



National
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Annual Program Performance Report

Coop. Agreement #: REE-A-00-07-00050-00
Program: Energy Regulatory & Security Program in Europe & Eurasia
(<http://www.erranet.org> or www.naruc.org)
Countries: Central/Eastern Europe & Eurasia (regional)
Period: **FY08 (October 2008 – September 2009)**
Implementer: National Association of Regulatory Utility Commissioners
(NARUC)
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Task Description:

Develop the Central/Eastern European and Eurasian regions' energy regulatory authorities and their networking opportunities; strengthen the regulators and their efforts to establish a stable, efficient, and competitive energy industry.

Scope of Work:

Below please find a detailed description of the various activities implemented in accordance with the 2008-2009 workplan.

1.0 Regulatory Capacity & Association Institutional Development:

1.A Training/Capacity Development

NARUC provided support to ERRA in development of its comprehensive regulatory training program.

In July 2009, the ERRA Training Advisory Committee (comprised of representatives of ERRA, NARUC, and USAID) finalized selection of two NARUC commission staff experts to serve as instructors for an upcoming joint training course on **Renewable Energy Regulation**, Nov. 24-27, 2009, Budapest, Hungary.

ERRA implemented its pilot training course titled: **Introduction to Gas and District Heating Regulation to be implemented on November 17-21, 2008** in Budapest. The professional content of the Training Course was developed by REKK led by Peter Kaderják, along with experts of the Clingendael International Energy Programme particularly Mr. Jacques de Jong, who served as Course Director. Development and organization of this pilot course was supported by NARUC under the auspices of its USAID Cooperative Agreement

The course featured 4 days dedicated to the issues of natural gas regulation while the last day of the course will deal with the heat market and its regulatory models. During the intensive course the following broad themes were addressed:

Natural Gas:

1. A general introduction into the gas value chain, including the technical, economic, organisational and industrial characteristics.
2. A brief historic overview of the role of natural gas in the EU energy mix, the development of the EU gas market, the underlying industrial and policy strategies, both from producer and consumer perspectives.
3. Regulating the gas value chain, specific features and regulatory dilemmas:
The TSO and DSO functions
Gas storages, including seasonal storage, LNG terminals
Tariff setting & cross border issues
New infrastructures and the specific gas characteristics
Restructuring and liberalization
Security of supply

District Heating:

1. Introduction of district heating concepts and their regulatory issues
2. District heat pricing and vulnerable customers
3. Relevant EU Directives and the EU Policy
4. Case Studies

For more details on the ERRA Training Course, please visit our website here:

http://www.erranet.org/Training/Intermediate_Advanced_Training/Gas_Reg_2008

1.B. Association Development

ERRA Committee Meetings, Working Group Meetings, Conferences, Workshops

NARUC organized the participation of two U.S. commissioners/commission staff in each of the following ERRA activities to share U.S. regulatory practices.

- Tariff/Pricing Committee Meeting & Renewables Workshop (Sept. 23-25, Riga, Latvia)
http://www.erranet.org/Events/ERRA/2009/Tariff_Workshop_Riga_September_23
http://www.erranet.org/Events/ERRA/2009/Tariff_Riga_September_24
- Legal Regulation Working Group (Oct. 1-2, Batumi, Georgia)
http://www.erranet.org/Events/ERRA/2009/Legal_Batumi_October
- Licensing/Competition Committee (Oct. 5-6, Tallinn, Estonia)
http://www.erranet.org/Events/ERRA/2009/Licensing_Tallinn_October

In September, NARUC forwarded the report prepared through a sub-consulting agreement with Pierce Atwood law firm to USAID/Washington. Pierce Atwood conducted an in-country assignment in Macedonia to meet with relevant Ministry(ies), Energy Regulatory Commission (ERC), consultants, USAID and others as necessary to define key legal and regulatory issues, especially those emerging from the Energy Community Secretariat's Reasoned Opinion in Case ECS-2/08 and the evolving market rules discussions.

