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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 continued its efforts on the electricity market by organizing a two day training on Load Research attended by 56 participants, and a three-day seminar on the Supplier of Last Resort, with 46 participants. REAP's participation in the Market Working Group continued with the establishment of a subgroup on the Extension of the Transition Period and another on the World Bank's Regional Wholesale Market Study. REAP attended a joint regulatory commission meeting, where the basics on the World Bank's wholesale electricity market study for South East Europe, license harmonization in South East Europe and the Market Working Group Policy Paper on the Impediments and Preconditions for Successful Market Functioning in BiH were discussed. Also, REAP assisted MOFTER on responding to an Energy Community Secretariat letter to MOFTER on the Energy Community Implementation Report: Follow-up Steps, which concerned the status of transposition of the energy *acquis communautaire*. Finally, REAP met with two of the EPs to discuss REAP activities.

## **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 the 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**

*Load Research Training:* A total of 56 participants from various BiH institutions attended REAP Load Research Training, which took place on December 8-10, 2010 at Jahorina, Bosnia and Herzegovina. The Presentations were collectively comprised of the best American and EU best load research practices and gave good guidelines for those who plan to start Load Research Analysis. The first section concerned the benefits of load research, then several case studies were presented, and finally the technical aspects of load research were discussed. Interspersed among the overarching topics were other points, such as the organization of load research departments and using weather research to enhance load research. All presentations were geared to illustrate the need for BiH to commence Load Research due to the number of benefits for all parties. REAP presented the recommended next steps in Load Research that all BiH Electric Power Sector stakeholders should/could possibly take in order to get the benefits that had been presented during the seminars from the Load Research.

As a part of the Enterprise Energy Efficiency Project (3E) event called "EE Knowledge Days" that was held in Sarajevo during the week of December 13, 2010, REAP made a presentation on the topic: "Load Research and Load Profiling as tools for Energy Efficiency" to the students and professors of the High Voltage Electrical Engineering Faculty in Sarajevo. REAP prepared a Memorandum on Load Research Training – Science and Technology, as a summary of REAP's three-day load research training for the three utilities, regulators, ministries and customers. REAP also prepared a Draft Consolidated Recommendation Report, with inputs from the Load Research presenters, that describes the presentations given by presenters, conclusions on the BiH load research issues and suggestions regarding the next steps that should be undertaken when beginning a Load Research program.

*Training on SOLR/Default Supplier and Contracts:* REAP and technical assistance presented a three-day Seminar on the Supplier of Last Resort (SOLR) and Default Supplier (DS). A first session was given also on Market Contracts, addressing the requisite provisions for a power purchase agreement. There were 46 participants at the Day 1 and the Day 2 of the Seminar. Day 3 was limited to the regulators only, and there were 21 participants. The presenters set out ideas and opinions on possible ways of implementing SOLR, DS and Market Contracts in Bosnia and Herzegovina. It was stressed that in order to progress further in market-based contracts, the market processes must be developed; all market contracts do is memorialize agreed processes. This Seminar is expected to trigger Regulator activities to establish a proper structure incorporating the SOLR and DS concepts to protect customers and create preconditions for further market opening. The Seminar was highly interactive; the participants raised numerous questions and discussed the answers and made further comments. It is expected that a subgroup will be formed in the Market Working Group to consider these mechanisms.

### **Market Working Group.**

REAP anticipates that much of its work in the coming months will center around activities of the Market Working Group, as the regulators are delegating more market issues to be considered by the MWG. Multiple sub-groups are being formed.

