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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. BRIEF OUTLINE OF PROJECT PURPOSE AND APPROACH

On March 12, the USAID Regulatory and Energy Assistance Project (REAP) was extended to September 30, 2013. The two main objectives of the project activities remain the same, to (i) achieve a fully integrated energy sector into the regional market and the EU; and (ii) restructuring and commercialization of energy companies. The tasks under each Task Objective have changed, as can be seen in Sections VI and VII of this Quarterly. REAP is a market development oriented project that specifically works to open the BiH market, with as many preconditions in place as possible. Market opening involves removing market impediments. To that end, REAP works to harmonize the regulatory work of the three commissions to facilitate integration of the market into the regional and EU markets and assist in the technical and detailed regulatory preparation for market opening. REAP also assists the State institutions to facilitate BiH speaking with one voice in internal and international liberalization, including gaining familiarity with the EU Third Liberalisation Package. Also, REAP assists the State Ministry for Foreign Trade and Economic Relations (MOFTER) to continue efforts on the state gas law. Finally, REAP will initiate a regulatory partnership in cooperation with NARUC. Regarding the second Task Objective, restructuring and commercialization of energy companies, REAP works in three areas: (i) Assists the Federation to develop the Electricity Law where unbundling of Federation EPs will be prescribed. REAP will also assist the Federation to develop an energy policy; (ii) Comments on the EPs' restructuring documents as requested, and (iii) Assists the EPs to develop and implement solutions to receive revenues that reflect their justified costs.

As the only energy reform assistance in BiH, REAP provides advice and assistance as needed to the international community through USAID and other USAID, EU, and various international projects.

II. BRIEF DESCRIPTION OF SIGNIFICANT ACTIVITIES

Lead and assist Subgroup on Creation of the Default Supplier Mechanism – development of the final document on Market Opening in BiH: The creation and activation of a Default Supplier, moves eligible customers who cannot or do not want to find a third party supplier to a discrete supplier within the utility that will not be regulated as a tariff supplier. Prices in the Default Supplier are intended to rise toward the market price. After a meeting of the three regulatory commissions to discuss the Default Supplier Market Opening Concept, REAP formulated a new document to consolidate input from the commissions and suggest a final position. REAP sent the document to the two Entity regulatory commissions and later discussed it in a meeting. The discussion focused on unresolved issues and next steps to implement the concept. It was agreed that both entity regulatory commissions will talk to their respective power utilities and governments to explain the concept and discuss the most acceptable solution. In September, SERC organized another joint regulatory commission meeting the purpose of which was for each commission to present the achieved activities related to the institution of the Default Supplier Mechanism. The representatives of three regulatory commissions presented activities they undertook since the last Regulators' Meeting:

SERC: SERC presented two documents that it had developed for the District of Brcko, the Methodology for Determination of Tariffs for Distribution Network in the District of Brcko and the Decision on Supply of Eligible Customers in the District of Brcko. These two documents prescribe: (a) The elimination at the same time of regulated tariffs for all customers but households and small commercial customers; (b) The Default Supplier will be the Public Utility "Komunalno Brcko," which will determine the electricity price for those eligible customers who decide to use this service. The basis for the Default Supplier price will be the average supply

electricity price for households in the District of Brcko determined by the SERC in accordance to the Methodology for Determination of Tariffs for Distribution Network in the District of Brcko. The Default Supplier will apply various coefficients to that base price to calculate prices for other classes of customers.

FERC: FERC informed the attendees that it had discussed two issues with the Federation Ministry for Energy, Coal and Industry (FMERI) and the two EPs, all of whom agreed on the following: (a) The regulated supply tariff will be deregulated gradually, first for eligible customers connected to the 110 kV network as of June 1, 2012; (b) FERC will determine the Default Supplier price.

RSERC: RSERC informed the attendees that they had had an initial meeting with ERS and the RS Ministry for Energy, Coal and Industry (RSMERI) but did not come up with a final position with regard to the two issues. He said that additional consultation would be needed. In addition, RSERC explained the proposal they made for ERS and RSMERI: (a) Regulated tariffs are eliminated for all customers but households and small customers at the same time; (b) During an interim period, the Default Supplier should be the Distribution company, which will determine the electricity price for those eligible customers who decide to use this service. (c) The Regulator will monitor the price determined by the Default Supplier, which will be somewhere between the current tariff price and the export price that ERS achieved in the previous year.

