

**Minutes of Discussions  
on the Basic Design Study  
on the Project for Improvement of Mushviq Substation  
in the Republic of Azerbaijan**

In response to the request from the Government of the Republic of Azerbaijan (hereinafter referred to as "Azerbaijan"), the Government of Japan decided to conduct a Basic Design Study on the Project for Improvement of Mushviq Substation (hereinafter referred to as "the Project") and entrusted the study to the Japan International Cooperation Agency (hereinafter referred to as "JICA").

JICA sent to Azerbaijan the Basic Design Study Team (hereinafter referred to as "the Team"), headed by Mr. Hiroyuki Hayashi, Transportation and Electric Power Team of the Project Management Group I, the Grant Aid Management Department, JICA, and is scheduled to stay in the country from August 29 to September 20, 2005.

The Team held discussions with the concerned officials of the Government of Azerbaijan. In the course of the discussions, both sides have confirmed the main items described in the attached sheets. The Team will proceed to further works and prepare the Basic Design Study Report.

Baku, September 2, 2005

   
\_\_\_\_\_  
Hiroyuki Hayashi  
Leader  
Basic Design Study Team  
Japan International Cooperation Agency

  
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Marlen A. Askerov  
Chief Engineer  
AZERENERJI Joint-Stock Company  
The Republic of Azerbaijan

## ATTACHMENT

### 1. Objective of the Project

The objective of the Project is to ensure reliable and stable electricity supply to three regions i.e. Sabail, Yasamal and Nasimi of Baku City by the installation of new transformers at Mushuviq Substation.

### 2. Project Site

The Project site is shown in Annex-1.

### 3. Organizations

The owner of the project is the AZERENERJI Joint-Stock Company (AZERENERJI).

The organization chart of AZERENERJI is shown in Annex-2-~~1&2-2~~



### 4. Components Requested by the Government of Azerbaijan

After discussions with the Team, the following components were finally requested by the Azerbaijani side. JICA will assess the appropriateness of the request, prioritize each component, and will recommend to the Government of Japan for approval.

#### (1) Replacement of main transformers

- 220/110/10 kV 250 MVA auto transformer: 2 units
- Reinforcement of transformer foundations: 2 sets
- Replacement of control and protection relay panels for transformer: 2 sets
- Replacement of accessories such as gantries, insulators, fittings, etc.: 1 lot

#### (2) Replacement of 10 kV side of the transformers

- 10 kV reactors: 2 sets
- 10 kV metal-clad switchgear: 4 sets

#### (3) Conductors, power and control cables: 1 lot

#### (4) Spare parts: 1 lot

### 5. Japan's Grant Aid Scheme

(1) The Azerbaijani side understands the Japan's Grant Aid scheme and the necessary measures to be taken by the Government of Azerbaijan explained by the Team as described in Annex-3.

(2) The Azerbaijani side promised to take necessary measures, as described in Annex-4, for smooth implementation of the Project as a condition for the Japan's Grant Aid to be implemented.

### 6. Schedule of the study

(1) The consultants will conduct further studies in Azerbaijan until September 20, 2005.

(2) JICA will prepare a draft report in English and dispatch a mission to Azerbaijan in order to explain its contents around the end of January 2006.

(3) When the contents of the report are accepted in principle by the Government of Azerbaijan, JICA will complete the final report and send it to the Government of Azerbaijan around the end of March 2006.



