

Balkan Regional Electricity Market Project
CONTRACT No. EEU-I-00-99-00029-00
Task Order No. 01

SECOND SEMI-ANNUAL PERFORMANCE & FINANCIAL REPORT
FOR PERIOD MARCH 6 – SEPTEMBER 6, 2001

Prepared for:

U.S AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D.C.
Robert Ichord, Chief, Energy and Infrastructure
E&E/EEST/EI

by:

PIERCE ATWOOD
One Monument Square
Portland, ME 04101-1110
(207) 791-1100

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Pursuant to AIDAR 752.7026 and Section D.2 (a) (1) (2) of Contract EEU-I-00-99-0029-00, the following is Pierce Atwood's Semi-Annual Performance and Financial Report for March 6 - September 6, 2001. This is Pierce Atwood's Second Semi-Annual Report.

1. GENERAL OVERVIEW.

Pierce Atwood is currently a prime contractor under a USAID contract to furnish services to support legal and regulatory reform in the CEE/NIS Region. A Task Order to provide Regulatory Assistance for Southeast European Regional Electricity Market Development (Task Order No. 01) was executed on September 6, 2000. A task order amendment (EEU-I-01-99-000-29-01), signed on September 27, 2001, extends and expands assistance until December 31, 2002.

Attorneys from Pierce Atwood who have worked on the project to date include:

John Gulliver, Project Manager;

Catherine Connors, Deputy Project Manager and full time Energy Attorney;

Gerald Amero, Energy Attorney;

Isabel Traugott, Energy Attorney;

Adam Cote, Energy Attorney;

Deborah Shaw, Energy Attorney;

Christopher Roach, Energy Attorney;

James Douglass, Energy Attorney.

TCN/CCN Local consultants who have been used to date include:

Tin Matic, Senior Regional Legal Consultant, Croatia;

Zija Kamberi, Local Energy Advisor, Albania; and

Biljana Kamceva, Regional Legal Consultant, Macedonia.

The nominated Resident Energy Regulatory Advisors are:

Enver Masud, Albania; and

Dr. Charles Zimmerman, Croatia.

As discussed in more detail below, the goal of the Task Order, both originally and as amended, is to provide legal, regulatory, and technical assistance to various Balkan countries to help them prepare the foundation for participating in a Regional Energy Market ("REM"), consistent with commitments made under the Stability Pact for Southeast Europe. The Task Order focuses on institutional and regulatory reform

designed to help create a regional electric power pool and power trading operation. The main focus of this Task Order is on addressing the legal, regulatory, commercial and institutional infrastructure required to make a regional power market successful. It follows on the commitment to create a regional power market executed by regional countries under the Thessaloniki Agreement, whereby the signatory parties pledged to have a regional competitive electric power market by 2006, compatible with UCTE integration standards.

The overall scope of the project involves market and tariff issues, creation of a regional trading exchange market, access issues, network service tariffs, model contracts, commercial agreements, cash settlement mechanisms, standards for a regional grid code, wheeling concerns, and related issues.

Work under this Task Order has continued under a two-tiered approach: (1) assisting individual countries with less developed legal and regulatory infrastructures to build the framework needed to participate on a regional basis; and (2) development of regional efforts focusing on the issues crucial to development of an REM.

Prior to modification (*i.e.* to September 6, 2001, the closing date covered by this report), the five tasks assigned to Pierce Atwood pursuant to the Task Order were:

- Task 1: Advising regulators and Ministry officials in the region, through issue briefs and meetings, on tariff, licensing and market methodologies and rules, consistent with EU Directive 96/92.

- Task 2: Identification and analysis of key institutional and regulatory issues in the development of a regional trading and market system, including existing national legislation and necessary changes to facilitate trade; pricing and tariff issues; open access to transmission systems; and market protection and export promotion.

- Task 3: Development of model electricity purchase/exchange contracts providing a common, more transparent and commercially acceptable basis for regional transactions.

- Task 4: Three or more workshops and two study-visits to focus on international and regional electricity regulation issues.

- Task 5: Determination of status of national grid code development; identification and analysis of issues facing progress toward regional harmonization of power market operations, rules and grid code development among the countries in the region.