The key issues that the attendees discussed were the discrepancy between the three regulatory commissions on two important issues. While RSERC and SERC chose the options where regulated tariffs are eliminated for all customers but households and small customers all at once and the Default Supplier determines the Default Supplier price with strong regulatory monitoring/control, FERC chose the option to eliminate regulated tariff gradually, first for those customers connected to the 110 kV network, and to continue to regulate all tariffs for ineligible customers and for those eligible customers who choose to use the default supplier service. REAP commented on this inconsistency between the three regulatory commissions and the possible negative impact on the electricity market opening process and the unique economic area in Bosnia and Herzegovina. To avoid this inconsistency, REAP suggested and all three regulatory commissions agree to further harmonize Default Supplier solutions.

Technical Assistance to revise the New FERC Tariff Model: REAP technical assistance sent the revised New FERC Tariff Model to REAP. REAP analyzed the submitted model to make sure that the revised model is accurate with regard to transmission losses and separation of generation and procurement costs for covering of transmission losses, distribution losses and supplied electricity. REAP found that some items in the model need additional clarification and asked technical assistance to check the model regarding the fee to cover excessive take-off of reactive power and the formula to allocate generation revenue requirement using total delivery voltage, excluding transmission and distribution losses.

Situation in EU countries regarding ancillary services and balancing: REAP began research on the best EU and Regional practices on the Ancillary Services and Balancing by initially researching EU practice. In addition, to identify the status of implementation of the SERC Decision on Ancillary Services Tariff and Rules on the Methodology to determine ISO and Ancillary Services Tariffs, REAP talked to representatives of stakeholders in the electricity sector. Overall, the conclusion was that the current functioning of the Ancillary Services System in BiH is unsatisfactory. The key problem is the fact that Ancillary Service Providers (Balancing Responsible Parties), who are the state-owned power utilities, do not provide secondary and tertiary reserves as obliged by a SERC decision. As a consequence, Bosnia and Herzegovina's Electric Power System has periodic unplanned imbalances within the regulatory block with neighboring countries. In addition, EPs identified the following obstacles to the proper functioning of ancillary services: (i) Metering system: The crucial obstacle for the establishment

and functioning of the ancillary service system is unavailability of real-time accounting metering data for the ISO and EPs, (ii) Secondary reserves: the EPs are paid through the tariff for their readiness to provide secondary regulation but are not paid for the provision of injected electricity since it is not measured in real time, (iii) Tertiary reserves: EPs are paid through the tariff for their readiness to provide tertiary regulation, but the ISO has not requested a tertiary reserve service provider to activate it even where the BiH Electric Power System had a large imbalance with the regional system. REAP developed a Draft Memorandum on the Ancillary Services and Balancing Market in which international best practices were described, as well as the practice that some of Energy Community signatory parties applied in their Electric Power Systems. The Memorandum considered BiH regulation and practice with regard to the ancillary services and proposed some steps to be undertaken in order to improve the current situation. Additional consultations with electric power sector stakeholders on the issue will take place, after which REAP will develop a final version of the Memorandum for further discussion.

Updating Internal Action Plan for Bosnia and Herzegovina: Earlier REAP developed and gave to MOFTER and the entity ministries the document Internal Action Plan that addresses the Road Map for Bosnia and Herzegovina (IAP). This document enables the ministries to follow up on the implementation process and BiH compliance with the Treaty. REAP restarted work on this document in order to develop the updated version of IAP. In the process of updating the IAP, REAP took into account the Annual Report on the Implementation of the Acquis Under the Treaty Establishing the Energy Community (Annual Report), issued in September 2010, by the Energy Community Secretariat, which aimed to present a view on the state of play of the implementation of the *acquis* by the Contracting Parties to the Treaty as of June 2010, and all developments in Electric Power Sector that had happened in the meantime. REAP developed the first updated Draft Internal Action Plan Draft, which will be further revised as developments warrant.