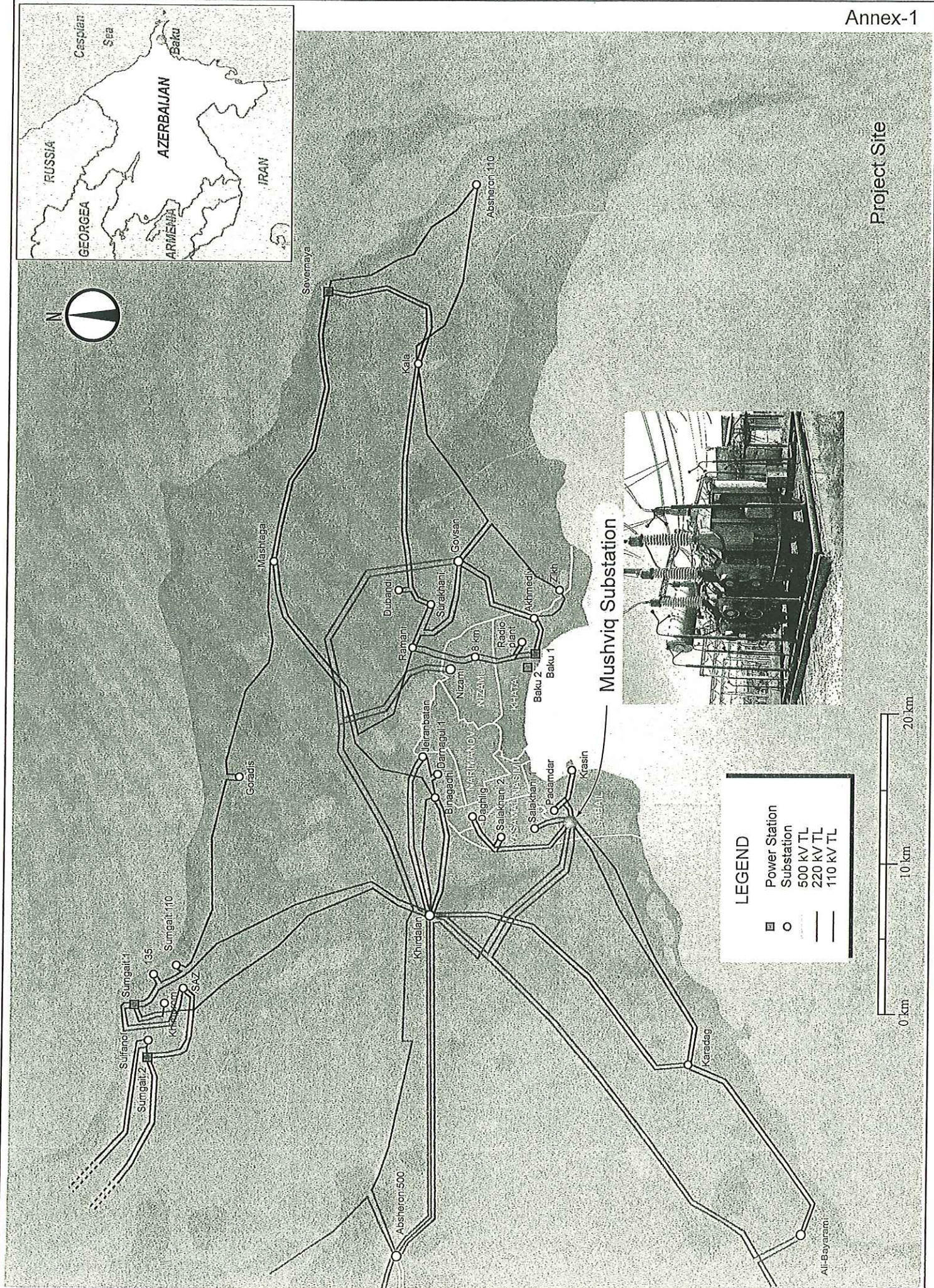
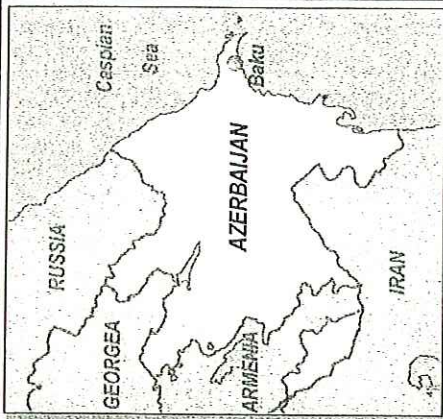


