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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, 2011, 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 Report. 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 and to become familiar 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.

As energy reform technical 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

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

REAP met the Ministry of Foreign Trade and Economic Relations (MOFTER) representatives and discussed MOFTER's approach and preparation for the meeting "Day of Bosnia and Herzegovina in the Energy Community". As agreed, REAP prepared bullet points for MOFTER's presentation, where the key messages would be for BiH politicians to continue the implementation of the Energy Community Treaty provisions and decisions by the Energy Community Treaty Ministerial Council to oblige Signatory Parties to transpose and implement the Third Liberalisation Package. In addition, REAP addressed the need for BiH to discuss the Regional Wholesale Market Opening Action Plan as well as Regional Energy Strategy. The meeting was organized by the Ministry of Foreign Trade and Economic Relations and the Energy Community Secretariat.

At MOFTER's request, REAP attended the preparatory meeting for a workshop where representatives of the Contracting Parties to the Energy Community Treaty planned to discuss their plans to implement the Third Liberalization Package (TLP). Besides discussing the need for BiH to discuss and take a position on the Regional Wholesale Market Opening Action Plan and Regional Strategy, and suggesting other questions for clarification at the Workshop, REAP also addressed the need for MOFTER to inform the high level decision makers on the three crucial

areas that need attention and decisions. These areas are: Implementation of the Third Liberalisation Package, Market Opening and Organization of the Gas Sector. REAP explained that the State and two Entity ministers should be informed on these topics, and they should agree on BiH's position on further steps regarding these areas. Because of the lack of movement in energy reform (actually almost all types of reform), any positions taken and decisions made must be made on at least the Ministerial levels.

REAP attended the 18th Athens Forum, which is organized by the Energy Community Secretariat on an ongoing basis. The following Conclusions of the Forum are the most applicable to Bosnia and Herzegovina: (i) The process of implementation of the Third Package has been too slow, and the Contracting Parties to the Energy Community Treaty must accelerate the implementation of the Third Package as soon as possible; (ii) Signatory parties should take an active role in the further Energy Community Strategy development process and implementation of it in local strategies. In particular, signatory parties should review existing procedures and barriers to investments; (iii) In light of the recent February 2012 supply problem, the contracting parties must pay attention to national emergency measures and further implement the Security Supply Directive; (iv) Since there is evident delay in implementing the SEE Regional Action Plan for the Wholesale Market Opening, all Contracting Parties should analyze the barriers in national legislation and regulations reported as the trigger for this delay, and make an effort to eliminate such barriers; (v) Renewables could impact the stable and secure work of the system; therefore, the Contracting Parties should address the challenges that renewables pose for network operation and search for adequate solutions. Besides these conclusions, the most important speech at the Athens Forum was given by the representative of the IFC (the World Bank), who chastised almost all contracting parties for doing very little to open the regional wholesale market. In particular, he stressed his observation that politicians in the region are not committed to energy sector reform, including market opening.

Assist regulators to require and EPs to implement Load Research:

REAP developed the Guidelines that prescribes three possible methodologies for Brcko District to use load research data from other power utilities in Bosnia and Herzegovina, as well as the Guidelines for Data processing. Data processing is an important stage of Load Research that covers validation, editing, and storage. Each of these operations is critical to the success of Load Research.

REAP organized the fourth Subgroup meeting for representatives from all three regulatory commissions, the EPs (except EP HZHB), the Brcko District, and REAP participated. Five topics were discussed in the meeting:

- i. EPs' reports on the status of implementing load research in their regions;
- ii. Draft new modules of the Guidelines;
- iii. Execution of Load Research in District Brcko;
- iv. Inclusion of low consumption customers in the Load Research process; and
- v. Next steps.

All in all, both EPRS and EP BiH are advancing well in the Load Research project, and Brcko District Power Utility is ready to establish the Load Research Team and implement the Data Transfer Guidelines. Because of political issues involving the management of the company, EP HZHB has been unable to make any progress on implementing load research to date.