Advise and assist FMERI with regard to the new Federation Electricity Law: After FMERI and REAP jointly developed the new Draft Electricity Law, the Draft was sent to FBiH Government Office for Legal Issues for legal consent. Since the Office had some comments on the Draft, REAP organized a meeting to discuss these comments with FMERI representatives and the FERC Commissioners. The attendees analyzed each comment and suggestion made by the FBiH Office for Legal Issues and found that none of the comments impacted the essential parts of the Law. REAP also asked the attendees to discuss additional changes that in its opinion should be made to the draft Law. After this, the FBiH Government adopted the Draft Law and sent it to the FBiH Parliament. A comparison of the two versions of the Law, one prepared by FMERI with REAP assistance and the other sent to the Parliament, shows that no crucial changes were made in the version sent to the Parliament. REAP also met with the Chairman of the FBiH Parliament's Committee on Energy to explain the process of development of the Draft Electricity Law and the most important provisions in it.

Meeting with Chairman of FBiH Parliament's Committee on Energy: In a meeting with the Chairman of the Federation Parliament's Committee on Energy regarding the new Federation Electricity Law and the market opening work accomplished by REAP and the Market Working Group to date, the Chairman suggested that a presentation by REAP to the FBiH Parliamentarian Committee for Energy be organized to address market opening in Bosnia and Herzegovina. The work that resulted in the Policy Paper, Wholesale Regional Market Opening and status of Electricity Sector reform were the issues on which the Chairman would like the Committee to be briefed.

Federation BiH Vulnerable Customer Program: REAP wrote an analysis of the FBiH decision on a vulnerable customer program that the FBiH Government of July 19, 2011. The Government decision set up a vulnerable customer program to subsidize pensioners and other customers who are in need of social assistance because of the household tariff increases in the last FERC EP BiH tariff decision. The funds for the program will come from the profits of the Federation EPs, which would otherwise have gone into the Federation Government budget. The Federation Government estimates that approximately 200,000 citizens will be eligible for the program and that the cost of the subsidies will not be more than 10 MM KM/year. The structure of the program for the vulnerable customers of both EPs are as follows: For EPBiH pensioners who have pensions below 310 KM and those who receive any kind of state aid and have a monthly consumption equal to or lower than 268 kWh will pay 5 KM less than their bill amount. For EP HZHB pensioners who have pensions below 310 KM and those who receive any kind of state aid and have a monthly consumption equal to or lower than 348 kWh will pay 7 KM less than their bill amount. The Program will end at the end of 2012.

Assist regulators to require and EPs to implement Load Research: REAP continued its work to establish the Market Working Group Load Research Subgroup. Based on the Scope of Work for Load Research, REAP developed a draft Action Plan to execute the implementation of load research. The basic roles in the drafted Action Plan will be assigned to a Team formed by the representatives from the three regulatory commissions, EPs, Brcko District, REAP representatives and STTA. In order to establish the Market Working Group Load Research Subgroup to coordinate the execution of the Load Research, REAP met with the respective stakeholders and agreed they would nominate their members in this group. The Load Research Kick-off meeting will be conducted in November.

Lead Case Study effort, consisting of open market base case and scenarios: To establish the Market Working Group Case Study Subgroup to coordinate the execution of the Case Study Scope of Work, REAP met with the representatives of RSERC and EP RS and discussed further steps on the implementation of the Case Study. REAP explained the goals of this activity, the methodology to perform the work and basics of the Case Study. REAP also requested RSERC and EPRS to participate in this activity and nominate their members in the Subgroup for the Case Study.

Advise and assist MOFTER to undertake actions to implement new obligatory decisions made by the Energy Community: The Ministry of Foreign Trade and Economic Relations (MOFTER) organized a meeting to discuss recent activities related to the Energy Community Treaty. On MOFTER's request, REAP attended a meeting in which the following topics were discussed: (i) the Draft Decision of the Ministerial Council of the Energy Community on the Implementation of the Third Liberalization Package; (ii) the Ten-year Strategy for the Energy Community 2011-2021 (Strategy); and (iii) the Annual Report on the Implementation of the Acquis Under the Treaty Establishing the Energy Community. REAP assisted the participants to make conclusions explaining the impact of the package on the BiH Energy Sector that REAP had described in its Memorandum sent to MOFTER. REAP proposed and the participants accepted that MOFTER prepare an official letter to all stakeholders to inform everyone on the Implementation Report and everyone's obligation with regard to it.