## 7. Other Relevant Issues

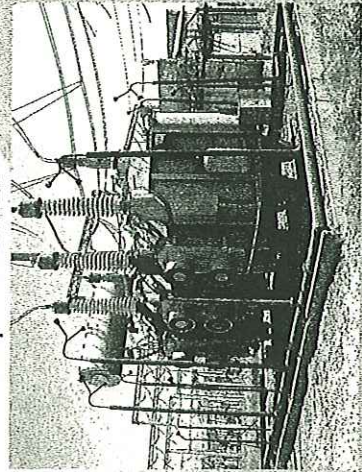
- (1) The Both sides confirmed that the component of the "Rehabilitation inside s/s and approach of roads" listed in the Application of the Project should be excluded from the Project.
- (2) The Azerbaijani side shall submit answers to the Questionnaire and Materials to be collected, which is shown in the inception report, by September 10, 2005.
- (3) The Azerbaijani side shall provide necessary number(s) of counterpart personnel to the Team during the period of their studies in Azerbaijan.
- (4) The Azerbaijani side explained to the Team that according to the act(s)/guideline(s) concerning the environmental and social considerations, neither Environmental Impact Assessment (EIA) nor Initial Environmental Evaluation (IEE) is requested to be carried out.
- (5) The Azerbaijani side should allocate necessary budget for undertakings to be done on a timely manner, based on the provisional amount, which will be shown in the final report.
- (6) The Azerbaijani side should shift the existing 200MVA transformer(s) during off-peak period and re-operation so that new 250MVA transformer(s) can be installed on the existing 200MVA transformer's foundation to minimized the power interruption period, if necessary.
- (7) The Azerbaijani side should remove and reconstruct the entrance gate of the substation for transportation of the transformers, if necessary.
- (8) The Azerbaijani side requested the Team to cover internal transportation from the port of embarkation to the Project site by the Japan's Grant Aid as shown in Annex-4.
- (9) The Azerbaijani side requested the Team to carry out the training to the AZERENERJI staffs in Japan on operation and maintenance of new facilities as technical cooperation by JICA. The Azerbaijani side should submit the official request regarding training with concrete contents of trainings through the Embassy of Japan before the end of June 2006.

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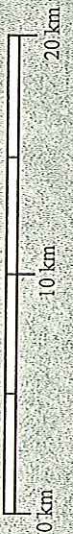