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

REAP is preparing for a continuation of the case study process in August 2012, by readying presentations that present further sections of a gap analysis between international practice and the BiH legal and regulatory framework for various facets of the detailed requirements for competitive markets. The topics prepared for this subsequent set of presentations are licensing processes, metering, billing and the settlement processes, making and terminating contracts, single and dual point supply contracts (either with the supplier only or both the supplier and the distribution company) and third party access contracts.

Attendance and presentation at the USAID anniversary event in Trebinje on May 10, 2012.

USAID organized an event to mark its 50-year anniversary since its establishment and 15 years of work in Bosnia and Herzegovina in Trebinje, on May 10, 2012. 33 participants attended. REAP made a presentation on the regional Wholesale Electricity Market Opening. The presentation summarized the Energy Community Treaty plan to open the wholesale regional market and the BiH tasks required to join this market. The key message from the presentation was that BiH politicians should discuss and try to determine the BiH position toward the World Bank Study recommendations on the establishment of the Regional and Local Electricity market. The presentation pointed out that BiH could benefit from the establishment of the market. Attendees included the General Manager of Elektroprivreda RS and the RSERC Chairman with the other four commissioners, who made speeches addressing USAID technical assistance to the energy sector.

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

A key step in market opening is the establishment of a Default Supplier, which will supply customers who have not chosen a supplier or cannot find a supplier that will supply them. The joint work of the three regulatory commissions assisted by REAP on the establishment of the default supplier mechanism as a step forward from fully regulated to fully unregulated electricity tariffs resulted in the issuance by them all of Rules establishing a Default Supplier. FERC was the last regulator to issue this Rule during this reporting period. SERC's and RSERC's Rules on Eligible Customers allow suppliers to propose a default supplier price and the regulator to supervise and approve proposed tariffs as is the international best practice, whereas FERC retained the fully regulated model with FERC keeping full control over the tariff determination process. In addition, while RSERC determined the methodology for a supplier to gradually make default supplier tariffs equal to a market price according to international practice, FERC's methodology does not. REAP submitted comments to FERC, suggesting changes in the FERC's Rules in order to make it more market oriented and more harmonized with other two regulatory commissions' document on this issue.

On April 26, 2012, SERC issued a decision on ISO and Transco tariffs that will be applied as of December 1, 2012. The importance of the decision on the Transco tariff is that in this tariff

SERC officially removed the export fee. This decision finally eliminates one of the barriers for international electricity trade imposed on electricity exporters by SERC.

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.

IV. TWENTY-FIRST QUARTER DELIVERABLES

Information for USAID

- MOFTER Invitation for Conference, dated 6-6-2012, in English and local language
- MOFTER Presentation for Energy Days from Jahorina, dated 6-14-2012, in English language only
- RSERC Speech for Energy Round Table, dated 5-10-12, in English and local language

