

PROJECT MEMORANDUM TO THE DONORS COMMITTEE

COLOMBIA

EXECUTIVE SUMMARY

PROJECT TITLE: Strengthening of the Energy Regulatory Commission
[Comisión de Regulación Energética] (CRE)

PROJECT NUMBER: TC 93-07-05-1

BENEFICIARY: Republic of Colombia

EXECUTING AGENCY: CRE

PROJECT AMOUNT: US\$1,627,000 (MIF)
US\$ 150,000 (CRE)
US\$1,777,000 (TOTAL)

EXECUTION PERIOD: 18 months
DISBURSEMENT PERIOD: 24 months

MIF FACILITY: Technical cooperation (Facility I)
MODALITY: Grant

OBJECTIVE: To support the setup and initial activities of the CRE under the electricity sector reform program, establishing conditions conducive to the CRE's implementation of the structural reforms contemplated in the proposed legislation on electric power and public utilities. The CRE will be the primary regulatory agency for Colombia's energy sector and will play a key role in establishing the legal framework and a favorable atmosphere for increasing the participation of private investors in the sector.

DESCRIPTION: The project will comprise: (i) consulting services needed for startup of the CRE's activities; (ii) CRE staff training; and (iii) development of the information system and procurement of the equipment and software needed for the CRE's activities.

ENVIRONMENTAL CLASSIFICATION: The Environmental Management Committee classified this as a Category II operation.

PROJECT TEAM: Cintia Guimarães (OP3/OD8), Project Team Leader; Jaime Sujoy (PRA/ENE); Luis Del Cerro (PRA/ENE); Marcelo G. Antinori (PRE/MIF); Michael Woscoboinik (LEG); and Jairo Salgado (FCO), with the collaboration of Carlos Trujillo (PRA/INF/ENE).

I. COUNTRY ELIGIBILITY

- 1.1 On November 1, 1993, the Donors Committee declared Colombia eligible for all categories of financing under the MIF.

II. PROJECT

A. Background

1. Economic reform program in Colombia

- 2.1 The main objectives of the program for economic modernization undertaken by the Government of Colombia in recent years are to liberalize foreign trade, speed up reforms in the public sector, and expand private-sector participation in the economy.
- 2.2 The redefinition of the State's role in the economy resulted in a reform program that seeks to increase public-sector productivity, ensure adequate delivery of public services, and eliminate institutional and structural factors limiting competitive market forces or economic efficiency.

2. Electricity sector restructuring program

- 2.3 The Government of Colombia is implementing an electricity sector restructuring program whose objectives are to:
- a. concentrate the State's action on regulation, planning, and control;
 - b. open up the sector to private investment in order to promote competition, improve efficiency, and expand investments in development of the sector;
 - c. streamline the plans for expanding electricity coverage and ensure diversification of the energy supply;
 - d. set rates that reflect the economic cost of electricity, and institute a system for direct, explicit subsidies for basic consumption by lower-income users; and
 - e. ensure the financial soundness of State electric utilities by transforming them into joint stock companies with greater independence to improve business management.
- 2.4 With a view to attaining these objectives, the government has been adopting such measures as progressive rate adjustments, restructuring regional utilities, and transfer of assets to the

government, opening up construction and operation of generation projects to the private sector, arranging contracts between Financiera Energética Nacional [National Energy Finance Corporation] (FEN) and electric utilities, and preparing instruments for the new regulatory framework for the sector. The latter consists of the public utility bill and the electric power bill, both of which were initially approved by the respective committees of the upper house of Congress and which the government expects to be enacted by June 1994.

- 2.5 By virtue of transitory powers granted by the new Constitution, in December of 1992 the government issued Decree-Law 2119 instituting a series of measures which it regulated in June 1993 by Decree-Law 1253 in anticipation of some of the changes contemplated in the legislation currently pending in Congress, and which allow it to proceed while awaiting approval of these legal instruments. The measures mainly concern the opening up of energy and mining to private and foreign investors and the creation of the Comisión de Regulación Energética [Energy Regulatory Commission] (CRE) to regulate the mineral and energy sector.
- 2.6 Once fully operational, the CRE will be the main regulatory institution for Colombia's energy activities, and will thus play a key role in establishing the legal conditions and a climate favorable to increasing the participation of private investors in the sector. The CRE has already begun such duties and is currently coordinating studies on legislation for the new regulatory and institutional framework.

