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Regulatory and Energy Assistance

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Quarterly Progress Report

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Submitted to:

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I. EXECUTIVE SUMMARY

Most of REAP's efforts this quarter was centered on working with the Market Working Group (MWG), collecting inputs for the Data Gathering Table and developing it. Discussion of the Table at the MWG meeting focused and elevated the group's work as was originally intended. Meetings were held with all EPs, garnering support for the work of the MWG and sharing information on developments in the sector. REAP also met with a number of industrial customers and intends to try to organize an industrial customer organization, in the Chamber of Commerce if possible. REAP compiled a table of Brcko District options for supply from the Entities and regulation. Meetings with the regulators involved changes in tariff methodology and models and initiation of tariff proceedings in discussions with the Entity regulators; and, in a meeting with SERC, REAP was requested to assist in resolving a two-year-old deadlock on congestion management. As a result, REAP spent a great deal of time during the quarter doing the background work for resolving SERC's deadlock. In a follow-up meeting with SERC to introduce the material, REAP was told that the proposed solution documentation exceeded the SERC's expectations. Further, after months of delay, MOFTER called a meeting of sector participants with regard to implementation of the REAP-prepared Road Map for security of Supply and the Annex to Regulation 1228 on Cross-Boarder Trade; the participants also planned the next steps for implementation of the Road Map. Finally, in planning for the series of Seminars on Market Opening to take place in October, REAP determined that in fact the EPs continue to balance their own territories as a whole and provide ancillary services, notwithstanding the primary and secondary legislation to the contrary.

II. SUMMARY OF TECHNICAL ACTIVITIES AND OUTCOMES

A. Fully Integrated Energy Sector into the Regional Market and the EU

1. Creation of Legal and Regulatory Framework for Gas

Gas Expert Group. There were no activities connected with the Gas Expert Group during the quarter in question. MOFTER awaits the formal position of the RS.

BH Gas Activities – Meeting with BH Gas General Director. REAP met with BH Gas and learned that BH Gas and Energoinvest went directly to Gazprom in Moscow and contracted gas in order to short circuit the efforts of Serbijagas to work with Gazprom “on behalf of” BiH. BH Gas also proposed and explained to Gazprom its desire to connect gas supply to Bosanski Brod refineries, i.e., the Zenica-Brod pipeline. This has been an ongoing struggle between BH Gas and the RS, with the RS withholding agreement, perhaps in the hopes that Slavija will be able to build a pipeline from Bijeljina to Banja Luka; however, that currently-planned route does not have enough customers to support the pipeline. BH Gas presented to Gazprom a cost study that contrasted the cost of a pipeline for the short distance from Zenica with the Slavija pipeline, which is approximately 200 kilometers. In addition, BH Gas suggested to Gazprom that the refinery could also interconnect with the Croatian system 1 kilometer north of the site. Information on this idea has been assembled by BH Gas for Gazprom. REAP also learned about the plans of BH Gas to meet with Croatia's Plinacro regarding interconnecting with Plinacro in the Una-Sana Canton. Further, BH Gas is going to London in order to finalize the loan from EBRD for the Travnik branch line. REAP indicated its concern with the existence of an adequate market to Travnik to support the branch line, and BH Gas agreed that this concern is valid, which means that the cost will be rolled in to be paid for by existing ratepayers. Recently, a law was passed requiring a surcharge on gas to pay off BiH's debt; RS is not paying their share, and this will create problems in the near future with Russia. However, BH Gas expects another supply crisis in January, given Ukraine's upcoming elections in January. As a result, it has executed an alternate supply contract with E.ON out of Hungary for BiH. BH Gas learned that E.ON has acquired all the storage in Hungary and is in the process of acquiring the gas distribution in Budapest.

Attendance at Gas Forum. REAP attended the Energy Community Gas Forum. Also attending from BiH was one representative from each of MOFTER, SERC and the Regional Cooperation Council. No BH Gas representative attended the Gas Forum. The natural gas crisis of January 2009 was the central subject of the conference. The Gas Coordination Group discussed the gas crisis events in some detail and stated

that, as a result of the issuance of the Third Liberalisation Directive, infrastructure standards are being developed, specifically for the N-1 Security of Supply indicator and reverse flows. The application of the N-1 concept, which has long been used as a technical planning standard, is indicative of a new type of thinking in the EU, looking at the opportunity for atypical physical gas flows across the EU internal market (including the Energy Community Contracting Parties) as a whole and acknowledging that some duplication of facilities is important. E.ON, in its presentation as a TSO, stated that there are missing pipeline links and interconnects and suggested that the EC focus its attention on appropriate political issues, such as the political relationship with Russia; improving the transparency of Naftagas, the Ukrainian gas company; and Europe's dependence on Russian sources and transit through the Ukraine. Finally, a report was also given by the Caspian Development Corporation (CDC), which is being formed to facilitate coordinated gas purchasing and infrastructure development. It is focused on the Caspian region, where there are large undeveloped reserves, for example in Turkmenistan (which recently has had its reserves upwardly revised by BP). Turkmenistan wants *one* large long term gas contract with Europe as a whole. A feasibility study of the concept, funded by the World Bank, is being conducted at present and business models are being tested, with the interim report due out in October and November. The goal of CDC is to be "route neutral" and aggregate demand.

2. Transformation of the ISO into a full Market Operator

Transmission Processes. REAP made internal efforts to determine the currently-existing processes for transmission measurement, reconciling imbalances, and providing ancillary services. In spite of the Transco/ISO primary legislation and secondary legislation adopted by both companies, the EPs continue to balance their own territories as a whole and ensure their own customers remain in balance and provide ancillary services to customers in their territory, notwithstanding the fact that the SERC issued a decision requiring centralized ancillary services. Meanwhile, Transco provides measurement data to the three EPs, the former transmission companies, to pass through to their customers.

Meeting with EPRS: REAP discussed with EPRS representatives the issue of ancillary services and implementation of SERC's Decision on Ancillary Services. The EPRS representatives informed REAP that EPRS filed a complaint in the BiH Court against SERC for non-compliance with the procedural rules in the process of issuing this Decision. EPRS thinks that it is necessary to establish contract-based relations between the three EPs in BiH and ISO in order to ensure payment of provided ancillary services. EPRS also thinks that the implementation of the Decision on Ancillary Services is impossible without an adequate metering system. The calculation done by ISO now is made based on the partial data from meters and partial metering done through the SCADA system (real time metering) and does not give a precise picture about actual ancillary services that were rendered and used and therefore cannot be the basis for financial obligations between the EPs as the Balance Responsible Parties.

3. Unification of the Regulators

Meeting with RSERC. In a meeting with RSERC, tariff methodology and activities of the Market Working Group (MWG) were discussed. First, REAP agreed to create the format into which data gathering results would go. REAP then suggested that a more subtle tariff model should be developed and policy should be developed as to whether the tariff should be investment or customer oriented, or some combination of both.