The amended Task Order focuses efforts for the remainder of the year and 2002 on the following tasks:

- Task 1: Oral and written advice to regulators and Ministry officials in the region, including issue briefs.
- Task 2: Identification and analysis of key institutional and regulatory issues in the development of a regional trading and market system, including a report for a proposal for a common framework for the regulation of cross-border transactions and for use-of-network service tariffs.
- Task 3: Development of model electricity purchase/exchange contracts for potential common use in the REM.
- Task 4: Conduct a minimum of three workshops and two study visits either in the U.S. or other CEE/NIS countries to discuss international and regional electricity regulation issues.
- Task 5: Determine the status of national grid code development in the SEE countries and identify and analyze the issues to be addressed in working toward the regional harmonization of power market operators and rules and grid code development among the countries in the region.
- Task 6: In Croatia, review the recently enacted legislation and determine to what extent the limited authority of the ERC can be expanded; provide support to the ERC, including development of an organization chart; qualification list; charter; salary recommendations and license costing formation; placement of long-term advisor to assist the ERC; and procurement of limited hardware and software.
- Task 7: In Albania, draft comprehensive electricity law; assist in technical support in enactment of the law; identify needed secondary legislation and revision of existing laws; assist in development of secondary legislation; placement of a long-term resident advisor to assist in tariff methodology development; ERC institution building; licensing; customer service and social transition issues; energy efficiency; and development of market competition and privatization; and spearhead SAP implementation.

As a practical matter, both the five tasks incorporated in the first year of the project and the seven tasks identified for the second year embrace the same two-tiered approach, with (1) a natural progression in Croatia and Albania to long-term residential advice after the legal and regulatory blueprint, most notably, a regulatory body, is in place and functioning; and (2) further emphasis on regional conferences and papers on pertinent REM subjects.

1.1 WORK PLAN

A draft work plan was submitted on October 3, 2000, as required under the Task Order. A second draft plan aimed at achieving specific goals in Albania was submitted on December 26, 2000. Expanded work plans and cost proposals for additional programs in Croatia and Albania were submitted in May – June 2001. The amended Task Order requires an additional detailed work plan within 3 weeks of CTO request.

Over the time period covered in this report, the formal work plan submissions were supplemented by ongoing dialogue with the CTO as to how to respond to ongoing developments. Such flexibility has been crucial in ensuring that the assistance provided targets true and immediate needs. This concept will be expanded upon in the next year in Albania and Croatia, with the long-term resident advisors able to respond to changing situations on a day-to-day basis.

2. PROGRESS

2.1 GENERAL OVERVIEW

2.1.1 MARCH 6-JUNE 18

On June 18, the CTO send an e-mail that summarized the progress made under the 5-Task existing Task Order as of that date:

Dear John and Cathy:

Further to discussions on the status of the task order and the workplan for the existing task order, I would like to make the following observations on progress and future requirements:

Task 1: Pierce Atwood has undertaken substantial advisory services to regulators and Ministries in Albania, Croatia, Macedonia, and Bulgaria, including memoranda and reports on proposed changes in legislation, on creation of energy regulatory agencies, and on policies and strategies for restructuring and regulatory development. At least 10 reports have been prepared. We agreed on two specific additional issue briefs that would be prepared in the near future: (1) energy policy statement for input to the World Bank sector loan in Albania; and (2) comments on the broader legislative reform requirements in Macedonia.

Task 2: The Zagreb Conference dealt in considerable detail with issues of electricity trade and the regulatory and pricing issues. The presentations contain valuable insights related to the deliverable for this task. Per our conversation, please prepare a report that synthesizes the conference information and develops some technical conclusions and recommendations per the requirements of the task with respect to transmission pricing.

Task 3: The Zagreb Conference reviewed several types of contracts and approaches to inter-regional electricity transactions. To complete this task, I would like to see Pierce Atwood produce a user guide to these model contracts that highlights the main features of these contracts and how they address key commercial risk, regulatory and financing issues.

Task 4: Pierce Atwood has held workshops in Albania, Croatia and Macedonia. We need to talk further about the potential of the study visits since the Zagreb meeting really did not serve the purpose intended in the SOW.

Task 5: We discussed the implementation of this task. I suggested that Pierce Atwood seek to develop some prior materials, based on Latvia, Hungarian, Romanian, Malaysian and possibly other recommended grid codes that could form the basis for a workshop on grid code development in Southeast Europe. This workshop would be held in Bucharest in September and seek to recommend a common format for grid code development. I indicated that the French Government is likely to fund EDF work on commercial codes in the region and a cooperative effort may be desirable here. I have already provided you with the contact in France for your exploration. In closing, I would like to thank you for your commitment to this task order and commend you on your responsiveness and the quality of the technical work performed to date.