3. IDB and IBRD support for the electricity sector reform program

- 2.7 The IDB is supporting the strategy for restructuring the electricity sector through the electricity sector support program (loan 687/OC-CO), which is now under way. The government has been fulfilling the loan conditions in large measure. Also in the context of support for the sector, a loan for Empresas Públicas de Medellín was recently approved for construction of the Porce II Hydroelectric Plant, a project contemplated under the plan to increase generation by the end of the decade.
- 2.8 The purpose of the proposed operation is to continue IDB support for the sector reforms. At a later stage, support would also be given for privatization of the electricity sector and the sale of assets transferred to the State during the financial reorganization of the utilities.
- 2.9 The IBRD, for its part, financed consulting services provided by the firm of Coopers & Lybrand, hired by the government to prepare various aspects of the electricity sector restructuring, and is currently preparing a project in support of the Colombian electricity sector, which would have four components. The first, and the only one whose amount - some US\$15 million - has so far

been determined, is a technical-cooperation component for the electricity and gas sectors, which seeks to promote private-sector participation, strengthen the government agencies responsible for carrying out the institutional reforms and for the pricing system, and promote new rules for environmental protection and rational use of energy. This technical-cooperation component is supplementary to the operation proposed herein. The second component seeks to strengthen the single transmission utility that would be created under the new regulatory framework, and would include investment funding for expanding the transmission system. The third component would consist of use of the enhancement credit operation (ECO), with a view to expediting private participation in the energy sector. Lastly, the fourth component would consist of financing a workshop on the strategy for the natural-gas sector.

B. Objectives

- 2.10 The purpose of this technical-cooperation operation is to assist in the setup and initial activities of the CRE, under the electricity sector reform program. This support is expected to help establish conditions conducive to the CRE's implementation of the structural reforms envisaged in the electric power and public utility bills.

C. Activities

- 2.11 Institutional support for the CRE consists of three components: (i) consulting services needed for startup of the CRE's activities; (ii) CRE staff training; and (iii) development of the information system and procurement of the hardware and software needed for the CRE's activities.

1. Consulting services

- 2.12 The terms of reference for the hiring of consultants are set out in Annex I (available for perusal). The consultants would support the CRE in the following specific areas:

a. Legal, institutional and financial matters

- 2.13 Consolidation of the CRE and implementation of the global regulatory framework call for application of the general legal provisions contained in the decree establishing the CRE (Decree-Law 2119/92) and the public utility and electric power bills, once the latter two are enacted. Additional regulations also need to be drawn up, such as those defining "exclusive service areas" and those covering consumers of electric power and gas, which will also contain regulations governing service quality.
- 2.14 In an effort to promote conditions conducive to competition in the generation and marketing of energy, the CRE deems it necessary to review, from a legal standpoint, the procedures for restructuring energy utilities, particularly State or semipublic utilities, and

to propose the necessary legislation. There is also a need for legal advice to design contracts for the leasing of interconnection facilities, with a view to preparing models of the general contracts to be entered into by the utilities.

- 2.15 The CRE should consolidate its organizational structure and its institutional capability with a view to effective implementation of its duties. It is therefore necessary to draw up the bylaws of the CRE, setting out the general regulations, rules, and procedures that will govern its operation.
- 2.16 To implement the price-regulation system proposed, a model must be prepared for determining benchmark prices, financial simulations appropriate to the regulatory exercise must be conducted, and an overall pricing and subsidies plan must be determined.
- 2.17 To assist the CRE in these various areas, legal, trade, and financial experts will be hired to work throughout the period of program execution in close cooperation with CRE authorities and experts.

