

Mission Report

INOGATE Local Information Event for the Azerbaijan Republic

Baku, 16-18 July

**INOGATE Technical Secretariat and Integrated Programme in support of the
Baku Initiative and the Eastern Partnership energy objectives**

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Opening address LIE in Azerbaijan: (from right to left): Mr. Asaf Rzaev, Mr. Iftikhar Huseynov, Mr. Federica Berna and Mr. Albertus Zweering

The INOGATE Local Information (LIE) took place in Baku on 17th July 2014 with participation of the key energy stakeholders in Azerbaijan. This event was co-organised by the Ministry of Energy of the Azerbaijan Republic with the assistance of the newly appointed ITS Country Coordinator for Azerbaijan, Mr. Iftikhar Huseynov, and by the INOGATE Technical Secretariat (ITS). It profiled recently implemented, on-going and planned INOGATE activities in Azerbaijan in the context of the INOGATE partnership and the Baku Initiative framework. The event covered presentations and discussions on various aspects of the EU-Azerbaijan energy sector co-operation including: electricity, gas, sustainable energy, EU's best practice in energy labelling and the Road Map on Harmonisation of EU-Standards in Azerbaijan. The speakers and presenters were both INOGATE experts and local stakeholders.

Those attending the event included over 40 representatives from 15 Azerbaijani organisations, including ministries, energy industry, the tariff council, metrology and standardisation body, NGOs, a bank, academia and media, as well as representatives of the EU Delegation, and the INOGATE ITS.

INOGATE Information Event

Welcoming addresses were given by **Mr. Iftikhar Huseynov**, Head of Staff, Ministry of Energy of the Azerbaijan Republic and **Mr. Federico Berna**, Head of Operations, the EU Delegation to the Azerbaijan Republic. On behalf of the Ministry of Energy, Mr. Huseynov welcomed the participants and thanked the INOGATE Technical Secretariat and the EU Delegation to Azerbaijan Republic for facilitating organisation of this event. Head of Staff noted that INOGATE has successfully provided assistance to the Ministry of Energy and other Azerbaijani beneficiaries since 1996 and that all INOGATE efforts have advanced cooperation with the EU. Mr. Huseynov also highlighted that he was honoured to be appointed as a country coordinator for Azerbaijan of this important regional EU-funded Programme. The event agenda incorporated a range of significant energy issues for discussion, like EU energy market development and applicability for Azerbaijan, the role of the governmental bodies in the improvement of sustainable energy and harmonisation of EU standards

in electricity and gas sectors. The Deputy Minister expressed hope that the event will help the Azerbaijani beneficiaries identify new directions for fruitful and continual cooperation with INOGATE.

In response, Mr. Frederico Berna, Head of Operations, the EU Delegation to the Azerbaijan Republic emphasized the importance of EU support to Azerbaijan in the energy sector, which is a major component of the overall cooperation between the EU and Azerbaijan. He noted that the EU Budget Support Programme successfully contributed to the development of the country's legislation on renewable energy and energy efficiency. Mr. Berna highlighted that it was the 18th anniversary of INOGATE – Azerbaijan cooperation, and the EU needs to look back and identify future direction for cooperation based on the results achieved and lessons learned.

After the welcoming addresses, Mr. Asaf Rzaev, Deputy Director of Electro Energy Department explained the aim of the event, encouraged participants to be proactive in the discussions and gave the floor to the representatives of the New ITS Project.

In the morning session ITS experts presented the activities of INOGATE cooperation with Azerbaijani beneficiaries in various energy sub-sectors.

Mr. Albert Zweering, Team Leader, INOGATE Technical Secretariat presented an overview of the INOGATE programme and activities in the Republic of Azerbaijan. He also provided reference information in relation to Annual Status Reports Missions and the upgraded INOGATE web-portal.

Mr. Nikolaos Tsakalidis, Deputy Team Leader, Key Expert for Electricity and Gas, delivered a presentation concerning the Electricity and Gas activities of the New ITS Project. The presentation highlighted several recently completed regional activities including a study tour and a seminar in Venice concerning gas trading in Europe, a visit to the UK to the British Standards Institute to discuss the strategies of National Standards Boards, and a Seminar in Budapest which addressed tariff methodologies. Mr. Tsakalidis also presented some results from the draft regional tariff review, which Azerbaijani beneficiaries will receive after official approval of the document by the European Commission.

