

# FOUNDATION OF THE ELECTRICITY MARKET OF BOSNIA AND HERZEGOVINA

## BiH and the Energy Community Treaty - state of play and next steps

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## Energy Community – *the foundations*

### THE “ATHENS PROCESS”

- Athens MoU (2002 and 2003) as a political commitment - restructuring, legal and regulatory reform and market liberalization in the SEE countries
- Primary goal - establishment of SEE regional electricity market, with a view to be integrated into the EU Internal Energy Market

### ENERGY COMMUNITY TREATY

- The Treaty as a legally binding commitment
- Commitments under the Treaty
  - Extension of the *Acquis Communautaire* on energy, environment, competition and renewable energy and compliance with the EU generally applicable standards
  - Development of mechanism(s) for operation of energy markets – related to long-distance transportation of energy, security of supply, universal service of supply, harmonization of the licences, conditions for the use of renewable energy sources and energy efficiency and safeguard measures
  - Creation of a single energy market – measures related to implementation of trading rules of the Internal Energy Market, energy trading policy and mutual assistance in the event of disruption of the supply

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## Energy Community – *the process*

### ENERGY COMMUNITY INSTITUTIONS

- The Ministerial Council
- The Permanent High Level Group (PHLG)
- The Athens Forum
- The Energy Community Regulatory Board
- The Energy Community Secretariat

### MONITORING

- Action plans
- Road maps
- Benchmarking and reporting

### OTHER ACTIVITIES

- Initiatives
- Projects
- Educational activities

State of play in the SEE region – *status as of June 28, 2007*

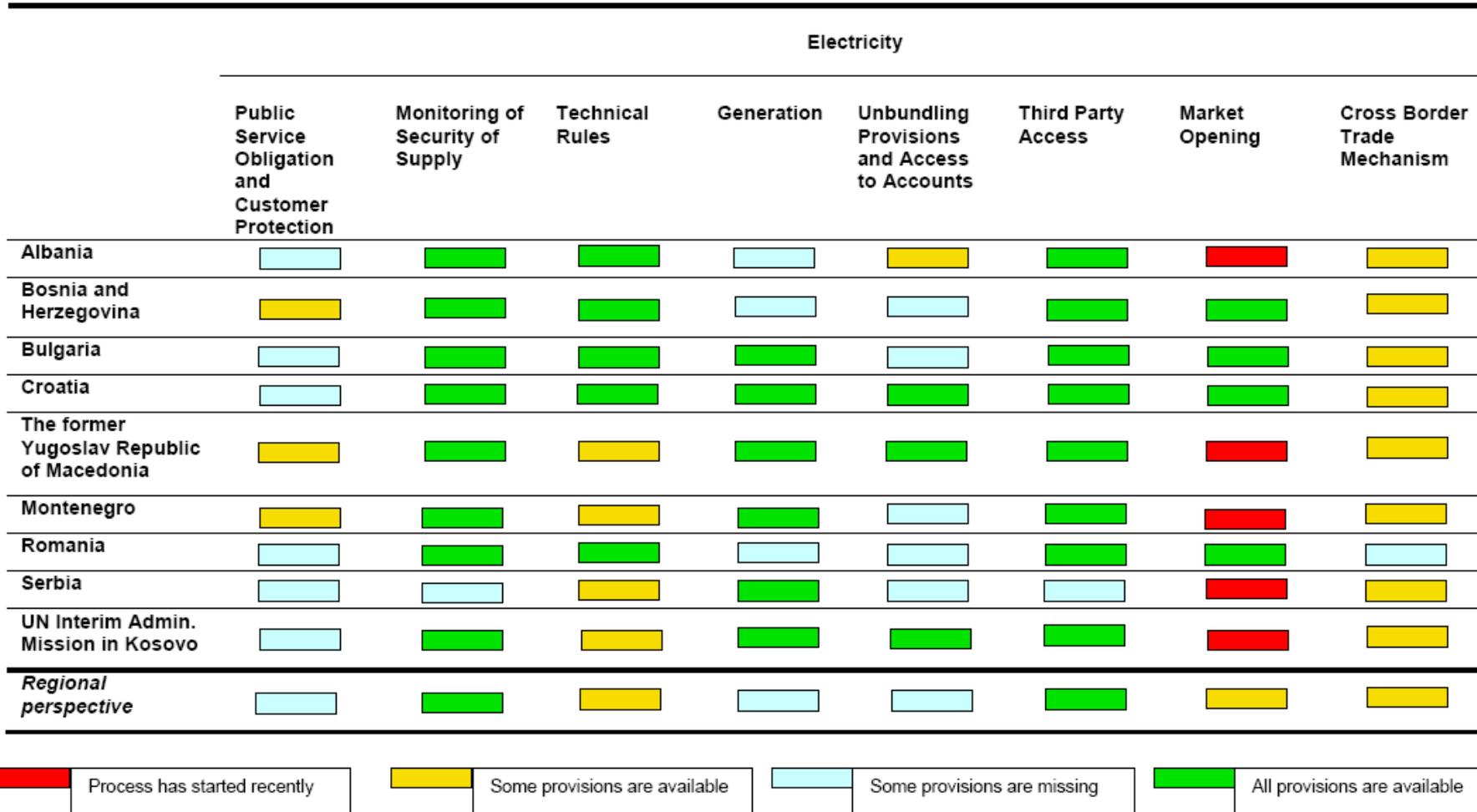


Figure 1: Benchmarking – Electricity

## GENERAL ASSESMENT (1)

- Public service obligations are well defined. However, further work is needed on the provisions related to the appointment of a supplier of last resort, and especially to include provisions to protect vulnerable customers.
- In general, provisions on monitoring of security of supply are put in place. However, mechanisms for their practical implementation call for further attention. Otherwise, security of supply may be endangered which further on might undermine activities related to opening of the electricity market.
- Technical rules are mostly either put in place or are in final phase of regulatory approval. The Contracting Parties which still do not have a complete set of technical rules are urgently finishing this work.
- In general, electricity generation is subject to licensing. Construction of new generation capacity is subject to authorisation. However, some of the Contracting Parties do not have provisions on tendering of new capacity on the grounds of security of supply.

