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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 April 1, 2010 – June 30, 2010

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I. EXECUTIVE SUMMARY

In connection with REAP's assistance to SERC on finalizing the Rulebook on Cross Border Capacity Allocation, REAP worked with Transco, SERC and ISO to finalize the Contract for Use of Interconnect. REAP fully reviewed and revised the FERC tariff model and provided Excel training for the Tariff Department Staff. REAP consolidated the comments from the three regulators on the Policy Paper on the obstacles to market opening, inserted them into the paper as appropriate and sent it to technical assistance for review and comments. REAP assisted MOFTER in preparing a Draft Table for Energy Community Secretariat in regard to the Road Map for implementation of the Directive on Security of Supply. At the meeting with Electricity Sector stakeholders, REAP presented the table, which was accepted with minor changes as the official report of Bosnia and Herzegovina on the status of implementation of the Security of Supply Directive. REAP was invited to attend a joint regulator meeting, in which the regulators presented their current activities and plans for the future. REAP analyzed the FERC Presiding Officer reports on tariffs for EP HZHB Generation, Distribution and Supply that made proposals to the Commissioners for their decisions on tariffs. In connection with results of the work of the Market Working Group where an adequate metering system was identified as the precondition for successful market functioning REAP conducted a short survey and found that all three EPs have commenced activities to install adequate metering system for all customers other than small commercial customers and households. MOFTER requested assistance from REAP to prepare for the meetings of the newly-formed Transco Working Group (WG). REAP met several times with Mr. Softic, the designated coordinator of the Transco Working Group from MOFTER and advised him on some specific techniques to lead the meeting.

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

SERC Congestion Management Rule. REAP worked with Transco, SERC and ISO to coordinate the Contract for use of Interconnect in connection with the Congestion Management Rule. Transco stated that Transco had used REAP's draft as a guide, and they had prepared a draft contract, which he then forwarded to REAP. REAP prepared comments on the Transco draft contract and made a GANTT chart of the proposed timing of information flows. Shortly after REAP had met with Transco discussing REAP's comments on the referenced contract, Transco sent a revised version to REAP. REAP analyzed that version and sent comments on it to the SERC. REAP had comments on two topics: (i) Changed language in the Rulebook approved by the ISO BiH; and (ii) the Transmission Company Contract on the Right to Use Cross-Border Transmission Capacities on the Borders of Bosnia and Herzegovina. SERC sent a letter to inform REAP that they accepted REAP's suggestion with regard to the Transmission Company Contract while the language in the Rulebook remained the same. In the same letter, SERC expressed its appreciation for REAP's contribution in the procedure of preparation of the Rulebook and other related documents. Also, SERC expressed its hopes that REAP and SERC would maintain a high level of cooperation in the future. REAP was informed by the ISO that the first daily auction was performed on May 31, 2010, and the daily auctions have been carried out successfully since. The first monthly auction that the ISO executed was on June 16, 2010. A report on the monthly auction shows that Transco, as the beneficiary of the auction, will earn 156.161,50 KM just for the July capacity allocation.

3. Unification of the Regulators

FERC Tariff Model. As planned, REAP and technical assistance fully reviewed and revised the FERC tariff model and provided Excel training to the FERC Tariff Department and the three commissioners in a five-day training, from May 5, 2010 to May 12, 2010. The entire FERC Tariff Department staff attended three days of training. All five days, at least one of the three FERC commissioners was present during the training. At the end of the training on tariff model development, REAP and Navigant Consulting handed over the revised tariff model that was developed together with Tariff Department Staff. This five days training resulted in:



(i) All FERC Tariff Department staff having the revised Tariff model; (ii) They are fully informed on how it works; and (iii) The revised Tariff model is clean, transparent and easy to follow. At the end of the training at the wrap-up meeting that REAP held with two present commissioners, the following next steps were agreed: (i) the FERC Tariff department will document the new tariff model, meaning write explicit directions on how each part of the model is calculated so that anyone reviewing it can understand how the model works; (ii) the FERC Tariff department will check the new tariff model; (iii) the FERC Tariff department will test the new tariff model, all of which REAP will review. In addition, REAP and its technical assistance and the FERC Tariff Department agreed that Load Research is critical for customers who do not and will not have multifunctional meters in the near future. This Load research will be used by electric utilities and regulators for system planning, allocation of ancillary services costs, distribution system design and other day-to-day operational uses. The immediate use of the Load Research Program will be to develop various statistics that will be used in the tariff process.

