

04 JUNI 2013

EEA Financial Mechanism 2009-2014

PROGRAMME AGREEMENT

between

The Financial Mechanism Committee
established by Iceland, Liechtenstein and Norway

and

The Council of Ministers of the Republic of Bulgaria,
hereinafter referred to as the "National Focal Point",
representing Bulgaria ,
hereinafter referred to as the "Beneficiary State"

together hereinafter referred to as the "Parties"

for the financing of the Programme "Energy Efficiency and Renewable Energy "

hereinafter referred to as the "Programme"

Chapter 1

Scope, Legal Framework, and Definitions

Article 1.1

Scope

This programme agreement between the Financial Mechanism Committee (hereinafter referred to as the FMC) and the National Focal Point lays down the rights and obligations of the Parties regarding the implementation of the Programme and the financial contribution from the EEA Financial Mechanism 2009-2014 to the Programme.

Article 1.2

Legal Framework

1. This programme agreement shall be read in conjunction with the following documents which, together with this programme agreement, constitute the legal framework of the EEA Financial Mechanism 2009-2014:

a. Protocol 38b to the EEA Agreement on the EEA Financial Mechanism 2009-2014;

b. the Regulation on the implementation of the EEA Financial Mechanism 2009-2014 (hereinafter referred to as the "Regulation") issued by the Donor States in accordance with Article 8(8) of Protocol 38b;

c. the Memorandum of Understanding on the Implementation of the EEA Financial Mechanism 2009-2014 (hereinafter referred to as the "MoU"), entered into between the Donor States and the Beneficiary State; and

d. any guidelines adopted by the FMC in accordance with the Regulation

2. In case of an inconsistency between this programme agreement and the Regulation, the Regulation shall prevail.

3. The legal framework is binding for the Parties. An act or omission by a Party to this programme agreement that is incompatible with the legal framework constitutes a breach of this programme agreement by that Party.

Article 1.3

Definitions

Terms used and institutions and documents referred to in this programme agreement shall be understood in accordance with the Regulation, in particular Article 1.5 thereof, and the legal framework referred to in Article 1.2 of this programme agreement.

Article 1.4

Annexes and hierarchy of documents

1. The programme decision, including the financial plan (Annex I), and the operational rules (Annex II) form an integral part of this programme agreement. Any reference to this programme agreement includes a reference to its annexes unless otherwise stated or clear from the context.

2. The provisions of the annexes shall be interpreted in a manner consistent with this programme agreement. Should the meaning of any provision of the said annexes, so interpreted, remain inconsistent with this programme agreement, the provisions of the former shall prevail, provided that these provisions are compatible with the Regulation.

3. Commitments, statements and guarantees, explicit as well as implicit, made in the programme proposal are binding for the National Focal Point and the Programme Operator unless otherwise explicitly stipulated in the annexes to this programme agreement.

Chapter 2

The Programme

Article 2.1

Co-operation

1. The Parties shall take all appropriate and necessary measures to ensure fulfilment of the obligations and objectives arising out of this programme agreement.

2. The Parties agree to provide all information necessary for the good functioning of this programme agreement and to apply the highest degree of transparency, accountability and cost efficiency as well as the principles of good governance, sustainable development, gender equality and equal opportunities.

3. The Parties shall promptly inform each other of any circumstances that interfere or threaten to interfere with the successful implementation of the Programme.

4. In executing this programme agreement the Parties declare to counteract corrupt practices. Further, they declare not to accept, either directly or indirectly, any kind of offer, gift, payments or benefits which would or could be construed as illegal or corrupt practice. The Parties shall immediately inform each other of any indication of corruption or misuse of resources related to this programme agreement.

Article 2.2

Main responsibilities of the Parties

1. The National Focal Point is responsible and accountable for the overall management of the EEA Financial Mechanism 2009-2014 in the Beneficiary State and for the full and correct implementation of this programme agreement. In particular, the National Focal Point undertakes to:

a. comply with its obligations stipulated in the Regulation and this programme agreement;

b. ensure that the Certifying Authority, the Audit Authority, the Monitoring Committee and the Programme Operator properly perform the tasks assigned to them in the Regulation, this programme agreement and the programme implementation agreement;

c. take all necessary steps to ensure that the Programme Operator is fully committed and able to implement and manage the Programme;

d. take the necessary measures to remedy irregularities in the implementation of the Programme and ensure that the Programme Operator takes appropriate measures to remedy irregularities in Projects within the Programme, including measures to recover misspent funds;

e. make all the necessary and appropriate arrangements in order to strengthen or change the way the Programme is managed.

2. The FMC shall, subject to the rules stipulated in the legal framework referred to in Article 1.2 of this programme agreement, make available to the Beneficiary State a financial contribution (hereinafter referred to as "the programme grant") to be used exclusively to finance the eligible cost of the Programme.