b. Service quality

- 2.18 Consulting services will be hired for a period of 12 months to assist the CRE and electric utilities in establishing the standards for the quality of electricity services at their various phases. These consulting services would constitute the technical support for the legal and institutional experts mentioned in the preceding paragraph.
- 2.19 It is recommended that working groups be set up with representatives of the power generation, transmission, and distribution utilities, coordinated by CRE staff and, at the installation stage, assisted by the consultants. The groups should be permanent so as to provide feedback on the system once the regulations take effect.
- 2.20 The consultants will also propose criteria and methods for establishing the parameters for judging service quality, including what volumes are to be measured and how often, and the frequency of any reports generated as a result.
- 2.21 Standardization of service quality will provide all participants in the electric system with clear references concerning their rights and obligations, helping the power generation, transmission, and distribution utilities to plan their activities, and giving consumers a clear idea of their rights and what action they should take if those rights are violated.

c. Operation of the power pool and system regulations

- 2.22 The purpose of these consulting services is to provide the CRE, over a 12-month period, with highly specialized assistance with an

independent perspective, which would ensure objectivity and see to it that the models and standards are adapted to the operating regulations of the pool and the system. The electric power pool will be an integrated system for the purchase and sale of energy designed to streamline transactions and stimulate competition among power generation utilities.

- 2.23 The assistance should, on the one hand, focus on improving specific aspects of existing models and, on the other, establishing guidelines for subsequent phases (long- and medium-term) as regards the algorithms to be used, methodologies, equipment, interfaces between models, and the like.
- 2.24 While these improvements will be the responsibility of the Electric Load Office [Despacho de Cargas], currently managed by the national utility Interconexión Eléctrica, S.A. (ISA) and will later be transferred to the single transmission utility "ISA(T)", to be set up under ISA, it is clear that the CRE, in its capacity as regulator of the electric energy sector, must ensure that the regulations established for pool operation are correctly interpreted. The simplifications they require must be duly cleared by the CRE and communicated to all pool participants so as to avoid conflicts or unfair practices by those with more information than others or with a greater technical capacity for speculation.

d. Financial transactions

- 2.25 The purpose of these consulting services is to lend highly specialized technical assistance to the CRE for a period of 10 months to devise and implement a system for financial transactions that would adequately reward investors, be consonant with long-term objectives, equitable, and transparent, and avoid any conflicts.
- 2.26 All the transactions generated by operation of the pool as a result of decisions made on the basis of prior planning but adjusted to actual circumstances, must be properly recorded with the utmost care to avoid conflicts, in view of the large amounts of money that could become the subject of dispute. ISA(T) will be responsible for recording and negotiating financial transactions on the basis of regulations established by the CRE, which will in turn intervene should any conflicts fail to be resolved by the respective utility belonging to the pool.
- 2.27 Based on an analysis of the current system of financial transactions and the new recommendations made by Coopers & Lybrand, a study will be conducted on new regulations for operation of the pool and settling accounts, and these procedures will be converted into functional specifications for the program for the settlement and reconciliation of accounts.
- 2.28 The CRE has already set up a working group with ISA for the design, programming, testing, and documentation of the program for

settlement and adjustment of accounts for the sale of energy and power in the Sistema Interconectado Nacional [National Interconnected System], and consulting services are considered advisable to direct the group.

- 2.29 Since it is possible that with the appearance of new players and increased wholesaler competition new conflicts may arise owing to deviations from the optimum load dispatch, flexible mechanisms must be put in place for managing and resolving the disputes most likely to arise.

e. Business accounting

- 2.30 By and large, the introduction of competition among electric utilities is based essentially on a vertical breakdown of their chain of production, so that those parts that are natural monopolies (transmission and distribution) become independent from the part that can operate in competition (generation).
- 2.31 In the case of Colombia, as in other countries, there will be no such breakdown, since vertically integrated firms will continue to exist. However, this situation may be largely resolved by separating the accounting in such a way as to clearly differentiate each process. This means preparing and publishing the accounts as though generation, transmission, distribution, and marketing were each provided by independent utilities.
- 2.32 The consulting firm's assignment would be to help design and implement the accounting system, working with the CRE, FEN, and the sector firms, mainly on the following activities:
- a. Review the charts of accounts and the current cost application systems of the various utilities.
 - b. Analyze the requirements of the financial transaction system.
 - c. Propose a standard chart of accounts to be used by all the utilities, divided into generation, transmission, distribution, and marketing.
 - d. Propose standards for cost application.
 - e. Propose appropriate auditing systems.
 - f. Assist in the implementation of the new accounting system, attending CRE meetings with electric utilities.
- 2.33 These consulting services should terminate within 12 months after startup of the program.