*Market Working Group (MWG) meeting:* The tenth MWG meeting took place on December 2, 2010 in Mostar. Representatives from all three Regulatory Commissions attended the meeting. The following conclusions were made:

- (i) *Subgroup on Extension of the Transition Period.* In the joint commissioner meeting in Trebinje, the regulators agreed to an extension of the transition period on eligible customers' rights to choose whether to be supplied as tariff customer or to go to the market (which is currently scheduled to end on 1-1-12). The MWG will establish a sub-group that will develop a draft proposal for activities that are to be accomplished during the extended transition period and the name of such extension.
- (ii) *Subgroup on Regional Wholesale Market Study.* The MWG will establish a new sub-group to create a coherent, simplified presentation on the World Bank Regional Wholesale Market Study for Ministries, Power Utilities and others. Thereafter, assuming the decision makers agree to the establishment of a national BiH wholesale market and to join the regional wholesale market, the sub-group will develop activities for the implementation of a national wholesale market.
- (iii) *Transmittal Letter for Policy Paper.* REAP will prepare and the MWG will discuss a Draft Transmittal letter for the Policy Paper on impediments and preconditions for successful Market functioning. This Transmittal letter will be prepared and sent to the governments, clearly explaining what action is needed from the Ministries vis a vis the activities recommended in the Policy Paper.
- (iv) *SOLR and DS.* The MWG agreed that representatives of all three regulatory commissions in the MWG would fill in tables prepared by REAP that request information on, among other things, the definitions of SOLR and DS, which customers need such services, the switching process involved and any fees involved, definitions of bankruptcy, required actions by the customer and DSO when a supplier leaves the market, and required charts of accounts for SOLRs. REAP will aggregate all inputs to develop the final version of the table that will be discussed at the next MWG meeting. These consolidated answers will help the MWG and REAP define the approach to establish SOLR and DS service in BiH. After the MWG discusses the aggregated table, the MWG will send conclusions and proposals on this issue to the regulators;

- (v) *Development of Underlying Operational Commercial Processes.* The MWG was in agreement that it is of utmost importance to develop all processes with regard to commercial contracts discussed at the REAP Seminar (ancillary services, balancing and financial settlement). To assist the sector in this activity, REAP will: a) Analyze processes on ancillary services, balancing and financial settlement in different jurisdictions; b) Discuss these issue with EPs, the ISO and Transco to get a clear view on problems that exist. (It is worthwhile to point out that, notwithstanding the fact that SERC issued an order on ancillary services, the order has not been implemented by the EPs to date); c) REAP will present to the MWG different options on how to develop the processes for these contracts; and d) the MWG will discuss the proposals and decide on how to implement the processes.

*MOFTER – The World Bank Study on the Wholesale Market Opening (Study) and MWG Subgroup on Wholesale Market.* MOFTER requested REAP’s advice on the action that MOFTER should take to respond to the Energy Community Regulatory Board (ECRB) letters that requested a response indicating the country’s position regarding the implementation of the Wholesale Market Opening Study in the Energy Community Treaty. Since the three regulatory commissions in BiH and REAP agreed to establish a MWG Subgroup on the Wholesale Market with an assignment to develop a paper that explains the context of the information requested by the ECRB on the recommendations from the Study for decision makers, REAP advised MOFTER to inform the ECRB and Energy Community Secretariat that the subgroup will develop a paper for decision makers in BiH as a foundation for understanding Study recommendations, on which BiH must take a position. REAP assisted MOFTER to develop a response to the ECRB and the Energy Community Secretariat on the BiH plan to respond to the queries contained in the letter and explain that BiH cannot officially respond until a Government is in place.

*MWG Subgroup on Wholesale Market.* The members of the MWG Subgroup on the Wholesale Market discussed a Draft Scope of Work (SOW) for the Subgroup prepared by REAP. The Scope of Work provides that the Subgroup will: (i) Describe the recommendations from the Study regarding Market design and role of Market operator; (ii) Explain if organizational changes in the current EPs structure are needed; (iii) Explain the impact of the new market design on the commercial relations between EPs and customers; and (iv) Explain if the new market design requires changes in BiH laws and regulations.

*Ancillary Services.* REAP commenced its analysis of different practices in the EU and in the region regarding ancillary services. On the basis of these findings, REAP plans to discuss the ancillary services issue with all stakeholders, particularly the EP’s, in order to gather their opinions and suggestions for the most acceptable process for BiH.