I suggest we have a review meeting on the above and other aspects of the Task Order once the new amendment is concluded.

Best Regards, Bob Ichord

2.1.2. JUNE 19-SEPTEMBER 6

After further discussion with the CTO regarding his June 18 communication, the existing Task Order tasks and the contemplated future direction of additional tasks, it was agreed that the goals noted in the June 18 communication would be advanced by:

- Regarding the Albanian energy policy statement, in July USAID determined to defer work and associated studies until further work was done by World Bank and USAID in defining TORs for these tasks; it is now anticipated that the policy statement and certain associated studies will be the focus of activity from now until the end of the year, with a final product due USAID due Feb. 15, 2002. These dates are tentative and subject to developments during the TDY occurring in Albania the weeks of Oct. 15 and 22, 2001.
- Regarding Macedonia, the security situation resulted in further work in the country to be put on hold; regional discussions continue and, hopefully one-on-one work can recommence soon;
- Participants in the Zagreb conference were given a CD ROM at the end of the conference containing all the relevant materials discussed and produced at the

- conference; a summarizing paper on transmission pricing issues, authored by Dr. Zimmerman, was transmitted to the CTO on September 28;
- A similar synthesizing paper, authored by Pierce Atwood, on standard contracts in trading, including discussions and references to the two primary model contracts in use (EEI and EFECT) was also transmitted to the CTO on September 28; and
 - A grid code conference was organized for utility and governmental representatives to discuss the matters noted in the CTO's communication, and will take place Oct.30-31 in Bucharest, Romania

2.1.3 DESCRIPTION OF MARCH 6-SEPTMEBER 6 ACTIVITIES

During the third quarter of the project, Pierce Atwood continued on-going work in Albania, Croatia, Bulgaria, and Macedonia, with efforts focused on drafting energy laws for Croatia and Albania and proposed amendments to existing laws for Macedonia and Bulgaria. We provided comments to draft laws and assisted with execution of existing work plans, including conducting extensive analyses of worldwide laws establishing energy regulators. In addition to drafting expanded work plans for Croatia and Albania, as requested by USAID, pending approval from USAID, we began the search for two Resident Energy Regulatory Advisors for Albania.

During the fourth quarter of the project, Pierce Atwood focused on one-on-one work with Albania, Croatia and Macedonia. In Albania, Pierce Atwood began (1) taking steps towards the implementation of the Strategic Action Plan and (2) preparation of a comprehensive energy law (as noted in the amended Task Order tasks). The proposed amendments to the Macedonian Energy law were finalized. In Croatia, finalization of the energy laws took place and the laws were enacted. Pierce Atwood's candidates for the Resident Advisor posts were identified.

2.2 PIERCE ATWOOD ACTIVITIES FOR EACH TASK

The following summary of tasks and accomplishments highlights the steps Pierce Atwood made toward the goals reflected in the then-existing Task Order, work plan, and USAID requests for action.

Task 1: Advising regulators and Ministry officials in the region, through issue briefs and meetings, on tariff, licensing and market methodologies and rules, consistent with EU Directive 96/92

- Pierce Atwood drafted expanded work plans for Croatia and Albania detailing the next 12-18 months of effort in each country.
- Assistance continued in Albania on developing a legal framework consistent with EU international norms.
- In addition to advice on the draft energy laws, a draft charter was prepared for the ERC, and necessary secondary legislation was identified.
- Amendments to the Macedonian energy laws after communications with the

Task Force on tariff and licensing principles were prepared and finalized.

- Papers on transmission and contract standardization were prepared and transmitted to the CTO.

Task 2: Identification and analysis of key institutional and regulatory issues in the development of a regional trading and market system, including existing national legislation and necessary changes to facilitate trade; pricing and tariff issues; open access to transmission systems; and market protection and export promotion.