f. Charges for access to the systems

- 2.34 The purpose of these consulting services is to help the CRE for a period of four months to devise a set of regulations for unimpeded access to the systems and to establish charges for the regional transmission systems, in addition to the system proposed by the consulting firm of Coopers & Lybrand for the national transmission system.
- 2.35 Proper performance of a system such as that adopted in Colombia requires that the transmission system be independent from generation, thus preventing the generators from joining in the transmission monopoly and exploiting the situation to the detriment of competition among generators.
- 2.36 The charge system for allocation of capital, operation, and maintenance costs must be clearly established for generators, distributors, and large-scale users alike, as well as the prorating of other costs and priority-setting in the event of outage. Transmission prices for power and energy must be made public, accepted by all parties, and must be non-discriminatory.
- 2.37 In addition, payment for services must be designed to ensure optimum allocation of resources not only for the current system, but also for its expansion, avoiding overinvestment, unnecessary costs, and inadequate service quality.

g. Measurement systems for financial transactions

- 2.38 The purpose of these consulting services, which will last for eight months, is to help the CRE study the current measurement system and determine the activities needed to adapt them to developments in the wholesale market under the new trade regulations.
- 2.39 For wholesale transactions to be carried out, there must be a physical infrastructure for measurement and information reporting that is consistent with the physical and institutional organization and the regulatory principles of the wholesale market. ISA(T) currently has an infrastructure that reports information in real time from 35 points of direct supervision and business control centers.
- 2.40 However, changes made and yet to be made in the sector's institutional structure call for detailed analysis of trade-information needs to be carried out by highly specialized consultants, clearly defining the demarcation lines between the utilities in which the transactions are made.
- 2.41 This demarcation will help determine the location of the measuring equipment that adequately responds to the agreements reached on responsibility for such matters as maintenance of the facilities, losses, and the quality of supply.

2. Human-resource training

2.42 The Government of Colombia has begun to appoint some of the CRE staff, according to the organization, ranking, and role of the officials established by the firm of Coopers & Lybrand. Renowned experts with solid backgrounds in the electricity sector have been appointed. However, since the country has no previous experience in regulating public utilities, CRE staff will need considerable initial training, which must be accompanied by a policy of ongoing professional and refresher training. The proposed technical-cooperation operation would focus on the initial phase of the training program, with the following activities, as detailed in Annex II (available for perusal):

- a. Workshop on energy regulation: To be held in Colombia within five months after startup of the program, with international authorities on the subject, the workshop targets members of the CRE and participants from the Ministry of Mines and Energy, the Mining and Energy Planning Unit, the Ministry of Finance, the National Planning Department, FEN, and electric utilities.
- b. Training for CRE staff: CRE human-resource development will be supported through specific training programs, including training courses in Colombia, recruitment of experts for advisory services and presentations on various topics connected with regulation, and the purchase of bibliographical material. These activities will be conducted within 16 months after startup of the program.

3. Information systems and computer equipment

2.43 The information systems of the CRE must be developed in keeping with its regulatory functions, respecting the basic principles of relevance and timeliness. The various areas should carry out tasks both individually and jointly, thus enabling the CRE not only to monitor attainment of the regulatory objectives, but also to respond promptly to any conflicts.

2.44 The purpose of this component of the proposed technical-cooperation operation is to furnish the CRE with the necessary data processing equipment for it to adequately achieve its objectives and functions, consisting of the procurement of hardware and basic software and the development of an information system with the following characteristics:

- a. microcomputer network with a dedicated server and hub configuration;
- b. a total of 25 work stations with their own processing, storage, and printing capacity;