Meeting with FERC. REAP met with FERC and discussed that the MWG activities should become refocused and not deviate from the initial list of issues agreed by all. The FERC Chairman suggested another meeting among all 9 commissioners again to recommit to the work. With regard to data gathering, FERC suggested that REAP rather than the Commission should work with the EPs with regard to the gathering of data for the MWG. REAP raised the idea again of refining the tariff model. The commissioners floated the idea of its initiating a new tariff proceeding, since its information is two years old and EP costs have fallen. The EPs in the Federation BiH declared profits in 2008 and the positive business operations trend continues in 2009. The Tariff Methodology of the FERC provides for credit to the revenue requirement for the revenues realized from other sources (in this case, the high profit from electricity export). The coal prices in FBiH were increased, as well as the water management fee. REAP

emphasized that the role of regulators is to protect both customers and the EPs in transparent manner. The commissioners confirmed REAP's opinion related to the need to launch the new tariff proceeding.

Federation Draft Renewables Decree. REAP reviewed the Federation Draft Renewables Decree and found that the Decree is identical to that from Croatia.

Draft Amendments to Market Opening Rule by SERC. REAP reviewed and commented upon multiple amendments to the Market Opening Rule as given to REAP during the Rule on Market Opening Amendment public hearing. While REAP is not opposed to a more detailed market opening rule regarding preconditions, REAP provided a number of comments that questioned specific language used and its implications.

Security of Supply and Annex to Reg. 1228, Cross-border Trade. In a MOFTER meeting early in the quarter, MOFTER stated that the Secretariat was pleased with the BiH road map developed by REAP for compliance the Security of Supply Directive and the Annex to the Regulation 1228 that were adopted by the Energy Community Ministerial and are therefore legal obligations. MOFTER admitted that the Ministry had only sent in REAP's Road Map to the Secretariat, which was pleased with it. REAP pointed out that a Road Map is a plan that must be fulfilled by BiH by the end of the year and is insufficient standing on its own. MOFTER organized a meeting with all stakeholders and requested further assistance from REAP. The meeting was held on September 10, 2009 and was attended by MOFTER, the RS Ministry of Energy, SERC, ISO, Transco and the two Entity Regulators. The participants of the meeting discussed all the proposed steps contained in the Road Map for Implementation of Directive 2005/89. The attendees were positive about REAP's Road Map; and it was adopted with mostly cosmetic changes. REAP proposed the following next steps, which were accepted: (i) Prepare, submit and accept the final text for the Road Map by participants of the meeting; (ii) Submit the Road Map's final text to the MOFTER Ministerto harmonize it with the two Entity Ministries; (iii) Forward the harmonized version to the Council of Ministers BiH for adoption; (iv) Implementation of the Road Map by all stakeholders. MOFTER, in cooperation with REAP, will prepare a proposed final version of the Road Map for comment by all participants.

Meeting with the Federation Ministry of Energy, Coal and Industry (FMERI): In a discussion with FMERI, REAP learned: (i) The draft document entitled Energy Policy prepared by REAP and submitted to FMERI as a good basis for the development of a final document. Work on it should continue so that the FBiH can adopt its Energy Policy without delay; (ii) the issue of the Supplier of Last Resort should be addressed through the energy and regulatory policy. It will be useful to organize a workshop to address SOLR issues with experts from this field; and (iii) FMERI supports implementation of labeling.

Management of Congestion Meeting with SERC. SERC has been deadlocked for years with regard to issuing a Rule on Congestion Management because of disagreement as to who should implement which roles. REAP met with SERC and handed out the basic documents REAP had prepared to propose a possible solution to the Congestion Management deadlock. REAP explained that the proposed solution by REAP was that the ISO and Transco should work together in several stages of the process, but the ISO would be the organization that runs the congestion management program. Basically, the detailed analysis made by REAP exceeded their expectations. SERC also liked the detail and the analytic approach and agreed that Transco should participate and coordinate. The proposed rule came at a tough time in the sector; and, while the law provides for joint work by the two organizations, meaning the ISO and Transco, this failed.

Retail tariffs. REAP performed an analysis of the retail network tariffs and found that the two Entity regulators do not seem to be applying their tariff methodologies in the same manner, although theoretically the methodologies are similar. REAP intends to raise this issue in the Market Working Group and attempt to sort out the apparent discrepancies.

Retail Customer Outreach. REAP has been focusing on industrial customers and the need for an industrial customer association. Now, REAP also will begin to explore ways to conduct public outreach to

retail customers, such as the Ombudsman for Customer Protection, Association for Customer Protection, and Employers Association to share information and advice on tariffs and other energy issues.

B. Restructuring and Commercialization of Energy Companies

Meeting with EPRS. REAP met with EPRS. While many topics were covered, EPRS had only read and commented on Tasks 1-4 of the Regional Market Design (not Task 6, which is the important design concept), because comments had been requested by MOFTER only for Tasks 1-4. REAP explained the World Bank regional market design concept and explained the concept of implicit auctions, handing out REAP's paper on Congestion Management, which contains a section on implicit auctions. EPRS stated that the SERC needs to reform its tariff methodology so that the credit of export revenues to the revenue requirement is removed and the actual price of kWh for tariff customers should be used for internal transfer pricing. A reevaluation of assets was performed and the value has gone up by about 8%, EPRS will have to ask for a tariff increase. In the end, REAP agreed to send EPRS the PHLG Conclusions with the extended comment date for the regional market design, the congestion management paper, presentations on the regional market design, and a reference in the regional market design document indicating that the price would increase for customers with the regional market design in place.

Meeting with EPHZHB. In a meeting with EPHZHB, REAP heard that the utility's position is that ancillary services should not be credited against the revenue requirement, nor should export revenues. However, when comparing costs between the last tariff proceeding and this one, only salaries and procurement are up; all others are down. EPHZHB strongly insisted that any legislation or regulation on the market must be at the State level so that the entire country is consistent, and it would like to have a market operator law.

Meeting With EPBiH. The primary purpose of the meeting was to formally request contacts with whom REAP can work to gather data for the Market Working Group, and representatives were named. Due to decreased market prices for electricity, EPBiH will be making €1 MM less than last year. In regard to a Vulnerable Customer Program, REAP described its position that the EPs should receive a normal Rate of Return and be able to retain its earnings from sales of electricity on the market; however, without a Vulnerable Customer Program, it is not possible. REAP learned that there are possibilities with regard to incorporating the coal mines into the EP and cutting costs by approximately 10-20%, a law for which was in the Parliamentary procedure.

Market Working Group

Data gathering table. REAP will create a data gathering table as requested by the MWG members so that the responses on market opening from the EP areas can be analyzed and compared to each other. Further, since FERC requested that REAP gather data from its regulated companies, REAP worked with EPHZHB and EPBiH to gather the required data and invite Brcko District to submit data for the Table. Such information was input from all sides, REAP prepared the first draft of the Data Gathering Table and circulated it to the MWG members prior to the fourth MWG meeting.