- Aside from the steps noted under Task 1 also responding to these subject matters, the Zagreb conference held in May addressed these specific issues, identifying how other regions have developed their markets, and identifying the issues that countries in the Balkans will need to confront and resolve.
- In Albania, Croatia, and Macedonia, this task was advanced through the creation and development of autonomous regulatory agencies, strengthening the existing Albanian regulator, and work on national legislation necessary to form the first steps towards ultimate cross border trade.
- In Albania and Croatia, the Resident Energy Regulatory Advisors identified in this time period will provide on-going support for establishment and development of the regulatory agencies.

Task 3: Development of model electricity purchase/exchange contracts providing a common, more transparent and commercially acceptable basis for regional transactions.

- The Zagreb Conference on “Transmission, Pricing & Regional Electric Markets” addressed the issue of regional cooperation and provided some examples of model contracts and case studies, presenting the EEI model contract, along with Western European counterparts.
- The paper on contract standardization followed up on the May Zagreb presentations on this issue, using the EEI model contract and the EFECT Agreement as templates.

Task 4: Three or more workshops and two study visits to focus on international and regional electricity regulation issues.

- In conjunction with the Croatian Energy Institute, Pierce Atwood conducted an International Conference on “Transmission, Pricing, & Regional Electric Markets,” held in Zagreb, Croatia, May 7-10.
- In March and April, Pierce Atwood assisted in the organizing of and participated in two workshops in Albania.
- Planning and preparation began for the October Grid Code Conference in

Bucharest

Task 5: Determination of status of national grid code development; identification and analysis of issues facing progress toward regional harmonization of power market operations, rules and grid code development among the countries in the region.

- The power sector reform task force in Albania considered regional market development issue as part of the process of developing its Strategic Action Plan. The task force recommended that the electricity regulator conduct a collaborative proceeding to develop recommendations for a market model that encourages regional trade and is consistent with European Union principles.
- The October Grid Code conference will focus on these issues, with appropriate follow up as identified by the CTO.
- The one-on-one work in each country, particularly in Albania and Croatia, is designed to facilitate development of national codes geared toward regional cooperation.

3. SUMMARY OF ACTIVITIES AND OUTCOMES FROM MARCH 6 – SEPTEMBER 6, 2001

The following summaries illustrate the country-specific and regional activities that Pierce Atwood was involved with during the six month reporting period.

3.1 ALBANIA

After successfully completing the Strategic Action Plan at the end of the second quarter, efforts concentrated on presenting the plan to various Albanian and international groups. Thus, in mid-March and early April, Mr. Amero traveled to Albania to prepare an open forum for presentation of the Strategic Action Plan to Albanian Government officials, key energy sector participants and international donors. Pierce Atwood's portion of the presentation emphasized the role of international donors, identified concrete steps necessary to achieve legal and regulatory reform, and reiterated the importance of privatization for full and successful transformation of the energy sector. Due to joint efforts of the Task Force, Albanian Government and Pierce Atwood, the Task Force recommendations received widespread publicity in Albania.

Mr. Amero continued preparatory work in Albania on drafting comprehensive energy legislation. He actively worked on seeking formal approval of the Strategic Action Plan by the Council of Ministers. At the end of April, Messrs. Amero and Gulliver were involved in the preparation of and participated in the International Donor Conference that took place in Tirana April 26-27. The Conference was attended by multilateral organizations, such as the World Bank and IMF, and bilateral donors, including Italy, Germany, Switzerland and Japan. Mr. Gulliver made a presentation on "The Overview and Implementation of the Strategic Action Plan," where he identified and described areas where technical, financial, and other assistance needs to be provided

by donors. Overall, the donor community showed support for the various components of the Strategic Action Plan, with discussion of concerns regarding the timetable for privatization of distribution companies.

During this period, Messrs. Gulliver and Douglass drafted an extended Work Plan and Cost Proposal for Albania for USAID review. The plan enumerated priority tasks for completion in a 12-18 month timeframe, including drafting a comprehensive electricity legislation, establishing a position of Resident Energy Regulatory Advisor and supporting Strategic Action Plan implementation -- all incorporated in the Task Order amendment.