Article 2.3

Objective and outcomes of the Programme

1. The programme decision sets out the objective, outcome(s), outputs, indicators and targets for the Programme.

2. The National Focal Point shall ensure that the Programme Operator implements and completes the Programme in accordance with the objective, outcome(s), outputs, indicators and targets set for the Programme.

Article 2.4

Programme grant

1. The maximum amount of the programme grant, the programme grant rate, and the estimated eligible cost of the Programme shall be as specified in the programme decision.

2. In case the Programme is also supported by the Norwegian Financial Mechanism, this programme agreement shall be interpreted in conjunction with the agreement regulating that support.

3. The financial plan shall:

a. contain a breakdown between the Programme's budget headings using the description put forward in the template for the programme proposal;

b. indicate the agreed advance payment, if any.

4. The management cost of the Programme Operator shall not exceed the amount specified in the programme decision.

Article 2.5

Special conditions and programme specific rules

1. The programme decision shall list any conditions set by the FMC with reference to paragraph 3 of Article 5.3 of the Regulation. The National Focal Point shall ensure compliance with these conditions and, in a timely manner, take the necessary steps to ensure their fulfilment.

2. The National Focal Point shall ensure compliance with any other programme specific rules laid down in the operational rules.

Article 2.6

Programme implementation agreement

1. With reference to Article 5.8 of the Regulation and without prejudice to paragraph 2 thereof, the National Focal Point shall, before any payment is made to the Programme, sign a programme implementation agreement with the Programme Operator. The National Focal Point shall notify the FMC of such signing.

2. The signed programme implementation agreement shall be identical to the draft programme implementation agreement confirmed by the FMC in accordance with paragraph 5 of Article 5.8 of the Regulation with regard to the content required according to paragraph 3 thereof. The National Focal Point shall inform the FMC of any deviation from that confirmed draft which may be subject to a new confirmation according to paragraph 5 of Article 5.8 of the Regulation prior to any payment to the Programme.

Article 2.7

Reporting

The National Focal Point shall ensure that the Programme Operator provides financial reports, annual programme reports and a final programme report in accordance with Chapter 8 and Articles 5.11 and 5.12 of the Regulation as well as statistical reporting in accordance with the Programme Operator's Manual (Annex 9 to the Regulation).

Article 2.8

External monitoring

The external monitoring and audit referred to in Articles 10.1, 10.2, 10.3 and 10.4 of the Regulation shall not in any way relieve the National Focal Point or the Programme Operator of its obligations under the programme agreement regarding monitoring of the Programme and/or its projects, financial control and audit.

Article 2.9

Modification of the Programme

1. Unless otherwise explicitly stipulated in this programme agreement, any modification of the Programme is subject to prior approval by the FMC.

2. Modifications that do not affect the objective, outcomes, outputs, indicators or targets of the Programme are permitted without FMC's prior approval provided that they are limited to the following:

a. cumulative transfers between budget headings related to outcomes of an amount less than 10 % of total eligible expenditure of the Programme or € 1,000,000, whichever is higher, and

b. changes of internal practices of the Programme Operator that are not stipulated in the programme agreement.

3. Programme specific exceptions from paragraphs 1 and 2, if any, are set in the operational rules.

4. Expenditures incurred in breach of this article are not eligible.

5. Should there be a doubt as to whether the proposed modifications require approval by the FMC, the National Focal Point shall consult the FMC before such modifications take effect.

6. Requests for modifications shall be submitted and assessed in accordance with Article 5.9 of the Regulation.

Article 2.10

Communication

1. All communication to the FMC regarding this programme agreement shall take place in English and be directed to the Financial Mechanism Office (hereinafter referred to as the FMO), which represents the FMC towards the National Focal Point and the Programme Operator in relation to the implementation of the Programme.

2. To the extent that original documents are not available in the English language, the documents shall be accompanied by full and accurate translations into English.

3. The National Focal Point shall bear the responsibility for the accuracy of the translation that it provides and the possible consequences that might arise from any inaccurate translations.

4. The FMC shall ensure that the National Focal Point is informed about communication between the FMC and the Programme Operator that is relevant for the responsibilities of the National Focal Point under this programme agreement.

Article 2.11

Contact information

1. The contact information of the National Focal Point and the Programme Operator is as specified in the programme proposal.

2. The contact information for the FMC and the Financial Mechanism Office are:

Financial Mechanism Office

Att: Director

EFTA Secretariat

Rue Joseph II, 12-16

1000 Brussels

Telephone: +32 (0)2 286 1701

Telefax (general): +32 (0)2 211 1889

E-mail: fmo@efta.int

3. Changes of or corrections to the contact information referred to in this article shall be given in writing without undue delay by the Parties to this programme agreement.

Article 2.12

Representations and Warranties

1. This programme agreement and the awarding of the programme grant is based on information provided by, through, or on behalf of the National Focal Point to the FMC in the programme proposal or other communication prior to the signing of this programme agreement.

2. The National Focal Point represents and warrants that the information provided by, through, or on behalf of the National Focal Point in the programme proposal, in connection with the programme proposal, the implementation or conclusion of this programme agreement are authentic, accurate and complete.

