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Regulatory and Energy Assistance

**Regulatory and Energy Assistance Project in Bosnia and
Herzegovina (BiH) – REAP BiH**
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Quarterly Progress Report
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I. EXECUTIVE SUMMARY

REAP was primarily concerned this quarter with work on a proposed compromise solution for the BiH Congestion Management Rule and activities in connection with market opening. The proposed Congestion Management Rule was researched, and REAP worked to build consensus with the ISO. The market opening activities were extensive and consisted of REAP arranging a series of three seminars that addressed the issues surrounding market opening to identify BiH's market opening impediments. Later in the quarter, a Joint Seminar was arranged in which the attendees of the seminars came together in a plenary session in which REAP identified the top eight impediments to market opening and possible solutions to each. At the same time, training was provided to EPBiH's top management team on market opening from the utility's point of view. Specifically related to market opening, REAP advised an industrial customer as it obtained eligible customer status and strove to obtain the required support contracts.

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

Due to the inability to agree on a political level, all activities on the creation of a framework State Law on Gas are halted for the time being.

2. Transformation of the ISO into a full Market Operator

Congestion Management Rule.

The ISO's proposed Congestion Management Rule has been delayed for three years because of misunderstandings between the ISO and SERC, and SERC being unable to reach a unanimous decision. Bosnia and Herzegovina is now the only country in the region using a pro rata allocation method in managing congestion management. The ISO estimates that BiH will now lose approximate €-4 MM/year because of both the ITC mechanism, which eliminates countries not using a market-based mechanism for capacity allocation from receipt of ITC funds.

Some time ago, the ISO had requested help from REAP in this area, and now SERC requested assistance from REAP in resolving this issue. The three SERC commissioners were optimistic about the REAP proposal for congestion management -- an explicit auction conducted by the ISO but with involvement of Transco. Essentially, REAP's proposal found a compromise between the two extremes of the ISO performing all procedures and collecting all funds for an explicit auction without interaction with the Transco vs. the Transco performing all procedures and collecting the funds without interaction with the ISO. REAP's proposal suggested that the process for calculation of Net Transfer Capacity, which already utilizes input from the Transmission Company, be described in the Rule, that the ISO perform the explicit auction program with the revenue from the auction going directly to Transco, and Transco invoice the auction winner and execute a use-of-the-grid contract.

REAP researched the congestion management rules from Slovenia, Italy, Bulgaria and Croatia, the UCTE Operational Handbook and BiH laws and regulations that pertain to licenses for international trade. REAP then worked with the ISO, to obtain a revised "Rulebook on the Allocation of Rights for the Use of Cross-Border Transmission Capacities" that was acceptable to the ISO.

3. Unification of the Regulators

Ancillary Services. EPRS sent a set of documents to REAP regarding Ancillary services. The package contains documents that the three EPs and the ISO created together in several meetings regarding ancillary services. All EP and ISO representatives agreed to the comments (drafted by EPRS) on the SERC Decision on ancillary services. In summary, the documents informed the SERC that its decision on ancillary services cannot work because (i) there is insufficient metering; and (ii) the ISO does not have access to measurement that is real time, the Transmission Company refuses to fully connect the ISO to all Transco measurement points.

B. Restructuring and Commercialization of Energy Companies

▪ *Market Opening.*

Seminars. On October 13, 14 and 15, REAP held three Market Opening Seminars in Jahorina, Bosnia and Herzegovina. The seminars were led by REAP technical advisors, whose carefully crafted presentation addressed three types of market opening preconditions:

- Primary critical conditions:
 - Cost-based tariffs,
 - Protection for vulnerable customers,
 - Accurate and time-differentiated metering,
 - Deregulated and diverse supply.
- Secondary critical conditions – Eligible Customer Processes:
 - Enforceable contracts and developed processes for third party access, ancillary services, balancing, supplier of last resort, and customer switching.
 - Financial Settlement.
- Tertiary conditions:
 - Congestion management,
 - Revised regulatory legal framework,
 - Monitoring and enforcement. and
 - Creation of a distribution system operator.
- At the end of each seminar, the attendees contributed input into a list of a total of 18 impediments to market opening
- The following topics were extensively discussed:
 - Sale of All Generation at Market Price. One possibility for opening the market would be to sell all the generation at market price, crediting the difference between the tariff price and market price to the transmission and distribution tariffs, which would retain the benefit of low-cost generation to the citizens of BiH.
 - Measuring, Ancillary Services and Balancing. There can be no market opening unless these three activities are further unbundled and commercialized. Meters must be able to measure quantities and time of use; monthly measurement is unsatisfactory. The ancillary services process is unclear and non-commercialized, as is the balancing process. Balancing is hampered by the fact that the three EPs cannot trade on short notice because of the Procurement Law.
 - Third Party Access. There is a lack of clarity between the labels “access” and “use of the grid.” Further, there is a lack of clarity between whether all customers are required to have “access” contracts or only the suppliers, or both.