ERRA organized its *8th Energy Investment and Regulation Conference* on April 6-7, 2009 in Warsaw. The *ERRA Annual Meeting*, including General Assembly and concurrent committee sessions, took place on April 8-9. NARUC sent three representatives through the USAID agreement funding (NARUC First Vice President and Vermont PSB Commissioner David Coen, Chairman Charles Box of the Illinois Commission, and Commissioner Erin O'Connell-Diaz of the Illinois Commission). NARUC also sent President Frederick Butler (Commissioner, New Jersey BPU) and Executive Director (Charles Gray) at its own cost.

<http://www.erranet.org/InvestmentConferences/2009>

ERRA organized the *Legal Working Group meeting* on February 19-20, 2009 in Warsaw, Poland. The Working Group meeting was co-hosted by the Energy Regulatory Authority (ERA) of Poland and self-financed by ERRA and its members.

NARUC sent two representatives through the USAID cooperative agreement funding: Sarah R. Thomas, Legal Division of the California Public Utilities Commission and Clare McGuire, Staff Attorney at the Georgia Public Service Commission.

The Working Group proceedings can be located at:

http://www.erranet.org/Events/ERRA/2009/Legal_Warsaw_February

ERRA organized the *joint ERRA Tariff/Pricing and Licensing/Competition Committees meetings* on January 26-27, 2009 in Bratislava, Slovakia. The meetings were co-hosted by the Regulated Office of Network Industries (RONI) and self-financed by ERRA and its members. ERRA Members from the following countries were present on the meetings: Albania; Bosnia & Herzegovina; Croatia; Estonia; Hungary; Latvia; Lithuania; Macedonia; Romania; Russia; Serbia; Slovakia; Turkey; Kosovo. Apart from the ERRA Member representatives there were delegates from Regional Centre for Energy Policy Research (REKK), Hungary; from the AEEG, Italy and from the Energy Center Bratislava, Slovakia.

The two committees met jointly the first day and addressed the following topics: Creation of a Regional Market: Possible Pricing Barriers and Solutions; Significant Market Power: Potential Regulatory Interaction to Support Competition, Mitigating Market Power; Quality Regulation Through Pricing; Demand Side Approach – Introducing the ERRA Case Study Paper.

On the second day, the committees held separate meetings. The Licensing/Competition Committee meeting discussed the following topics: Potential Limitations of Wind Power Connections to Electricity Systems (benchmarking of the present regulatory and TSO practice on existing limits; technical, economic and social arguments); Compliance control over electricity transmission license provisions and the license revocation problems in case of violation of license provisions; ERRA Market Structures.

The Tariff/Pricing Committee meeting discussed the following topics: Introduction of ERRA Database on Operating Wholesale Market Monitoring Network (capacity adequacy/ balance/, energy flow, market prices, tendencies); Defining of the content of the 2009 Tariff Committee Issue Paper: Corporate Finance of License Holders after the Asset Re-evaluation. Chart of Accounts; Introduction of the Electricity & Tariff Data Submitted by Members for the Quarters of 1-2 of 2008 for the ERRA Tariff Database;

Evaluation of Performance of the Energy Distribution Companies of the ERRA Member Countries – Evaluation of the work done by now, consideration of steps for further development; Tariff Setting in a Non-discriminatory Manner.

The materials of the meetings are available here:

http://www.erranet.org/Events/ERRA/2009/Licensing_Bratislava_January

http://www.erranet.org/Events/ERRA/2009/Tariff_Bratislava_January

The Head of the ERRA Secretariat worked on the long-term financial sustainability of ERRA and met with the new ERRA book-keepers, auditors and representatives of the new book-keeping software company in order to discuss the financial reporting obligations of ERRA. NARUC provided input on preparation of ERRA policies and procedures.

The ERRA Head of Secretariat participated in a US Study tour between December 1-5, 2008, under the auspices of the USAID/NARUC cooperative agreement. As part of the study tour she met with the financial representatives of NARUC and discussed various aspects of ERRA's future financial, auditing and financial reporting obligations. She met with Robert Archer (USAID) and Frederick Butler (NARUC) to discuss the organization of the 8th Energy Investment and Regulation Conference. In addition, she participated in a 3-day course dedicated to understanding the financial aspects of non-governmental organizations.

Under USAID/NARUC funding, ERRA Chairman Dr. Gábor Szörényi participated in the 7th EU-US Regulatory Roundtable Discussion organized by NARUC on November 13-16 in New Orleans.