Mushviq Substation



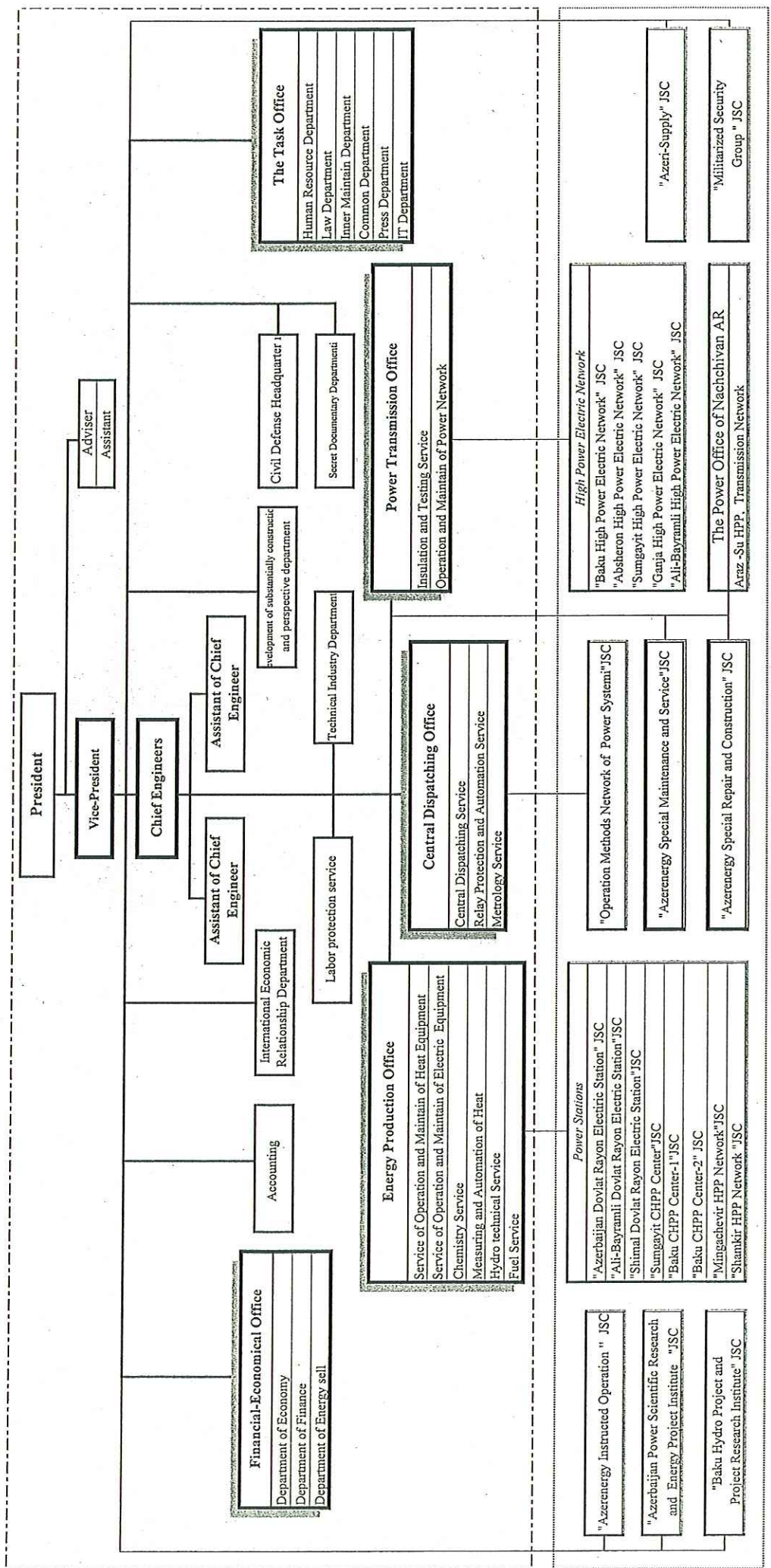
**LEGEND**

- Power Station
- Substation
- 500 KV TL
- 220 KV TL
- 110 KV TL



Project Site

Organisational Chart of "Azerenergy" JSC



Juridical peoples who included to JSC

Administrative Machinery of JSC

*[Handwritten signature]*

*[Handwritten initials]*

## JAPAN'S GRANT AID

The Grant Aid Scheme provides a recipient country with non-reimbursable funds to procure the facilities, equipment and services (engineering services and transportation of the products, etc.) for economic and social development of the country under principles in accordance with the relevant laws and regulations of Japan. The Grant Aid is not supplied through the donation of materials as such.

### 1. Grant Aid Procedures

Japan's Grant Aid Scheme is executed through the following procedures.

Application	(Request made by the recipient country)
Study	(Basic Design Study conducted by JICA)
Appraisal & Approval	(Appraisal by the Government of Japan and Approval by the Cabinet)
Determination of	(The Note exchanged between the Governments of Japan and recipient
Implementation	country)

Firstly, the application or request for a Grant Aid project submitted by a recipient country is examined by the Government of Japan (the Ministry of Foreign Affairs) to determine whether or not it is eligible for Grant Aid. If the request is deemed appropriate, the Government of Japan assigns JICA (Japan International Cooperation Agency) to conduct a study on the request.

Secondly, JICA conducts the study (Basic Design Study) using (a) Japanese consulting firm(s).

Thirdly, the Government of Japan appraises the project to see whether or not it is suitable for Japan's Grant Aid Scheme, based on the Basic Design Study report prepared by JICA, and the results are then submitted to the Cabinet for approval.

Fourthly, the project, once approved by the Cabinet, becomes official with the Exchange of Notes (E/N) signed by the Governments of Japan and the recipient country.

Finally, for the implementation of the project, JICA assists the recipient country in such matters as preparing tenders, contracts and so on.

### 2. Basic Design Study

#### (1) Contents of the study

The aim of the Basic Design Study (hereafter referred to as "the Study") conducted by JICA on a requested project (hereafter referred to as "the Project") is to provide a basic document necessary for the appraisal of the Project by the Government of Japan. The contents of the Study are as follows:

- Confirmation of the background, objectives, and benefits of the Project and also institutional capacity of agencies concerned of the recipient country necessary for the Project's implementation.
- Evaluation of the appropriateness of the Project to be implemented under the Grant Aid Scheme from a technical, social and economic point of view.
- Confirmation of items agreed on by both parties concerning the basic concept of the Project.
- Preparation of a basic design of the Project.
- Estimation of costs of the Project.

The contents of the original request are not necessarily approved in their initial form as the contents of the Grant Aid project. The Basic Design of the Project is confirmed considering the guidelines of the Japan's Grant Aid Scheme.

The Government of Japan requests the Government of the recipient country to take whatever measures are necessary to ensure its self-reliance in the implementation of the Project. Such measures must be guaranteed even though they may fall outside of the jurisdiction of the organization in the recipient country actually implementing the Project. Therefore, the implementation of the Project is confirmed by all relevant organizations of the recipient country through the Minutes of Discussions.

#### (2) Selection of Consultants

For smooth implementation of the Study, JICA uses (a) registered consulting firm(s). JICA selects (a) firm(s) based on proposals submitted by interested firms. The firm(s) selected carry(ies) out a Basic Design Study and write(s) a report, based upon terms of reference set by JICA. The consultant firm(s) used for the Study is (are) recommended by JICA to the recipient country to also work on the Project's implementation after the Exchange of Notes, in order to maintain technical consistency.