Joint Seminar. On December 4, REAP held the Market Opening Joint Seminar in Sarajevo, led by REAP technical assistance, which was a plenary session and the culmination of the series of the seminars on market opening held in October. The objective of this Joint Seminar was to review the top eight

impediments discussed in the three seminars on market opening in October, as determined by REAP. Each impediment was described, along with optional solution(s). The Joint Seminar was attended by a total of approximately 40 people. REAP and technical assistance customized the presentation to ensure that the contents were applicable to the situation in BiH and balanced the interests of all market participants.



EPBiH Training. On December 3, 2009, REAP held a Market Opening Seminar on the premises of EPBiH for approximately 25 top managers as part of EPBiH's training program. The presentation was shaped by REAP to address market opening from the utility point of view. The REAP goals were to present information on the market opening process in BiH; address the preconditions for market opening that directly concern EPBiH; address the restructuring problem in FBiH; and trigger the initiation by EPBiH of restructuring and market opening activities.

The emphasis was on the necessary utility activities and preparation necessary to handle market opening. In addition, EPBiH was interested in obtaining further technical support by USAID in the field of market opening. As a result of the REAP training and at the request of EPBiH, EPBiH staff were requested to prepare a report on the Seminar's EPBiH's status regarding of market opening preconditions, so the Management Team can discuss it. REAP will offer this training to both EPRS and EPHZHB. In addition, an adapted version of training that includes both deregulation and market opening will also be prepared for customer round tables.

Public Outreach to Retail Customers. REAP visited the Canton Sarajevo Chamber of Commerce and the FBiH Chamber of Commerce for initial meetings with regard to how the bodies are organized and the possibility of cooperative activities in public outreach on electricity reform. They expressed their willingness to support REAP to organize a roundtable on market opening or a series of small meetings with the Executive Committees. REAP will contact the Craft Association. Additionally, while REAP has focused this quarter on industrial customers and the need for an industrial customer association, REAP 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 advise on tariffs and other energy issues.

Market Working Group. REAP attended three meetings of the Market Working Group that were held during this quarter. The following issues were discussed:

- The MWG agreed that load profiles are needed to further develop cost-based tariffs. As such, they agreed on a sample methodology that they would all like the EPs to institute, so that it is not necessary to await the complete installation of new meters throughout the system before opening the market. EPRS is in process of installing upgraded meters, EPHZHB appears to be upgrading its metering system, while the status of EPBiH metering upgrade is uncertain.
- More Details on Market Opening Seminar issues. In a post-Market Opening Seminar discussion, the MWG requested that REAP's technical assistance send more information regarding the sale of generation assets, because it had suggested that one option for the deregulation of generation is that either the generation assets be sold and the proceeds credited to the customers or that the generation be sold and the surplus profit be credited to the customers through the network tariffs.
- A voluminous amount of data was collected by REAP on behalf of the FERC and the RSERC with regard to a number of technical issues. REAP was responsible for assembling the information into one table, which was discussed and checked at length by the MWG in the meetings.

REAP's Ongoing Assistance to an Industrial Customer's Efforts to Qualify as an Eligible Customer. REAP met with an industrial customer that chose to become eligible. It found a supplier and negotiated a beneficial price for electricity. As an eligible customer, it was required to sign a Balance Responsible

Party Contract with an EP, and its supply contract was conditioned on its obtaining such contract. A revised version of the previous SERC-approved pro forma BRP contract was submitted to the ISO for approval; and REAP and the industrial customer worked with the ISO and BSI in an ISO effort to revise the pro forma Balancing Responsible Party Contract for Eligible Customers in an appropriate way. This version was approved by SERC. The customer resolved its BRP contracting problem by side-stepping it, agreeing to take 5 MW supply from EPHZHB at the tariff price, which obviated the need for such contract, according to the pro forma. REAP calculated that BSI will still be in a better financial position as an Eligible Customer than a tariff customer, even with that adjustment in its supply arrangements.