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State of play in the SEE region – *status as of June 28, 2007*

## GENERAL ASSESMENT (2)

- In general, unbundling provisions and provisions related to access to accounts are put in place. However, their full practical implementation and monitoring shall be of immediate first priority to the Contracting Parties.
- Provisions related to regulated TPA to T&D networks are put in place, as well as obligations to justify the denial of access to network. However, cost reflective methodology for determining network access tariffs is yet to be applied.
- Implementation of the timetable for market opening from the Treaty is not likely in practical terms from today's perspective. Therefore, gradual opening of the electricity market with dynamics (eligibility threshold and timetable) shall be specified and harmonised with the Treaty provisions.
- Cross border issues in electricity transmission (ITC, network capacity allocation, congestion management, balancing mechanism) are of critical importance to opening of the electricity market. It still being the work in progress.

State of play in the SEE region – *work in progress on implementation of the Acquis*

Main work in progress issues	Albania	Bosnia and Herzegovina	Bulgaria	Croatia	The former Yugoslav Republic of Macedonia	Montenegro	Romania	Serbia	UNMIK
<b>Acquis related issues</b>									
Customer protection	X	X			X	X			
Authorisation procedures for new generation capacity	X	X				X			
Technical rules					X	X		X	X
TSO unbundling	X		X	X		X			
DSO unbundling (network operation and supply)	X	X	X		X	X		X	X
Development of the Market Operator's functions	X			X		X			
Eligibility status	X				X	X		X	X
Allocation of cross border transmission capacity	X	X	X	X	X	X		X	X
Participation in the ITC mechanism				X					X

State of play in the SEE region – *work in progress on market reforms*

Main work in progress issues	Albania	Bosnia and Herzegovina	Bulgaria	Croatia	The former Yugoslav Republic of Macedonia	Montenegro	Romania	Serbia	UNMIK
<b>Market related issues</b>									
Further structural development of incumbents	X	X	X					X	X
Generation unbundling and privatisation	X		X						
Restructuring and consolidation of the distribution companies before unbundling and privatisation	X								X
Business performance indicators, collection rate, reduction of losses	X				X	X			X
Market monitoring, including imports	X	X	X	X	X	X		X	X
Transparency of information related to market operation (i.e. TSO web pages)	X	X	X	X	X			X	X
Market rules	X				X	X		X	X
Application of technical measures and business procedures for customer switching	X	X	X	X	X	X		X	X
Remote automatic meter reading on a wide scale		X		X					
Balancing market and auxiliary services market	X			X	X	X		X	X
Development of cost-reflective tariff methodologies, including ones for balancing and auxiliary services	X	X			X	X		X	X
Prediction of correct load profiles for different customer groups for further development of tariff methodologies		X		X					

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State of play in the SEE region – ***characteristic problems***

- Low level of tariffs which leads to regulate the whole energy chain;
- Metering, billing and invoicing of customers;
- Collection rates, non payment and non invoicing as no data base of customers;
- Transparency in data and harmonisation of accounts;
- Lack of domestic generation which leads to high imports;
- Existence of wholesale suppliers;
- TSO bundled with Market Operator;
- Cross-border issues;
- DSO bundled with retail; and
- Lack of investments in distribution.

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BiH and the regional market – *next steps*

## BASIC PROBLEMS – measures to be taken

- Ensure efficient operation of the ISO provided by all parties in BiH, as a necessary prerequisite for the system to operate for commercial transactions.
- Provide for cooperation with the ISO by all parties in BiH required to allow full market monitoring and transparency of information related to market operation.
- Further develop the balancing market to be operated by the ISO. (Support and coordination is needed by all the system stakeholders).
- Enable efficiently updated measurements as a pre-condition for the balancing market operation. (Operational transmission SCADA system).
- Ensure cost-reflectivity of the tariff methodologies applied for the balancing market and auxiliary services.
- Develop technical measures and business procedures for customer switching.
- Implement legal, accounting and functional unbundling and separation of DSOs in all three EPs, required to guarantee independence in their operation.

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BiH and the regional market – *next steps*

**BASIC PROBLEMS – processes to be set**

- Establish a process for introduction of remote meter reading on a wide scale in the distribution.
- Set up a process for improving the prediction of correct load profiles for different customer groups.
- Set up a process for gradual deregulation of generation prices, starting with the existing eligible customers, in order to remove obstacles for new market entrants.
- Set up a process for implementation of efficient schemes for protection of vulnerable customers. Introduce the function of a supplier of last resort.
- Set up a process for gradual implementation of the market opening in the distribution.
- Set up a process for complete alignment of the cross-border trade conditions with the overall regional developments.
- Consider ways to increase the efficiency with respect to the regulatory structure in BiH

Thank you for your attention

I am available to answer your questions

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