

EEA Financial Mechanism 2009-2014

PROGRAMME AGREEMENT

between

The Financial Mechanism Committee
established by Iceland, Liechtenstein and Norway

and

The Ministry for Environment, Spatial Planning and Energy (MAOTE),
hereinafter referred to as the "National Focal Point",
representing Portugal ,
hereinafter referred to as the "Beneficiary State"

together hereinafter referred to as the "Parties"

for the financing of the Programme "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.

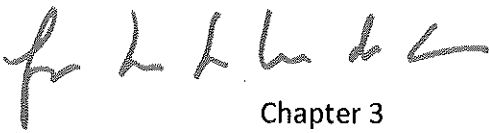
4. The FMC shall ensure that the National Focal Point is informed about communication between the FMC and the Programme Operator that is relevant for the responsibilities of the National Focal Point under this programme agreement.

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

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.

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.



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.

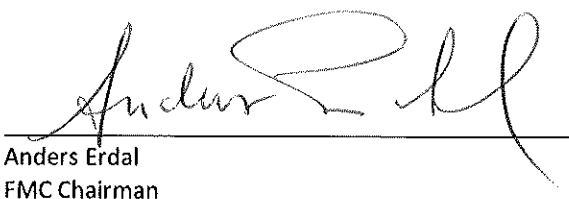
Article 5.3
Waiver of responsibility

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.

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

For the FMC

Signed in Oslo on 29.10.2013



Anders Erdal
FMC Chairman

For the National Focal Point

Signed in Lisbon on 14/11/14



Jorge Moreira da Silva
Minister for Environment, Spatial Planning and Energy

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.

Annex I - Programme Decision

1. Expected Outcomes & Indicators for Outputs

Expected Outcome(s): Increased renewable energy production

Output

Capacity for generation of geothermal energy production in Terceira increased to 3MWe

Output Indicator(s)	Baseline	Target	Source of Verification
% of geothermal energy produced of total energy production in Terceira	0	10	Official electricity production statistics, geothermal pilot plant production figures

Output

Number of jobs created (men or women)

Output Indicator(s)	Baseline	Target	Source of Verification
Number of positions filled	0	9	Work contracts, employment registers

Output

Geothermal pilot power plant constructed and in operation

Output Indicator(s)	Baseline	Target	Source of Verification
Number of geothermal pilot power plants constructed and in operation in Terceira	0	1	Reports, on the spot-checks

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

Output

Short courses on geothermal energy utilization organised in the Azores

Output indicator(s)	Baseline	Target	Source of Verification
Number of staff trained with improved skills to perform their duties (men)	0	5	Attendance sheets; reports on the results achieved; certification / diplomart on the achieved results in the programmes and certification/diploma
Number of staff trained with improved skills to perform their duties (women)	0	5	Attendance sheets; reports on the results achieved; certification / diploma
Number of students completed the courses	0	2	Attendance sheets; reports on the results achieved; certification / diploma

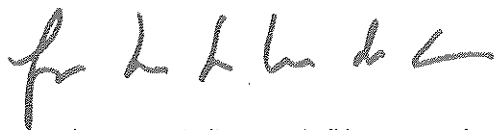
Output

Participacion in 6 month courses in Iceland completed

Output Indicator(s)	Baseline	Target	Source of Verification
Number of scientific papers originating in the programme published	0	4	Publications
Number of persons (by gender) who have completed the studies	0	4	Attendance sheets; reports on the results achieved; certification / diploma

2. Conditions

2.1 General



- 1) Bilateral, output and outcome indicators shall be reported on in the annual programme report.
- 2) 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. In particular, public support under this Programme may fall under Commission Regulation (EC) No 800/2008 of 6 August 2008 (General block exemption Regulation, "GBER"), or may need to be notified to the European Commission for an individual assessment under the Environmental aid Guidelines 2008/C 82/01 or other applicable rules. In case of a state aid notification, the specific situation of the Azores recognised by Article 349 of the TFEU (ex-299(2) TEC) will be taken into account in the compatibility assessment.
- 3) 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.
- 4) A methodology on the calculation of the flat rate to be applied to indirect eligible costs (overheads) in accordance with Article 7.4.1(b) of the Regulation shall be submitted to the FMO no later than two weeks prior to the earlier of the following dates:
 - a) the deadline for providing to the FMC the text of the call for proposals, as required by Article 6.3.4 of the Regulation;
 - b) the date when the project contract for the pre-defined project is signed by the Programme Operator.
- 5) The details of use of the bilateral fund, the detailed procedures and criteria for awarding support from the fund, and any other relevant details will be developed by the Programme Operator and will be further discussed in the Cooperation Committee. These details shall be submitted to the FMC for approval prior to the allocation and disbursement of these funds.
- 6) A description of the Small Grant Scheme operated by the Programme Operator shall be proposed by the Programme Operator and approved by the FMC prior to the launch of any calls for proposals.
- 7) The Programme Operator shall provide a more detailed description of the planned activities as well as a financial plan for the pre-defined project to the FMC for approval prior to the signature of the project contract.
- 8) The Programme Operator shall inform the FMO of the progress on the pre-defined project in conjunction with the three Interim Financial Reports annually (on, or before 15 February, 15 June and 15 September each year).
- 9) The construction of the power plant within the pre-defined project is subject to the minimum technical and economic viability (25 MWth) being demonstrated by the testing and evaluation campaign. Should the minimum technical and economic viability not be reached, the Programme Operator shall submit an alternative plan to the FMC for approval prior to implementing the alternative project. The plan shall include a detailed budget and all other relevant information.