- c. connection to remote networks by modem and switched telephone line or packet switching through a dedicated microprocessor used as a communications server; and
 - d. miscellaneous equipment such as: laser printer, scanner, and internal modem/fax.
- 2.45 Annex III (available for perusal) contains the specifications and cost estimates for the hardware and basic software, which includes both the operating systems and accessories (electronic menus, word processors, etc.).
- 2.46 In addition, detailed analyses of the data structures, the frequency with which they are renewed, maintenance of archives, retrieval from the source and transmission to the CRE are needed to develop and maintain the various data bases required for fulfillment of the CRE's objectives.
- 2.47 To ensure comprehensive development of the CRE's basic systems, Annex IV (available for perusal) also contains details of the systems to be designed under contract for the development of specific applications not included in the basic software. Also included are the terms of reference for the consultant who will help the CRE develop its information system.
- 2.48 The hardware and software must be procured and the CRE's basic data system developed within 14 months after startup of the program.

D. Cost and financing

- 2.49 The total project cost will be US\$1,777,000. The CRE will finance US\$150,000 with its own resources and it is proposed that the MIF contribute the remaining US\$1,627,000. The detailed project budget is as follows:

PROJECT BUDGET (US\$)

		MIF	CRE	TOTAL
III.	Consulting services needed for the CRE's initial activities			
a)	Legal, institutional, and financial matters 1,000 hours/18 month	120,000	40,000	160,000
b)	Service quality 12 consultant/months + travel and per diem	52,000	3,000	55,000
c)	Operation of the power pool and system regulations 24 consultant/months + travel and per diem	245,000	6,000	251,000
d)	Financial transactions 10 consultant/months + travel and per diem	103,000	3,000	106,000
e)	Business accounting 800 hours + travel and per diem	226,000	3,000	229,000
f)	Charges for system access 4 consultant/months	56,000	1,000	57,000
g)	Measuring systems for financial transactions 8 consultant/months + travel and per diem	92,000	2,000	94,000
	Subprogram I - Total	894,000	58,000	952,000
II.	Human-resources training			
a)	Workshop on energy regulation 2 lecturers and 8 special guests + travel and per diem	69,000	41,000	110,000
b)	On-the-job training 36 consultant/months + travel and per diem	225,000	5,000	230,000
	Subprogram II - Total	294,000	46,000	340,000
III.	Development and installation of the information system			
a)	Hardware and software	126,000	40,000	166,000
b)	Development of the information systems 3 experts/12 months	150,000	6,000	156,000
	Subprogram III - Total	276,000	46,000	322,000
IV.	Administrative expenses	60,000	-	60,000
V.	Contingencies	103,000	-	103,000
	TOTAL PROJECT COST	1,627,000	150,000	1,777,000

E. Administration and execution

- 2.50 The executing agency of the project will be the CRE, which began operating in June 1993 pursuant to Decree-Law 2119 of December 1992 by which it was established. Among the CRE's members are two ministers from the executive branch, the director of the National Planning Department, and three commissioners who have already been appointed and have taken up their positions. Six full-time technicians have also been hired out of a planned total of 20. With the passage of the electric power bill, the full-time commissioners will be increased to five.

- 2.51 Since at the time of the CRE's creation it was decided that it would not have its own administrative structure and that all its administrative and financial needs would have to be taken care of in trust by a firm to be hired, it was decided that a firm would be needed to hire the consultants, purchase the hardware and software, and make the necessary payments during project execution. The CRE could not immediately finance the administrative costs of the project since the appropriate resources were not included in its 1994 budget. It was therefore proposed that the MIF finance that item in its entirety.

F. Disbursements

- 2.52 The disbursement period would be 24 months. Because the amount to be disbursed would be high in the short term, the revolving fund to be established must be in the amount of 25% of the MIF contribution.

G. Supervision

- 2.53 The CRE will prepare and present to the Bank progress reports every six months from startup of the program, in the interest of proper program monitoring. The reports must include: (i) a description of the progress made in the restructuring of the electricity sector; (ii) a description of the progress made in the activities envisaged under the program and the measures the CRE has adopted on the basis of those activities; (iii) a summary of recommendations by the consultants financed with MIF resources; and (iv) if the CRE considers it necessary for changes to be made in the subprograms, it should propose them in the quarterly report; these proposals may include both the reallocation of resources among budget items and changes in the deadlines established. The MIF will analyze such proposals and adjust the program if it deems it advisable.
- 2.54 Within six months after completion of the program, the CRE must submit a final report with a summary of the main activities conducted under the program, the recommendations formulated by the consultants, and the steps taken by the CRE on the basis of the work financed under the program.

