

**PROTOCOL
of the
THIRD MEETING of the
U.S.- RUSSIA ENERGY WORKING GROUP**

April 7-8, 2003
Washington, D.C.

The third meeting of the Energy Working Group meeting was held in Washington, D.C. to advance energy cooperation between the U.S. and Russia. The meeting was co-chaired by Kyle McSlarrow, Deputy Secretary of Energy of the United States, and Oleg Georgiyevich Gordeev, Deputy Minister of Energy of the Russian Federation.

The co-chairs heard reports from the five subgroups that were formed at the November 2002 meeting of the Energy Working Group. Presentations also were given on government financing mechanisms available from the U.S. Export-Import Bank, the Overseas Private Investment Corporation, and the Trade and Development Agency. A panel on new energy technologies provided information on U.S. and Russian technologies. A highlight of the meeting is the signing of a Protocol on Energy Efficiency to advance the successful cooperation on energy efficiency and renewables.

The following subgroup reports outline the work accomplished since the November meeting and proposed next steps:

Oil Market Subgroup

As agreed at the November meeting, the Oil Market Subgroup held a roundtable in March 2003 with the Investment Subgroup to exchange information on the methodology of making long term energy forecasts used by the U.S. and Russia. The roundtable addressed in-depth fiscal policies for oil and gas companies in the U.S. and Russia, including proposed changes.

The Subgroup agreed to hold a future roundtable to exchange information on projected oil prices with an emphasis on the economic impact of oil prices. The U.S. side offered to share an economic model that develops scenarios for a range of prices.

Investment Subgroup

The Investment Subgroup participated in the March 2003 roundtable that included a discussion on regulation of and tariff setting for the gas and electric power sectors in the U.S. and Russia. A presentation on projects for potential U.S. investment was made by Rosneft company. The following directions of potential cooperation were discussed: projects to develop a system of the North trunk pipelines and an oil port in the Barents Sea; pipelines to the Far East, Asian, and U.S. West Coast markets; development of East Siberian fields; reconstruction and development of existing the pipeline network; and development of the Shtokmonskoye gas field.

A report from the Commercial Energy Dialogue was given on the status of the committee work by U.S. and Russian companies to identify barriers to investment in Russia's energy sector.

Information was provided on the status of the multilateral negotiations on energy services under the WTO General Agreement on Trade in Services, which involve the U.S. and Russia.

The Russian side expressed its interest on receiving from the American side information on possible ways to organize marketing researches on importing Russian oil and gas.

The Subgroup agreed to develop a list of projects for which Russian companies and the Russian Government are seeking investors. The list will be circulated for the participants of the second Commercial Energy Summit to assist in identifying opportunities for potential investors.

The Subgroup will exchange information with the Commercial Energy Dialogue on identifying investment barriers and promoting resolution of problems. The Subgroup agreed to investigate sponsoring roundtables on specific investment issues such as developing business plans to attract international financing

The Subgroup agreed to expand its program to include the U.S. AID proposal to cooperate on regional electricity transmission planning and related regulatory issues. A full report on the cooperation will be presented at the next Energy Working Group meeting.

Energy Efficiency Technologies Subgroup

In addition to signing the Protocol on Energy Efficiency, substantial progress has been made in this Subgroup since the November meeting. The Subgroup advanced cooperation on energy management in Russian public buildings (Federal, Municipal, and others), the hospital project for energy efficiency retrofits, energy efficient window and building technologies and standards, and efficient fossil power plant generation.

- The Department of Energy sent a team of experts to present the U.S. Federal Energy Management Program to Ministry of Energy and other relevant energy officials to begin the process of helping the Russian government develop its own Federal Energy Management Program.
- The U.S. energy efficiency experts held meetings with members and officials of the State Duma, the Ministry of Energy, the Ministry of Economic Development and Trade, and the Ministry of Finance to inform them on the status of U.S. activities to increase the effective use of energy.
- As a result of work with the City of Moscow to develop terms of reference for an EBRD loan, several Russian hospitals got an opportunity to receive a loan to implement energy conservation projects.
- The project to upgrade the GRES power plant in Primorsk is moving forward. In late April, a U.S. high-level technical team will conduct an initial assessment of the power plant to determine the status of maintenance and operations, infrastructure, management, and technology. This assessment is done to determine whether to go forward with a full feasibility study. If the feasibility study is successful, it will attract investors to upgrade the plant.
- Preparations for the Energy Efficient Windows and Building Technologies conference in May in Moscow, St. Petersburg, Rostov-on-the-Don are moving forward. About 150 companies, including U.S., will participate. The conference will highlight cooperation on

standards based on ISO standards; sale and licensing of advanced technologies; and emerging markets in the residential, commercial and institutional building sectors. Related preparations by DOE with the National Fenestration Rating Council, include training of Russian instructors, preparation of CDs, training manuals, and software that will be used to train Russian experts in implementing new standards as part of the Rostov-on-the-Don seminar.