Electricity Price Benchmarking. REAP determined to benchmark electricity prices, as agreed with the EPs and regulators. To that end, a table was created by REAP to list two sets of data: (i) generation, regulated and market prices for electricity in the three BiH EPs, along with those in Croatia, Serbia, Montenegro, Macedonia, Romania, Bulgaria, Albania, and two exchanges; and (ii) generation costs of the BiH EP power plants, with and without rates of return. The following documents were analyzed in preparation of the Benchmarking Table: study on tariffs in the region, reports of market operators and regulators and reports of power companies. The benchmarking table was completed and circulated to the MWG members.

Meeting with the ISO. The ISO designated a representative to cooperate with REAP on market opening. After being informed of the MWG activities, the ISO stated the following: (i) a single and precise classification of customers must be made; (ii) an absolute precondition for each eligible customer is the remote metering and access of the ISO BiH to that data; (iii) all eligible customers need to be treated equally and have access to the network under the same conditions; (iv) it is necessary to harmonize the distribution tariff methodologies and application of tariff methodologies between the regulators; (v) the design of ancillary services and balancing must be reformulated; (v) transparency is a crucial

precondition; and (vi) clear development of procedures and rules for each eligible customer are a must (procedure: technical preconditions, deadlines, contracts, obligation, rights, etc.)

Market Working Group Meeting: The fourth meeting of the Market Working Group was held on September 2 in Trebinje. With the Data Gathering Table having been circulated to MWG members, this MWG meeting was the first constructive and active meeting of the Working Group that addressed the current status of the electricity sector from the aspect of BiH market opening. The next steps are: (i) that the participants will submit additional suggestions on the table, if any, within 7 days; (ii) The tariff representatives of the three regulatory commissions will work together and prepare an amended Benchmarking table considering the Eurostat methodology; (iii) REAP will send to the MWG the comments and positions of the ISO on Market Opening issues; and (iv) the MWG will give their comments and evaluate whether it is necessary to include the ISO material in the Data Gathering Table.



Planned Fall Seminars for Market Opening. REAP planned with technical assistance consultants seminars on market opening with market participants, including industrial customers, EPs, regulators and ministries, on October 13 to 15. REAP is planning three small interactive groups, with a final session where all parties come together for conclusions of the consultants in November. The subject will be addressed on a detailed level based on the rhetorical question, “If you are an eligible customer, what do you need?” The title of the three workshops and plenary session is “Market Opening – Issues and Possible Solutions.” An initial background Memorandum was prepared for the workshops, as well as a pro forma supply contract that is in wide use in the United States and the UK.

Industrial Customers. REAP has decided to focus on industrial customers to work toward the creation of a joint association to promote their special interests in the energy sector:

– *Aluminij.* Aluminij is partially privatized. REAP met with representatives of Aluminij. Aluminij expressed its concerns regarding discrimination against the company, as all industrial customers connected to 110 kV lines should receive the same tariff and be held to the same standards. [Note: since all industrials fall within one of the EP’s geographic regions, they pay different all-in tariffs set by Entity regulators that include the SERC transmission tariffs.] With regard to the effort to privatize Aluminij, the fact that it was not successful was due to the Government’s failure to agree with the offeror on the price of electricity. All the Aluminij offeror(s) wanted was for the company to have the same price as other industrials. Later, pegging aluminum prices to the London Metals Exchange (LME) prices was discussed, along with the Montenegrin Government’s agreement to this pricing method for the Montenegro aluminum company. At that point, REAP pointed out that it recalled that negotiations with the Government involved part of the load at industrial customer tariff price and some of it pegged to the LME. The gentlemen acknowledged this was so, although in the end, according to them, the offeror capitulated and asked for only the tariff price. REAP was also informed that Aluminij has recently reduced production but also reduced management board salaries by 15%, management salaries by 10%, and others also by 10%. Aluminij agreed to send REAP its industrial aluminum price benchmarking study. REAP suggested that Aluminij help to organize an industrial customers group to deal with the regulator and agreed to send Aluminij the Federation Electricity Law considered by the Parliament most recently, the paper on Congestion Management, Regional Market Design, and REAP’s comments thereon.



– *Meeting with Mittal Steel.* REAP met with representatives of Mittal Steel. Mittal Steel is 100% privatized. During the meeting, REAP learned that all types of energy comprise about 17% of Mittal’s price. Further, Mittal Steel spoke at length about the Company’s attempt to participate in the FERC

EPBiH tariff proceeding. The CEO stated that he and the manager of energy had participated intensively in the tariff hearing process and thought that, at the end of the hearing process, there was an agreement for a reasonable rise in price. Then, when the FERC final decision was issued, they found that the price increased three times that amount, with a flimsy rationale therefor. Mittal does not intend to participate further in regulatory proceedings.

– *BSI, Jajce.* REAP met with BSI representatives of the 100% privatized company. BSI declared itself as an eligible customer this year, because that after the Ministry ordered BSI and Aluminij to purchase ½ their quantities from the market (both customers of EPHZHB), BSI determined that this would be the right time to go to the market, since prices on the market are lower now. BSI stated that after hearing about the need for further definition of the supplier of last resort, he was somewhat concerned now.

– *Kakanj Cement.* REAP attended a meeting with Kakanj Cement, a 100% privatized company (owned by the Heidelberg Cement Group). REAP encouraged Kakanj to work with other industrials to hire a consultant to promote their interests in regulatory proceedings. The response was positive.

– *Zvornik Birac.* REAP met with representatives of Birac, a partially privatized company. A representative of the company stated that Birac is most interested in joining an association of industrial customers in order to have a stronger voice in the process. They explained that the previous year, because there was such a surplus of electricity available, Birac wanted to sell its auto-production from its plant to Slovenia; however, the RSERC would not approve the sale, even though Birac has a license for international trade. Currently, Birac is primarily fueled by natural gas, with an alternate supply of mazut (fuel oil). However, it is considering installing capability to be fueled by coal. When asked what REAP thought of a tri-fuel capability, REAP responded that these alternate capabilities are good because they allow Birac to leverage fuel pricing.

Regional Market Design Draft. REAP drafted supplemental comments on the regional market design that addressed the following: (i) the apparent overlap between the Coordinated Auction Office and regional exchange, both of which are proposed to be responsible for congestion management, the former by explicit auctions and the latter by implicit auctions; (ii) the need for a discussion of the benefits and detriments to exchange branch offices, as opposed to national market operators; and (iii) the need for a cost estimate for setting up the regional exchange. Then, presentations on the Regional Energy Design were prepared and circulated among the stakeholders.

Meeting with FMERI. USAID representatives and REAP met FMERI representatives. The purpose of the meeting was to share the same information with the Minister that had been shared with other stakeholders – information on the Market Working Group, the regional market design, the REAP paper on electricity labeling, information on the supplier of last resort, and to discuss the re-introduction of the Federation Electricity Law with the concomitant requirement for the issuance of policy. In regard to the Federation Electricity Law, the Ministry intends to reintroduce the law in the Fall with corrections to delete problematic language (presumably on the requirement that the Parliament approve the development plan of the Ministry.)