James Douglass traveled to Albania on May 27 – June 12, 2001 to work on preparing a foundation for enacting legislative and regulatory changes needed to implement the Strategic Action Plan in the post-election period. He also participated in initial steps involving cooperation on tariff issues between the regulator, KESH, and ENEL. Prior to the last donors' meeting, the council of Ministers had begun considering a draft resolution endorsing the Strategic Action Plan that could be considered a policy statement. Consideration of the resolution was indefinitely postponed after the donors' meeting, however, due, in part, to the parliamentary elections. Fortunately, even in the absence of an official endorsement, the KESH/ENEL team began to implement many of the recommendations of the Strategic Action Plan and it is making improvements in its relations with the ERE. Problems nevertheless remained. The Government "legalized" its prior pricing decrees by conforming them to statutory requirements and allowing the ERE to undertake its legal role to review and approve tariff change. KESH, however, failed to do its part by submitting any formal tariff proposal to the ERE.

Mr. Douglass traveled to Albania again on July 16 – 26, 2001 to work on preparation of a comprehensive energy law. Pierce Atwood and Zija Kamberi prepared a detailed outline for the new law. As conceived, the new law would replace the existing laws on energy and electricity regulation. On July 11-12, 2001, the outline was provided to the members of the task force that developed the Strategic Action Plan and the ENEL co-management team.

During this period, progress was also made on developing an "Energy MBA" program for local energy experts, a project that was described in Mr. Douglass' Trip Report for July 16 – 26, 2001. Pierce Atwood developed a concept paper for the program to assist in moving to the design stage. In an effort to carry forward the program's development, a Third Country Training Program was scheduled for Kiev during September 23 – 28 in which critical Albanian counterparts and faculty at the local university participated. Gjergji Simaku the director of the national agency for energy and Besin Islami, deputy director of the national agency attended and were made familiar with the program in Ukraine, which has been in successful operation for approximately five years. Upon their return, Mr. Simaku, Dr. Islami are designing a program that they are going to recommend to USAID for implementation in Albania.

On July 19th Mr. Gulliver traveled to Washington D.C. to meet with Robert Ichord and Rajiv Rastogi from USAID, and Ifthikar Kahlil and Richard Hamilton from

the World Bank. Discussions focused on the coordination of USAID and World Bank efforts in Albania which would require implementation of the Strategic Action Plan, development of the policy statement, as well as further assistance regarding market structure, unbundling, and privatization. Pierce Atwood continued with its legal, regulatory, and institutional work.

During the month of August, Strategic Action Plan implementation was, out of necessity, placed on hold during the election process. The hope is that the pace of implementation can pick up with the presence of a Pierce Atwood Residential Advisor working continuously with the local mission and Albanian counterparts. On August 31, 2001, Gerald Amero forwarded the latest draft of the proposed Albanian Energy Law to Rajiv Rastogi, Robert Posner, and Robert Ichord.

3.2 BULGARIA

Mr. Gulliver continued his work in Bulgaria in cooperation with the World Bank and IMF, assisting in drafting amendments to the Bulgarian Energy and Energy Efficiency Act. The purpose of the amendments is to strengthen the authority of the regulator, clarify market structure and encourage further market opening.

3.3 CROATIA

In March, Ms. Connors and Mr. Roach conducted extensive surveys of the energy agency laws of several countries and examined various agency-related issues to provide background and support, and make detailed technical recommendations for the Ministry's development of the ERC. In addition, they continued to draft and comment upon proposed revisions to Croatia's draft energy laws and continued dialogue with the Ministry. The Ministry reacted positively to Pierce Atwood's recommendations and continued to aggressively pursue the enactment of the energy laws.

Through the month of April, Ms. Connors and Mr. Roach continued to collect additional regulatory information from several countries and to work with the Croatian government on drafting legislation for establishing an energy regulatory agency. Furthermore, the Ministry requested Pierce Atwood's assistance with drafting a Charter for the regulator along with other secondary legislation.

In mid-April, Ms. Connors traveled to Washington D.C. to meet with Messrs. Heidarian and Maksijan to discuss the status of Croatian draft energy laws and additional information requested by the Croatian government. This trip was made in conjunction with the NARUC study tour to PJM, which allowed Ms. Connors to discuss the upcoming seminar in Zagreb and general regional issues with representatives of the regulators and government officials from the region as a whole.

By the end of April, Ms. Connors submitted to the government of Croatia and USAID a draft table of contents for the Croatian Energy Agency Charter, thus commencing Pierce Atwood's work on drafting that crucial piece of secondary

legislation. The Charter will be enacted following the passage of the energy laws and is intended to fill in details excluded from the laws, particularly on agency's procedures.