### **3. Unification of the Regulators**

*Assistance to FERC.* REAP continued its cooperation with FERC on the following issues:

- i. *New FBiH Electricity Law:* REAP met with FERC representatives to discuss the Draft FBiH Electricity Law. FERC agreed with REAP’s comments previously sent to the Ministry with regard to the amended Electricity Law (submitted to the Parliamentary Procedure in the waning days of the previous Government). The main comment of REAP’s comments to the Ministry was the new provision that changed language that had provided that FERC’s individual decision should *not* be suspended until a court issues a decision, to language stating that regulatory decisions *would* be suspended pending a court decision if appealed. REAP’s comments to the Ministry were supported by provisions of the Third

Liberalisation Package Electricity Directive that prohibit regulator decisions from being suspended, particularly where appropriate summary judicial proceedings exist, which they do in both Entities and on the State level.

- ii. *FBiH RES Law*: REAP also discussed with FERC the Draft Renewable Energy Sources and Cogeneration Law. REAP had had a number of comments on the RES Law. FERC also had significant remarks on the Draft RES and Cogeneration Law. It was agreed that FERC will prepare comments on the Law and send them to REAP for further discussion.
- iii. REAP continued analyzing FERC's comments on the New Tariff Model and will discuss these findings with technical assistance that assisted FERC in the process of development of the same.

*Joint Regulatory Commission Meeting*: REAP attended the joint regulators meeting on October 25 and 26, 2010 in Trebinje, where the following issues were presented and discussed:

1. *Basics on the Wholesale Electric Market Study for the Region of South Eastern Europe (SEE)*: After a presentation on the World Bank Study proposed wholesale market was given by SERC's representative from the ECRB Electricity Working Group, the regulators concluded that: (i) the Study should be presented to all stakeholders, particularly to power utilities, governments and customers; (ii) the Regulators will develop a way to present the recommendations from the Study to decision makers; (iii) the Regulators will carefully draft for decision maker review recommendations on decisions on Bosnia and Herzegovina's implementation of the Study recommendations; and (iv) since the Wholesale Study and the Market Working Group Policy Paper are related and will go to the same decision makers, the Market Working Group will recommend a way how to combine them. The initial consideration of these issues was assigned to the Market Working Group.
2. *Harmonization of licenses in SEE and BiH*: A presentation on the initiative on license harmonization in South Eastern Europe (SEE) contrasted with the present situation in Bosnia and Herzegovina was presented. The regulators concluded after this discussion that: (i) Licensing procedures in BiH should be further simplified and harmonized; and (ii) Regulatory fees for issuing licenses should be further harmonized.
3. *Policy Paper on the Impediments and Preconditions for successful market functioning in BiH*: REAP presented the work of the Market Working Group and further steps that governments in BiH, EPs and regulators should undertake to implement the recommendations of Policy Paper. REAP further made a presentation on the core decisions that regulators and governments in BiH should undertake as soon as possible in order to move the process forward as quickly as possible. The core decisions presented were whether customers would be forced out or allowed to choose; and, if the second option were chosen, what the consequences would be if customers were allowed to return to the tariff system. The regulators agreed to carefully consider the extension of the transition period and assigned this task to the Market Working Group.

*The Energy Community Secretariat Letter to MOFTER on the Energy Community Implementation Report: Follow Up Steps*. The Director of the Energy Community Secretariat sent a Letter to the Minister of Foreign Trade and Economic Affairs on the Energy Community Implementation Report: Follow-Up Steps. In the Letter, it was recognized that three problems exist in the Energy Community vs. Implementation of the Energy Community Treaty:

- i. A gap between the transposition of the *acquis* and its true implementation is widening;
- ii. Some items from the Energy Community Treaty have not been adequately transposed into local legislation; and

- iii. Some of the transposed items have not been adequately implemented in the electric power sector.

REAP prepared draft tables that analyzed the remarks on Implementation of the *Acquis* in Bosnia and Herzegovina that the Energy Community Treaty Secretariat sent to the MOFTER Minister. The tables list the specific action referenced by the Secretariat and propose action that the BiH electric power sector stakeholders should take in order to remedy the problems mentioned in the letter. In a meeting held on October 28, 2010, where participants discussed the Letter on Implementation of the *Acquis* in Bosnia and Herzegovina, REAP representatives gave an explanation of the principles on which the tables were based, participated in discussions to ensure the discussion went in the right direction and gave explanations and clarifications when needed. REAP then commented on the resulting BiH response to the Energy Community Secretariat Letter on Implementation of the *Acquis* drafted by MOFTER, which included the mentioned tables. MOFTER sent the finalized documentation to the Energy Community Secretariat as Bosnia and Herzegovina's response to the Secretariat's letter.

