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Regulatory and Energy Assistance

Energy Community Regional Integration

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**Asistencija regulativi i reformi
energetskog sektora**

Issues addressed in presentation

- Regional activities
- Sector reform

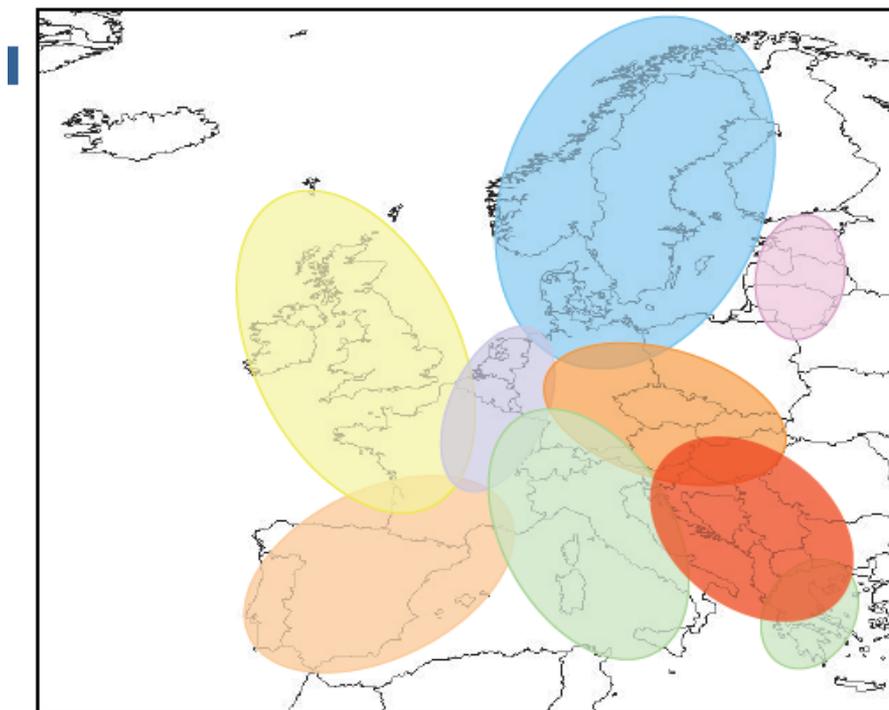


Introduction: TransEuropean Electricity Market

- EU commenced the activities on the establishment of an internal electricity and gas in 1992
- Idea is that national markets be gradually integrated into regional ones
- Harmonization of regional markets based on the same legislative and regulatory principles enables their integration into the TransEuropean energy market
- The goal is to develop a TransEuropean electricity and gas market
- BiH expressed its readiness to be a part of the regional and EU market by signing Energy Community Treaty (that is based on EU Directives and regulations)



Regional electricity market



← SEE



Main goals of the Energy Community:

- To establish stable regulatory framework to attract investors
- To establish a harmonized space for electricity trade
- To improve security of supply
- To enhance the situation in the field of environment protection
- To regulate the market structure of the non-EU member countries according to current market development in EU



Implementation of goals through (1):

- Coordinated/Transparent Congestion management – Formation of the Office for Coordinated Cross-Border Capacity Allocation
 - Bosnia and Herzegovina was mentioned in negative sense at the last Athens Forum, 3rd December 2008.
- Development of a “wholesale” market on the regional level
 - Bosnia and Herzegovina was mentioned in negative sense at the last Athens Forum, 3rd December 2008.
- Coordination of a Balancing Mechanism on the Regional level



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Implementation of goals through (2):

- Regional investment plan
- Ensuring transparency
- Market design on the national level so that they all fit together.



Current regional activities

- Coordination Auction Office (CAO)
 - 8th Region for Capacity Allocation Coordination established
 - MoU (Establishment, Business Plan, Location, Financing)
 - Harmonization of method for capacity allocation
 - “Dry Run”
 - Legal and regulatory issues
- Regional Balancing Market-BalanceEnergyTool for SouthEastEurope
 - Initial activities are underway
- Inter TSO compensation mechanism – functions



BiH and regional activities on market opening

- Congestion management
 - BiH is the only in the Region that applies pro-rata capacity allocation methodology
 - Balancing mechanism
 - How are EPs informed about the regional process?
- Tariffs for export of electricity
- BiH is one of the countries that applies the export fee (Athens forum).



Principles for Congestion Management

General Principles for Congestion Management



Regulation (EC) 1228/2003, Article 6:

“...Network congestion problems shall be addressed with non discriminatory **market based** solutions which give efficient economic signals to the market participants and transmission system operators involved...”

“... The **maximum** capacity of the interconnections and/or the transmission networks affecting cross-border flows shall be **made available** to market participants, complying with safety standards of secure network operation ...”