Transco. The OHR by its Bonn powers issued a Decision on 9-18-09 that amended the Transco Law, Article 38, Mandate of the General Director, providing that: (i) the General Director shall hold office until the appointment of his or her successor or until his or her removal; (ii) the executive director responsible for system planning and engineering will perform the duties of the General Director until the appointment of a new director if the current General Director resigns, is removed, is absent without justification for five consecutive days or is otherwise incapacitated; (iii) the Management Board shall determine if conditions for the application of appointing a successor in case of the General Director's unjustified absence five consecutive days or his otherwise being incapacitated, provided that at least four members are present.

III. PROBLEM AREAS

- Congestion Management. BiH is the only country in the Energy Community that continues to allocate capacity cross-border on a pro rata basis. SERC remains deadlocked on the issue after two years.

- Ancillary Services. Even though SERC has issued an order on the further unbundling of ancillary services, the EPs have ignored the order.
- Market Opening Processes. The EPs have inadequate metering that makes proper measurement challenging. Further, the processes on third party access, ancillary services, balancing and supplier of last resort are undeveloped and would prevent BiH from meeting the Energy Community deadlines to open the market.

IV. TENTH QUARTER DELIVERABLES

Information for USAID

- Conclusions of the House of Representatives of FBiH Parliament on metal and electrical industry, 20th session, 4-16-09, in English and local language.
- Proposed Decree on use of renewable energy sources and cogeneration, undated but distributed in July, in English and local language.
- FERC comments on the decree on renewable sources, dated 7-13-09, in English and local language.
- Article EP of Montenegro returns aluminium to KAP, dated 6-24-09, in English and local language.
- EPRS Comments to the Study on Wholesale Market Opening in SEE, dated 6-22-09, in English and local language.
- Letter from Minister Heco to International Community regarding Transco, dated 7-14-09, in English and local language.
- Letter EPHZHB to FERC for measuring and relations with the regulator on Pavo Juricic, dated 6-26-09, in English and local language.
- Presentation on ISO Public Hearing Indicative Generation Plan, dated 7-17-09, in English and local language.
- Proposed Law on Securing Means for regular and safe supply of natural gas, dated 6-15-09, in English and local language.
- RS Energy Law, dated 5-14-09, in English.
- Presentation on Regional Market Design, dated 5-13-09, in English and local language.
- Presentation by World Bank's Kari Nyman on regional market design, dated 6-25-09, in English and local language.
- Letter Transco to EP BiH regarding meeting, dated 8-03-09, in English and local language
- Directive 72-2009 on Common Rules for the Internal Electricity Market - Repealing Directive 54-2003, in English language
- Regulation 713-2009 Establishing an Agency for the Cooperation of Energy Regulators, in English language
- Regulation 714-2009 on Conditions for Network Access - Repealing Regulation 1228-2003, in English language
- FERC Letter to PM Mujezinovic, dated 7-9-09, in English and local language
- Article on EPS purchasing and selling electricity in the region, dated 9-1-09, in English and local language
- FERC Letter to Prime Minister Mujezinovic, dated 7-9-09, in English and local language
- Minutes from the MWG meeting, dated 9-2-09, in English and local language
- Oslobodjenje article on cancellation of FERC vacancy, dated 9-8-09, in both English and local language.
- Letter from EPBiH to U.S. Embassy on Transco, dated 9-2-09, in both English and local language

Correspondence between electricity sector stakeholders on Ancillary Services:

- Letters ISO Ancillary services Aluminij dispute, dated 5-15-09 in English and local language
- Letters ISO to all stakeholders on Ancillary services settlement, dated 5-13-09, in English and local language
- Letters ISO to SERC on Ancillary services EPBiH dispute, dated 5-15-09, in English and local language

- Letters SERC to EPRS on Ancillary services EPRS dispute, dated 5-14-09, in English and local language

Deliverables

- FERC calculation of cross subsidies in both EPs for tariff proceeding purposes, dated 7-1-09, in local language only.
- Agenda for meeting EPBiH – REAP, dated 6-29-09, in English and local language
- Agenda for meeting FERC – REAP, dated 7-1-09, in English and local language
- Agenda for meeting RSERC - REAP, dated 6-30-09, in English and local language
- Agenda for meeting EPRS – REAP, dated 6-30-09, in English and local language
- Agenda for meeting EP HZHB –REAP, dated 7-1-09, in English and local language
- Agenda for meeting Aluminij – REAP, dated 7-1-09, in English and local language
- Brcko Energy Options, dated 7-6-09, in English only.
- Minutes of meeting between Aluminij and Reap on 7-1-09 as written by Aluminij, in English and local language.
- REAP Email Correction of Aluminij Minutes, dated 7-17-09, in English and local language.
- REAP Indicators reported in OP by Program activities, dated 7-16-09, in English only.
- Letter from EPRS to REAP on contact persons for MWG activities, dated 7-16-09, in English and local language.
- Memo Ms. Wilson to USAID re market impact of Transco, dated 7-13-09, in English and local language.
- Report from ISO Public Hearing on Indicative Generation Plan, dated 7-17-09, in English only.
- Agenda for Meeting with Minister Heco, dated 7-27-09, in English and local language.
- Agenda for BSI Jajce, dated 7-29-09, in English and local language.
- Agenda for Mittal Steel, dated 7-29-09, in English and local language.
- Benchmarking form for Power Plants and Market, dated 7-31-09, in English and local language.
- Draft REAP comments on Dokic proposed amendments to the Rule on Marketing Opening, dated 7-27-09, in English.
- Email to market stakeholders, forwarding translated regional market presentations, dated 7-21-09, in English and local language.
- Supplemental REAP Comments on Proposed regional market design, dated 7-29-09
- Letter Jane Wilson to BSI, dated 8-6-09, in English and local language
- Ninth REAP Quarterly Report April - June 2009, dated 8-7-09, in English language only
- Presentation on Amendments to Annex to Regulation 1228, dated 8-20-09, in English and local language
- Presentation on Implementation of Security of Supply Directive, dated 8-20-09, in English and local language
- MOFTER Invitation to Stakeholders meeting on Security of Supply, dated 8-21-09, in English and local language.
- REAP Memorandum on meeting with Head of Environment Protection, dated 8-28-09, in English only.
- Benchmarking Table on Power Plants and Market dated 8-18-09, in English and local language
- REAP Data Gathering Table, dated 8-31-09 in English and local language
- Cover letter for forwarding Data Gathering Table and Benchmarking Table, dated 8-31-09, in English and local language
- REAP Proposed Rule Provisions, dated 9-1-09, in English and local language
- JW comments on Pierce Atwood Memo on Workshops, dated 08-29-09, in English language only
- Explicit Auction Procedure, dated 05-27-09 in local language [English language version sent as deliverable with the Weekly Report for 5-25-09]
- Comparative table Capacity Allocation Rules, dated 05-27-09 in local language only [English language version sent with the Weekly Report for 5-25-09]
- REAP Memorandum to USAID regarding MWG meeting, dated 9-11-09, in English language only
- Market Working Group Data Gathering Table Brcko EPs REAP with amendments, dated 9-18-09, in English and local language.
- Market Working Group Data Gathering Table Regulators Transco ISO with amendments, dated 9-18-09, in English and local language.