## **B. Restructuring and Commercialization of Energy Companies**

*Meeting with Elektroprivreda HZHB.* A meeting was held with representatives of Elektroprivreda HZHB to discuss the following issues: (i) New FBiH Electricity Law. EPHZHB was dissatisfied with the fact that the Draft Law did not prescribe the establishment of the FBiH Parliamentary Complaint Council to protect the EPs from "wrong" FERC decisions; (ii) FBiH RES Law: EPHZHB representatives said the Draft Law should be revised significantly, since it did not take into consideration their suggestions and remarks; (iii) Restructuring of the company: REAP was told that no action has been taken with regard to the restructuring of the company after they implemented internal functional restructuring, since EPBiH has done nothing on restructuring; (iv) Procurement Law: REAP and EPHZHB discussed problems that utilities have regarding trading electricity due to the provisions in the Public Procurement Law. The Law requires a lengthy tendering procedure when EPs need to purchase electricity quickly, even on daily and hourly basis. EPHZHB representatives informed REAP they requested several institutions to initiate the changes of the Law but nothing has happened so far.

*Meeting with Representatives of Elektroprivreda Republika Srpska (ERS):* A meeting was held with the representatives of EPRS to discuss the following issues: (i) REAP's plan to hold trainings on Supplier of Last Resort (SOLR), Default Supplier and Contracts: The EPRS representatives welcomed REAP's plan on the training. Dissatisfaction with the ISO and SERC behavior with regard to the Ancillary Services issue was described at length; (ii) REAP's plan to hold trainings on Load Research: some of Distribution System Operators from EPRS have performed some load research but not enough to use the results in full, so the training was welcome; (iii) Public Procurement Law as an impediment to the successful market functioning in BiH. On the Public Procurement Law, REAP was told that the public utilities were in a disadvantaged position compared to private trading companies, since the Public Procurement Law prevents Public Utilities from buying electricity for resale but not private trading companies. EPRS representatives agreed that this law is an impediment for the successful electricity market functioning and should be changed.

*Meeting with Representatives of International Monetary Fund (IMF):* REAP met with an IMF representative, and discussed the present energy situation in Bosnia and Herzegovina. The discussion was focused on regulations in the electricity and gas sectors and the situation in the power utilities and investment plans.

### **III. PROBLEM AREAS**

- Unbundling. The Federation EPs still remain fully bundled.
- Investments. Investment is still problematic in BiH. In spite of the plans to build new power plants in both Entities, very little interest has been shown by investors. High investment risk remains due to the political situation, the situation with Transco and an unclear legal framework.

### **IV. FIFTEENTH QUARTER DELIVERABLES**

#### *Information for USAID*

- Annex 1 - Implementation of Acquis in Bosnia and Herzegovina, dated 10-4-2010, in English language only
- Annex 2 - Conclusions of the Ministerial Council Meeting, dated 10-4-2010, in English language only
- Letter on Implementation Report, dated 10-4-2010, in English language only
- Dispute settlement procedure against BiH for failure to adopt State aid legislation, in English and local language
- Letter MOFTER, dated 10-18-10, in English and local language
- Presentation by Sasa Lukic of SERC, Joint Regulator Meeting in Trebinje, Study on Opening of electricity wholesale market in South East Europe, dated 10-25-2010 in English language
- Annex to letter to PHLG, dated December 2010, in English language only
- ECRB President letter to PHLG, dated October 2010, in English language only
- ECRB President, letter to PHLG, dated December 2010, in English language only
- EP BiH comments to SERC Methodology Amendments, dated 12-21-10 in English and local language
- ISO- Comments on draft decision amendments to methodology, dated 12-21-10, in English and local language