III. PERFORMANCE PROBLEMS

- Unbundling. The Federation EPs still remain fully bundled but the new Draft Electricity Law prescribes functional, operational and legal unbundling of the Public Power Utilities.
- 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 investment legal framework.
- A new Federation Government was established in March 2011. As expected in BiH, the new Government changed the management team in the Elektroprivreda BiH and announced changes in the Elektroprivreda HZHB; therefore, not much can be done with regard to further reform involving the EPs until management in the EPs is stabilized. To date, no State Government has been formed.

IV. EIGHTEENTH QUARTER DELIVERABLES

Information for USAID

- FBiH Electricity Law - final changes before parliament, dated 7-22-10, in English and local language
- FBiH Electricity Law final sent to Government, dated 7-27-11, in English and local language
- Article from e-kapinja on Agreement BH-Gas - Slavija International, dated 8-4-11, in English and local language
- Decision on the SERC member appointment, dated 8-8-11, in English and local language
- Hunton & Williams, "State Aid Rules and Effectiveness of State Aid Control in the Electricity Sector Under the Energy Community Treaty: Study on behalf of the Energy Community Secretariat, Final Report, 8 April 2011.
- Article from E-kapinja on Energy Laws, dated 9-19-2011, in English and local language
- Draft Decision on Supply of Eligible Customers in Brčko District, dated 9-19-11, in English and local language
- Draft Tariff Methodology for Brčko Distrikt, dated 9-19-11, in English and local language
- Public notice for Brčko District Documents, dated 9-19-11, in English and local language
- REAP comments on the Dec on Eligible Customer and Methodology 9-28-11 English and local

Deliverables

- Draft Scope of Work for Load Research, dated 6-27-11, in English and local language
- REAP Activity Plan for Regulators, dated 6-28-2011, in English and local language
- REAP Scope of Work for Case study, dated 6-17-2011, in English and local language
- REAP Seventeenth Quarterly Report, dated 7-8-11, in English language only
- REAP Analysis of Regional AP and National AP, dated 7-11-11, in English and local language
- Paper on Bosnia Daily article on electricity and trade, dated 8-4-11, in the English language only
- Memorandum to Ms. Gavrilovic regarding the Default Supplier and a FMERI meeting, dated 8-1-11, in English language only
- Memorandum REAP to USAID on the Federation vulnerable customers program, dated 8-2-11, in English language only

- Draft SOW Load Research REAP to RERS comments, dated 8-9-11, in English and local language
- REAP Plan to Regulators REAP to RERS comments, dated 8-9-11, in English and local language
- Letter FERC to EPBiH and EPHZHB, dated 7-28-11, in English and Local Language.

V. ANTICIPATED ACTIVITIES FOR THE FOLLOWING QUARTER

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

- FERC Tariff Model Assistance. As soon as REAP technical assistance adjusts the New Tariff model in accordance to FERC and REAP suggestions, REAP will communicate and meet FERC to discuss the New FERC Tariff Model for Elektroprivreda HZHB.
- REAP will continue to update the Internal Action Plan that has been prepared by REAP.
- REAP will work with regulators to finalize the market opening concept based on the establishment of the Default Supplier Mechanism.
- REAP will continue its research on ancillary services and balancing service and elicit comments and suggestions from the utilities.
- Consistent with its detailed Scope of Work on Load Research Study, REAP will organize the kick-off meeting for the Load Research Subgroup with the three regulatory commissions, EPs and Brcko district.
- Consistent with its detailed Scope of Work for the Case Study, will REAP organize the kick-off meeting for the Case Study Subgroup with the three regulatory commissions, EPs, ISO, Transco and Brcko District.
- REAP will assist MOFTER to coordinate activities on the development of the Wholesale Regional Electricity market.
- FBiH Draft Electricity Law: As requested REAP will assist FMERI to process amendments and prepare the final Draft Electricity Law for the FBiH Parliament.
- State Gas law: REAP will meet MOFTER, two entity ministries and BH Gas to discuss if further discussion on organization of the gas sector in BiH, development of the State and FBiH gas laws and changes in RS Gas Law are possible.

Restructured and commercialized energy companies

- REAP will continue its assistance to FMERI on the development of the energy policy and adoption of the new draft electricity law to ensure a framework for restructuring of public power utilities is prepared.