Mr. Asaf Rzaev, Deputy Director of Electro Energy Department, presented an overview of the whole energy system of Azerbaijan except the RES sector, which was presented by a representative of the State Agency on Alternative and Renewable Energy Sources. Mr Rzaev informed participants about recent achievements in the reduction of electricity losses and presented further plans to improve the efficiency of the electricity network by 50% by 2020. The Ministry is expecting to achieve significant reduction of technical and commercial electricity losses due to the implementation of smart meters and SCADA. INOGATE is assisting in this area through its Ad Hoc Expert Facility (AHEF). The Deputy Director also presented the new structure of the reorganised Ministry, which includes the newly created Department on Energy Efficiency. Energy efficiency is a new direction for MoE, and Azerbaijan is also expecting ITS assistance in this area.

Mr. Larry Good, ITS's Key Expert on Sustainable Energy (SE) presented the INOGATE technical assistance provided to Azerbaijan recently in the area of SE. The INOGATE technical assistance included a focused workshop on energy audit analysis methodology, development of university curricula and master degree program on SE, development of secondary legislation for SAARES, participation of Azerbaijani stakeholders in the ITS's combined events in the areas of bio-energy, SE policy and SE financing. The Key Expert on SE also highlighted the results of assistance provided by the previous SEMISE project and described planned activities: supporting preparation of a roadmap

for developing district heating until 2020 and creation of an SE information centre to promote sustainable energy to the wider public.

Mr. Ragim Abdullaiev, Deputy Head of Section for Energy Efficiency and Energy Policy of the State Agency on Alternative and Renewable Energy Sources (SAARES), delivered a presentation on aims and tasks of the administrative body responsible for the development of RES in Azerbaijan. Mr. Abdullaiev presented the history of the Agency, which became an independent administrative body in February 2013, and its key achievements in recent years. One recent accomplishment was the exemption of RES equipment from VAT and import tax, approved by the Cabinet of Ministers in May 2014. Mr Abdulayev also highlighted the importance of cooperation with INOGATE and other donor organisations in order to achieve the Azerbaijani RES objective, to be approved by the end of this year and requiring that 20% of all energy be produced from RES by 2020.

An active discussion on the following topics after the first session:

- The Ministry of Energy should spend more effort to stimulate the reduction of losses in the electricity grid.
- The results of ITS assistance can be enhanced if the trained experts can conduct their own seminars within their companies after they come back; ITS has limited budget and cannot invite more than 4 participants from Azerbaijan for regional capacity building events.
- INOGATE assistance is needed to develop a methodology for calculating payments for reactive power.
- ITS assistance in the introduction of time-of-use electricity tariffs can significantly improve the reliability of the energy system of Azerbaijan.

During the second session ITS experts organised a round table discussion and made presentations according to the topics requested by the Azerbaijani beneficiaries as well as discussed the results of the cooperation of INOGATE and the Azerbaijan University of Architecture and Construction

Mr. Vidmantas Jankauskas, ITS Regulatory Expert, delivered a dedicated presentation on EU energy market development and applicability for Azerbaijan. This was of particular interest since Azerbaijan plans to adopt its own 20-20-20 targets which are similar to the EU's. The presentation outlined the key pillars of the EU energy policy, the main directives on energy markets and SE, EU's further plans for 2030, and energy tariffs. An active question & answer session followed the presentation where questions were addressed not only to the INOGATE experts but a lively discussion took place among the local stakeholders providing peer-to-peer dialogue. It underlined the importance of energy policy for development of RES, looking at possible implications and how can it be best implemented in the country. The round table discussion included the following topics:

- Price the EU currently pays for the RES development
- Importance of the single governmental body responsible for the development of EE in Azerbaijan
- Evolution of the regulatory bodies in the EU and applicability for Azerbaijan
- Potential for ITS further assistance in the development of legislation in Azerbaijan

Mr. Nurmamad Mammadov, Head of Department, Azerbaijan University of Architecture and Construction (AzUAC) spoke about the importance of establishing minimum criteria for energy performance of buildings in Azerbaijan. He presented the results of INOGATE-University cooperation and officially confirmed that the AzUAC introduced a new course on Energy Audit and Management

developed within the ITS assignment. He underlined the importance for Azerbaijan of improving energy efficiency in the building sector, which is growing at a fast annual pace.