#### *Deliverables*

- Additional Letter OM to Matan Zaric re meeting, dated 10-4-10, in English and local language
- Letter Matan Zaric to OM re meeting, dated 10-1-2010, in English and local language
- Message JW to Slavica Stojcic re TLP and suspension of decisions, dated 10-4-2010, in English and local language
- Notice of upcoming training, dated 10-4-10, in English and local language
- Training Scenario Load Research - final, dated 10-1-10, in English language only
- Draft Policy Paper with SERC FERC RSERC input, dated 10-15-10, in English and local language
- Acquis Implementation table - final, dated 10-18-10, in English and local language
- Agenda 3 Commissions Meeting, dated 10-25&26.2010, in English and local language
- Annex to Policy Paper - Final-clean, dated 10-22-2010, in English and local language
- Annex to Policy Paper - Final- redline, dated 10-20-2010, in English and local language
- Draft Policy Paper - Final- clean, dated 10-18-10, in English and local language
- Draft Policy Paper Final- redline, dated 10-18-10, in English and local language

- Impediments and Preconditions - joint regulator meeting draft - final, dated 10-18-10, in English and local language
- Only Impediments and Preconditions for Successful Electricity Market Functioning - final, dated 10-18-10, in English and local language
- DS-SOLR-Ks training invitations for November 10/11&12, dated 10-22-10, in English and local language
- Meeting three Regulators - Draft Conclusions, dated 10-29-10, in English and local language
- AEAI - Bosnia - BiH SOLR Presentation Nov 2010 Day 1, dated 10-11-10, in English and local language
- AEAI - Bosnia - Contract Slides Nov 2010 - Day 2, dated 10-11-10, in English and local language
- AEAI - Bosnia - SOLR-Contract Day 3 Slides Nov 2010, dated 10-11-10, in English and local language
- Agenda for seminar final - Day 1, dated 11-3-10, in English and local language
- Agenda for seminar final - Day 2, 11-4-10, in English and local language
- Agenda for seminar final – Day 3, 11-4-10, in English and local language
- List of attendees \_ dated 11-8-10, in English language
- ACQUIS IMPLEMENTATION-NEXT STEPS MOFTER draft table, dated 11-17-10, in English language
- Acquis Implementation Clarification Table draft table clean, dated 11-17-10, in English language
- HZHB Comments on procurement Law, dated 11-16-10, in English and local language
- RS Government response to MOFTER on gas, dated 11-7-10 in English and local language
- Outline for Next Steps on SOLR and DS, dated 11-20-10, in English and local language
- - Agenda for the MWG meeting, dated 11-25-10, in English and local language
- Invitations for Load research training 8, 9 and 10 Dec, dated 11-22-10, in English and local language
- Acquis Implementation Clarification Table, dated 11-3-10, in English language only
- ACQUIS IMPLEMENTATION-NEXT STEPS, dated 11-3-10, in English language only
- REAP Letter to ECS, dated 11-3-10, in English language only
- Info for USAID on Tusevljak, dated 12-17-10, in English and local language
- Memorandum REAP to USAID on science and technology, dated 12-17-10, in English language only
- Minutes from the 10th MWG meeting with REAP comments, dated 11-17-10, in English and local language
- SJJ EE Knowledge Days Load Research, dated 12-15-2010, in English and local language
- Trip Report - Load Research - Konjic, dated December 2010, in English language only
- Load Research Training Presentation - Benefits of Load Research, dated -12-17-10, in English and local language
- Load Research Training ComEd Case Study, dated 12-17-10, in English and local language
- Load Research Training Presentation - Critical Concepts, dated 12-17-10, in English and local language
- Load Research Training Presentation - Key Tools for EnMarket part I, dated 12-17-10, in English and local language
- Load Research Training Presentation - Key Tools for EnMarket part ii NF, dated 12-17-10, in English and local language
- Load Research Training Presentation - Key Tools for EnMarket part iii NF, dated 12-17-10, in English and local language