Chapter 3 Projects

Article 3.1 Selection of projects

1. The National Focal Point shall ensure that the Programme Operator selects projects in accordance with Chapter 6 of the Regulation and the operational rules.
2. Eligibility of applicants is stipulated in Article 6. 2 of the Regulation and, in accordance with paragraph 3 thereof, subject only to the limitations stipulated in the operational rules.
3. Pre-defined projects shall be outlined in the operational rules.
4. The National Focal Point shall take proactive steps to ensure that the Programme Operator complies fully with Article 6.6 of the Regulation.

Article 3.2 Project contract

1. For each approved project a project contract shall be concluded between the Programme Operator and the Project Promoter.
2. In cases where a project contract cannot, due to provisions in the national legislation, be made between the Programme Operator and the Project Promoter, the Beneficiary State may instead issue a legislative or administrative act of similar effect and content.
3. The content and form of the project contract shall comply with Article 6.7 of the Regulation.
4. The National Focal Point shall ensure that the obligations of the Project Promoter under the project contract are valid and enforceable under the applicable law of the Beneficiary State.

Article 3.3 Project partners and partnership agreements

1. A project may be implemented in a partnership between the Project Promoter and project partners as defined in paragraph 1(w) of Article 1.5 of the Regulation. If a project is implemented in such a partnership, the Project Promoter shall sign a partnership agreement with the project partners with the content and in the form stipulated in Article 6.8 of the Regulation.
2. The partnership agreement shall be in English if one of the parties to the agreement is an entity from the Donor States.
3. The eligibility of expenditures incurred by a project partner is subject to the same limitations as would apply if the expenditures were incurred by the Project Promoter.

4. The creation and implementation of the relationship between the Project Promoter and the project partner shall comply with the applicable national and European Union law on public procurement as well as Article 7.16 of the Regulation.

5. The National Focal Point shall ensure that the Programme Operator verifies that the partnership agreement complies with this article before the signing of the project contract.

Article 3.4 Reallocation of funds

1. Reallocation of unused or cancelled financial contributions to projects shall be made in compliance with Article 6.9 of the Regulation.
2. Project grants not reallocated shall be reimbursed to the FMC in accordance with Article 6.9 of the Regulation.

Chapter 4 Finance

Article 4.1 Eligible expenditures

1. Subject to Article 7.6 of the Regulation, eligible expenditures of this Programme are:
 - a. management costs of the Programme Operator in accordance with the detailed budget in the financial plan;
 - b. payments to projects within this Programme in accordance with the Regulation, this programme agreement and the project contract;
 - c. expenditure of funds for bilateral relations in accordance with Article 7.7 of the Regulation;
2. Expenditure related to the categories referred to in subparagraphs (d), (e) and (f) of Article 7.1 of the Regulation are eligible in accordance with Chapter 7 thereof if such expenditures are explicitly approved by the FMC in the programme decision. The implementation of the activities under these categories shall be in compliance with the operational rules.
3. Eligible expenditures of projects are those actually incurred by the Project Promoter or project partners, meet the criteria set in Article 7.2 of the Regulation and fall within the categories and fulfil the conditions of direct eligible expenditure set in Article 7.3 of the Regulation as well as indirect costs in accordance with Article 7.4 of the Regulation.

Article 4.5

Irregularities, suspension and reimbursements

The FMC has the right to make use of the remedies provided in the Regulation, in particular Chapter 12 thereof. The National Focal Point has a duty to take all necessary measures to ensure that the provisions in Chapter 11 and 12 of the Regulation regarding irregularities, suspension of payments, financial corrections and reimbursement are complied with.

Chapter 5

Final provisions

Article 5.1

Dispute settlement

1. The Parties waive their rights to bring any dispute related to the programme agreement before any national or international court, and agree to settle such a dispute in an amicable manner.

2. If a demand for reimbursement to the FMC is not complied with by the Beneficiary State, or a dispute related to a demand for reimbursement arises that cannot be solved in accordance with paragraph 1, the Parties may bring the dispute before Oslo Tingrett.

Article 5.2

Termination

1. The FMC may, after consultation with the National Focal Point, terminate this programme agreement if:

a. a general suspension decision according to Article 12.6 of the Regulation or a decision to suspend payments according to paragraph 1(h) of Article 12.1 of the Regulation has not been lifted within 6 months of such a decision;

b. a suspension of payments according to Article 12.1 of the Regulation, other than under paragraph 1(h), has not been lifted within one year of such a decision;

c. a request for reimbursement according to Article 12.2 of the Regulation has not been complied with within one year from such a decision;

d. the Programme Operator becomes bankrupt, is deemed to be insolvent, or declares that it does not have the financial capacity to continue with the implementation of the Programme; or

e. the Programme Operator has, in the opinion of the FMC, been engaged in corruption, fraud or similar activities or has not taken the appropriate measures to detect or prevent such activities or, if they have occurred, nullify their effects.