Market Working Group (MWG). REAP drafted a Policy Paper that described all of the obstacles and options for their resolution as taken from the data collection effort of the Market Working Group, the three seminars and the joint seminar. However, certain sections that pertain to the status of the obstacles in their jurisdictions, their applicable regulations and what needs to be changed were left for the regulators to write. As agreed, FERC, SERC and RSERC members of the MWG sent their comments on and inserts into the Policy Paper. REAP consolidated and inserted the comments into a final draft of the Policy Paper.

MOFTER Road Map on the Energy Community Treaty Decision on Implementation of the EU Directive on Security of Supply. REAP was invited by MOFTER to assist them in preparing a Draft Table for the Energy Community Secretariat on the Road Map for implementation of the Directive. REAP prepared the draft Table and was invited to the meeting organized by MOFTER attended by all Electricity Sector stakeholders to walk through the Draft and explain the applied methodology and the most important statements in the table. REAP answered a number of questions and clarified some statements from the document. The paper was accepted with minor changes as the official report of Bosnia and Herzegovina on the status of implementation of the Security of Supply Directive. In addition to this assistance, as agreed by the participants in the MOFTER meeting, MOFTER sent their request to USAID for REAP's assistance in analyzing the impact of the Third Liberalization package on the development of BiH electricity market. REAP plans to assist MOFTER on the issue.

Joint Meeting of all Three BiH Regulators. SERC invited REAP to a joint regulators' meeting that took place on June 22, 2010 in Banja Luka. Besides the REAP representatives, the attendees in the meeting were SERC, FERC, RSERC commissioners and chiefs of staff. The goal of the meeting, SERC explained, was for all three regulators to present their current activities and plans for the future. In his introduction, Mr. Dokic explained that all three regulators had agreed to invite REAP at the meeting as a way of paying their respects for REAP's successful assistance to all three regulators in their work. Mr. Dokic again praised REAP for the assistance in preparing the Rulebook on Cross-Border Capacity Allocation that was adopted by SERC in March 2010, and was implemented on May 31, 2010. The following suggestions for further consideration were made:

- (i) the Regulators should use tariff proceedings to eliminate cross-subsidization between different classes and groups of customers, particularly to create a cross-subsidy-free distribution fee;
- (ii) the MWG should consider the initiative for BiH to develop and adopt a document that will define a BiH internal day-ahead electricity market;
- (iii) the Regulators and Market Working Group should analyze the Study on the Regional Electricity Market to harmonize electricity market development in BiH with the recommendations on the establishment of the Regional Electricity Market.

In addition, FERC reminded the participants that all but household customers will be forced to the market after January 1, 2012, and suggested that the Market Working Group analyze this issue and proposed that all further action be harmonized in this regard. SERC stated that the PHLG and Ministerial Council (MC) of the Energy Community Treaty may prescribe that the Third Liberalization Package and EU Directive on Renewable Resources become obligatory for implementation for all Energy Community Treaty signatory parties. Having this in mind, SERC emphasized the implication of a possible Ministerial Council decision on the BiH power sector. SERC proposed – and all regulators agreed – to hold a regular joint meeting on a regular basis, at least twice a year and even more often when needed. These extraordinary meetings could address specific issues of interest for all three regulators in BiH. SERC will initiate the regular meetings, while each regulator will rotate hosting the meetings. It was suggested and participants agreed to even invite regulators from the region to participate in some of these meetings. Everyone agreed that this kind of communication is for the benefit of each regulator and the power sector.