### 3. Japan's Grant Aid Scheme

#### (1) Exchange of Notes (E/N)

Japan's Grant Aid is extended in accordance with the Notes exchanged by the two Governments concerned, in which the objectives of the Project, period of execution, conditions and amount of the Grant Aid, etc., are confirmed.

(2) "The period of the Grant Aid" means the one fiscal year, which the Cabinet approves, the Project for. Within the fiscal year, all procedures such as exchanging of the Notes, concluding contracts with (a) consultant firm(s) and (a) contractor(s) and final payment to them must be completed. However, in case of delays in delivery, installation or construction due to unforeseen factors such as national disaster, the period of the Grant Aid can be further extended for a maximum of one fiscal year at most by mutual agreement between the two Governments.

(3) Under the Grant Aid, in principle, Japanese products and services including transport or those of the recipient country are to be purchased. When the two Governments deem it necessary, the Grant Aid may be used for the purchase of the products or services of a third country. However, the prime contractors, namely, consulting, constructing and procurement firms, are limited to "Japanese nationals". (The term "Japanese nationals" means persons of Japanese nationality or Japanese corporations controlled by persons of Japanese nationality.)

#### (4) Necessity of "Verification"

The Government of recipient country or its designated authority will conclude contracts denominated in Japanese yen with Japanese nationals. Those contracts shall be verified by the Government of Japan. This "Verification" is deemed necessary to secure accountability to Japanese taxpayers.

#### (5) Undertakings required of the Government of the Recipient Country

In the implementation of the Grant Aid Project, the recipient country is required to undertake such necessary measures as the following:

a) To secure land necessary for the sites of the Project and to clear, level and reclaim the land prior to commencement of the construction,

b) To provide facilities for the distribution of electricity, water supply and drainage and other incidental facilities in and around the sites,

c) To secure buildings prior to the procurement in case the installation of the equipment,

d) To ensure all the expenses and prompt excursion for unloading, customs clearance at the port of disembarkation ~~and internal transportation of the products purchased under the Grant Aid.~~ JS

e) To exempt Japanese nationals from customs duties, internal taxes and other fiscal levies, which will be imposed in the recipient country with respect to the supply of the products and services under the Verified Contracts?

f) To accord Japanese nationals, whose services may be required in connection with the supply of the products and services under the Verified contracts, such facilities as may be necessary for their entry into the recipient country and stay therein for the performance of their work.

(6) "Proper Use"

The recipient country is required to maintain and use the facilities constructed and the equipment purchased under the Grant Aid properly and effectively and to assign staff necessary for this operation and maintenance as well as to bear all the expenses other than those covered by the Grant Aid.

(7) "Re-export"

The products purchased under the Grant Aid should not be re-exported from the recipient country.

(8) Banking Arrangements (B/A)

a) The Government of the recipient country or its designated authority should open an account in the name of the Government of the recipient country in a bank in Japan (hereinafter referred to as "the Bank"). The Government of Japan will execute the Grant Aid by making payments in Japanese yen to cover the obligations incurred by the Government of the recipient country or its designated authority under the Verified Contracts.

b) The payments will be made when payment requests are presented by the Bank to the Government of Japan under an Authorization to Pay (A/P) issued by the Government of the recipient country or its designated authority.

(9) Authorization to Pay (A/P)

The Government of the recipient country should bear an advising commission of an Authorization to Pay and payment commissions to the Bank.

(End)

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## Major Undertakings to be taken by Each Government

No.	Items	To be covered by Grant Aid	To be covered by Recipient Side
1	To bear the following commissions to the Japanese bank for banking services based upon the B/A		
	1) Advising commission of A/P		●
	2) Payment commission		●
2	To ensure unloading and customs clearance at port of disembarkation in recipient country		
	1) Marine (Air) transportation of the products from Japan to the recipient country	●	
	2) Tax exemption and custom clearance of the products at the port of disembarkation		●
	3) Internal transportation from the port of disembarkation to the project site	●	
3	To accord Japanese nationals whose service may be required in connection with the supply of the products and the services under the verified contract, such facilities as may be necessary for their entry into the recipient country and stay therein for the performance of their work.		●
4	To exempt Japanese nationals from customs duties, internal taxes and other fiscal levies which may be imposed in the recipient country with respect to the supply of the products and services under the verified contracts		●
5	To maintain and use properly and effectively the facilities constructed and equipment provided under the Grant Aid		●
6	To bear all the expenses, other than those to be borne by the Grant Aid, necessary for the transportation and installation of the equipment		●

(B/A: Banking Arrangement, A/P: Authorization to pay, N/A: Not Applicable)

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