- Load Research Training Presentation - Load ForecWeather, dated 12-17-10, in English and local language
- Load Research Training Presentation - Methods in Load Research, dated 12-17-10, in English and local language
- Load Research Training Presentation - Next Steps, dated 12-17-2010, in English and local language
- Load Research Training Presentation - Perfoming a LR Study, dated 12-17-10, in English and local language
- Load Research Training Presentation - Proposal of LR, dated 12-17-10, in English and local language
- Load Research Training Presentation - What do you need to start, dated 12-17-10, in English and local language
- Load Research Training Presentation - What is status of BiH –Konjic, dated 12-17-10, in English and local language
- Load Research Training Presentation – Zarumba Status of Tariff Design, dated 12-17-10, in English and local language
- Outline for Next Steps on SOLR and DS - FERC comments, dated 12-21-10, in English and local language
- Outline for Next Steps on SOLR and DS - RSERC comments, dated 11-20-10, in English and local language
- MWG Subgroup paper structure to respond to ECRB letter, dated 12-29-2010, in English and local language
- Consolidated Recommendation from Load Research Training, dated 12-31-2010, in English language only

## **V. ANTICIPATED ACTIVITIES FOR THE FOLLOWING QUARTER**

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

- Policy Paper on Market Opening. REAP and the Market Working Group will develop cover document for the Draft Policy Paper for policy makers.
- FERC Tariff Model Assistance. REAP will request its technical assistance to adjust the New Tariff model in accordance to FERC and REAP suggestions.
- REAP will continue to advise and assist MOFTER on Security of Supply, and the Energy Community Treaty, as requested.
- REAP will develop an analysis on the Third Liberalization Package in the BiH Power Sector, as requested by MOFTER.
- REAP will update the Internal Action Plan that has been prepared by REAP.
- REAP will work with different subgroups of the Market Working Groups that are or will be established to deal with the following issues:
  - Development of the explanatory paper to explain the Regional Wholesale Market as proposed by the World Bank and outline the possible impact of the opening of the regional electricity market on the Electricity Market Opening process in BiH;
  - Extension of the Transitional period
  - Supplier of Last Resort and Default Supplier

- REAP will commence its research on ancillary services and elicit comments and suggestions from the utilities.
- REAP will draft a Consolidated Recommendation report from the Load Research Seminar that sets out recommended next steps that stakeholders, power utilities and regulators should undertake to initiate load research.

## **VI. ADDITIONAL INFORMATION**

### **A. Progress during the quarter v. scheduled**

Although the progress on reform in Bosnia and Herzegovina has slowed almost to a halt, affecting REAP's activity timetable REAP has initiated number of activities regarding reform and electricity market opening:

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

KRA 1.1 Legal gas framework creation. The political situation has delayed all efforts 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 worked towards finalization of the Draft Policy Paper on obstacles to market opening for the decision makers. REAP also organized two trainings, one on the Supplier of Last Resort, Default Supplier and Market-based Contracts and the other on Load Research. Further, the Market Working Group was tasked with a number of new activities, triggering the formation of the Wholesale Market Subgroup and the Transition Period Subgroup. Additional subgroups are expected to be formed on the Supplier of Last Resort and Default Supplier and Ancillary Services.

KRA 2.6-KRA 2.8 Balancing market activity. While there has been no activity on the balancing market per se as envisioned at the commencement of the project, the work in development of a policy paper that was based on the development of impediments to market opening by the market participants, along with training on the SOLR, DS and market contracts, and load research, have all addressed the need for the basic market operational processes to be put in place in preparation for market opening. The subgroups that have been and will be formed in the Market Working Group will all contribute to market opening also. All market opening activities and seminars on the market in BiH emphasize 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. REAP and technical assistance, together with FERC's tariff Department have developed the New Tariff Model Design to better enable the calculation of more cost-based tariffs. Additional analytical work has been initiated to further adjust the model to the situation in the Federation's regulatory situation.

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. Even so, REAP provided training on market opening to two customer associations.

## **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 in staffing status occurred in this quarter.

## 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.

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

REAP continued its cooperation with FERC in regard to the following issues: (i) New FBiH Electricity Law, (ii) FBiH RES Law, (iii) FERC's comments on the New Tariff Model.