FERC Tariff Proceeding for EPHZHB tariffs for ineligible customers. REAP analyzed the Presiding Officer reports on tariffs for EP HZHB Generation, Distribution and Supply. The FERC Presiding Officer proposed a tariff increase of 1,9 % on average for tariff customers. Besides this, the Reports recommend the removal of cross-subsidization between household customers and other customers in the distribution tariff system to eliminate it as one of the impediments for successful functioning of the electricity market. The Presiding Officer proposed that the commissioners approve the total requested amount of 103,8 million KM for payment of the imported electricity. REAP found that this amount for import is based on a low hydrology assumption and generation production plan below average (the opposite of what has actually occurred). The low generation production plan was the base for planning the import quantities which are significantly above the actual needed ones. Nine interveners participated in this tariff proceeding process by submitting a number of justified questions, remarks and suggestions. FERC's Presiding Officer took some of their suggestions into consideration but not the complaint on the unrealistic Energy Balance, which had been based on a weak hydrology assumption. REAP's opinion is that the biggest influence on the increase of revenue requirement for EPHZHB is the Energy Balance that is based on a low hydrology assumption and in connection to that, huge planned import quantities of electricity.

B. Restructuring and Commercialization of Energy Companies

Metering System in BiH electricity market. REAP conducted a short survey and analyzed the current metering systems in BiH to identify the status of the metering system in all three EPs in Bosnia and Herzegovina and their plans to install new meters and metering systems. REAP and the Market Working Group have identified an adequate metering system as one of the crucial preconditions for successful market functioning and concluded that adequate meters should be installed in a phased manner. A short survey done on this matter showed the following:

- All three EPs commenced the process of installation of a new metering system with the base characteristics that meets electricity market requirements;
- All customers but small commercial customers and household customers will be ready for the electricity market opening from the metering system point of view, by January 1, 2012.
- There is no serious plan either at the regulator or EPs for load research at the household and small commercial customers level.

The following points are very important when it comes to the metering system and successful functioning of the electricity market in Bosnia and Herzegovina:

- It is very important that all three EPs have decided to invest in new metering systems whose characteristics will meet the electricity market requirements;
- The Regulators should give incentives to these projects through adequate tariffs that will cover justified costs;
- The Regulators should supervise implementation of these projects; and
- The Regulators should request that the EPs perform load research to determine households and small commercial customers' load profiles that could be used as input for cost allocation in tariff proceedings for these customer groups.

Meeting in EPBiH. REAP met with the General Director of EPBiH on April 19, 2010, at EP BiH's premises. The following topics were discussed in the meeting:

(i) Measurement: REAP expressed surprise that EP BiH had not installed accounting meters at the interfaces between EP BiH generation and transmission network. EPBiH promised that it would be done as soon as possible. Soon after the meeting, EPBiH informed REAP that installation of the needed meters would be done by the end of 2010. The implementation plan was to install 700,000 multifunctional meters: 5,000 meters will be installed by the end of the year 2010. REAP stressed the need for the EPs to conduct Load Research at the household group of customers to better allocate electricity costs. EPBiH supported this idea and indicated all that was needed was a request from the Regulator;

(ii) Restructuring of EP BiH: EPBiH presented the basic structure of the new company organization, which is a parent corporation with three daughter companies: Generation; Distribution and Supply. EPBiH obtained U.S. technical assistance to assist EP BiH to create and implement the new company organization. The assistance will last three years. EP BiH plans to commence activities as a reorganized company by January 1, 2011. In parallel to the restructuring, EP BiH has engaged another consultant to implement a Financial Management Information System, based on the SAP package;

(iii) Current status of the project Thermal Power Plant Tuzla 7, 400 MW. The recent development regarding the Invitation to investors to express interest for investment into the new generation unit Tuzla 7, 400 MW and preconditions to be met in order to make the investment project attractive to investors were discussed. EPBiH informed USAID/REAP that the FBiH Government recently amended its decision on the building new generation unit in Tuzla in a way that an interested investor could be re-paid for invested capital either through electricity produced in the new unit or by the establishment of a joint venture company with EP BiH. REAP addressed the importance of a transparent and predictable legal and regulatory framework for investors.

Transco Working Group. REAP was invited by MOFTER to assist in preparing for the meetings of the newly-formed Transco Working Group (TWG), formed in accordance to the agreement achieved at the Vienna meeting, where representatives of DG-TREN, the three energy ministers from BiH and the Energy

Community Secretariat discussed BiH Energy Sector problems. The following was determined as the task of the TWG:

- To analyze the current situation in Transco;
- To identify the reasons that caused the blockade of the company; and
- To prepare a harmonized report that contains the measures, schedule and implementers of the measures.

REAP met several times with MOFTER to prepare for the Transco Working Group meetings. The meetings did not result in any solutions with regard to the management of the company.

