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Regulatory and Energy Assistance

Regulatory and Energy Assistance Project in Bosnia and Herzegovina (BiH) – REAP BiH

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Submitted to:

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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. 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.

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

Assist/lead Market Working Group:

Assist regulators to require and EPs to implement Load Research:

REAP met with Mr. Nikola Kresic, the new EPHZHB General Manager to inform him about Load Research Subgroup work. REAP explained the reasons to initiate this research and the current status of it. Mr. Kresic understood the goals and methodology to implement the Load Research and provided his full support. REAP addressed the importance of the first step that the EP should undertake, which is forming of groups of customers from the customer database and the selection of samples from these groups in accordance to the Guidelines that have been prepared by REAP. REAP and STTA developed two modules of the guidelines that EPs need to apply as the standardized document when performing Load Research: (i) Sample Selection and (ii) Sample Implementation REAP expects these recommendations will help EPs to undertake the very first but important steps towards Load Research. REAP also finalized the translation into local language of the Load Research Manual published by Edison Association Illuminating Co's and sent it to the Load Research Subgroup members. On March 22, 2012, REAP organized the third Subgroup meeting at FERC's office. Fifteen attendees from all three regulatory commissions and EPs, ISO and Brcko District attended. Two topics were addressed in the meeting: the first one was for EPs to report on the current status of the implementation of the load research, and the second was for REAP to present the final drafts of the two Guidelines that STTA had prepared earlier. In addition, REAP presented how to use the load curves in the balancing settlement process and the international practice on the usage of the load curve for

balancing settlement and the attendees welcomed it, since it proved that the balancing market can function even when multifunctional (incremental) meters have not been installed at all customers' connection points on the network. Brcko Distrikt does not have enough capacity to implement load research but will, together with REAP and other EPs, explore the possibility to adopt EPs' results, which is a common and acceptable practice abroad.

Lead Case Study effort, consisting of open market base case and scenarios:

REAP met with Mr. Nikola Kresic, the new EPHZHB General Manager to inform him about the Case Study Subgroup work. REAP explained the reasons to initiate the Case study and the current status of it. Mr. Kresic gave full support to REAP's and the Case Study Subgroup's work and promised that EPHZHB will continue to participate in case study activities. REAP organized the two-day Case Study Subgroup meeting in Sarajevo at the ISO office. Twenty-one attendees from all three regulatory commissions and EPs, ISO and Brcko District attended. The main goal of the meeting was for REAP to present its findings from the gap analyses of domestic regulations in regard to the retail electricity market. In addition, REAP presented the findings of the extensive research carried out on international practices and guidelines on market actors' role and processes in the electricity market and discussed both items with the attendees. On the first day of the meeting REAP presented the Case Study Retail Market approach, Metering process and the process of Supplier Switching, while on the second day the topics addressed were the Balancing Settlement process, Billing process and Access to customers' and suppliers' data. REAP closed the second day of the training by presenting Concluding remarks. The Subgroup members will comment the gap analyses and return them to REAP, after which REAP will take all received comments into consideration and develop the final draft gap analyses for each of presented processes.

Advise and assist the Ministries on tasks needed to remove the impediments to market opening: Mr Begic informed REAP that Minister. Trhulj requested him and Ms. Amira Pintul to finalize work urgently on the new Electricity Law. Because the Ministry has received almost 200 pages with comments on the Law, it will be hard work to accomplish this task. Once the Ministry has reviewed the comments, Mr. Begic indicated that the Ministry wanted REAP to assist in the final draft.

Assist regulators to refine the model and revise the rules on tariff methodology:

FERC Rulebook on Eligible Customers: REAP analyzed the draft Rulebook and found that some issues should be a matter of further discussion with FERC to improve or clarify the document. Some of these issues include: (i) FERC plans to eliminate subsidization of household customers by all other customer classes during the transitional period prescribed in the Rulebook. REAP found that neither this document nor any other document explained what FERC intended to do on removal of the cross subsidies and how. REAP thinks that this approach should be clearly explained in a separate energy policy document which can be that should be adopted by the official institutions; (ii) The Rulebook does not prescribe the eligible customer transfer process from the regulated supplier to either Default Supplier or to a market supplier; (iii) Article 13 of the Rulebook reads that the Default Supplier prices must be determined in a transparent manner, public and made available to all interested parties by January 1, which will be applied for the period between 01.06. of the same year to 31.05. of the next year. Since the Rulebook is still in the Draft version, it is obvious that the market opening schedule will be changed; REAP discussed all these issues with Mr. Djulizara Hadzimustafic, FERC Commissioner, and found that she agreed with the above-mentioned REAP's comments.