Training on SOLR/Default Supplier and Contracts: REAP and technical assistance implemented a three-day Seminar on Supplier of Last Resort (SOLR), Default Supplier (DS), Market Contracts and Regulatory Issues on SOLR/DS. The participants presented ideas and opinions on possible ways of dealing with SOLR, DS and Market Contracts in Bosnia and Herzegovina. REAP's opinion is that this Seminar will trigger the Regulators' activities in a process of the establishment of a proper system that can protect customers and create preconditions for further market opening. It is the Seminar participants' common understanding that all stakeholders should be informed about the issues discussed at the Seminar.

Task 1.A.(ii) Draft amendments to the electricity law that are consistent with the unbundling of the existing company structure.

Task 1.A.(iii) Draft necessary by-laws; and assist in their implementation to assist with the passage of the amendments to the electricity laws to enable unification of regulators; and

Task 1.A.(iv) Once in place, assist the unified regulator to reconfigure itself – which would include organizational issues and the revision of all internal documents (Statute, Rules of Work, organization charts, internal financial procedures, and the like) as well as the Rules of Practice and Procedure, and assist the State Regulatory Commission (SERC) in its interactions with the Energy Regulators Regional Association (ERRA) in moving towards the single regulator.

Task 1.B Creation of the Legal and Regulatory Framework for Gas. The contractor shall assist the state regulator to consolidate and incorporate the regulation of gas into its regime and to assemble a capable staff to support the gas sector.

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.**

REAP organized two three-day trainings for the sector: one on the Supplier of Last Resort, Default Supplier and market contracts, and the second on load research. The Market Working Group is picking up the development of the SOLR and DS mechanisms, and a collective memorandum on recommended actions on initiating load research was drafted and agreed to by the load research trainers.

The Market Working Group created a Subgroup on the extension of the extension period, which is currently scheduled to end on 1-1-12. A proposal for activities to be accomplished in the extension transition period and the name of such extension period will be developed.

The Market Working Group members will respond to the questions submitted to them by REAP in preparation for work on the Supplier of Last Resort and Default Supplier, expected to be accomplished by another Subgroup.

It was agreed in the market Working Group that REAP would work to analyze processes in ancillary services, balancing and financial settlement in other jurisdictions, discuss these services with the EPs, ISO and Transco to understand the problems that exist and then present options to the Market Working Group on how to develop process for these contracts.

- 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 assisted MOFTER to identify current implementation status of *acquis*, dilemmas regarding the status of market implementation and prepare the draft

BiH action plan to meet requirements from the Treaty. This activity was made in response to the remarks on Implementation of the *Acquis* in Bosnia and Herzegovina that the Energy Community Treaty Secretariat sent to MOFTER.

REAP assisted MOFTER to deal with the ECRB request that BiH governments indicate their positions on the recommendations from the World Bank Wholesale Market Opening Study, stating whether BiH would take the required steps to comply with the recommendations. REAP and the three regulators in BiH agreed to establish the Subgroup of the Market Working Group with an assignment to develop a paper that outlines the information requested from the ECRB.

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

The need for revisions to both the Market Rules and Grid Code are being noted in the work of the Market Working Group and the Memo that REAP sent to MOFTER and informed SERC in 2009.

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			•
<b>TO 1: BIH ENERGY SECTOR FULLY INTEGRATED INTO THE REGIONAL MARKET AND THE EU</b>			
<b>KRA 1 Creation of Legal and Regulatory Framework for Gas</b>			
<b>KRA 1.1 Legal gas framework creation</b>			
<b>KRA 1.1.1 Draft three gas laws</b>			
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.	•		
<b>KRA 1.1.2 Introduce draft gas laws into three legislative bodies and work to assist their passage</b>			
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.			•
<b>KRA 1.2 Secondary gas legislation</b>			
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

<b>Name</b>	<b>Position</b>	<b>Start Date</b>
<b>Jane Wilson</b>	<i>Country Project Director</i>	<i>May 4, 2010</i>
<b>Ognjen Markovic</b>	<i>Chief of Party</i>	<i>May 4, 2010</i>
<b>Alma Brkovic</b>	<i>Office Manager/Translator</i>	<i>March 16, 2007</i>
<b>Elma Haveric</b>	<i>Legislative and Regulatory Specialist</i>	<i>October 19, 2007</i>