III. PROBLEM AREAS

- **Market Opening Processes.** Whereas, training has occurred and Draft Policy Paper has been developed, additional work on the processes and contractual development on market opening issues and the measurement situation remains too undeveloped to properly open the market.
- **Investments.** In spite of the big plans to build new power plants in both Entities, very little interest has been shown by investors. There has been no analysis of the legal framework for investment; until that is done and the gaps and overlaps removed, there is little likelihood that BiH will attract the kind of investor that it wants. This is what REAP considers a risk regarding security of supply and has put it as an impediment for investment in the BiH Road Map on Security of Supply. All three Electric Power Utilities agreed on this statement.

IV. THIRTEENTH QUARTER DELIVERABLES

Information for USAID

- Secretariat Security of Supply Road Map and MOFTER's entries, undated.
- Eurelectric's Security of Electricity Supply – roles, Responsibilities and Experiences within the EU," dated January 2006.
- Letter SERC to REAP regarding final contents of contract and application & Decisions, dated 4-28-10, in English and local language
- Letter WG to Elektroprenos requesting documents, dated 4-14-10, in English and local language
- Minutes from the Transco WG meeting, dated 4-27-10, in English and local language
- Note from the meeting of WG for Elektroprenos, dated 4-20-10, in English and local language
- Proposed Contract on PKPK from Transco redline, dated 4-16-10, in English and local language
- Notice from ISO regarding beginning of Auctions, dated 5-11-10 in English and local language.
- Notes from 3rd Elektroprenos MWG meeting, dated 5-13-10, in English and local language.
- Article from Slobodna Dalmacija on Contract between HEP and TLM, dated 5-27-10, in English and local language
- EP HZHB tender published in Slobodna Dalmacija, dated 27-5-10, in English language only (table)
- Draft amendments to the Transco Statute proposed by RS Members of Transco Working Group, dated 10-5-10, in English and local language
- Results of first cross-border auction, dated 06-04-2010, in English and local language
- Monthly Cross-border Auction Schedule for 2010, in English language only
- Results of the auction, dated July 10, in English and local language
- Minutes from 4th meeting of Transco WG, dated 5-27-10, in English and local language
- Message from FBiH TWG member regarding Transco WG, dated 6-17-10, in English and local language
- Invitation to MOFTER meeting regarding PHLG meeting, dated 6-7-10, in English and local language
- Agenda for 1st PHLG ECRB meeting on June 30, in English language only
- PHLG Agenda for meeting June 29, 2010, in English language only