- Market Working Group Data Gathering Table Next Steps Conclusions, with amendments, dated 9-18-09, in English and local language.
- REAP and EP Activities, dated 9-24-09, in English only.
- REAP Memorandum to USAID re 4th Gas Forum, 9-10_11-09, in English and local language.
- REAP Table of Contents – Notebook for Schlagenhaut, dated 9-22-09, in English only.
- REAP Top 15 Deliverable Topics and Accompanying Deliverables, dated 9-24-09, in English only.
- RSERC analysis of electricity market, dated 5-19-09, updated 9-14-09, in English and local language.
- Memorandum Pierce Atwood to USADI/REAP regarding BiH Seminars on Market Opening and Eligible Customer Contracting, dated 9-2-09, in English only.
- Agenda for market opening seminars, dated 10-1-09, in English and local language.
- Seminar invitation for 13, 14 and 15 October, dated 10-1-09, in English and local language.
- REAP Pierce Atwood Note on BiH Seminars, dated 10-1-09 in English and local language.
- Cover emails for Market Opening Seminars, dated 10-1-09, in English and local language.
- Email Markovic to USAID re black-out details, dated 10-1-09, in English only.
- Diagram of load profile measurement at a substation, dated 9-30-09, in English only.
- Internal Action Plan table for Mr. Archer energy assessment, dated 9-29-09, in English only.
- Memorandum Markovic to Wilson Need for Market Operator and Auctions [congestion management], dated 10-1-09, in English only.
- Memorandum Markovic to Wilson, Summary of ERGEG vulnerable customers, supplier of last resort and default supplier, dated 9-28-09, in English only.
- Market Working Group agenda, dated 10-8-09, in English and local language.

V. ANTICIPATED ACTIVITIES FOR THE FOLLOWING QUARTER

BiH energy sector fully integrated into the regional market and the EU

- REAP will meet with SERC and attempt to finally resolve the congestion management rule deadlock.

BiH Energy Sector Fully Integrated Into the Regional Market and the EU

- Congestion Management. REAP will meet with SERC to finalize whether REAP's proposal on congestion management can break the SERC deadlock on the issue.
- Ancillary Services. Even though SERC has issued an order on the further unbundling of ancillary services, implementation has been problematic. REAP will initiate discussions on this issue to determine what can be done to assist resolving this issue.
- Market Opening Processes. REAP suspects that the processes on third party access, ancillary services, balancing and supplier of last resort are undeveloped and will hamper market opening. REAP will work with various market participants, along with the Market Working Group, to develop these processes. It could be that the EPs have inadequate metering that will undermine market opening.
- Market Opening Seminars. REAP will invite three groups of electricity sector participants to three different seminars on Market Opening and will provide the participants with multiple materials. Thereafter, a joint seminar will be held with all participants (and possible more individuals) for REAP to present impediments uncovered in the seminars, options for their resolution, and recommendations. Thereafter, efforts will begin for the Market Working Group policy papers to be submitted to the various Ministries.
- REAP will provide training to EPBiH management on market opening. The same training will be offered to the other EPs at a later date.
- Eligible Customers. REAP will continue to advise large customers as needed as they attempt to become eligible.

- REAP plans to work possibly within the Chamber of Commerce to form an industrial customer organization, so that industrials can combine their voices to provide a stronger lobby in the country.
- Similarly, REAP will begin to investigate the advisability of engaging in some public outreach efforts for retail customers.

VI. ADDITIONAL INFORMATION

A. Progress during the quarter v. scheduled

Progress on reform in Bosnia and Herzegovina has slowed almost to a halt, affecting REAP's activity timetable:

TO1: BiH Energy Sector Fully Integrated Into the Regional Market and the EU

KRA 1.1 Legal gas framework creation. The political situation has completely bogged down the effort on creating a State Gas Law.

KRA 2.1 Market Opening Plan [Market Design.] REAP is working on the issues in KRA 2 through the Market Working Group, comprised of representatives of the regulators and formed by the regulators. The MWG is working at the grass roots level, addressing whether market preconditions are in place for market opening. A framework for the work has been developed, a Data Gathering Table format designed, data gathered and work on seminars on market opening has been commenced.

KRA 2.6-KRA 2.8 Balancing market activity. Activity should have started in this area last quarter; however, due to the political difficulties in the transmission sector, all activity in this area is delayed. With the activity of the Market Working Group and the upcoming seminars on market opening, it is possible that attention will be placed on the need for balancing as a market opening preconditions and the metering that is necessary (and missing) to accomplish it.

KRA 2.5 Labeling sources of energy. This item is complete.

TO2: Restructured and Commercialized Energy Companies

KRA 2.2 Full Cost-based Tariffs. Since costs within the EPs have gone down and the companies have recently declared large dividends, the regulators are contemplating the need for tariff proceedings. Further activities such as the market opening seminar may place additional focus on the need for fully cost-based tariffs to enable customers to leave the tariff system.

KRA 2.3 Integrate coal mine and electricity Action Plans. This activity is being driven by EPBiH and the Ministry without consultant assistance.

KRA 2.6 Commercialization/privatization of generation and distribution. Whereas both Entities have declared their lack of desire to privatize electricity assets, it is expected that a renewed focus on market opening will pressure the companies to begin work on further unbundling the companies (or unbundling at all, in the case of the Federation EPs) so that tariffs, ancillary services, balancing, third party access and settlement can be accomplished in an open market.

TO3: Cross Cutting Objective: Broaden Public Understanding of BiH Energy Sector Issues and Challenges. This portion of the project has been completed.

B. Supporting Materials

Annex A includes (i) a task list from the Project Contract that shows accomplishments grouped under the appropriate task, and (ii) a task progress chart show activities completed, in process, or deferred during

the quarter is included in Annex A. This is followed by a financial summary in Annex B, and a List of Staff in Annex C.

C. Staffing Status

Drazena Peranic and Nermin Nisic, Public Outreach employees of the sub-contractor Chemonics are no longer with the project, since the Public Outreach portion of the project has been completed.