ERRA organized the *Legal Regulation Working Group Meeting* in Sofia, Bulgaria on November 6-7, 2008. The Working Group Meeting was co-hosted by the State Energy and Water Regulatory Commission of Bulgaria (SEWRC). The following ERRA member countries sent representatives to the meeting: Abu Dhabi, Albania, Armenia, Azerbaijan, Bosnia and Herzegovina, Bulgaria, Croatia, Estonia, Georgia, Hungary, Italy, Kazakhstan, Latvia, Lithuania, Moldova, Montenegro, Poland, Serbia, Turkey, Ukraine, UNMIK, USA (NARUC, under funding from USAID).

In accordance with their workplan, members discussed the following issues:

- Regulatory independence
- Customers to be served on a mandatory basis
- Transparency of the regulatory process
- Monitoring of private vs. state-owned companies
- Jurisdiction between regulators and competition authorities
- Regulatory audit
- Role and goals of the regulator in the power sector privatization

For more details on the Working Group meeting, please visit:

http://www.erranet.org/Events/ERRA/2008/Legal_Sofia_November

2.0 Regulatory Reporting, Monitoring & Transparency

2.1 Southeast Europe Regional Electricity Market Monitoring Pilot Project

www.naruc.org/see_monitoring.

NARUC and its subcontractors created a transition plan to have entities in the SEE region assume responsibility for the market monitoring project. Quarterly monitoring reports are posted on the project website.

3.0 Regional Regulatory Cooperation

In August 2009, NARUC submitted a concept paper for a Black Sea/Caucasus Regulatory Forum to USAID.

4.0 Promotion of Energy Security

4.1 Regulatory Partnerships www.narucpartnerships.org

- **Georgia/Vermont Energy Regulatory Partnership**

From June 29 – July 2, 2009, NARUC implemented the third partnership activity between the Georgian National Electricity and Water Regulatory Commission (GNERC) and the Vermont Public Service Board (PSB). NARUC carries out these activities with funding provided by the United States Agency for International Development (USAID) Mission in Tbilisi. The week-long activity furthered a partnership where the American and Georgian participants exchanged experience and information with the goal of improving market-based regulatory practices and institutions in the near future.

One commissioner and three PSB staff members traveled to Kutaisi to share their knowledge with their colleagues from GNERC. They were:

- Hon. John Burke, Commissioner
- Mr. George Young, Policy Director
- Ms. Pamela Stonier, Utilities Analyst
- Ms. Mary-Jo Krolewski, Utilities Analyst

The Vermont team and their Georgian counterparts established a professional and collegial relationship during the first activity and they expanded it during this exchange. They showed a substantial degree of openness in sharing their experiences and perspectives on the challenges each group encounters. The week was filled with presentations and discussions on themes such as integrated resource planning, x-factor determination, cost-of-service studies, methane recapture, network losses, and administrative procedures, and other timely issues. All presentations are available at: www.narucpartnerships.org

In mid-December 2008, NARUC implemented the second partnership activity between the Georgian National Electricity and Water Regulatory Commission (GNERC) and the Vermont Public Service Board (PSB). The state of Vermont is supportive of this regulatory partnership exchange and the GNERC delegates were welcomed at the statehouse by Gov. Jim Douglas for a reception.

Four GNERC staff members traveled to Montpelier to learn from their colleagues in Vermont and share their knowledge with them. They included:

- Giorgi Chakhashvili, Executive Director
- George Iosebashvili, Head of Tariff Setting Department
- Gocha Shonia, Head of Methodology Division
- Gulnara Bedoshvili, Head of Gas Price Division

The Vermont team and their Georgian counterparts established a professional and collegial relationship and showed a substantial degree of openness in sharing their experiences and perspectives on the basic structure and challenges each group encounters. The week was filled with presentations and discussions on themes such as natural gas regulation, tariff unbundling, energy efficiency, rate regulation, water quality, and other timely issues.

- **ERO-Kosovo/ICC-Illinois Energy Regulatory Partnership**

NARUC implemented the second partnership activity between the Energy Office of Kosovo (ERO) and the Illinois Commerce Commission (ICC), in Chicago and Washington, DC, on June 8-12.