4. The first date of eligibility of expenditures in projects shall be set in the project contract in accordance with Article 7.14 of the Regulation. The first date of eligibility of any pre-defined projects shall be no earlier than the date on which the National Focal Point notifies the FMC of a positive appraisal of the pre-defined projects by the Programme Operator in accordance with paragraph 3 of Article 5.5 of the Regulation.

5. The maximum eligible costs of the categories referred to in paragraphs 1 and 2 are set in the programme decision. Programme specific rules on the eligibility of expenditure set in the programme decision or in the operational rules shall be complied with.

Article 4.2

Proof of expenditure

Costs incurred by Programme Operators, Project Promoters and project partners shall be supported by documentary evidence as required in Article 7.13 of the Regulation.

Article 4.3

Payments

1. Payments to the Programme shall be made when all relevant conditions for payments stipulated in this programme agreement and the Regulation have been fulfilled.

2. Payments to the Programme shall take the form of an advance payment, interim payments and payment of the final balance and shall be made in accordance with Articles 8.2, 8.3 and 8.4 of the Regulation.

3. Payments of the project grant to the Project Promoters may take the form of advance payments, interim payments and payments of the final balance. The level of advance payments and their off-set mechanism is set in the operational rules.

4. The National Focal Point shall ensure that payments are transferred in accordance with paragraph 2 of Article 8.1 of the Regulation.

5. Chapter 8 of the Regulation shall apply to all aspects related to payments, including currency exchange rules and handling of interests on bank accounts.

Article 4.4

Transparency and availability of documents

The National Focal Point shall ensure an audit trail for financial contributions from the EEA Financial Mechanism 2009-2014 to the Programme in accordance with Article 8.8 of the Regulation.

2. This programme agreement can be terminated by mutual agreement between the Parties.
3. Termination does not affect the right of the Parties to make use of the dispute settlement mechanism referred to in Article 5.1 or the right of the FMC to make use of the remedies provided in Chapter 12 of the Regulation.

Article 5.3
Waiver of responsibility

1. Any appraisal of the Programme undertaken before or after its approval by the FMC, does not in any way diminish the responsibility of the National Focal Point and the Programme Operator to verify and confirm the correctness of the documents and information forming the basis of the programme agreement.
2. Nothing contained in the programme agreement shall be construed as imposing upon the FMC or the FMO any responsibility of any kind for the supervision, execution, completion, or operation of the Programme or its projects.
3. The FMC does not assume any risk or responsibility whatsoever for any damages, injuries, or other possible adverse effects caused by the Programme or its projects including, but not limited to inconsistencies in the planning of the Programme or its projects, other project(s) that might affect it or that it might affect, or public discontent. It is the full and sole responsibility of the National Focal Point and the Programme Operator to satisfactorily address such issues.

4. Neither the National Focal Point, the Programme Operator, entities involved in the implementation of projects, nor any other party shall have recourse to the FMC for further financial support or assistance to the Programme in whatsoever form over and above what has been provided for in the programme agreement.

5. Neither the European Free Trade Association, its Secretariat, including the FMO, its officials or employees, nor the FMC, its members or alternate members, nor the EFTA States, can be held liable for any damages or injuries of whatever nature sustained by the National Focal Point or the Beneficiary State, the Programme Operator, Project Promoters or any other third person, in connection, be it direct or indirect, with this programme agreement.

6. Nothing in this programme agreement shall be construed as a waiver of diplomatic immunities and privileges awarded to the European Free Trade Association, its assets, officials or employees.

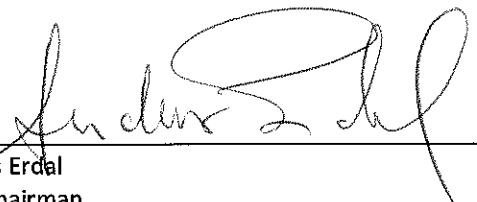
Article 5.4
Entry into force and duration

1. This programme agreement shall enter into force on the date of the last signature of the Parties.
2. This programme agreement shall remain in force until five years have elapsed after the date of the acceptance of the final programme report.

This programme agreement is drawn up in two originals in the English language.

For the FMC


Signed in Ostlo on 15.5.2013



Anders Erdal
FMC Chairman

For the National Focal Point

Signed in Sofia on 27.5.13



Iliana Tsanova
Deputy-Prime Minister and Minister of EU Funds
Management, Head of National Focal Point

Annex I - Programme Decision

1. Expected Outcomes & Indicators for Outputs

Expected Outcome(s): Improved energy efficiency in buildings

Output

energy efficient heating technologies and installations in buildings

| Output indicator(s) | Baseline | Target | Source of Verification |
|---|----------|--------|--|
| Number of buildings with reduced energy consumption and expenditure for heating | 0 | 13 | energy consumption bills, monitoring reports |