H. Viability and risks

- 2.55 The program is one component of a series of activities in support of the reform process for Colombia's electric power sector, and would specifically benefit the sector's main regulatory agency with responsibility for essential functions such as establishing rates for final consumers, regulations for wholesale energy sales, the bases for the generation market, and rules for use of the transmission systems. Accordingly, proper functioning of the CRE is a prerequisite for developing private participation in the electric power sector in the context of the sector's restructuring.

- 2.56 The main operational risks are connected with: (i) the CRE's effective autonomy to conduct its activities; (ii) the separation of supervisory functions, which would be the responsibility of the Office of the Superintendent of Public Utilities [Superintendencia de Servicios Públicos Domiciliarios] (SSPD), yet to be created; and (iii) continuation of the sector reform process.
- 2.57 First of all, the membership on the CRE of ministers from the executive branch and full-time experts may lead to political interference in the technical matters that the CRE is supposed to handle. Enactment of the electric power bill will not rectify this situation, although it will increase the number of technical advisers from three to five. In order to limit this risk, the CRE's technical soundness must be ensured so that it wins the confidence of the players in the electricity system owing to its professional standing and impartiality. It should be stressed that the CRE's already appointed full-time members are highly qualified to perform their tasks competently.
- 2.58 Secondly, it must be borne in mind that the creation of the SSPD is mandated by the Constitution and is thus unavoidable. Therefore, clear mechanisms for separating its functions from those of the CRE must be devised in order to avoid duplication and interinstitutional conflicts. This risk may be limited by the fact that the SSPD has yet to be set up, so that the government can clearly determine its competence and organization, as well as its proper coordination with the CRE.
- 2.59 Thirdly, there is a risk that political considerations may cause the initiatives to reform the regulatory and institutional framework of the electricity sector to be discontinued, and so prevent progress towards greater operational efficiency and completion of the economic and financial reorganization now under way. The government is therefore continuing its efforts to pass the new legislation, which should be approved by June 1994, and is also proceeding with preparation of the necessary regulations. Through the proposed program, the Bank, for its part, will help to strengthen the CRE, the institution responsible for implementing the new regulatory framework, and will in the near future explore ways of supporting concrete privatization activities, also with MIF resources.

III. COMPLIANCE WITH PROJECT ELIGIBILITY CRITERIA

A. General criteria

- 3.1 Financing to support the establishment of the CRE under the Colombian government's reform program is fully compatible with the MIF's general objective of increasing investment and expanding the

private sector in order to speed up the country's growth and economic and social development. Furthermore, implementation of the program in Colombia could help institute the legal framework for private investment in the electric power sectors of other countries of the region.

B. Technical Cooperation Facility criteria for project eligibility

- 3.2 The proposal fulfills all the criteria for grant financing under the Technical Cooperation Facility set forth in Article 3, Section 2, of the Agreement Establishing the Fund, which states that grants shall be provided to governments to finance advisory services to regulatory agencies to remove regulatory impediments to private investment and provide an environment conducive to such investment, and to finance advice on the design and implementation of privatization programs, among other purposes.

IV. CONSISTENCY WITH THE BANK'S COUNTRY PROGRAM

- 4.1 The Bank's strategy for Colombia seeks to support the modernization program through sector and investment loans. In the electricity sector the Bank accords particular importance to reorganization of the sector and implementation of structural and financial reforms. These reforms include redefining the institutional and regulatory framework, setting rates in line with the economic costs of electric power for each user group, consolidating and restructuring existing utilities, and increasing private sector participation.
- 4.2 In view of the fact that the purpose of the present operation is to strengthen the CRE, which will be the main regulatory agency responsible for implementing changes already approved and those planned for the sector, it is considered consistent with the Bank's strategy for Colombia.

V. AVAILABILITY OF MIF RESOURCES

A. Funding modality

- 5.1 The program is to be funded by means of a grant, since this would make for increased private investment in Colombia's energy sector (Article III, Section 5(a)(i) of the Agreement Establishing the Multilateral Investment Fund).