III. PROBLEM AREAS

- Congestion Management. SERC agreed to consider a REAP compromise position on this two-year deadlock issue.

IV. TENTH QUARTER DELIVERABLES

Information for USAID

- Article from Dnevni Avaz on debt to Gazprom, dated 11-11-09, in English and local language.
- Article from Vecerniji List on Simunovic's Appointment, dated 11-10-09, in English and local language.
- Minutes of the meeting of the Entity PMs on Transco, dated 11-6-09, in English and local language.
- Announcement of results of RS Government Regular Session on Transco, dated 11-12-09, in English and local language.
- Presentation by Sabanovic on the Florence Forum Market Model, undated, in English and local language.
- Letter from SERC to Office of the High Representative and others on decision on Brcko, dated 11-12-09, in English and local language.
- Statement by Mr. Dokic on Brcko, dated 11-11-09, in English and local language.
- Article in DANI Magazine on Šimunović's Appointment, dated 12-4-09, in English and local language.
- Link to an Interactive map that shows status of electricity restructuring in United States, dated September 2009, in English language only.
- Presentation on restructuring of electricity sector in USA, dated February 2003, in English language only.
- Joint requirements by ISO, dated 12-9-09, in English and local language.
- Original Balancing Responsible Party Agreement Version 1, prior to the 11-19-05 proposed changes, approved by SERC 12-15-09, in English.

Deliverables

- 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.

- MWG benchmarking table for power plants and market prices, updated, dated 10-7-09, in English and local language.
- Diagram Measurement for System Balancing, dated 10-2-09.
- Seminar confirmed attendees, dated 10-9-09.
- REAP Report on the Market Working Group Meeting, dated 10-8-09, in English only.
- Memorandum from Markovic to Wilson on the Need for a Market Operator and auctions, dated 10-1-09, in English and local language.
- Summary table on who does what in the proposed Capacity Allocation Rule, dated 9-8-09, in English and local language.
- Update on Transco for USAID, dated 10-22-09, in English only.
- Memorandum REAP to USAID re Transco Questions, dated 10-23-09, in English only.
- Memorandum REAP to USAID attachment Incidents in Transco network, dated 10-23-09, in English only.
- Letter EPBiH to REAP re training, dated 10-23-09, in English and local language.
- Letter REAP to EPBiH re training, dated 10-23-09, in English and local language.
- Agenda for Seminar, dated 10-1-09, in English and local language.
- Seminar Invitations, dated 10-1-09, in English and local language.
- REAP Seminar Attendees, October 13-16, 2009.
- Presentation October 2009, in English and local language.
- John Gulliver biography, not dated, in English and local language
- Tom Welch biography, not dated, in English and local language.
- Bibliography, dated 10-12-09, in English and local language.
- Agreement Outlines handout, dated 10-12-09, in English and local language.
- Agreement Outline: Key Terms of Grid Access, dated 10-16-09, in English and local language.
- Sample supply contract, dated 10-12-09, in English and local language.
- Comparative Market Opening Table I, dated October 2009, in English and local language.
- Comparative Market Opening Table II, dated October 2009, in English and local language.
- Summary of Market Opening Seminars JW Notes, dated 10-23-09, in English only.
- Tenth Quarterly Report, July 1, 2009 – September 30, 2009, in English only.
- Agenda for Market Working Group Meeting, 11-6-09, in English and local language.
- REAP Top Achievements 3-31-09 to 10-30-09, in English only.
- FERC Comments on REAP Road map for Implementation of Security of Supply Directive, dated 9-9-09, in English only.
- ISO Comments on REAP Road Map for implementation of Security of Supply Directive, dated 9-9-09, in English only.
- RS Comments redlined into REAP's Road Map for Implementation of Security of Supply Directive, dated 9-9-09, in English only.
- Agenda for Joint Seminar, dated 11-13-09, in English and local language.
- Invitation for Joint Seminar, dated 11-13-09 in English and local language.
- Memorandum REAP to MWG regarding meeting questions, dated 11-13-09, in English and local language.
- Possible Structure of Plenary draft to Pierce Atwood, dated 11-9-09, in English only.
- Summary of Market Opening Seminars, dated 10-23-09, in English only.
- Memorandum Ognjen Marković to Jane Wilson on 15th Athens Forum, dated 11-27-09 in English language only.
- Joint Seminar on Market Opening
- Agenda for Joint seminar, dated 12-4-09, in English and local language
- Invitation for Joint Seminar, dated 13-11-09, in English and local language
- Invitation for Joint Seminar for IC, dated 11-13-09, in English language only.
- Talking points for Mr. David Lieberman, dated 12-4-09, in English language only
- List of participants on Joint Seminar, dated 12-4-09
- Ms. Wilson's Introductory Talking Points for the Joint Seminar, dated 12-4-09, in English only
- Joint Workshop Presentation, dated 12-4-09, in English and local language