2.2 Pre-eligibility

Not applicable.

2.3 Pre-payment

Not applicable.

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): 31/05/2013-30/04/2017

Eligibility of programme proposal preparation costs: 30/03/2012-30/05/2013

3.2 Grant rate and co-financing

Programme estimated total cost (€)	€4,705,882
Programme estimated eligible cost (€)	€4,705,882
Programme grant rate (%)	85.0000%
Maximum amount of Programme grant (€)	€4,000,000

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

Budget heading	Eligible expenditure	Advance payment*
Programme management	€134,641	€3,050
Increased renewable energy production	€4,389,424	€0
Improved capacity at national, regional and local level on renewable energy solutions	€100,500	€50,000
Fund for bilateral relations	€70,588	€0
Complementary action	€0	€0
Preparation of programme proposal	€10,729	€10,729
Reserve for exchange rate losses	€0	€0
Total	€4,705,882	€63,779

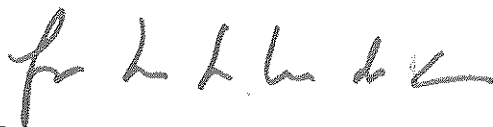
* The advance payment is composed of €54,212 in grant amount and €9,567 in co-financing.

3.4 Retention of management costs

Retention of management costs - percentage of the management costs	10.00%
Retention of management costs - planned Euro value	€11,444

3.5 Small Grant Scheme

Outcome	Improved capacity at national, regional and local level on renewable energy solutions
Total Amount Reserved	€100,500
Grant Amount at Project Level	€12,750 – 75,000
Duration of the Project	24 – 24 months
Maximum Grant Rate at Project Level	100.00%



Annex II - Operational Rules

1. Eligibility

1.1 Eligible measures (sub-measures if any):

The Programme Operator is Electricity of the Azores (EDA). The Icelandic National Energy Authority (OS) is the Donor Programme Partner. The objective of the Programme is to contribute towards increased geothermal energy generation in the Azores, while simultaneously reducing CO2 emissions. Further, it aims to contribute to the strengthening of the bilateral cooperation between Portugal and the Donor States. The Programme will be implemented through a pre-defined project and a small grant scheme. The details of the small grant scheme are to be determined.

1.2 Eligible applicants:

The rules on eligibility of applicants are set in Article 6.2 of the Regulation. The eligible applicants under the small grant scheme are to be determined.

1.3 Special rules on eligibility of costs:

Costs are eligible in accordance with Chapter 7 of the Regulation. Indirect costs in projects shall be claimed in accordance with the Regulation and in particular, Article 7.4.1 thereof. Where a flat-rate is applied, this shall be set in line with Article 7.4.1(b) of the Regulation and the level of the flat rate shall be set in accordance with a methodology provided by the Programme Operator.

2. Financial parameters

2.1 Minimum and maximum grant amount per project:

The minimum amount of grant assistance under the small grant scheme is €12,750; the maximum amount is €75,000.

2.2 Project grant rate:

The project grant rate is up to 100% of total eligible project costs and is subject to any comments or observations made by the European Commission in relation to the consultation on State Aid compliance.

3. Selection of projects

3.1 Selection procedures:

The selection procedures for projects shall in all cases be in accordance with Chapter 6 of the Regulation. The experts referred to in Article 6.5.2 of the Regulation shall be impartial to and independent of the Programme Operator and of the Selection Committee. The selection procedures for the small grant scheme are to be determined.

3.2 Selection criteria:

Detailed selection criteria for the calls for proposals under the small grant scheme are to be determined.

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

4.1 Payment flows:

The Programme Operator shall ensure that funds are available for payments to the project in a timely manner.

Payments towards the project will take the form of advance payment, interim payments and final balance payment. The advance payment shall be set in the financial plan of each project and shall cover the expenditure for up to two reporting periods. The maximum advance payment shall amount to up to 25% of the total grant amount.

Interim payments to the project are made on the basis of approved interim reports.

The project interim reports are to be submitted to the Programme Operator three times a year: on, or before 15 February, 15 June and 15 September for the periods September-December, January – April and May – August respectively. The Project Promoter will report to the Programme Operator on incurred expenditures during the reporting period, actual progress and pre-payment



forecast for the reporting period following the payment date.