ANNEX A

TASKS, ACHIEVEMENTS AND PLANS

- Task 1: A fully integrated energy sector into the regional market and the EU.**
- Task 1.A. **Unification of the Regulators.** The contractor shall help create a single energy market throughout BiH regulated by a single integrated regulation.
- The activities of the Market Working Group are consolidating the joint work of the regulators before.
- Task 1.A.(i) Provide assistance to the existing regulators to further strengthen their principal functions of issuing licenses and tariffs;
- Task 1.A.(ii) Draft amendments to the electricity law that are consistent with the unbundling of the existing company structure.
- Task 1.A.(iii) Draft necessary by-laws; and assist in their implementation to assist with the passage of the amendments to the electricity laws to enable unification of regulators; and
- Task 1.A.(iv) Once in place, assist the unified regulator to reconfigure itself – which would include organizational issues and the revision of all internal documents (Statute, Rules of Work, organization charts, internal financial procedures, and the like) as well as the Rules of Practice and Procedure, and assist the State Regulatory Commission (SERC) in its interactions with the Energy Regulators Regional Association (ERRA) in moving towards the single regulator.
- Task 1.B **Creation of the Legal and Regulatory Framework for Gas.** The contractor shall assist the state regulator to consolidate and incorporate the regulation of gas into its regime and to assemble a capable staff to support the gas sector.
- Task 1.B.(i) Draft a state level gas law working with a Gas Working Group.
- Task 1.B.(ii) Provide technical assistance to MOFTER to complete the enactment of the Gas Law;
- Task 1.B.(iii) Draft foundation gas regulation documents and plan training on gas specific regulatory issues.
- Task 1.B.(iv) Assist the state regulator to hold public hearings and issue rules for gas regulation, including such matters as the practice and procedure for establishing tariffs and the conditions for licenses, third party access, and market opening.
- Task 1.B.(v) Assist the state regulator to consolidate and incorporate the regulation of gas into its regime and to assemble a staff to support the gas sector; and
- Task 1.B.(vi) Assist the regulators in planning activities to require the appropriate and timely filings from all gas companies and ensure that concomitant changes called for in the law are made for the gas sector, as required.
- Task 1.C. **Transformation of the Independent System Operation (ISO) into a Full Market Operator for all of BiH.**
- Task 1.C.(i) Assist the state regulator (SERC) in its approval of ISO activities to create the Market Operator function for balancing the market.

The Market Working Group's focus on market opening and the upcoming seminars on market opening will begin to focus the sector on balancing (and other services necessary to allow a market to open, such as ancillary services, third party access, supplier of last resort and settlement.)

- Task 1.C.(ii) Assist MOFTER in the ongoing efforts to formulate the Market Rules for the energy market (electricity and gas) and to help delineate the rules for a financial settlement system;

Revisions to both the Market Rules and Grid Code are being noted in the work of the Market Working Group.

- Task 1.C.(iii) Help revise the Grid Code; and

Revisions to both the Market Rules and Grid Code are being noted in the work of the Market Working Group.

- Task 1.C.(iv) Ensure that the appropriate market monitoring mechanisms are in place and being utilized to ensure that ISO governance is proper.

- Task 1.D. **Broader Public Understanding of Specific Energy Sector Issues and Challenges.** The contractor shall develop and implement a program of public outreach and education efforts to develop broader understanding of the energy sector, its needs, the challenges it faces, the major issues of the reform of this sector and what are the means needed to achieve them. Through a variety of efforts, e.g., short-term trainings, the project should strive to educate cabinet members and parliamentarians, both at the entity and state level, the media and the broader public. While serving as an educational effort, the aim is to help develop advocates for energy sector reform in these areas. This will require consultation and working closely with USAID Economic Reform Office CTOs, with parliaments, and the media. This may include, but not be limited to:

The public outreach portion of the REAP project has been completed.

- Task 1.D.(i) Support reform efforts surrounding the drafting and adoption of legislation and regulation for the unification of regulators.

- Task 1.D.(ii) Support the drafting of legislation and regulation supporting the state level gas law, and

- Task 1.D.(iii) Assist the state energy regulator to hold hearings and issue rules for gas regulation on topics such as tariff setting, conditions for licenses, and helping the regulators in developing and implementing requirements that the gas sector meetings the new requirements under the law on the gas sector.

Task 2. Restructuring and commercialization of energy companies.

- Task 2.A. **Implementation of the Action Plans.** The contractor shall assist with a number of actions to help facilitate action plan implementation. These shall include:

Some unbundling functions of the utilities have occurred and are occurring without REAP's assistance. EPRS is trying to correct is over-unbundling to reconnect some of the functions within the parent company, EPBiH has consultants in place to advise on unbundling whenever the Government gives its go-ahead. The coal mines are being merged into EPBiH also, and laws to that effect are passing through the Parliament. EPHZHB states that it is fully ready to unbundle but awaits EPBiH.

- Task 2.A.(i) The formation of Headquarters functions in the EP companies.

- Task 2.A.(ii) Integration and coordination of the Federation coal Mine Action Plan with the Electricity Action Plans in preparation for the privatization of the thermal power plants along with the coal mines that support them.
- Task 2.A.(iii) Separation of the accounting of all of the daughter business units of the EPs.
- Task 2.A.(iv) Combination of certain of the generating companies and distribution companies into more efficient operating units as identified in the action plans.
- Task 2.A.(v) Incorporation of Holding Companies and the separate daughter companies as joint stock companies from the reconfigured EPs.
- Task 2.A.(vi) Transition to full cost-based tariffs for all of the new Joint Stock Companies; and
- Task 2.A. (vii) Preparation of the generation and distribution companies in BiH for privatization plus agreement with the Governments on social programs for redundant workers.

Task 2.B. **Broader Public Understanding of Specific Energy Sector Issues and Challenges**
 The contractor shall develop and implement a program of public outreach and education efforts to develop broader understanding of the energy sector, its needs, the challenges it faces, educate entity and state level cabinet members and parliamentarians, the media and the broader public. This program will support the efforts to transform the ISO into a full market operator. It will also educate stakeholders and the public on the need for the privatization of the EPs, including the preparatory steps required to do so, i.e., the reorganization of EPs, the hiving off of EPs' daughter business units, the incorporation of Holding Companies, etc. While serving as a broad educational effort, the chief aim of this program will be to help develop advocates for energy sector reform in these specified areas. This will need to consult and work closely with USAID's Economic reform Office CTOs, with parliaments and the media.

The Public Outreach portion of the project has been completed.