Deliverables

- Agenda for LR meeting Sarajevo, data 6-19-12, in English and local language
- Guidelines LR Data transfer for Brcko DC, dated 4-12-2012, in English and local language
- Guidelines DATA PROCESSING, dated 6-6-12, in English and local language
- Presentation on Data Transfer Brcko, dated 6-18-12, in English and local language
- Presentation on Data analysis, dated 6-19-12, in English and local language
- Presentation on Data Processing, dated 6-19-12, in English and local language
- Draft Bullet points for BiH Energy Days, dated 6-7-12, in English and local language
- LR Guidelines for Data transfer –Brcko, dated 4-12-2012, in English and local language
- Report on LR activities status, dated 5-25-12, in English and local language
- Case Study Presentation on Licensing, dated 5-21-12, in English and local language
- FERC EC Rule final compared, dated 5-28-2012, in English and local language
- REAP Twentieth Quarterly Report, dated 5-11-12, in English language only
- Regional Electricity Market-Trebinje, dated 5-10-12, in English and local language
- REAP Comments on FERC EC RULES, dated 4-25-12, in English and local language
- FBiH switching, SOLR and cust infor slides, dated 4-25-12, in English and local language
- USAID_REAP_Sample Selection, dated_3-22-12, in English and local language
- USAID_REAP_Sample Implementation, dated_3-22-12, in English and local language
- USAID_REAP_LR Review, dated 3-22-2012, in_English and local language
- EP BiH presentation for LR meeting, dated_3-22-2012, in English and local language
- Minutes LR 3rd Meeting Mostar, dated 3-22-12, 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 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 Draft Guidelines, on the analysis of Load Research data. REAP will also organize the fifth Subgroup meeting to discuss the final version of these guideline and EPs load research activities pursuant to work done in the Subgroup.
- 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 will research international practice regarding these processes and BiH regulations that should describe these processes in the BiH electricity market, primarily focusing on the gaps in local legislation, regulations and rules. This analysis 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.
- REAP will assist MOFTER to initiate discussion on the implementation of the Third Liberalization Package, Regional Energy Strategy and Security of Supply.
- F BiH Draft Electricity Law: As requested, REAP will assist FMERI to process amendments and prepare the final Draft Electricity Law for the F BiH 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 F BiH gas laws and changes to the RS Gas Law.

Restructured and commercialized energy companies

- Restructuring of public power utilities: If and when requested, 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.

When it issued its Rule on Eligible Customers, FERC retained the fully regulated model, with FERC keeping full control over the tariff determination process. While RSERC determined the methodology for a supplier to gradually make default supplier tariffs equal to a market price according to international practice, FERC's methodology does not. REAP submitted comments to FERC, suggesting changes in the FERC's Rules in order to make it more market oriented and more harmonized with other two regulatory commissions' document on this issue.

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 developed the Guidelines that prescribe three possible methodologies for Brcko District to use load research data from other power utilities in Bosnia and Herzegovina as well as the Guidelines for Data Processing, which is an important stage of the Load Research that covers validation, editing, and storage. Each of these operations is critical to the success of the Load Research. REAP organized the fourth Subgroup meeting at EPBiH's office in Sarajevo, in which progress was made on development of the Guidelines and implementation of load research, except for EPHZHB, whose management has political difficulties, crippling its effort on load research.

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

REAP is preparing for a continuation of the case study process in August 2012, by readying presentations that present further sections of a gap analysis between international practice and the BiH legal and regulatory framework for various facets of the detailed requirements for a competitive markets.

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

REAP prepared bullet points for MOFTER’s presentation at the meeting entitled “Day of Bosnia and Herzegovina in the Energy Community,” organized by the Ministry of Foreign Trade and Economic Relations and the Energy Community Secretariat. The bullet points included the key messages for the implementation of the Energy Community Treaty

provisions and decisions by the Energy Community Treaty Ministerial Council to oblige Signatory Parties to transpose and implement the Third Liberalisation Package. In addition, REAP addressed the need for BiH to discuss the Regional Wholesale Market Opening Action Plan and the Regional Energy Strategy.

At MOFTER's request, REAP attended the preparatory meeting for a workshop where representatives of the Contracting Parties to the Energy Community Treaty will discuss their plans to implement the Third Liberalization Package.

REAP attended the 18th Athens Forum and prepared Conclusions to distribute them to MOFTER representatives.

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	13	25
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	4	30
3.	Number of days of technical assistance trade and investment environment provided to counterparts or stakeholders	38	147
4.	Number of days of USG funded technical assistance in technical energy fields provided to counterparts or stakeholders	48	181
5.	Number of new legislative, policy reforms and regulatory practices initiated to strengthen economic governance at all levels	1	5
6.	Number of public sector officials trained with USG assistance	45	85
7.	Support for International Standards	1	2

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.		•	