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

REAP was invited to attend meeting in MOFTER on the Third Liberalization Package: the Energy Community Secretariat had submitted the tables to the contracting parties to fill in, in detail, explaining the level of transposition of the contracting parties' legislation with the directives and regulations from the Third Package. The Energy Community Secretariat will use this table to assess the level of transposition of BiH legal framework for regulation of the internal electricity and gas market as well as cross-border transmission of electricity and gas transport with the applicable Acquis, which needs to be implemented by the end of 2014. Earlier, MOFTER requested the two entity governments to fill in these tables and send them to MOFTER, who would forward them to the Energy Community Secretariat. Since MOFTER did not receive any answers from the entity governments and none of their representatives came to attend the meeting due to the weather conditions, the participants in the meeting (REAP and the SERC representative) advised MOFTER to utilize for its response available documents: The Review of Legislation in the Electricity Sector in Bosna and Herzegovina prepared by EU Consultants who compared BiH legislation in the field of electricity with the EU Acquis Communautaire in the same field, and the document drafted by REAP and accepted by MOFTER – the letter that responded to the Energy Community Secretariat Opening letter ECS Case 08-11 on the implementation EU directives and regulations in the gas sector. MOFTER accepted this proposal.

REAP also communicated with MOFTER to address the priority list of actions that the recently appointed Minister and Deputy Minister should work on: In REAP's discussion with Mr. Admir Softic from MOFTER, the following topics are the most important:

- a. Market Opening
 - i. Wholesale regional Market – Action Plan for BiH
 - ii. Policy paper on impediments and preconditions for successful market functioning
 - iii. Export Fee
 - iv. ISO-Transco relations regarding preconditions for Market opening
- b. Regional activities- coordination and participation
 - i. Coordinated Capacity Allocation – ISO - SERC
 - ii. The implementation of the list of Generally Applicable Standards (not in the REAP SOW)
 - iii. Development of energy infrastructure (not in the REAP SOW)
 - iv. Implementation of the competition law into energy sector (not in the REAP SOW)
 - v. Regional Energy Strategy (next meeting on February 28 2012) (not in the REAP SOW)

It is important to note that Mr. Softic confirmed the list and informed REAP that the Minister and the Deputy Minister want to discuss these topics with REAP.

Joint Regulators meeting held in Mostar on March 30, 2012 at FERC premises:

REAP attended the joint regulators meeting along with all commissioners from all three regulatory commissions and chiefs of staff. From SERC and FERC. ISO representatives also attended the meeting to present the availability of cross border capacities during the supply

crises. The ISO presentation showed that there had been enough cross border capacity for additional power import in BiH during the supply crises but nobody requested it. When the supply crises was discussed REAP addressed the need to better implement the EU Directive on Security of Supply in BiH legislations and regulations since the existing documents neither define the roles of all actors in the security of supply process nor describe any kind of process. REAP reminded the attendees that the Energy Community Secretariat continuously warns BiH Power Sector stakeholders about their noncompliance with the EU Directive on Security of Supply. In the closing part of the meeting REAP presented the recent work of two Market Working Group subgroups for Case Study and Load Research. REAP addressed the achievements of the two subgroups and next steps that they plan to undertake.

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. FMERI appointed the members of the Working group to propose a new restructuring action plan; however, little has been done also because of limited human resources.
- **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.

IV. TWENTIETH QUARTER DELIVERABLES

Information for USAID

- MOFTER letter - invitation, dated 1-13-2012, in English and local language
- Minutes from the MOFTER gas meeting, dated 11-30-11, in English and local language
- Aluminij letter, dated 1-16-12, in English and local language
- Amendments to the Transco Statute - Article 1, in English and local language
- Minutes from the second Transco Extraordinary Session, dated 2-24-2012, in English and local language

Deliverables

- Sample Selection Procedure Outline for EPs_first_step, dated_1-17-2012, in English and local language
- Possible pricing rules for FERC DS Mechanism, dated 12-21-2011, in English and local language
- LR Sampling presentation by T Konjic, dated 12-22-12, in English and local language
- LR Questionnaire presentation by OM, dated 12-22-12, in English and local language
- Draft Questionnaire, dated 12-8-2011, in English and local language
- Activity Plan for the meeting LR, dated 12-22-11, in English and local language
- Case Study Metering 1-17-2012 in English and local language
- Comments to RERS EC Rule – in English and local language