Task Progress Chart

ACTIVITIES & DELIVERABLES Scheduled For This Period	PROGRESS TO DATE		
	Completed	In Progress	Deferred
Contract signature and authorization to start work	•		
Inception meetings with USAID CTO, March; project briefing with USAID Mission BiH	•		
Install REAP systems and equipment in local office	•		
Introduce project to the stakeholders	•		
Review and finalize Annual Work Plan and PBMS with USAID; performance indicators with CTO	•		
PBMS and R-4 reporting to USAID	•		
Annual and Completion Reports	•		
Demobilization Plan			•
TO 1: BIH ENERGY SECTOR FULLY INTEGRATED INTO THE REGIONAL MARKET AND THE EU			
KRA 1 Creation of Legal and Regulatory Framework for Gas			
KRA 1.1 Legal gas framework creation			
KRA 1.1.1 Draft three gas laws			
RS Draft Gas Law brought into substantial compliance with the EU Gas Directive.	▪		
State Gas Law draft from previous project separated into draft Federation and State laws based on the electricity sector structure and to the extent possible, harmonized with the RS passed gas law.	•		
KRA 1.1.2 Introduce draft gas laws into three legislative bodies and work to assist their passage			
Assisted with revisions to the law when the individual Ministries put it into final format.		•	
Interacted as requested with the legislative committees responsible for an energy law, individual parliamentarians or party heads that desired information on the law.		•	
Reviewed as requested amendments from the committees and the plenary sessions from each House of the RS National Assembly and Federation and State Governments.		•	
Talking points, presentations and other lobby materials were prepared in conjunction with the REAP Public Outreach program to make the laws understandable for parliamentarians and the media, as well as the Ministries involved.		•	
KRA 1.2 Secondary gas legislation			
Advised regarding the amendment of the existing regulator formation documents to include jurisdiction over the gas sector.		•	
Advised and assisted with regard to appropriate regulations to be drafted by each regulator covering practice and procedural rules, tariff methodology, licensing rules, system operational rules, conditions of supply, third party access rules and uniform system of accounts;			•
Advised on design of coordinated format for drafting of the system operational rules, conditions of supply, and submission to commissions for approval.			•

KRA 1.3 Gas license and tariff proceedings commenced and completed

According to REAP advice, regulators ordered commencement of interim licensing proceedings.

Regulated companies filed applications for interim licenses.

Interim licenses issued to natural gas undertakings.

Regulators ordered the commencement of initial tariff proceedings utilizing the uniform system of accounts.

Regulated undertakings filed applications for tariffs as ordered.

Decisions on tariffs were issued in all proceedings.

KRA 2 Transformation of ISO into a full MO after the Transition Phases of the internal BiH Market

KRA 2.1 Market Opening Plan

Held a large conference with presenters from the region that addresses fundamental market concepts.

Developed a market design to move from the current closed market to bilateral contracts and the balancing market, with gradual deregulation of generation, addressing the issue of export in a hydro-thermal generation market.

The market design clarified the party responsible for each step of market evolution and for market operation.

The market opening plan for both electricity and gas included a vulnerable customer plan.

A concerted lobby and communication effort for a vulnerable customer plan, directed to the RS Ministry of Economy, Energy and Development, Federation Ministry of Energy, Mining and Industry, MOFTER, the Entity Prime Ministers and Presidency, the legislative bodies, and the public as appropriate and necessary was effected.

The electricity market opening plan was built upon, and one was created for natural gas with detailed regulations for suppliers of last resort and customer switching.

KRA 2.2 Market Monitoring

Developed practices and procedures for the ISO and the Regulatory Commission(s) to employ market monitoring for anticompetitive conduct/market power.

KRA 2.3 Grid Code and Market Rules

A new Grid Code was developed by the ISO and approved by the State Electricity Regulatory Commission.

New Market Rules were developed by the ISO and approved by the State Electricity Regulatory Commission.

A tactical decision was made with the ISO, Technical Committee, regulator(s), and other stakeholders whether to develop new Market

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Rules for the balancing market as provided in KRA 3.8, or whether to evolve the Market Rules in two steps.

Support was given to the ISO in working with the Technical Committee on any revisions needed to the Grid Code and Market Rules.

KRA 2.4 ISO and Transco governance for smooth operations

Reported with regard to the EU’s new energy directives’ direction to maximize the leverage of the ISO as the organization of the future, the alternative being the requirement to unbundled ownership of a TSO. This premise underlay and supported all activities of this KRA.

Areas where the Transmission Company, Elektroprivrede regulator(s), governments and other stakeholders do not accept the mandates of the Transco and ISO Laws were identified and those areas were included for consideration in the workshops identified in KRA 2.1.

The status and operability of the EBRD’s SCADA system installation and operation and the EBRD’s assessment of ISO operation were determined, along with the ISO’s and European Investment Bank (EIB) plan for funding of the ISO balancing market software and other software necessary for market monitoring, dispatch and other functions.

The regulatory filings of the ISO were reviewed, including the tariff filings, to determine if appropriate financial and legal support for tariff and any other requests had been included to enable SERC to afford nondiscriminatory support and all due consideration to the ISO to enable it to develop into a robust and functioning ISO that phases into the role of balancing market operator according to the ISO Law.

A financial plan was developed for the ISO’s next tariff proceeding to finance requirements for the future software and the ongoing training necessary for a robust ISO and balancing market operator.

Assisted with the compilation of the next ISO SERC tariff filing to assist with the inclusion of the appropriate legal and financial arguments to the regulatory commission to ensure legal and nondiscriminatory regulatory support to the ongoing development of this organization were agreed and approved.

KRA 2.5 Labeling sources of electricity

A suppliers’ labeling program developed and provided that enables customers to identify the characteristics of the electricity generated

REAP team gathered EU nuts and bolts practice and enlisted in-house experts for research. This information was passed to the regulators and other stakeholders for addressing in the technical or regulatory rules, and/or conditions of supply. The REAP team advised the regulators with regard to implementing this practice in its rules.

KRA 2.6 Balancing market price methodology

An expert developed a price methodology for setting balancing market prices, which will govern the supply and purchase of electricity in the current non-liquid situation. The methodology was submitted by the ISO to the regulator and accepted thereafter.

Support was given to the ISO in working with the Technical Committee, if any, with regard to the balancing market price methodology.

Detailed workshops were arranged for the SERC and ISO with regard to implementation of the balancing market pricing methodology.

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A workshop was arranged for the sector as a whole to explain the pricing methodology.

KRA 2.7 State Regulatory Commission MO Approval

Guidelines and draft procedures developed for the ISO to become a Market Operator in a procedure that complied with the ISO Law and any rules of the regulator.

Guidelines and draft procedures were provided to the state regulator regarding the approval of the ISO as a market operator.

The REAP Team submitted advice and assistance on recommended guidelines and procedures for the ISO to apply for the status of a balancing Market Operator.

Hands-on working meetings were held by the Chief of Party with the ISO and regulator(s) with regard to development of such guidelines and procedures.

KRA 2.8 Procedures for balancing market

Transparent, non-discriminatory and cost reflective mechanisms for balancing the market developed. Thereafter, they were approved by the regulator(s).

The decision regarding whether one or two sets of Market Rules would be developed determined whether both an interim and final set or only a final set of Market Rules were developed, the final set of Market Rules included the procedures for and operation of the mechanisms for the Balancing Market.

Support was given to the ISO in working with the Technical Committee and regulator on any drafting or revising of Market Rules.

Support was given to the ISO in creating a filing for approval of Market Rules that incorporated the procedures and mechanisms for market balancing, ensuring that the procedures were explained to the regulators (and public, since the filings are public) in an understandable way.

KRA 3 Unification of the Regulators

KRA 3.1 MOU for unification of the regulators

Developed a framework for an interim step to full unification that provides for more extensive interaction and cooperation between the three regulators.