Output

CO2 reduction

| Output indicator(s) | Baseline | Target | Source of Verification |
|---|----------|--------|--|
| CO2 reduction and/or avoidance in tonnes/year | 166309 | 169109 | Energy audits, Ministry of environment and waters and its regional departments, on-the-spot checks protocols, Monitoring Reports |

Expected Outcome(s): Increased awareness of and education in energy efficiency

Output

Programme Communication Plan successfully implemented

| Output indicator(s) | Baseline | Target | Source of Verification |
|--|----------|--------|--|
| Number of publicity events and other awareness initiatives conducted | 0 | 5 | monitoring reports, checks on the spot |
| Number of Programme web-site visits per month | 0 | 70 | registration in the web-page |

Output

Awareness on energy efficiency and use of renewable energy raised

| Output indicator(s) | Baseline | Target | Source of Verification |
|---|----------|--------|--|
| Number of target group representatives influenced | 0 | 50 | monitoring reports, checks on the spot |

Expected Outcome(s): Increased renewable energy production

Output

new facilities and installations for energy generation from RES

| Output indicator(s) | Baseline | Target | Source of Verification |
|---|----------|--------|---|
| number of newly constructed micro hydro power plants | 0 | 2 | permission for operation, monitoring reports |
| number of new installations for production of pellets, wood chips, eco-briquettes | 0 | 8 | technical measurements, permissions for operation, monitoring reports |
| number of new installations for biogas | 2 | 5 | permissions for operation, monitoring reports, |

Output

extended capacity for R energy production

| Output indicator(s) | Baseline | Target | Source of Verification |
|--|----------|--------|-------------------------|
| newly installed capacity for R energy production, MW | 0 | 1 | permission of operation |

Expected Outcome(s): Increased awareness of and education in renewable energy solutions

Output

Exchanged experience, knowledge, know-how and best practices both at management and expert level between the Programme partners

| Output indicator(s) | Baseline | Target | Source of Verification |
|---|----------|--------|--|
| Number of partnering institutions at central level implemented joint partnership initiatives within the Programme framework | 0 | 2 | on the spot checks, monitoring reports |

Output

Extended experience at local level in promoting viable project proposals in the field of energy efficiency and renewable energy

| Output indicator(s) | Baseline | Target | Source of Verification |
|---|----------|--------|--|
| Number of public and private project promoters successfully implemented energy-related development projects | 0 | 29 | on the spot checks, monitoring reports |

Expected Outcome(s): Improved capacity at national, regional and local level on renewable energy solutions

Output

Exchanged experience, knowledge, best practices at management and expert level

| Output indicator(s) | Baseline | Target | Source of Verification |
|--|----------|--------|--|
| Number of partnering institutions at central level implemented joint initiatives | 0 | 2 | monitoring reports, on the spot checks |

Output

Extended experience at local level in promoting viable EE and RES measures

| Output indicator(s) | Baseline | Target | Source of Verification |
|--|----------|--------|--|
| Number of public entities developing EE and RES measures and plans | 0 | 29 | monitoring reports, on the spot checks |

2. Conditions**2.1 General**

1) The National Focal Point shall ensure that any public support under this Programme complies with the procedural and substantive State Aid rules applicable at the time when the public support is granted. The National Focal Point shall, by way of the Programme Implementation Agreement, ensure that the Programme Operator maintains written records of all assessments concerning compliance with State Aid rules, particularly decisions to award grants and set grant rates, and provides such records to the FMC upon request. The approval of the Programme by the FMC does not imply a positive assessment of such compliance.

2) The National Focal Point shall ensure that Article 7.16 of the Regulation, as well as national and European Union law on public procurement are complied with at any level in the implementation of the Programme and the projects. The Focal Point shall, by way of the Programme Implementation Agreement, ensure that the Programme Operator maintains written records of all assessments concerning the organization of procurement procedures and compliance with procurement rules, and provides such

records to the FMC upon request. The approval of the Programme by the FMC does not imply a positive assessment of such compliance.

- 3) Bilateral indicators, output and outcome indicators shall be reported on in the annual programme report.
- 4) The National Focal Point shall ensure that the Programme Operator ensures that Project Promoters who have, in line with this Agreement, received an exception from the general rule in Article 7.3.1(c) of the Regulation with respect to any equipment (the excepted equipment):
 - Keep the excepted equipment in their ownership for a period of at least five years following the completion of the project and continue to use that equipment for the benefit of the overall objectives of the project for the same period;
 - Keep the excepted equipment properly insured against losses such as fire, theft and other normally insurable incidents both during project implementation and for at least 5 years following the completion of the project; and
 - Set aside appropriate resources for the maintenance of the excepted equipment for at least 5 years following the completion of the project. The specific means for implementation of this obligation shall be specified in the project contract.

The National Focal Point shall furthermore ensure that the Programme Operator keeps a list of the excepted equipment for each project.