VI STATUS OF ACTIVITIES AS DEFINED IN WORK PLAN

TASK OBJECTIVE 1: FULLY INTEGRATED ENERGY SECTOR INTO THE REGIONAL AND EU MARKETS

In the reporting quarter, REAP worked to create documents that would enable stakeholders to undertake further activities with regard to the local and regional market opening issues as well as on improving the regulatory model to make the regulatory tariff proceedings more transparent and understandable. REAP also worked hard with the Federation Ministry of Energy Mining and Industry representatives to redraft the FBiH Electricity Law where particular attention was paid to restructuring rules to be in accordance to the Third Liberalization Package, protection of the regulatory independence and authorization and tendering procedure related to building new generation capacities.

KRA 1. Harmonize regulatory work of the three commissions to enhance performance of the market.

KRA 1.1. Assist regulators to further harmonize rules that strengthen market regulation.

KRA 1.2. Assist regulators to refine the model and revise the rules on tariff methodology to be more cost-based.

[REAP technical assistance finalized and delivered the revised FERC Tariff Model for Elektroprivreda HZHB to REAP, and REAP forwarded it to FERC. REAP will discuss the model with FERC.](#)

KRA 1.3. Assist regulators to issue or amend regulations to meet EC Treaty requirements.

KRA 1.4. Assist regulators as necessary to adapt to changing demands.

KRA 1.5. Provide assistance in drafting commercialized contracts for an open market.

KRA 2. Technical and regulatory preparation for market opening.

KRA 2.1. Advise and assist regulators' implementation of recommendations in the market opening policy paper to eliminate impediments.

KRA 2.1.1. Advise regulators on further development of policy paper. As requested, consult with Ministries on same.

KRA 2.1.2. Advise and assist regulators to revise licensing rules to accommodate market opening.

REAP initiated work on the Load Research where all three regulatory commissions and three EPs and Brcko district participated. The goal is to develop harmonized rules on how to perform the load research in each jurisdiction. These rules, once developed, will serve as the guideline for all

three regulatory commissions and power utilities to perform their own Load Research. The results from this research will be used in regulatory practice and in power utilities when performing and developing distribution and generation development plans and demand side management measures.

KRA 2.1.3. Assist regulators to require and EPs to implement load research.

Based on the Scope of Work for Load Research, REAP developed a draft Action Plan to execute the work. The basic roles in the drafted Action Plan will be assigned to a Team formed by the representatives from the three regulatory commissions, EPs, Brcko district, REAP representatives and technical assistance.

KRA 2.1.4. Lead Case Study effort, consisting of open market base case and scenarios.

To establish the Market Working Group Case Study Subgroup to coordinate the execution of the Case Study Scope of Work, REAP met with the representatives of RSERC and EP RS and discussed further steps on the implementation of the Case Study. REAP explained the goals of this activity, the methodology to perform the work and basics of the Case Study. REAP also requested RSERC and EPRS to participate in this activity and nominate their members in the Subgroup for the Case Study. The representatives supported the idea and promised to send the names.

KRA 2.1.5. Assist/lead Market Working Group.

KRA 2.1.5.1. Lead and assist sub-group on assessment of World Bank Wholesale Market Study and its implementation in BiH.

KRA 2.1.5.2. Lead and assist sub-group on extension of transition period.

Extension of the transition period is based on the establishment of Default Supplier and SOLR mechanisms. REAP formulated a new document to consolidate the input from the regulatory commissions and suggest a final position on the issue of Default Supplier and SOLR. REAP discussed the document with the focus on unresolved issues and the next steps to implement the concept. It was agreed that both entity regulatory commissions will talk to their respective power utilities and governments to explain the concept and discuss the most acceptable solution. In September, SERC organized another joint regulatory commission meeting the purpose of which was for each commission to present the achieved activities related to the institution of the Default Supplier Mechanism. The presentations showed that RSERC and SERC had chosen the options where regulated tariffs are eliminated for all customers but households and small customers all at once and the Default Supplier determines Default Supplier price with strong regulatory monitoring/control. FERC had chosen the option to eliminate the regulated tariff gradually, first for those customers connected to the 110 kV network, and to continue to regulate all tariffs for ineligible customers and for those eligible customers who choose to use the default supplier service. REAP commented on this

inconsistency between the three regulatory commissions and the possible negative impact on the electricity market opening process and the unique economic area in Bosnia and Herzegovina. To avoid this inconsistency, REAP suggested and all three regulatory commissions agree to further harmonize Default Supplier solutions.