Mr. Viktor Petrenko, ITS Expert on Standardisation updated the participants on the Road Map and Action Plan on Harmonisation of Standards for Azerbaijan. He spoke about the importance of adoption of EU standards for energy trade with the EU Member States and INOGATE PCs. An active dialogue between the stakeholders followed the presentation bringing up questions about:

- Different methods to adopt standards;
- Minimum number of standards;
- Possible ITS assistance to develop rules on the procedure of approval, registration and adoption of standards and for the Azerbaijani Metrology and Standardisation body.

The third session was also designed to made presentations according to the topics requested by the Azerbaijani beneficiaries as well as to discuss the achieved results of previous and current INOGATE projects in Azerbaijan

Mr. Shahmar Hajiyev, representative of the Centre for Strategic Studies under the President of the Azerbaijan Republic (SAM) presented a short summary of the successful experience of cooperation with INOGATE. He spoke about the plans of his organisation and relevance of the ITS assistance to the scope of work of SAM. He was forced to leave the event before finishing due to another scheduled meeting.

Mr. Albert Zweering, Team Leader, INOGATE Technical Secretariat (on behalf of Ms. Gloria Aquinaldo, Expert for Energy Statistics) presented the strategic role of energy statistics in national and international policies and progress in Azerbaijan. Mr. Zweering highlighted the fact that Azerbaijan is rather advanced in energy statistics and suggested that other INOGATE PCs should learn the Azerbaijani experience. He also emphasised that energy statistics are not only important for planning, but for comparing one country's achievements with other countries' in the region using reliable information.

Mr. Aleksandr Antonenko, ITS's Expert for RES/EE Policy delivered a dedicated presentation on the importance of energy labelling and EU best practice in this area. This information was provided to raise awareness of policy makers as energy labelling is one of the EE areas which can be easily implemented in Azerbaijan. An active question & answer session followed the presentation. The participants underlined the importance of energy labelling and discussed possible implications and how can it be best implemented in the country. ITS offered its overall support in the development of legislation on energy labelling for Azerbaijan, and the Ministry of Energy expressed interest in applying for technical assistance in this area.

Jahangir Efendiyev, ESIB Local Coordinator for Azerbaijan delivered the last presentation. He talked about ESIB activities and achievements in Azerbaijan. He presented successful examples of cooperation with local journalists and banks, described pilot projects completed within ESIB and highlighted the importance of using export gas prices while calculating the payback period of EE and RES projects in Azerbaijan.

In concluding remarks, representatives of the Ministry of Energy and the INOGATE Technical Secretariat acknowledged the significance of enhanced energy co-operation, the contribution of a viable energy sector to the economic development of the country, and the impact that can be made through concerted joint efforts. The stakeholders and local presenters expressed appreciation for the

support provided by INOGATE to Azerbaijan as well as willingness to further this co-operation. This event also saw a very dynamic dialogue and exchange of information and ideas among the local stakeholders. The questions asked during the event stimulated better explanation of INOGATE's areas of activity and mechanisms and additional input on local priorities.

Visibility and media coverage

The LIE in Baku received considerable visibility among the key stakeholders of the Azerbaijan energy sector that participated in the event. The event offered a good platform for the local stakeholders to receive information from INOGATE's experts and, at the same time, to maintain a fruitful dialogue among themselves, getting updates directly from the policy makers and key energy sector players.

The Ministry of Energy of the Azerbaijan Republic and INOGATE prepared a joint press release dedicated to this event. The press release was posted on the websites of the Ministry, EUD and INOGATE.

Several local print and TV media representatives participated in the event. Mr. Zweering conducted an interview and an article from AzerTac is attached in the annex.

In addition, INOGATE prepared a dedicated leaflet regarding INOGATE–Azerbaijan cooperation in recent years, highlighting achievements and future plans for supporting the development of the Azerbaijani Energy sector. The leaflet was printed and distributed during the event together with the other visibility and promotion material.

All the event material (agenda, list of participants, photos, visibility items) and presentations made by INOGATE experts and beneficiary stakeholders can be accessed through the INOGATE website (www.inogate.org).

Meetings with stakeholders

The event also offered the opportunity to meet with the main stakeholders and discuss priorities. Summary of the meetings are presented below.