- 5) The National Focal Point shall ensure that the Programme Operator ensures that Project Promoters:
 - Keep any buildings purchased, constructed, renovated or reconstructed under the project in their ownership for a period of at least 5 years following the completion of the project and continue to use such buildings for the benefit of the overall objectives of the project for the same period;
 - Keep any buildings purchased, constructed, renovated or reconstructed under the project properly insured against losses such as fire, theft and other normally insurable incidents both during project implementation and for at least 5 years following the completion of the project; and
 - Set aside appropriate resources for the maintenance of any buildings purchased, constructed, renovated or reconstructed under the project for at least 5 years following the completion of the project. The specific means for implementation of this obligation shall be specified in the project contract.
- 6) The National Focal Point shall ensure that the Programme Operator ensures that any residual or extracted material from project activities is reused, recycled, treated and/or deposited in an environmentally sound manner.
- 7) Complementary action under this Programme shall be further defined by the Programme Operator in accordance with Article 7.11 of the Regulation.

- 8) The National Focal Point shall ensure that the Programme Operator achieves through the Programme a minimum CO₂ reduction and /or avoidance of 35,000 (metric) tonnes per year.

2.2 Pre-eligibility

Not applicable.

2.3 Pre-payment

- 1) The Programme Operator will further develop the selection criteria and submit them to the FMC for approval at the latest four weeks before the submission of the text of the first call for proposals in accordance with Article 6.3.4 of the Regulation. The final selection criteria will be included in the text of the calls for proposals.

- 2) The activities and outputs of the pre-defined project will be further discussed and agreed upon by the Programme Operator, the Project Promoter and the Donor Project Partner. These details shall be submitted to and approved by the FMC prior to the first disbursement to the pre-defined project.

2.4 Pre-completion

Not applicable.

2.5 Post-completion

Not applicable.

2.6 Other

Not applicable.

3. Eligibility of costs

3.1 Eligibility of costs - period

Eligibility of costs (excluding prog prep costs): 20/12/2012-30/04/2017

Eligibility of programme proposal preparation costs: 06/06/2012-19/12/2012

3.2 Grant rate and co-financing

| | |
|---------------------------------------|-------------|
| Programme estimated total cost (€) | €15,600,288 |
| Programme estimated eligible cost (€) | €15,600,288 |
| Programme grant rate (%) | 85.0000% |
| Maximum amount of Programme grant (€) | €13,260,245 |

3.3 Maximum eligible costs (€) and Advance payment amount (€)

| Budget heading | Eligible expenditure | Advance payment* |
|---|----------------------|------------------|
| Programme management | €1,273,494 | €380,000 |
| Improved energy efficiency in buildings | €2,941,176 | €0 |
| Increased awareness of and education in energy efficiency | €424,065 | €0 |
| Increased renewable energy production | €8,823,530 | €0 |
| Increased awareness of and education in renewable energy solutions | €200,000 | €0 |
| Improved capacity at national, regional and local level on renewable energy solutions | €1,520,000 | €260,000 |
| Fund for bilateral relations | €251,228 | €75,000 |
| Complementary action | €88,795 | €42,000 |
| Preparation of programme proposal | €78,000 | €78,000 |
| Reserve for exchange rate losses | €0 | €0 |
| Total | €15,600,288 | €835,000 |

* The advance payment is composed of €709,750 in grant amount and €125,250 in co-financing.

3.4 Retention of management costs

| | |
|--|----------|
| Retention of management costs - percentage of the management costs | 10.00% |
| Retention of management costs - planned Euro value | €108,247 |

3.5 Small Grant Scheme

| | |
|-------------------------------------|---|
| Outcome | Increased awareness of and education in energy efficiency |
| Total Amount Reserved | €624,065 |
| Grant Amount at Project Level | €30,000 – 100,000 |
| Duration of the Project | 12 – 18 months |
| Maximum Grant Rate at Project Level | 100.00% |
| Outcome | Increased renewable energy production |
| Total Amount Reserved | €1,764,705 |
| Grant Amount at Project Level | €50,000 – 200,000 |
| Duration of the Project | 12 – 24 months |
| Maximum Grant Rate at Project Level | 60.00% |

Annex II - Operational Rules

1. Eligibility

1.1 Eligible measures (sub-measures if any):

The Programme Operator is the Ministry of Economy, Energy and Tourism (MEET). The Donor Programme Partner (DPP) is the Norwegian Water Resources and Energy Directorate (NVE).

The Programme consists of four different components, two of which will be organised as small grant schemes:

1. Utilisation of hydropower potential
2. Promotion of energy efficiency and renewable energy measures in municipal and state buildings and local districts heating
 - a. Energy efficiency measures (shifting of boilers/fuel, replacement and reconstruction of heating sub-stations and installations)
 - b. Renewable energy measures (use of heat pumps, biomass, solar and geothermal energy for heat generation)
3. Increased local production of fuels on the basis of biomass (small grant scheme)
4. Training and education activities to increase the administrative capacity related to energy efficiency and renewable energy measures (small grant scheme)

In addition, the Programme contains one pre-defined project:

"Implementation of the Euro Electricity Market in Bulgaria –phase II", which is a continuation of a project funded through the previous financial mechanism

1.2 Eligible applicants:

The rules on the eligibility of applicants are set in Article 6.2 of the Regulation. The following specifications apply:

Component 1:

State-owned and municipal-owned entities operating in the water supply and irrigation sectors

Component 2:

- a) Energy efficiency measures
 - State and municipal authorities
- b) Renewable energy measures
 - State and municipal authorities

In order to be eligible, applicants must provide an energy audit report recommending the measures applied for.