KRA 2.1.5.3. Lead/assist sub-group on Supplier of Last Resort (SOLR).

KRA 2.1.5.4. Lead /assist sub-group on Default Supplier (DS).

Please see KRA 2.1.5.2.

KRA 2.1.6. Advise regulators to create policy and requirements on new metering system to meet market opening requirements.

KRA 2.1.7. Research regional and EU best practices on ancillary services and balancing.

REAP began research on the best EU and Regional practices on the Ancillary Services and Balancing by initially researching EU practice. In addition, to identify the status of implementation of the SERC Decision on Ancillary Services Tariff and Rules on the Methodology to determine ISO and Ancillary Services Tariffs, REAP talked to representatives of stakeholders in the electricity sector. Overall, the conclusion was that the functioning of the Ancillary Services System in BiH is unsatisfactory. REAP developed a Draft Memorandum on Ancillary Services and Balancing Market in which international best practices was described, as well as the practice that some of Energy Community signatory parties applied in the their Electric Power Systems. The Memorandum considered BiH regulation and practice with regard to ancillary services and proposed some steps to be undertaken in order to improve the current situation. Additional consultation with the electric power sector stakeholders on the issue will take place, after which REAP will develop the final version of the Memorandum for further discussion.

KRA 2.2. Advise and assist ministries on tasks needed to remove impediments to market opening.

KRA 2.2.1. Assist MOFTER to communicate BiH position on wholesale market and market operator to ECRB and the Secretariat.

KRA 2.2.2. Develop road-map on regional and local day ahead market (DAM) if BiH accepts the concept.

KRA 2.2.3. Advise and assist MOFTER and regulators on the establishment of the regional Coordinated Auction Office (CAO).

KRA 2.2.4. Advise and assist FMERI with regard to new Federation Electricity Law.

At FMERI's request, REAP met with their representatives and FERC Commissioners and their staff members to discuss comments and

suggestions that the FBiH Government Office for Legal Issues (Office) gave on the Draft FBiH Electricity Law. The attendees analyzed each comment and suggestion made by the Office and expressed whether they thought it applicable or not. REAP received the Draft FBiH Electricity Law that FBiH Government sent to the FBiH Parliament. A preliminary comparison of the two versions of the Law, one prepared by FMERI with REAP assistance and the other sent to the Parliament, shows that no crucial changes were made in the version sent to the Parliament. In a meeting with the Chairman of the Federation Parliament's Committee on Energy regarding the new Federation Electricity Law and the market opening work accomplished by REAP and the Market Working Group to date, the Chairman suggested that a presentation by REAP to the FBiH Parliamentarian Committee for Energy be organized to address market opening in Bosnia and Herzegovina. The work that resulted in the Policy Paper, Wholesale Regional Market Opening and status of Electricity Sector reform were the issues on which the Chairman would like the Committee to be briefed.

- KRA 2.2.5. If Federation drafts a Federation Gas Law, REAP will assist as requested.
- KRA 2.2.6. Advise and assist Ministries and regulators on needed legislation and amendments for market opening.
- KRA 2.2.7. Assist MOFTER and EPs in the revision of the Procurement Law to allow operational trading of electricity.
- KRA 2.3. Assist regulators to adapt to changing demands, when necessary.
- KRA 2.3.1. Assist FERC to implement regulatory policy.
- KRA 2.4. Advise industrial and commercial customers on the status of market opening.
- KRA 2.5. Organize a closing conference on the status of the electricity market in BiH.

KRA 3. Assist and advise MOFTER with regard to the State Gas Law.

- KRA 3.1. Advise and assist if requested with further developments on drafting State Gas Law.

KRA 4. Strengthen the State Government's role in the energy sector to facilitate BiH speaking with one voice in the internal and international liberalization of the energy sector.

- KRA 4.1. Perform written analysis of Third Liberalisation Package.

At MOFTER's request, REAP made a summary presentation on the Third Liberalisation Package. The presentation was attended by representatives of all three regulators and all three Ministries and Transco. All stakeholders supported the Energy Community Secretariat's idea to

propose to the Energy Community Permanent High Level Group and Ministerial Council an obligation for all signatory parties to the Energy Treaty to implement the provisions of the Third Liberalization Package. The only suggestions that the participants gave to MOFTER was the advice to try to shift the deadline for transposition of the third liberalization package, since January 1, 2013 is too soon.