The Programme Operator may withhold up to 10% of the total grant amount for the payment of the final balance. The payment of the final balance will be disbursed within 15 working days after the approval of the final report.

4.2 Verification of payment claims:

Verification and approval of the interim and final reports of the Project Promoters will be conducted by the Programme Operator in respect of projects financed under the small grant scheme.

Verification and approval of the interim and final reports of the Project Promoter will be conducted by an external party to the Programme Operator, i.e. an independent certified auditor, in respect of the pre-defined project.

The Programme Operator and the external party will duly verify the expenditures declared by the Project Promoters ensuring their correctness and regularity in line with the set procedures. This verification will consist of two steps:

- the first check will include the verification of project progress, the reported indicator values, eligibility and correspondence of the expenditures with the activities' progress;
- the second check will include the verification of the eligibility, correctness, regularity and legality of the submitted claims.

In case of verification of expenditure incurred by the 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 verification procedures for payment claims will be further outlined in the description of the Programme management and control systems according to Article 4.8.2 of the Regulation.

4.3 Monitoring and reporting:

The Programme Operator shall continuously monitor the projects through the review of reports submitted by the Project Promoters, on-site monitoring visits and financial compliance reviews.

The monitoring task in respect of the pre-defined project will be conducted by DREN (Direção Regional de Energia).

The aim of the on-the-spot checks is to make sure that the project is implemented in accordance with the requirements of the Regulation and the project contract, to verify procurement procedures and the cost efficiency of incurred expenditures and to assess the achievement of sectoral objectives and indicators and the impact of the project results. For specific technical issues a technical evaluation from an independent expert might be required.

Project Promoters shall be required to report on project progress and outputs in interim and final reports.

Interim reports shall be submitted every 4 months and shall as a minimum describe:

- a) the technical project progress, fulfillment of project outputs, information on tender procedures, project time schedule, project modifications, fulfilment of project conditions if relevant and risk management;
- b) the financial progress of the project, including a list of claimed expenditures and requests for payments, and information on any financial audit if relevant.

The final report shall contain the same information as the interim reports. In addition, it shall describe the achievement of the overall objective of the project and contain information on cross-cutting issues relevant to the project, fulfilment of project conditions and sustainability of the project. It shall also include summary information on financial management and findings from the final financial audit (if applicable).

Irregularities will be handled in accordance with Chapter 11 of the Regulation. Information on Reporting and Monitoring shall be further outlined in the description of the Programme's Management and Control System according to Article 4.8.2 of the Regulation.

5. Additional mechanisms within the programme

5.1 Funds for bilateral relations:

The Programme Operator will set aside 1.5% of the eligible expenditure of the Programme for a fund for bilateral relations. The



details of the use of the bilateral fund as per paragraph 1 of Article 3.6 of the Regulation, the procedures and criteria for awarding support from the fund, and any other relevant details will be developed by the Programme Operator and outlined in a plan for the use of the fund for bilateral relations. This plan shall, as a minimum, foresee the implementation of the following activities: networking, exchange, sharing and transfer of knowledge, technology, experience and best practice between Project Promoters and entities in the Donor states. 100% of the total allocation to the fund for bilateral relations will be allocated to such activities. Costs under the bilateral fund are eligible in accordance with Chapter 7.7 of the Regulation.

5.2 Complementary action:

Not applicable.

5.3 Reserve for exchange rate losses:

Not applicable.

5.4 Small Grant Scheme:

The details of the small grant scheme are to be determined.

6. Pre-defined projects

Project title:	"Pilot Geothermal Power Plant of 3 MWe on Terceira Island"
Project promoter:	GEOTERCEIRA (Sociedade Geoelectrica da Terceira S.A)
Estimated total eligible project cost:	€4,389,423
Project grant rate:	100%
Maximum contribution from the Programme:	€4,389,423
Expected outcome:	"Increased renewable energy production".

The pre-defined project will establish a pilot geothermal energy plant in the Pico Alto Geothermal field. This is vital to the realisation of the overall objective of the Programme, i.e. to increase the share of renewable energy in the total energy production. The project will include the following activities:

- 1) Preparation and issuing of an international tender on supply, test and construction of the power plant;
- 2) Negotiations and contracting of the supplier;
- 3) Construction of the power plant:
 - a. Drilling/reopening of wells;
 - b. Test phase with monitoring of geothermal energy output
 - c. Assessment of technical and economic viability
 - d. Construction of power plant, provided the minimum technical and economic viability (25 MWth) is reached.

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 version signed by the Programme Operator on 29 November 2012, and shall include all subsequent correspondence and communication between the FMC, the Financial Mechanism Office, the National Focal Point and the Programme Operator.

9. Miscellaneous

Not applicable.