Component 3:

Small and medium-sized enterprises (SMEs)

Component 4:

- Universities
- Training organisations
- Energy Service Companies (ESCOs)

1.3 Special rules on eligibility of costs:

Costs are eligible in accordance with chapter 7 of the Regulation.

By way of exception from Article 7.3.1(c) of the Regulation, the entire purchase price of new equipment will be eligible if the equipment is an integral and necessary component for achieving the outcome of the project. The Programme Operator will check and verify compliance with this condition.

2. Financial parameters

2.1 Minimum and maximum grant amount per project:

Component 1: The minimum amount of grant assistance applied for is €250,000; the maximum amount is €750,000.

Component 2: The minimum amount of grant assistance applied for is €170,000; the maximum amount is €500,000.

Component 3: The minimum amount of grant assistance applied for is €50,000; the maximum amount is €200,000.

Component 4: The minimum amount of grant assistance applied for is €30,000; the maximum amount is €100,000.

2.2 Project grant rate:

Components 1, 2 and 4: Grants from the Programme will cover up to 100% of total eligible project costs. If the grant rate is lower

than 100%, the remaining costs of the project shall be provided or obtained by the Project Promoter.

Component 3: Grants from the Programme will not exceed 60% of total eligible project costs. The remaining costs of the project shall be provided or obtained by the Project Promoter.

For all four components, the project grant rate will be determined in accordance with Article 5.4.2 of the Regulation, with particular regard to any economic benefits generated by the project; and in compliance with the applicable State Aid rules.

3. Selection of projects

3.1 Selection procedures:

The selection procedures must be in accordance with Article 6.5 of the Regulation.

The selection procedures shall result in a ranking list of projects, which may be run as a reserve list. Any contracted funds that are not absorbed by the projects originally chosen may be reallocated to the project next on the reserve list.

3.2 Open calls and availability of funds (including number of calls, duration of calls, and estimated size):

Component 1: There shall be one call for applications, which will be launched no later than in the third quarter of 2013 and make available €2,352,942. The call shall be open at least for 3 months.

Component 2: There shall be one call for applications, which will be launched no later than in the third quarter of 2013 and make available €7,647,059. The call shall be open at least for 2 months.

Component 3: There shall be one call for applications, which will be launched no later than in the fourth quarter of 2013 and make available €1,764,705. The call shall be open at least for 2 months.

Component 4: There shall be one call for applications, which will be launched no later than in the third quarter of 2013 and make available €624,065. The call shall be open at least for 2 months.

No further calls will be launched. Any reallocation of funds between components shall take place in accordance with Article 6.9 of the Regulation and with section 3.1 of this Annex II.

The Programme Operator shall, in cooperation with the Norwegian embassy in Sofia, ensure that the information regarding the open calls reaches as broad an audience as possible.

3.3 Selection criteria:

The following selection criteria shall be taken into account:

1. Relevance and importance of the project, as measured by the specific outcome/output indicators it commits to fulfil
2. Project and single activities' logical framework and design
3. Project management
4. Budget efficiency and effectiveness
5. Quality of the project partnership
6. Project sustainability

For components 1, 2b) and 3, the following specific criterion will apply:

Ratio between production from renewable energy solutions (RES) and the grant amount (effective use of the budget)

For component 1, the following specific criterion will apply:

Innovative nature of the proposed technology

For component 2a), the following specific criterion will apply:

Ratio between investment costs and reduction of emissions of greenhouse gases

For components 2 a) and b), the following specific criterion will apply:

Priority will be given to buildings with social orientation (hospitals, social homes for children and elderly people, schools, services providing social and administrative services to citizens)

For component 4, the following specific criteria will apply:

Territorial coverage, number of trainees, cost per trainee

For all calls, partnership projects promoting bilateral relations between Bulgaria and the Donor States will get higher scores.

The Programme Operator will further develop the selection criteria and submit them to the FMC for approval at the latest four weeks prior to the submission of the text of the first call for proposals (Article 6.3.4 of the Regulation). The final selection criteria will be included in the text of the calls for proposals.

4. Payment flows, verification of payment claims, monitoring and reporting

4.1 Payment flows

In line with Article 7.14 of the Regulation, incurred expenditures of projects shall be eligible at the earliest as of the date on which the Programme Operator decides to award the project grant. The first and final dates of eligibility shall be stated in the project contract.

Payments towards the final beneficiaries will be in the form of advance payments, interim payments and a final payment in the form of a reimbursement of incurred expenditure. Payments to projects are made on the basis of approved interim reports.