KRA 4.1.1. If the Energy Community requires compliance with the Third Package, develop a road map to implement it.

KRA 4.2. Follow all activities in BiH Electric Power Sector.

Earlier REAP developed and gave to MOFTER and the entity ministries the Internal Action Plan, which addresses the Road Map for Bosnia and Herzegovina (IAP). REAP updated the Internal Action Plan by first, analyzing the current situation with regard to the Market structure, Wholesale market, Retail Market integration.

KRA 4.3. Monitor decisions made by Energy Community and update implementation.

KRA 4.4. Advise and assist MOFTER to undertake actions to implement new obligatory decisions made by the Energy Community Ministerial Council.

The Ministry of Foreign Trade and Economic Relations (MOFTER) organized a meeting to discuss recent activities related to the Energy Community Treaty: Upon MOFTER's request, REAP attended the meeting and assisted the participants to make conclusions explaining the impact of the package on the BiH Energy Sector that REAP had described in its Memorandum sent to MOFTER. REAP proposed and the participants accepted that MOFTER prepare an official letter to all stakeholders to inform everyone on the Implementation Report and everyone's obligation with regard to it. REAP also advised MOFTER to prepare a Memo from the meeting and share it with all participants, an idea with which MOFTER agreed.

KRA 5. Initiate regulatory partnership in cooperation with NARUC that will pair the three BiH regulators with a U.S. regulatory commission.

KRA 5.1. Advise and assist NARUC, USAID and the regulators in the organization of the partnership.

KRA 5.2. Coordinate the partnership.

TASK OBJECTIVE 2: RESTRUCTURED AND COMMERCIALIZED ENERGY COMPANIES

KRA 1. Assist as necessary and when requested in restructuring and commercialization of energy companies.

KRA 1.1. Advise and assist FMERI to develop energy policy that prescribes unbundling deadline for the Federation EPs.

KRA 1.2. Comment on the EPs' draft restructuring documents, as requested.

KRA 1.3. Assist and advise EPs to develop and implement processes that ensure every unbundled company receives revenue that reflects its costs.

VII STATUS OF OVERALL PROJECT PROGRESS PER IMPACT INDICATORS

No	Indicator	Achieved Units of Measurement in this Quarter	Cumulative Total
1.	Number of energy agencies, regulatory bodies, utilities and civil society organizations undertaking capacity strengthening as a result of USG assistance	9	16
2.	Number of people receiving USG supported training in energy related policy and regulatory practices	20	47
3.	Number of people receiving USG supported training in technical energy fields	7	7
4.	Number of policy reforms/regulations/administrative procedures analyzed to enhance sector governance and/or facilitate private sector participation and competitive markets as a result of USG assistance	25	39
5.	Number of legal, regulatory, or institutional actions taken to improve implementation or compliance with international trade and investment agreements due to support from USG-assisted organizations	6	16
6.	Number of USG supported training events held that related to improving the trade and investment environment	-	-
7.	Number of participants in trade and investment environment trainings	-	-

VIII OVERALL 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 stakeholder	•		
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. Harmonize regulatory work of the three commissions to enhance performance of the market.		•	
KRA 1.1. Assist regulators to further harmonize rules that strengthen market regulation.		•	
KRA 1.2. Assist regulators to refine the model and revise the rules on tariff methodology to be more cost-based.		•	
KRA 1.3. Assist regulators to issue or amend regulations to meet EC Treaty requirements.		•	
KRA 1.4. Assist regulators as necessary to adapt to changing demands.		•	
KRA 1.5. Provide assistance in drafting commercialized contracts for an open market.		•	
KRA 2. Technical and regulatory preparation for market opening.		•	
KRA 2.1. Advise and assist regulators' implementation of recommendations in the market opening policy paper to eliminate impediments.		•	
KRA 2.1.1. Advise regulators on further development of policy paper. As requested, consult with Ministries on same.		•	
KRA 2.1.2. Advise and assist regulators to revise licensing rules to accommodate market opening.		•	
KRA 2.1.3. Assist regulators to require and EPs to implement load research.		•	