- MOFTER Task List, dated 2-20-2012, in English and local language
- Load Research Manual, dated 2-14-12, in English and local language
- Load Research Guidelines, dated 2-8-12, in English and local language
- Letter REAP to Aluminij, dated 3-2-2012, in English and Local language
- Agenda 3rd LR Meeting, dated 3-22-12, in English and local language
- USAID REAP LR Balancing Settlement, dated 3-22-12, in English and local language
- EPRS presentation on LR, dated 3-22-12, in English and local language
- USAID REAP LR Recent Developments, dated 3-30-2012, in English and local language
- USAID REAP Case Study Recent developments, dated 3-30-2012, in English and local language
- CASE STUDY Framework for Retail Market, dated 3-12-12, in English and local language
- CASE STUDY Switching, dated 3-12-12, in English and local language_
- CASE STUDY Metering process, dated 3-12-12, in English and local language
- CASE STUDY Balancing settlement process, dated 3-12-12, in English and local language
- CASE STUDY Customer and Supplier Information, dated 3-12-12, in English and local language
- CASE STUDY Billing, dated 3-12-12, , in English and local language
- CASE STUDY Concluding Remarks, dated 3-12-12, in English and local language
- Sources Case Study meeting, dated 3-13-12, in English and local language
- Comments to RERS EC Rule, dated 2-2-2011, in English and local language

V. ANTICIPATED ACTIVITIES FOR THE FOLLOWING QUARTER

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

- REAP will 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 and the approved Action Plan of the Subgroup, REAP will prepare the two Draft Guidelines on the transfer Load Research data to the Brcko District and on data processing. REAP will also organize the fourth Subgroup meeting to discuss the final version of these guidelines and EPs activates.
- Consistent with its detailed Scope of Work for the Case Study and the approved Action Plan of the Subgroup, REAP will continue analyzing processes that determine all actors' roles in the retail and wholesale market, mutual relations and market related information flow (commercial processes). REAP and STTA will research international practice regarding these processes and BiH regulations that should describe these processes in the BiH electricity market. REAP will primarily focus on the gaps in local legislation, regulations and rules. These analyses will be presented at the next Case Study Subgroup meeting for discussion.

- 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: If and when requested, REAP will assist MOFTER, the two entity ministries and BiH Gas in development of the State and FBiH gas laws and changes to the RS Gas Law.

Restructured and commercialized energy companies

- REAP will continue its assistance to the Federation Ministry of Energy, Coal and Industry 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 focused primarily on the two Market Working Group active subgroup activities: the Load Research Group and the Case Study during the reporting period. Efforts were also directly towards assisting the two Entity regulators on their draft rule revisions on the eligible customer, which would include the Default Supplier structure. Also, since the last election repopulated the political landscape, REAP also had a series of meetings to see whether a State Gas Law is possible at this time. Finally, additional assistance was given to MOFTER, particularly in the area of the Energy Community Secretariat's Annual Report.

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.

REAP finalized the translation into local language of the Load Research Manual published by Edison Association Illuminating Co's and sent it to the Load Research Subgroup members.

On March 22, 2012, REAP organized the third Subgroup meeting at FERC's office. Fifteen attendees from all three regulatory commissions and EPs, ISO and Brcko District attended. Two topics were addressed in the meeting: the first one was for EPs to report on the current status of the

implementation of the load research, and the second was for REAP to present the final drafts of the two Guidelines that STTA had prepared earlier. In addition, REAP presented how to use the load curves in the balancing settlement process and the international practice on the usage of the load curve for balancing settlement and the attendees welcomed it, since it proved that the balancing market can function even when multifunctional (incremental) meters have not been installed at all customers' connection points on the network.

- KRA 2.1.4. Lead Case Study effort, consisting of open market base case and scenarios.
- REAP organized the two-day Case Study Subgroup meeting in Sarajevo at the ISO office. Twenty-one attendees from all three regulatory commissions and EPs, ISO and Brcko District attended. The main goal of the meeting was for REAP to present its findings from the gap analyses of domestic regulations in regard to the retail electricity market. In addition, REAP presented the findings of the extensive research carried out on international practices and guidelines on market actors' role and processes in the electricity market and discussed both items with the attendees.
- 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.
- 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.
- 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.
- 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.
- 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.
- KRA 4.3. Monitor decisions made by Energy Community and update implementation.

REAP also communicated with MOFTER to address the priority list of actions that the recently appointed Minister and Deputy Minister should work on. MOFTER confirmed the list and informed REAP that the Minister and the Deputy Minister want to discuss these topics with REAP.

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

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 Fiscal Year 2012
1.	Clean Energy related measure	1	1
2.	Number of policy reforms/laws/regulations/administrative procedures drafted and presented for public/stakeholder consultation to enhance sector governance and/or facilitate private sector participation and competitive markets as a result of USG assistance	14	14
3.	Number of days of technical assistance trade and investment environment provided to counterparts or stakeholders	50	50
4.	Number of days of USG funded technical assistance in technical energy fields provided to counterparts or stakeholders	60	60
5.	Number of new legislative, policy reforms and regulatory practices initiated to strengthen economic governance at all levels	2	2
6.	Number of public sector officials trained with USG assistance	40	40

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.		•	