The ERO delegation consisted of 2 commissioners and 3 senior staff as follows:

1. Honorable Ali Hamiti, Chairman of the ERO Board
2. Honorable Nysret Avdiu, Member of the ERO Board
3. Mr. Rifat Blakaj, Head of Energy Supply and Market Structure Department
4. Mr. Afrim Ajvazi, Acting Head of Legal and Licensing Department
5. Mr. Muharrem Gashi, Economist on Pricing and Tariffs Department

The partners discussed a variety of regulatory issues, including public participation in and access to regulatory processes, structural and staffing capacities, decision-making procedures and regulatory information management, legal case management, market development and regional cooperation, and current regulatory challenges. Additionally, the delegates also explored issues in price regulation process, new generation siting and authorization procedures, power purchase agreements, regulatory treatment and permitting of the renewable energy sources, and Kosovo's restructuring process including the New Kosovo Mine and Power Generation Project. The ERO regulators traveled to Washington, DC, on June 12, to meet with the U.S. federal regulators, USAID representatives and NARUC staff to discuss the status of the US energy industry and future regulatory assistance, respectively.

All presentations are available at: www.narucpartnerships.org

NARUC also sponsored Mr. Perparim Kabashi, ERO Commissioner, in a PURC/World Bank international workshop on energy regulation and utility strategy in Florida, June 8-19, 2009.

NARUC implemented its first partnership activity between the Energy Regulatory Office of Kosovo (ERO) and the Illinois Commerce Commission (ICC) in late October 2008. The activity inaugurated a partnership where the American and Kosovar participants will exchange experience and information with the goal of improving market-based regulatory practices and institutions in the near future.

The week was filled with presentations and discussions on themes such as public participation, tariff unbundling, incentive regulation, administrative procedures, rate design, consumer protection laws, and other topics. All presentations are available at: www.narucpartnerships.org

The energy sector in Kosovo is currently facing significant challenges with regard to maintaining a consistent supply to meet the growing demand for electricity. So, it was not surprising to see strong interest from the national media, which covered the Memorandum of Understanding signing ceremony in the newspapers and on television. The positive press coverage recognized that the technical expertise shared will assist in determining appropriate methods for ERO to address the current regulatory challenges. The presence of USAID/Kosovo Mission Director Patricia Rader, Minister of Energy and Mining Justina Shiroka Pula, and the President of the Kosovo Assembly, Honorable Jakup Krasniqi, at the signing ceremony highlighted the importance of this initial step in the partnership.

- ***AERS-Serbia/PA PUC-Pennsylvania Energy Regulatory Partnership***

The fourth partnership activity was held in Harrisburg, PA, and Washington, DC, on September 14-18, 2009. This partnership activity focused exclusively on the natural gas sector development in Serbia, including discussions and analyses of issues in gas storage, market development, price regulations, connections to the network, technical codes, balancing provisions, and simulating a natural gas price review/rate case with quantitative outcomes. AERS team prepared detailed terms of reference prior to the meetings with the expectation to revise their regulations and technical codes with the information acquired during the technical meetings.

The sessions were structured to build upon the regulatory substance on natural gas exchanged in Belgrade in September 2008, and to be more responsive to AERS' needs of reviewing in detail specifics of natural gas tariffs and understanding the complete cycle of a price review with utility data input, incremental analyses, reconciliation and execution. The activity was, therefore, structured in working groups and peer-to-peer consultations to maximize the transfer of relevant information and experience.

Partners continued their substantive discussions to prepare for their fourth partnership activity, May 4-8, 2009 in Harrisburg, PA, by submitting preliminary questions through the on-line partnership forum. The Serbian regulators requested that the discussions focus on natural gas regulatory framework, namely developing the transportation system grid code and the gas distribution pricing practices. At the end of the month, the Serbian partners canceled their May exchange as well as the NARUC rate school in the US due to the health risks associated with the flu outbreak. This activity was rescheduled for September 2009.

- **Albania natural gas regulatory exchange (proposed)**

In April, NARUC initiated its preliminary planning on the natural gas regulatory assistance to the Albanian regulator. In 2009, we propose to organize a US study tour for the Albanian regulators featuring 1-2 US Commissions with strong gas market portfolios, as well as a regional workshop (venue to be determined) involving a number of Southeast European regulators to expand the regulatory aspects of the regional gasification dialogue.

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