No pro-rata allocation of capacity & No long term contracts

13th Athens Forum, Athens, 2-3 December 2008

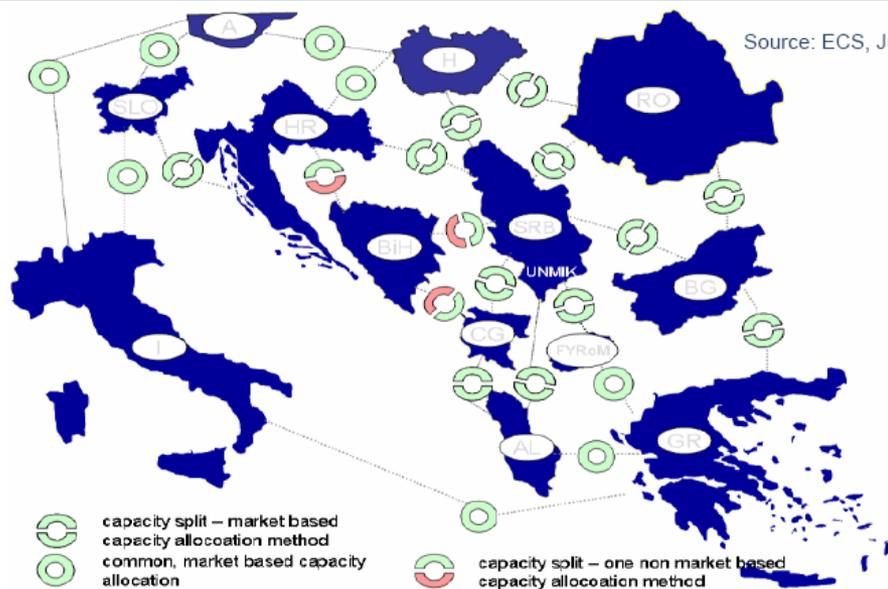


Current situation in the Region – capacity allocation method

Current situation capacity allocations



Source: ECS, June 2008



It is a matter of fact, that after some years of discussion there is limited improvement



Experiences of electricity traders in the Region



THE ANSWER OF MANY GOVERNMENTS IS
REGULATION AND MARKET DISTORSION

Export charges:

Bulgaria 8 €/MWh

Romania 7 €/MWh

Bosnia 5 €/MWh

Serbia 1 €/MWh / MWh

Import charges:

Romania 2 €/MWh

Greece 2,5% from price

Serbia 1 €/MWh / MWh

Other market distorsions:

- single buyer system
- limited access to crossborder capacities
- low tariffs for power prices



Athens Forum conclusion in relation to constraints on crossborder trade

Conclusion no. 12.

The forum highlighted the importance of removing wholesale price regulations, constraints on crossborder trade and price of industrial customers.



Regional activities - Conclusion

- Regional market establishment is of interest for EPs
- EPs involvement in defining solutions is of interest for both EPs and BiH
- Solutions have an impact on the position of EPs on the Regional market
- EPs proactive in the process of removing obstacles and defining solutions



Sector reform

- Energy Community Secretariat developed the Road Map for signatories of Energy Community Treaty
- SAA in the field of Energy based on the Treaty
- BiH Progress report in the process of association based on implementation of the Treaty, i.e., the Road Map



SAA and Energy

Article 107

Energy

Cooperation shall focus on priority areas related to the Community *acquis* in the field of energy, including, as appropriate, nuclear safety aspects. It shall be based on the Treaty establishing the Energy Community and shall be developed with a view to the gradual integration of Bosnia and Herzegovina into Europe's energy markets.



Current challenges

- Reform status: stalled.
- Problems
 - Unbundling in FBiH
 - Situation with Elektroprenos
- BiH applies a capacity allocation mechanism which is contrary to EU regulations
- Export fees
- Other



European Commission Report on BiH Progress for 2008. (1)

4.2.5. Energy

Overall, progress in reforming the energy sector has stalled.

Bosnia and Herzegovina is a Party to the Treaty Establishing the Energy Community in Southeast Europe. As such, it was bound to apply the relevant energy-related *acquis* as from 1 July 2007, with the exception of the provisions on market opening to which a specific timetable applies. This deadline was extended to July 2008, but has not been met. As a result, Bosnia and Herzegovina is significantly lagging behind in a number of energy-related areas.



European Commission Report on BiH Progress for 2008 (2)

- As regards the opening of the electricity market, from January 2008 all consumers (except households) can become eligible consumers. However, the benefits of a more open market continued to be watered down by system, technology or metering barriers.
- New draft legislation is putting regulatory independence at risk in the Federation. There have been continued attempts by the authorities to influence the regulators, notably in relation to tariff setting.
- Overall, Bosnia and Herzegovina's preparations to meet EU standards in the field of energy have started, but remain at an early stage.



What to do in order to unblock and overcome current situation

- Implement the Road Map (Document prepared by the Energy Community Secretariat that defines the activities to be performed in order to comply with the Treaty)
- Agree on implementation of the Internal Action Plan for BiH
- Be proactive in regional activities aimed to enhance regional cooperation in electricity sector



Internal Action Plan

- The Road Map defines what activities are necessary to complete the acquis communautaire in electricity and gas.
- The Internal Action Plan is an elaboration of the Energy Community Secretariat's Road Map for BiH.
- The Internal Action Plan was prepared under the auspices of the three Ministries responsible for energy.
- The point is to specifically and realistically define who should do what.



Status and next steps

- Present the Internal Action Plan to stakeholders in the sector.
(partially completed)
- Stakeholders are invited to give their opinions and suggestions.
(partially completed)
- Develop final version of Internal Action Plan document for continuation of sector reform.
- The respective ministries to accept the Internal Action Plan and implement it.
- EC will be informed with the existence of Internal Action Plan