B. Allocation of MIF resources

- 5.2 The allocation of MIF resources for this project is justified since it consolidates the Bank's support for the restructuring of the

electricity sector in Colombia, and strengthening of the Energy Regulatory Commission can produce positive effects if this experience is emulated in other countries of the region, particularly as regards the rules governing the admission of private investors in the sector. There is no restriction on the allocation of MIF resources to Colombia or to this specific project.

VI. EVALUATION

- 6.1 The program will be evaluated by means of the interim reports and final report provided for. In the view of the program executing agency and beneficiary, there was no need for an ex post evaluation since the final report on the operation would include the elements needed for evaluating its results.

PROGRAM SUMMARY

MIF - FACILITY I - COLOMBIA: STRENGTHENING OF THE ENERGY REGULATORY COMMISSION (CRE)		
General objective: To establish conditions favorable to increasing private investment in electric power sector projects.		
Specific objective: To support the setup and initial activities of the Energy Regulatory Commission.		
Subprograms:	Activities under each subprogram	Expected results and schedules
I. Technical support for the setup and initial activities of the CRE.	Hiring of legal, trade, and financial experts to help devise and implement the sector's new legal framework and the new regulations governing competition and marketing of energy, prepare the CRE's bylaws, and develop instruments to determine benchmark prices and perform financial simulations.	Regulations for the sector's new legal framework, to be prepared within 18 months. Rules and procedures for operation of the CRE, to be implemented within 12 months. Financial models and models for determining prices and subsidies, to be completed within 18 months.
	Hiring of consulting services to help the CRE establish criteria and rules for regulation of service quality.	Regulations on quality of technical and commercial quality, to be completed within 13 months.
	Hiring of consultants to support the CRE in review of regulations for operation of the power pool and system.	Proposals for changes in the models and operating regulations of the system, to be completed within 13 months of program startup.
	Hiring of consultants to assist the CRE with implementation of the financial transaction system.	New system for settlement of accounts for sales of energy and power of the national interconnected system, to be completed within 12 months.
	Hiring of a consulting firm to support the CRE in devising and implementing standard chart of accounts and regulations for business accounting.	Standard chart of accounts to be used by the utilities, to be completed within 12 months of program startup.
	Hiring of a consultant to advise the CRE on startup of the system of charges for use of the transmission systems.	System of charges for use of the transmission and additional services, to be completed within 5 months of program startup.
	Hiring of a consultant to develop the measuring system for financial transactions.	Proposal for expanding and developing the measuring system for wholesale transactions, to be completed within 10 months of program startup.
II. Human resources Training	Workshop on energy regulation organized by the CRE, with the participation of the utilities and sector agencies.	Dissemination of new methods and recent experiences in energy regulation, to be concluded within 5 months of program startup.
	Hiring of consultants for on-the-job training of CRE personnel.	Training for application of the sector's new rules and regulations, to be completed within 18 months of program startup.

ANNEX V

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III. Development and implementation of information systems	Purchase of hardware and software for the CRE.	Hardware and software for the CRE's operation, to be purchased and installed within 14 months of program startup.
	Hiring of consultants to devise and implement the CRE's information system.	CRE information system to be installed within 14 months of program startup.

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PROPOSED RESOLUTION

COLOMBIA. NONREIMBURSABLE TECHNICAL COOPERATION
FOR A PROGRAM TO STRENGTHEN
THE ENERGY REGULATORY COMMISSION

The Donors Committee of the Multilateral Investment Fund

RESOLVES:

1. That the President of the Inter-American Development Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Multilateral Investment Fund, to enter into such agreements as may be necessary with the República de Colombia and to take such additional measures as may be pertinent for the execution of the project memorandum referred to in Document MIF/AT- with respect to technical cooperation for a program to strengthen the Energy Regulatory Commission.

2. That up to the amount of US\$1,627,000, or its equivalent, is authorized for the purpose of this resolution, chargeable to resources of the Technical Cooperation Facility of the Multilateral Investment Fund.

3. That the above-mentioned sum is to be provided on a nonreimbursable basis.