The first advance payment shall be requested by the Project Promoter in the application form and disbursed after signing of the Project Implementation Agreement. The first advance payment may be up to 30% of the project's total eligible costs.

The subsequent interim payments requested in the interim reports together with the advance payment cannot exceed 80% of the project's total eligible costs.

The advance and interim payments shall be offset against incurred expenditure reported in the interim project reports.

The final payment representing 20% of the project's total eligible costs will be disbursed after approval of the final report.

4.2 Verification of payment claims

Project promoters shall submit interim reports along with the supporting documents to the Programme Operator on four months basis; before the 10th of the month following the end of the reporting period. Interim reports shall contain information on project progress, interim payment requests, and incurred expenditure.

Verification and approval of interim reports of Projects' Promoters will be performed by the Programme Operator through desk checks covering 100% of the expenses.

In case of verification of expenditure incurred by a donor project partner, a report by an independent and certified auditor, certifying that the claimed costs are incurred in accordance with the Regulation, the national law and accounting practices of the donor project partner's country, shall be seen as sufficient proof of costs incurred.

The procedure for verification of interim reports, periodicity of reporting periods, and deadlines for reporting is outlined in the Programme proposal, and will further be detailed in the description of the Programme Operator's management and control systems according to Article 4.8.2 of the Regulation.

4.3 Monitoring and reporting

Project Promoters shall be required to report on project progress and outputs in interim reports four times a year and at the end of the project in a final report.

Each project will be monitored by the PO not less than three times during the implementation period. Regular on-the-spot checks of every payment exceeding €10,000 shall be performed. Additionally, ad hoc on-the-spot checks shall be conducted on the basis of a risk analysis, if necessary. The risk analysis of each project will be reviewed four times a year at the verification of the interim reports.

Irregularities will be handled in accordance with Article 11 of the Regulation.

Information on monitoring and reporting, and the periodicity of reporting, will further be outlined in the description of the Programme Operator's management and control systems according to Article 4.8.2 of the regulation.

5. Additional mechanisms within the programme

5.1 Funds for bilateral relations

The Programme Operator shall set aside 1.61% of the total Programme budget to a fund for bilateral relations.

The fund will finance:

The search for partners for donor partnership projects prior to or during the preparation of a project application, the development of such partnerships and the preparation of an application for a donor partnership project (60% of the budget of the fund for

bilateral relations); and

Networking, exchange, sharing and transfer of knowledge, technology, experience and best practice between project promoters and entities in the Donor States (40% of the budget of the fund for bilateral relations).

Eligible applicants:

Legal entities in Bulgaria or the Donor States – potential project promoters or project partners.

Eligible activities:

1. Fees and travel costs for participation in partnership seminars and meetings, including activities organised by the DPP
2. Organisation of events related to partnership projects
3. Other relevant bilateral activities, in accordance with Article 3.6 of the Regulation

The details of the implementation of the fund for bilateral relations, including criteria for awarding support from the fund, and selection procedures and criteria, shall be agreed with the DPP and be decided upon by the Cooperation Committee. The selection procedures and criteria for awarding support from the fund will be published together with the calls.

Expenditures shall be eligible in accordance with Article 7.7 of the Regulation. Travel and subsistence allowance shall be in line with Article 7.3 of the Regulation, and in general comply with the organisation's usual practise, not exceeding the relevant applicable national allowances.

The grant rate will be up to 100%. Preparation of the applications of donor partnership projects will be funded up to a limit of €4,000.

5.2 Complementary action

€88,795 will be set aside for complementary action.

Complementary action under this Programme shall be further defined by the Programme Operator in accordance with Article 7.11 of the Regulation. Complementary action shall facilitate the participation of relevant stakeholders in events / seminars / activities agreed with the FMC.

5.3 Reserve for exchange rate losses

Not applicable.

5.4 Small Grant Schemes

Two measures under this Programme will be implemented as small grant schemes (components 3 and 4).

The details of the small grant schemes are described under the relevant sections of this Annex II.

6. Pre-defined projects

The Programme contains one pre-defined project.

Project promoter: State Energy and Water Regulatory Commission (SEWRC)

Donor project partner: NVE

Project grant rate: 100%

Total estimated project cost: €1,520,000

Envisaged project activities and outputs:

Implementation of the day-ahead and balancing market; and

Creation of all necessary grounds for a stepwise counselling.

The activities and outputs of the pre-defined project will be further discussed and agreed upon by the Programme Operator, the project promoter and the DPP.

7. Modification of the programme

Any modifications of the Programme will follow the rules set forth in the Regulation and in Article 2.9 of the Programme Agreement.

8. Programme proposal version

Any reference to the Programme proposal in this Programme Agreement shall be interpreted as a reference to the version signed by the Programme Operator on 28 February 2012 and shall include all subsequent correspondence and communication between

the Donors, the Financial Mechanism Office, the National Focal Point and the Programme Operator.

9. Miscellaneous

Not applicable.