16.07.2014 Meeting at the Ministry of Energy

Participants:

1. Mr. Iftikhar Huseynov, Head of Staff, Ministry of Energy
2. Mr. Asaf Rzaev, Head of Electricity department, Ministry of Energy
3. Mr. Mr. Jamal Tahirov, Head adviser, Legal and Metrology Department
4. Mr. Namig Tagiyev, Head of Technical Regulation and Standardisation department, State Committee for Standardisation
5. Mrs. Irina Arychenko, ITS expert
6. Mr. Albertus Zweering, ITS Team Leader
7. Mr. Viktor Petrenko, ITS Senior Expert for Standardisation

Summary of Discussion

- The issue of Country Coordinator has been solved. Mr. Huseynov will liaise with the ministry's management, while Mr. Asaf Rzaev will act as the main contact point. Official letter from the ministry was received.
- Discussion on adoption of standards took place. Several possible procedures were discussed and will continue at LIE event and other meetings.
- Mr. Zweering explained the purpose of meeting the deputy minister and discussed the new strategy and priorities for Azerbaijan.

- Mrs. Irina Arychenko discussed the preparations for the event, the agenda and media presence.

17.07.2014 Local information event, Ministry of Energy.

Summary of Discussion during the event.

- AZ E & G sector is suffering currently from high technical and commercial losses, especially in the distribution part (15-30%). It is desirable that the ITS experts come often to AZ and hold discussion on the losses issues with the representatives of electricity and gas companies but also with the public representatives (households), more seminars and workshops are needed on this subject. Specific issues are related with the reactive power which is not billed (or included in the tariffs) and the associated with this losses. Another issue is metering, some steps are taken by the Azerenerji to modernise the metering facilities (installation of smart meters) however commercial losses still remain significant.
- Participants from the industry & NGOs expressed concerns to the Ministry that in Azerbaijan there is still no internal comprehensive discussion about the market issues and future of the market. Some questions were made to ITS during the round table on what could be the stages of market development in AZ (including legislation) and what was the experience on that in other PCs.
- Amendments were made to the law on standardisation. The ITS Road Map on standards has to explain why the proposed standards are beneficial to AZ.
- ADB provides currently support to construction of electricity production facilities. Priority is to export to Georgia, now that the internal demand is satisfied.

Meeting with Azerenerji representatives (during lunch break of the LIE event)

Participants:

1. Mr. Farrukh Aliyev, Deputy Head of Strategy & Investment Department. Azerenerji.
2. Mr. Hafiz Mehdiyev, Head of Regional Power Markets Analysis Division. Azerenerji.
3. Mr. Nikos Tsakalidis, Key expert, E & G

Summary of Discussion

- Export of electricity through Georgia is one of the priorities. 500 KV line is being constructed. In this respect the upcoming AHEF on support to cross-border trade is very interesting.
- Ongoing assignment (AZ09) on smart metering is very useful to Azerenerji's experts and they are looking forward to its completion. Final mission of experts is foreseen in September.
- In terms of priorities for the future assistance – it is suggested to discuss the substance in further communication with ITS. However the points discussed earlier with ITS still are important – defining the strategy on Azerenerji operations (long/short term), improvement of KPIs, IT support, benchmarking, etc.

17.07.2014 EU Delegation (briefing)

Participants:

1. Mr. Mario Gomez, Operations section
2. Mr. Albert Zweering, TL
3. Mr. Nikos Tsakalidis, ITS project Key Expert 2

Summary of Discussion

- ITS briefed EUD on the LIE and presented the country leaflet for distribution at the EUD
- ITS briefed EUD on the ongoing AHEF assignments
- EU Delegation representative mentioned no specific activities are ongoing in energy in AZ from the side of Delegation currently. Forecasted is the evaluation of the budget support project (performed some time ago as well). Coordination of INOGATE activities important for the EUD because it is the only energy related project in AZ

18/07/2014 Meeting with the Deputy Minister of Energy. Ministry of Energy,

Participants:

1. Mr. Gulmammad S. Javadov, Deputy Minister
2. Mr. Jamal Tahirov, Head adviser, Legal and Metrology Department
3. Mr. Albert Zweering, TL
4. Mr. Nikos Tsakalidis, Key expert, E & G
5. Mr. Viktor Petrenko, ITS senior standardisation expert
6. Mr. Larry Good, Key expert, sustainable development.

