стратегии
<b>AZ 4.1.1</b>	Поддержка в создании и необходимом содействии в деятельности Консультативная группа по разработке энергетической стратегии	КЦ2: Более эффективные и действенные процедуры, включая сотрудничество между министерствами и процесс открытых консультаций.	
<b>Az 4.1.2</b>	Содействие обсуждению по определению долго- и краткосрочных приоритетов развития энергетического сектора	КЦ3: Повышение технического, институционального и административного потенциала в ключевых энергетических министерствах и агентствах.	



**Таблица 2: График мероприятий, 2017 (неофициальный перевод)**

		январь	февраль	март	апрель	май	июнь	июль	август	сентябрь	октябрь	ноябрь	декабрь
<b>Раздел 1</b>													
<b>Энергоэффективность</b>													
AZ 1.1.	Закон по энергосбережению и энергоэффективности.												
AZ 1.1.1	Анализ и оценка особых нужд страны, внутреннего потенциала и требований.												
AZ 1.1.2	Поддержка в разработке проекта закона по энергосбережению и энергоэффективности в соответствии с наилучшими практиками ЕС.												
AZ 1.1.3	Проведение консультаций заинтересованных сторон в процессе разработки законодательства.												
AZ 1.1.4	Организация наращивания потенциала и обсуждения на высоком уровне для продолжения работы по проекту закона.												
<b>Раздел 2</b>													
<b>Рынок электричества</b>													
AZ 2.1.	Поддержка в создании независимого регулирующего органа в энергетике												
AZ 2.1.1.	Содействие в создании экспертной группы по институциональным рамкам.												
AZ 2.1.2.	Анализ и оценка особых нужд страны и требований (в координации с текущей работой USAID по разработке закона о рынке электричества) для создания независимого регулирующего органа в энергетике.												
<b>Раздел 4</b>													
<b>Энергетическая стратегия</b>													
AZ 4.1.	Долгосрочная энергетическая стратегия и приоритеты развития энергетического сектора												
AZ 4.1.1.	Поддержка в создании и необходимом содействии в деятельности Консультативная группа по разработке энергетической стратегии												
AZ 4.1.2	Содействие обсуждению по определению долго- и краткосрочных приоритетов развития энергетического сектора												
<b>Региональная деятельность</b>													
AZ RA 1	Проведение региональных встреч/семинаров для обсуждения процесса выявления ключевых проектов в энергетической инфраструктуре, проведения обучения и обмена опытом, с участием отделений СЭП, МФИ, других доноров и участников.												