Drafted a Memorandum of Understanding (MOU) to be signed by the Republika Srpska Ministry of Economy, Energy and Development, the Federation Ministry of Energy, Mining and Industry, and the Ministry of Foreign Trade and Economic Resources that memorializes closer coordination of the three regulators in planning and execution of their work, working toward the eventual full unification of the regulators into one regulator.

Obtained execution of the MOU by the respective Ministries.

Mobilized the public outreach and communication program to explain to the legislators, media and public the benefits of the work toward unification.

KRA 3.2 Amendments to the three electricity laws

KRA 3.2.1 Draft amendments to the three electricity laws for unification of the regulators

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Drafted amendments to the three electricity laws that would allow the full and legal unification of the regulators.

KRA 3.2.2 Introduce draft amendments into three legislative bodies and work to assist in their passage

Assisted in getting the amendments to the three electricity laws passed through the legislative authorities, including:

Assisted with revisions to the amendments when the individual Ministries put them into final format;

Interact as requested with the legislative committees responsible for energy, individual parliamentarians or party heads that desire information on the draft laws.

Reviewed requested amendments from the committees and the plenary sessions from each House of the RS National Assembly and Federation and State Parliaments.

Mobilized of REAP public outreach and communication for lobby materials for all counterparts and press, including presentation materials to explain to the legislators, media and public what the unification effort means and what the benefits are.

KRA 3.3 Establish State Energy Regulatory Commission

State Energy Regulatory Commission established.

Assisted with the amendment of statutes, rules of work, organization charts, and internal procedures.

TO 2 Restructuring and Privatization of the EPs

KRA 1 Implementation of the Action Plans

KRA 1.1 Unbundled EP Companies Corporatized

Produce current status of the Action Plan and a base line of action plan implementation.

Determined the legal framework for further implementation of the Action Plans.

Determined the status of the Federation Government/EP intentions with regard to further implementation of the APs.

REAP Participation ensured in any working groups with the three Ministries, WB, EC, EPs and other members of the IC on the energy study and/or strategy being funded by the WB and EC.

Identified RS Government plan with regard to further re-organization of EPRS.

Provided advice and encouraged the unbundling of the Federation EPs and lobbied the Federation Government therefor.

Memorialized guidance on the development of accounting systems of the separate unbundled daughter companies.

Determined the three EPs' intentions with regard to recombining generation and distribution companies into more efficient units.

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Provided assistance with regard to realization of the EPs' plans to rationalize unbundled companies.

KRA 1.2 Accounting Unbundling and Full Cost-Based Tariffs

Reviews provided of the current accounting system at present time in all three EPs, shares of liabilities and commercial relations within each company, if any.

Determined status of the Federation EPs' intentions with regard to unbundling and developing of their accounting systems.

Determined status of the WB Manitoba Hydro accounting system pilot projects that will enable accounting unbundling.

Determined plans and the timing of Entity Regulatory Commissions and EPs to develop DSOs.

The commencement of specific activities aimed at creating the DSOs in the near future encouraged.

The three regulatory commissions assisted and encouraged to establish their uniform system of account rules and enforce them.

The EPs capacity and capability to implement uniform and separate accounting system assessed.

Advice provided to EPs on capacity building with regard to separated accounting systems.

KRA 1.3 Integrate Coal Mine and Electricity Action Plans

Reviewed the Coal Mine Action Plan.

Determined the status of the Coal Mine AP and extent of harmonization with the electricity AP.

Analyzed the rationale and wisdom of the merger of coal mines into generation plans.

Analyzed a gap with regard to different commercial and legal status of coal mines in the Federation.

Assessed necessity of keeping or moving the regulation of coal prices into regulators.

Ensured that the International Community and ministries understand and assist with the plan to resolve potential problems with regard to different bodies in charge of regulation of coal and electricity prices.

KRA 1.4 Training Programs for Redundant Employees

Policy options analyzed in the development of social programs for redundant employees made redundant because of efficiency streamlining measures as the unbundled EP companies are rationalized for current or future planned privatization,

Government's intentions regarding the policy options determined,

Other countries' experience with regard to redundancy programs communicated.

Appropriate training programs for redundant employees proposed.

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Advice provided with regard to preparation of the EPs' social programs for current or future streamlining that may render employees redundant.

Effectuated mobilization of REAP public outreach program with regard to better understanding the social program for persons made redundant by streamlining the EP unbundled companies.

KRA 1.5 Implementation of EU Environmental Directives

Status of environmental regulation in the Entities and the State level at present time determined.

Energy Community Treaty requirement assessed as well as the current legislation and rules applicable to new investments.

EC Directorate and SEE Energy Treaty Directorate consulted regarding plans to take appropriate steps to comply with the EnC Treaty.

Status of the EPs' rules, practices and intentions with regard to such, current or future, requirements determined.

Advice and procedure developed for compliance with the EU Treaty environmental requirements.

KRA 1.6 Commercialization/Privatization of Generation and Distribution

The plans of the Entity Governments for commercialization of BiH generation and distribution determined.

Determined how the current privatization/commercialization investment plans are being framed and actualized.

Determined what plans of the Entity Governments are with regard to coal mines commercialization/ privatization if they have not been merged with EPs.

Other countries' experience (transition countries, new EU member countries) with regard to commercialization/privatization communicated.

Plans for privatization co-created, whether immediate or future, with no definite implementation date but have a specific EU accepted structure that is transparent and organized.

TO 3 Cross Cutting Objective: Broaden public understanding of BiH energy sector issues and challenges

KRA 1 Regulators and ISO efficiently communicate

KRA 1.1 Regulators and ISO Promote Liberalization

Ongoing, one-on-one assistance provided to the three regulators in developing communication strategy, skills and techniques of public advocacy;

Defined the ongoing methodology for promoting liberalization in the electricity sector in general, the transparency of regulators' work;

Identified in-house capacity for carrying out future PR activities and/or creating a new job position for an outside PR specialist

KRA 1.2 ISO communicates and promotes its function as

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KRA 4: media Reports on Energy Reform

KRA 4.1 Journalists/Editors Understand Energy Reform

trainings conducted for journalist/editors regarding Legal and Regulatory steps that BiH should take to meet the Energy Community Treaty requirements, the function of the ISO, the function of the regulators and restructuring and preparation for the commercialization of energy companies

KRA 4.2 Media employ high professional standards

of trainings conducted for journalist in business and economy reporting, particularly in covering the energy sector.

KRA 4.3 Use research and expert sources

Meetings guided/organized and a collaborative relationship established between media outlets and professional research agencies and experts in the energy sector

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ANNEX C

REAP Staff

Name	Position	Start Date
Jane Wilson	<i>Chief of Party</i>	<i>March 14, 2007</i>
Ognjen Markovic	<i>Deputy Chief of Party</i>	<i>June 1, 2007</i>
Alma Brkovic	<i>Office Manager/Translator</i>	<i>March 16, 2007</i>
Dzenita Becic	<i>Executive Assistant/Translator</i>	<i>April 9, 2007</i>
Elma Haveric	<i>Legislative and Regulatory Specialist</i>	<i>October 19, 2007</i>