The Subgroup activities in 2003 will be focused on implementation of activities outlined in the work plan under the Protocol on Energy Efficiency. Highlights of the work include: cooperation in the field of energy saving in the budget sphere, modernization of heat supply systems, training of specialists, including organization of a training program in the U.S., attraction of investment from international financing institutions to implement energy saving projects, and conducting seminars and exhibitions. All of the activities depend on available funding.

The co-chairs welcomed the cooperation on oil spill prevention and response monitoring. Experts from both sides will meet after the Energy Working Group meeting to agree on a work plan. The experts will present the plan and progress at the next Energy Working Group meeting.

Information Exchange Subgroup

The Subgroup agreed that the Energy Information Administration will reschedule for representatives of the Russian Ministry of Energy a 5-day training session on the operation of the Energy Information Administration including regulatory authority for data collection, procedures for collecting data, and methodology used in data analysis.

The Subgroup plans to continue its exchange as needed with meetings held in Washington and Moscow.

Small and Medium Enterprise Subgroup

The Subgroup is working on identifying issues that would help promote development of and sustain small and medium energy enterprises. At the Energy Working Group meeting, representatives from the U.S. Department of Commerce and the U.S. Small Business Administration presented initiatives and programs that the U.S. Government sponsors to promote its small business sector. The programs include government loans to small businesses and training on operating a small business.

In its presentation, the Russian side, in particular, highlighted issues related to the legal and normative framework that determine the specific character of activities carried out by small and medium energy enterprises, and its legal status.

Given the U.S. experience in conducting a policy to support small and medium enterprises, the Russian side proposed to hold a roundtable to exchange information among U.S. and Russian representatives on developing small and medium business, particularly on the following issues:

- History of development and current status of small and medium independent entrepreneurship in Russian and the U.S.;
- Independent producers and big vertically integrated oil companies;

- Financing of small and medium independent companies;
- Legal regulation, including antimonopoly legislation, access to subsoil, legal regulation of pricing policy.

The Subgroup agreed to hold a working meeting to discuss organization of the roundtable

The subgroup agreed to continue contact between members to keep apprised of programs and initiatives. The Russian side stated that it would encourage Russian small and medium energy enterprises to participate in the Entrepreneurial and Capital Formation Forum being organized by the U.S. Department of Commerce in Moscow this year.

The Investment Subgroup of the Energy Working Group organized with the U.S. Energy Association and the U.S.-Russia Business Council a business roundtable. Rosneft, Yukos, and TNK made presentations on investment projects. Rosneft discussed trunk pipelines projects, development prospects of Eastern Siberia, and the Shtokman gas field. Yukos company presented a project on the Murmansk Pipeline System. TNK company presented a program for potential participation of the U.S. side on ecology rehabilitation and modernization of the Samotlor field

A roundtable was held with U.S. Export-Import Bank, Overseas Private Investment Corporation (OPIC), and the Trade and Development Agency (TDA) to discuss government financing mechanisms. The Export-Import Bank discussed the \$300 million loans to Yukos, Lukoil and Sibneft for U.S. oil and gas equipment. OPIC outlined its energy activities in Russia. TDA provided information on recent grants given for Russian projects including an assessment of the financial viability of RAO UES, rehabilitation of the district heating system in Ulan Ude, and conducting energy efficiency audits of the Avtovaz auto plant.

A session also was held on new technologies. The U.S. Environmental Protection Agency reported on the work it has done in Russia on coal bed methane and the establishment of an institute in Kemerovo to facilitate coal bed methane development. A report also was given on a TDA and commercial-sponsored feasibility study, the Leningrad Windpower Plant Feasibility Study, to supply large 50 1.5 MW windmills to the Leningrad Oblast. Pacific Northwest Labs provided information on heating technologies.

The Parties agree to hold the next Energy Working Group meeting in Russia in the Summer.

Acknowledged, in duplicate, at Washington, D.C., on April 8, 2003 in the English and Russian languages, both texts being equally authentic.

Kyle McSlarrow
Deputy Secretary
U.S. Department of Energy

Oleg G. Gordeev
Deputy Minister
Ministry of Energy of the Russian
Federation