

MEMORANDUM

TO: Jane Wilson

FROM: Ognjen Markovic

DATE: July 8, 2010

RE: **Short Analysis of the Draft RS Energy Strategy from the REAP assistance point of view**

On the RS Government request Institute “Hrvoje Pozar” from Croatia developed the RS Energy Strategy for the period 2010-2030. The Strategy consists of three documents: (i) the RS Energy Development Plan until year 2030; (ii) Energy Strategy Development (short version); (iii) Action Plan to Implement RS Energy Strategy. While the first document is the big one, 1160 pages, the second one is 74 pages long.

Draft Strategy defines the following Goals in Electric Power Sector:

From REAP point of view, the importance of the RS Energy Strategy (Strategy) in the part pertaining to Electricity Sector, beside other important issues, is the Government’s commitment regarding the following:

- Development of the Power Sector to Secure Power Supply
- Development of the conditions for stepwise electricity market opening
- To adjust local legislation and regulation with EU directives

The Strategy Identifies the following specific issues with regard to present situation in Electric Power Sector:

Customers in RS do not pay cost-based tariffs and a cross-subsidization exists between certain customers’ classes;

Between 28.000 and 35.000 customers receive social assistance as vulnerable customers. RS budget secure 150kWh/month for these customers;

Existing laws and regulations manly comply with the EU and international obligation regarding reform of the power sector in BiH and RS.

None of eligible customers have changed supplier; all of them are still tariff customers due to low tariffs in RS.

Elektroprivreda RS has not unbundled distribution and supply function.

Strategy proposes the following specific goals for Electric Power Sector:

The basic goal of the Strategy in Electric Power Sector is to ensure continuous and quality power supply at market and affordable prices.

“The basic assumption for the Power Sector development is fully opened electricity market in line with EU directives as of January 2015:”

In order to open market the RS plans to organize it in accordance to the Energy Community/EU legislation and principles so the RS market will integrate into regional market. For RS the basic preconditions for the establishment of electricity market are the

following: Independent regulators; Market based prices; Vulnerable Customers program. The Strategy foresees the electricity market to be fully opened by 2015 until when Elektroprivreda RS will be fully unbundled, cross-subsidization will be eliminated, all customers will be able to choose supplier, tariff prices will gradually increase to cost based level. This includes installation of adequate metering devices what is, as the investment project, considered as the short term action.

Conclusions: It is REAP opinion that the Draft RS Strategy is very good framework for further work on the electricity market opening with the MWG. The basic statements in the document regarding preconditions for successful market opening are in line with the identified impediments for successful market opening that MWG had determined through its work and number of seminars that REAP had recently organized.

This memorandum is made possible by support from the American People sponsored by the United States Agency for International Development (USAID). The contents are the sole responsibility of the author/s and do not necessarily reflect the views of USAID or the United States Government.