- 9 Annexes to the PHLG Agenda

Deliverables

- Article from Oslobodjenje regarding REAP customer market opening training, dated 2-26-10, in English and local language.
- REAP comments on Transco's Proposed Contract on Use of Interconnect, redline, dated 4-8-10, in English and local language.
- REAP's Talking Points for Security of Supply meeting at MOFTER, dated 4-9-10, in English only.
- Draft Policy Paper, dated 4-16-10, in English and local language.
- Memorandum from Markovic to Wilson on Energy Community Secretariat Security of Supply Meetings, dated 4-16-10, in English only.
- Memorandum Markovic to Wilson on the Transco WG Meeting, dated 4-16-10, in English only.
- Draft Navigant Consulting FERC Model, dated 4-10-10, in English only.
- REAP comments on Transco's proposed Contract on PKPK, dated 4-12-10, in English and local language.
- Transco redlined comments on its PKPK draft contract, dated 4-15-10, in English and local language.
- Informal ISO comments from an ISO employee, dated 4-6-10 in English only.
- REAP GANTT Schedule for capacity allocation, dated 4-16-10, in English only.
- REAP Talking Points for Security of Supply meeting at MOFTER, dated 4-12-2010.
- FERC General Remarks to Navigant's draft tariff model, dated 4-30-10, in English and local language
- FERC Comments on Draft tariff model for JPEPHZHB rates, dated 4-30-10, in English language only
- Memorandum OM JW on ISO and Transco Tariffs, dated 4-30-10, in English language only
- Memorandum OM JW on MOFTER Meeting, dated 4-22-10, in English language only
- Memorandum OM JW on MWG Meeting, dated 4-21-10, in English language only
- Memorandum OM JW on USAID-REAP EP BiH Meeting, dated 4-20-10, in English language only
- REAP comments on Transco access to the interconnect contract, dated 4-21-10, in English and local language
- REAP's Talking Points for Security of Supply meeting at MOFTER, dated 4-12-2010, in English and local language
- Schedule for Capacity Allocation, dated 4-16-10, in English language only
- USAID Presentation final, dated 4-28-10, in English language only
- Presentation on Advanced Excel 2008 by Navigant, dated 5-6-10, in English and local language.
- Tariff_rates_for JP EPHZHB_model, dated 5-12-2010, in English language only.
- Memorandum REAP-Softic Meeting_5-5-2010, in English language only
- Transco Statute option B_FBiH redline with OM and JW comments, dated 5-21-10, in English and local language;
- Transco Statute options A and B,_FBiH redline with OM and JW comments inserted-5-21-10-English and local;
- Letter FERC to EPBiH requesting load research 5-18-10 final-English
- Letter FERC to EPBiH requesting load research 5-18-10 final-local
- REAP to FERC memo on power balance Art 12 Tarriff Methodology, dated 5-18-10, in English and local language.
- Draft Policy Paper with FERC's comments, dated 4-9-10, in English language only
- Draft Policy Paper with SERC's comments, dated May 2010, in English language only
- Road Map on Security of Supply, dated 5-27-10, in English language only
- Memorandum OM to JW on MOFTER Meeting, dated 6-2-10, in English language only
- Road Map on Security of Supply BiH Final, dated 5-27-2010, in English and local language
- RSERC Comments on Draft Policy Paper, dated 4-9-10, in English language only
- Memorandum on Metering System in BiH, dated 6-11-10, in English language only
- Draft Table how to negotiate Transco WG 6-11-10, in English language only
- Draft Table how to negotiate Transco WG, dated 6-15-10, in English and local language
- Request from MOFTER to USAID for additional REAP assistance, dated 6-24-10, English and local language in one document

- Road Map for Security of Supply for BiH, dated 7-1-2010, in English and local language
- Memorandum JW to OM regarding Mission Director's Visit to RSERC, dated 7-1-10, in English language only
- OM Memo on EPHZHB Tariff proceeding Presiding Officer reports 7-2-10

V. ANTICIPATED ACTIVITIES FOR THE FOLLOWING QUARTER

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

- Congestion Management. REAP will follow up the implementation of the Rulebook on Capacity Allocation and assist SERC if needed.
- Ancillary Services. REAP will attempt to broach the subject of ancillary services with SERC to attempt to start a process of finding a solution to the current difficulties.
- Policy Paper on Market Opening. REAP will continue to work with MWG to develop a final Draft Policy Paper for submissions to the Commissions for delivery to decision makers.
- FERC Tariff Model Assistance. After clarifying and agreeing the FERC's Tariff Department comments with technical assistance, REAP will communicate with FERC to finalize work to document New Tariff Model.
- As requested by MOFTER, REAP will analyze the impact of the prospective Energy Community Ministerial Council Decision for Signatory Parties to implement the Third Liberalization Package in the BiH Power Sector.
- REAP will update its Internal Action Plan.
- As suggested by SERC, REAP will analyze the Final Report on the Regional Wholesale Electricity Market to identify possible impact to the Electricity Market Opening process in BiH.
- REAP will continue to 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. At the heart of this slow-down is the RS' aversion to strengthening the State.

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 incorporated Market Working Group comments into a draft policy paper on obstacles to market opening for the decision makers.

KRA 2.4 ISO and Transco governance for smooth MO. On the request of MOFTER, REAP is helping to prepare MOFTER for the Transco Working Group meetings. While no apparent progress has been made on Transco's progress, approved funds have been approved for maintenance of the system. Additionally, on top of the approval of the Congestion Management Rule, which has been in a stalemate

for several years; approval was given of the Transco's pro forma Contract on Use of the Interconnect and the ISO's pro forma application, the former having been drafted by REAP.

KRA 2.6-KRA 2.8 Much work has been done on market opening activities and seminars with regard to balancing in general, emphasizing the need for accurate and complete unbundled balancing data and the lack of that deeply unbundled data being an impediment to market opening.