Summary of Discussion

- In his introduction the Deputy Minister confirmed the interest of the Ministry to work with ITS in all directions covered by the project
- The deputy minister stressed the importance of support to the new Energy Efficiency department of his ministry
- He also noted that he will contact the State Agency ABEMDA concerning the SE Information Centre after Mr. Larry Good explained the potential interest of ABEMDA
- In terms of Electricity and Gas, the Deputy Minister indicated (and confirmed) the following priorities:
 - Road Map and Action Plan on standardisation
 - Addressing the technical and commercial losses in electricity and gas and especially in distribution.
 - Best practice of Ukraine and Kazakhstan was specifically mentioned
 - Issue of tariffs and cross-border trade.

Next actions

ITS will send a draft work plan for discussion with and approval of the Ministry with the indicated priorities and the Ministry will then respond in a formal way.

18.07.2014 Joint meeting with SOCAR and Azerigas, Ministry of Energy.

Participants:

1. Mr. Jamal Tahirov (JT), Head adviser, Legal and Metrology Department, Min En.
2. Mr. Gudrat Aghayev, Metrology Department, Chief Engineer Automatization and technical process. SOCAR
3. Mr. Kamran Jafarov, Deputy Chief. Azerigas
4. Mr. Nikos Tsakalidis (NT), key expert, electricity and gas
5. Mr. Vidmantas Jankauskas (VJ), regulatory expert
6. Mr. Viktor Petrenko (VP), ITS senior standardisation expert

Summary of Discussion

- NT mentioned that so far a number of ITS regional seminars have been done on gas and standards issues. In order to increase the impact it is important that the knowledge received at these events is properly disseminated locally after the seminar. The representatives of SOCAR and Azerigas noted that according to the procedure in their companies the participant taking part in any event has to report back to the senior management after the seminar on the results and knowledge obtained and how it could be utilised in the company.
- NT briefed the participants on the ongoing and upcoming assignments in AZ as well as invited to the discussion on the possible future assignments by ITS that would be also impact oriented. The representatives of SOCAR and Azerenerji indicated the following areas of interest/priorities:
 - Associated petroleum gas and the ways of its utilisation in AZ.
 - Technical losses in Underground Gas Stations and the ways of improvement of metering, losses and estimation of volume of gas
 - Inspection of gas pipelines and especially the ones non-pigable. Use of Non Distractive Testing methods.
 - Assessment and analysis of risk of gas pipelines.
 - Utilisation of LPG/CNG in AZ transport, EU best practice on regulations and legal framework. Currently there is a state programme developed. The objective is the 100% use of LPG in public transport in AZ.
 - LNG regulations.
- NT assured the representatives that the above priorities will be evaluated by ITS.
- On the issues of gas market regulation and tariffs ITS was suggested to talk to Tariff Council.
- On the issue of Road Map and Action Plan, JT noted that they are ready to consider the draft and proceed to a formal approval once the draft is mutually agreed.

Next actions

The representatives of SOCAR and Azerigas will communicate and discuss the above priorities with the senior management of their companies in order to validate them. Further follow up on the discussion on the priorities to be held between the ITS experts and the representatives of SOCAR and Azerigas.

18.07.2014 Tariff Council

Participants:

1. Mr Mamishov Kanan, Chief of Energy, Household and Water Supply Services.
2. Ms. Musayeva Nurlana, Head of Sector Energy, Household and Water Supply Service.
3. Mr. Nikos Tsakalidis, ITS project Key Expert 2
4. Mr. Vidmantas Jankauskas, ITS regulatory expert

Summary of Discussion

- The representatives of Tariff Council (TC) are satisfied with the last mission of ITS experts and the workshop performed within the AHEF (AZ14). The draft final report is still to come from ITS experts and the comments will be provided by the Tariff Council. It was mentioned that one specific issue has to be covered - definition of the calorific value of gas, this standards has to be included in the priority list of standards for adoption. NT noted that this will be discussed with the Ministry and NSB in the framework of Road maps and Action Plans for standardisation.
- In terms of changes in the regulatory side or legislation on tariffs the representatives of TC noted that no specific changes have been occurred.
- In terms of quality regulation it was noted that this procedure remains a prerogative of the Ministry of Energy.
- In terms of regulations for grid connection it was mentioned that this is regulated by the Ministry of Energy but there is no separate regulations on that.

Annexes

1. Agenda of the LIE AZ
2. Press release LIE AZ
3. List of Participants LIE AZ
4. Translated article in AzerTac newspaper