- Agenda for EP BiH seminar, dated 12-3-09, in English and local language
- REAP Memo to EP BiH on Market Opening Seminar, dated 9-22-09, in English and local language
- Talking points for Ankica Gavrilović – REAP draft, dated 12-3-09, in English language only
- Talking points for Ankica Gavrilović final version, dated 12-3-09, in English and local language
- Ms. Wilson’s Introductory Talking Points for EPBiH Seminar, dated 12-3-09, in English language only
- List of participants on EP BIH Seminar, dated 12-3-09
- EP BIH Training Presentation, dated 12-1-09, in English and local language
- Email from Mr. Spahic to Mr. Markovic on the seminar, dated 12-4-09, in English and local language.
- Email Dzenita Becic to Jane Wilson on FERC decision on EPHZHB from 1-29-08, dated EPHZHB 12-10-09, in English language only
- Email from Dzenita Becic to Jane Wilson on Water Accumulation Tax, dated 12-8-09, in English language only
- Email from Dzenita Becic to Jane Wilson on HHI measure, dated 12-9-09, in English language only
- Correspondence between BSI, REAP and SERC, dated 12-11-09, in English and local language
- Rulebook on Capacity Allocation, redline and clean, dated 12-16-09, in English and local language.
- Annex 1 to the Rulebook on Capacity Allocation [Statement of Acceptance], dated 12-16-09, in English and local language.
- Annex 2 to the Rulebook on Capacity Allocation [Guarantee of Payment], dated 12-16-09, in English and local language.
- Table Who Does What in the Capacity Allocation Rule, dated 11-17-09, in English and local language.
- Memorandum JW to Pierce Atwood [regarding secondary market], dated 12-16-09, in English only.
- BiH NARUC BiH Work Plan, REAP draft, dated 12-13-09, in English only.
- List of U.S. States that have retail opening 2009 annotated, dated 12-13-09, in English only.
- Balance Responsible Party Agreement, version 2, with EP HZHB comments, dated 12-11-09, in English only.
- Balance Responsible Party Agreement, version 2, received from BSI sent by ISO, dated 12-15-09, in English and local language.
- Letter from ISO to SERC re BRP contract, dated 12-15-09, in English and local language.
- Emails between BSI and REAP, dated 12-15-09, in English and local language.
- Letter from ISO Omer Hadzic to REAP regarding draft Rule on Congestion Management, dated 12-23-09, in English and local language
- Letter ERS to REAP regarding ancillary services with respective attachments, dated 12-18-09, in English and local language
- ISO Redraft of Rulebook on Capacity Allocation redline, dated 12-28-09, in English and local language.
- REAP redlined comments on ISO Redrafted Rulebook on Capacity Allocation, dated 12-29-09, in English and local language.
- ISO final Redraft of Rulebook on Capacity Allocation redlined, dated 12-30-09, in English and local language.
- Memorandum from Ms. Becic to Ms. Wilson and Mr. Markovic re HEP and TLM Sibenik, dated 12-29-09, in English only.
- Letter EPBiH to REAP, thank-you for market opening seminar, dated 12-3-09, in English and local language.