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

TO2: Restructured and Commercialized Energy Companies

KRA 2.2 Full Cost-based Tariffs. At the request of FERC, REAP provided tariff technical assistance to assess the adequacy of the FERC tariff model and provide recommendations. Five days of training were provided on Excel, and a reconfigured and corrected tariff model was turned over to FERC after joint work thereon.

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

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

Ms. Jane Wilson was promoted from REAP Chief of Party to Country Project Director.

Mr. Ognjen Markovic was promoted from REAP Deputy Chief of Party to Chief of Party.

Ms. Dzenita Becic, the Executive Assistant, started working for USAID Enterprise Energy Efficiency project.

As of May 4, the Administration staff from REAP and 3E project will form a pool to accommodate the various aspects of administration/translation assistance.

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.

SERC invited REAP for a joint regulators' meeting that took place on June 22, 2010 in Banja Luka. Besides REAP representatives attendees in the meeting were SERC, FERC, RSERC commissioners and chiefs of staff. The goal of the meeting, as SERC explained, was for all three regulators to present their current activities and plans for the future. SERC explained that all three regulators had agreed to invite REAP at the meeting as a way of paying their respects for REAP's successful assistance to all three regulators in their work. SERC proposed – and all regulators agreed – to hold a regular joint meeting on a regular basis, at least twice a year and even more often when needed. These extraordinary meetings could address specific issues of interest for all three regulators in BiH. SERC will initiate the regular meetings, while each regulator will rotate hosting the meetings. RSERC suggested and participants agreed to invite regulators from the region to participate in some of these meetings. Everyone agreed that this kind of communication is for the benefit of each regulator and the power sector as such.

Task 1.A.(i) Provide assistance to the existing regulators to further strengthen their principal functions of issuing licenses and tariffs;

As planned, REAP and technical assistance fully reviewed and revised the FERC tariff model, providing additional tariff model and Excel training to the FERC Tariff Department and the three commissioners. It was five days training, from May 5, 2010 to May 12, 2010. The entire FERC Tariff Department staff attended three days of training. All five days one of the three FERC commissioners was present during the training.

REAP drafted the Draft Policy Paper that described all of the obstacles and options for their resolution as taken from the data collection effort of the Market Working Group, the three seminars and the joint seminar. However, certain sections that pertain to the status of the obstacles in their jurisdictions, their applicable regulations and what needs to be changed were left for the regulators to write. As agreed, FERC, SERC and RSERC members of the MWG sent their comments on and inserts into the Policy Paper. REAP consolidated the comments and made a final draft of the Policy Paper which was sent to Pierce Atwood for their review and comments.

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

REAP was informed by the ISO that the first daily auction was performed on May 31, 2010 and the daily auctions have been carried out successfully since. The first monthly auction that the ISO executed was on June 16, 2010. Report on the monthly auction shows that Transco, as the beneficiary of the auction, will earn 156.161,50 KM just for July's capacity allocation. SERC sent a letter to inform REAP that REAP's suggestion with regard to the Transmission Company Contract was accepted. REAP worked with

Transco, SERC and ISO to coordinate the Contract for use of Interconnect in connection with the Congestion Management Rule. Transco stated that it had used REAP's draft as a guide, and they had prepared a draft contract, which was then forwarded to REAP. REAP prepared comments on the Transco draft contract and made a GANTT chart of the proposed timing of information flows.

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.

Due to the ongoing political and constitutional difficulties in the country, all work on the legal and regulatory framework for gas has stopped.

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.

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;

REAP was invited by MOFTER to assist in preparing a Draft Table for the Energy Community Secretariat in regard to the Road Map for implementation of the Directive. In the meeting organized by MOFTER, REAP went through the Draft Table and explained the applied methodology and the most important statements in the table. At the meeting REAP answered a number of questions and clarified some statements from the document. After a long discussion, the paper was accepted with minor changes as the official report

of Bosnia and Herzegovina on the status of implementation of the Security of Supply Directive.

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

The need for 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 COTRs, 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:

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 COTRs, 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>Country Project Director</i>	<i>March 14, 2007</i>
Ognjen Markovic	<i>Chief of Party</i>	<i>June 1, 2007</i>
Alma Brkovic	<i>Office Manager/Translator</i>	<i>March 16, 2007</i>
Elma Haveric	<i>Legislative and Regulatory Specialist</i>	<i>October 19, 2007</i>