V. ANTICIPATED ACTIVITIES FOR THE FOLLOWING QUARTER

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

- Congestion Management. REAP will meet with SERC and continue its attempt to resolve the congestion management rule deadlock, also working with the ISO to resolve this problem.

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

- Policy Paper on Market Opening. REAP will draft the policy paper on market opening in cooperation with the Market Working Group with the assistance of Pierce Atwood. As part of the process, discussions will be had with both the regulators and market participants on the impediments to BiH market opening.
- Public Outreach on Market Opening. REAP will begin the process of developing public outreach on market opening, arranging round tables with at least one customer association, perhaps the Association of Employers.
- Market Opening Utility Training. REAP will offer the training given to EPBiH management on market opening to the other two EPs.
- Security of Supply. REAP will revisit Security of Supply and compliance with amended Regulation 1228 with MOFTER.
- Internal Action Plan. REAP will update the Internal Action Plan.
- Tariff Proceedings. REAP will attend the public hearings of the SERC Transco and ISO tariff proceeding and the FERC EPHZHB and EPBiH tariff proceedings.
- REAP will assist USAID in planning the regulatory partnership.

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.] In cooperation with the Market Working Group, comprised of representatives of the regulators and formed by the regulators, REAP has completed KRA 2.1.1. through KRA 2.1.4. This quarter REAP held three interactive seminars with representatives of the stakeholders to discuss the current impediments to the market and one joint seminar to present alternatives. The next step is to create a policy paper for the decision makers, again in cooperation with the Market Working Group.

KRA 2.4 ISO and Transco governance for smooth MO. Both the SERC and the ISO requested assistance from REAP on working to loosen the impasse on the Congestion Management Rule, which has been in a stalemate for several years. This quarter, REAP has made a proposal to the SERC, with the agreement of the ISO, and is awaiting SERC's comments.

KRA 2.6-KRA 2.8 Balancing market activity. Last quarter, REAP indicated that the activity of the Market Working Group and the upcoming seminars on market opening could awaken interest in the need for balancing as a market opening preconditions and the metering that is necessary (and missing) to accomplish it. In fact, after the seminars the three EPs and ISO agreed and communicated to the SERC that the SERC Ancillary Services Rule as currently configured cannot function properly due to metering problems and the lack of contracts.

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 Federation EPs have gone down and the companies have recently declared large dividends, the FERC commenced tariff proceedings of their own initiative, and the RSERC increased tariffs by an average of 6.2%, which includes the reduction of subsidies to household customers. Also, the RSERC has now fully removed subsidization in the distribution network tariff, which is important for market opening.

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 encourage 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

No changes.

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 consisting of representatives of all three regulators as nominated by the regulators, are consolidating the joint work of the regulators more than before.
- Task 1.A.(i) Provide assistance to the existing regulators to further strengthen their principal functions of issuing licenses and tariffs;
- REAP held three seminars in November and one plenary seminar on Market Opening in December. The goal of the seminars was to identify the impediments to Market Opening and, where appropriate, recommend solutions. The seminars were attended by representatives of all the stakeholders involved in the Market Opening process.
- 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
- Essentially, REAP's proposal found a compromise between the two extremes of the ISO performing all procedures and collecting all funds for an explicit auction without interaction with the Transco vs. the Transco performing all procedures and collecting the funds without interaction with the ISO. REAP's proposal suggested that the ISO operate the explicit auction but that payment guarantees be for the benefit of the Transco, all funds flow to the Transco, and the Transco do the invoicing of the winners of the auction.
- 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.

While no Balancing Market per se is being either contemplated or discussed in the sector, the REAP's three seminars and joint seminar in cooperation with the Market Working Group has turned the attention of 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.) In fact, the three EPs and ISO worked together and agreed that under the current deficient metering situation and with the lack of contracts, the SERC's Ancillary Services Rule should be readdressed by SERC.

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:

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

REAP held a Market Opening Seminar in EPBiH for approximately 25 top managers as part of EPBiH's training program. The objective of the Seminar was to identify impediments and solutions to those in the specific context of the EP, with an emphasis on the necessary utility activities and preparation therefor. As a direct result of the training, the EPBiH General Director requested the Management Team to prepare a report with regard to the status of EPBiH in all areas addressed in the REAP training.

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 incorporate 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>