Throughout May, Pierce Atwood and the Ministry continued their discussions of the draft laws, the Charter, and other institutional building steps. At the end of May, the Croatian Sabor began consideration of draft Energy Laws and completed its first reading.

During the month of June, the draft energy laws continued on their way through the legislative process. To facilitate discussions in Croatia regarding the law, Pierce Atwood supplied charts outlining the organization of each aspect of the energy sector under the laws as drafted at that time, along with a chart describing the responsibilities of each government under those laws. Work continued on preparation of the agency charter

On July 11, we sent a draft charter for the new agency to the Ministry for review. Thereafter, the five energy laws were enacted in July. The laws had marked differences from previous drafts and the draft charter will need significant amendment to comport with the new laws. Pierce Atwood reviewed the laws as enacted to determine whether sufficient room existed for reform and the creation of an autonomous competent agency. A memorandum addressing this issue was sent to the CTO on August 23, 2001. Briefly, the memorandum concluded that sufficient room did exist for responsive action; various recommendations were proposed.

Pierce Atwood also finalized its candidate for long-term resident advisor for the work outlined in the pending SOW amendment - Dr. Charles Zimmerman. Currently, the plan is to provide short-term assistance on secondary legislation and short visit(s) from Dr. Zimmerman through the end of the year. If sufficient progress has been made, then it is anticipated that he will begin long-term residence assistance in January 2002. Appointment of the commissioners for the ERC - a necessary step for providing the contemplated agency assistance - is said to be imminent. The Ministry has also indicated that it will identify specific secondary legislation on which it would like assistance.

3.4 MACEDONIA

Throughout March, Ms. Connors and Mr. Roach worked on identifying the appropriate content for a Macedonian regulatory agency law. The results of their work were two memoranda that discussed various legislative approaches taken by both EU and non-EU countries in establishing their respective regulatory agencies. The memos identified common themes, derived overall conclusions, and set out "best practice" examples in drafting energy agency legislation. Ultimately, this work resulted in an outline of specific provisions to be included in the agency amendments to the existing energy law in Macedonia.

During the month of May, progress on the Action Plan continued on target. Consistent with Pierce Atwood's recommendations, the government of Macedonia moved forward with an amendment to the existing energy law to create a regulator.

Pierce Atwood delivered to the Government proposed, draft amendments to the Macedonian Energy Law with explanatory comments.

In late May – early June, Ms. Connors traveled to Macedonia to meet with the Task Force and follow up on the proposed amendments. In her Trip Report of 5/19 – 6/4, Ms. Connors discussed how the Task Force accepted a majority of Pierce Atwood’s, with dialogue continuing with the Ministry regarding the few exceptions.

In June, after further correspondence with the Ministry regarding the role of the agency in setting tariff methodologies and issuing authorizations for new generation, the final version of the proposed amendments to the Energy Law was completed. Pursuant to the Task Force's request, a definition section was added to the amendments, and the draft was re-formatted to meet parliamentary needs, along with other changes. The Action Plan was thus completed on time, on June 20, and the Ministry indicated that the amendments would be presented to Parliament at the earliest opportunity. A copy of the final version of the draft law was attached to our June Monthly Report.

Pierce Atwood also submitted, at the request of the CTO, a plan for additional pre-privatization, unbundling, and privatization activities in Macedonia. It is our understanding that any further work focusing specifically on Macedonia awaits further USAID instructions to Pierce Atwood, which in turn presumably depends upon the ongoing security situation in Macedonia.

3.5 REGIONAL

During the end of March, through April and into early May, much time was spent in preparation for, and the conducting of, the first study visits under the Task Order. Held in Zagreb, Croatia, the conference on “Transmission, Pricing and Regional Electric Markets” showcased sixteen international experts who, as speakers and discussion leaders, addressed a variety of topics with a strong focus on transmission and pricing issues. The Conference was co-sponsored by USAID, Pierce Atwood and the Croatian Energy Institute and was attended by utility representatives, Ministry officials and regulators from Croatia, Bosnia & Herzegovina, Albania, Macedonia, Romania, and Bulgaria and Yugoslavia (with cooperation from USEA), as well as representatives from USAID and USEA.

Pierce Atwood was responsible for organizational and logistical issues, including designing the program, coordinating with speakers and invitees, handling all logistical and travel arrangements, and moderating proceedings. The Conference was organized with assistance from Croatian counterparts at the Energy Institute (Mico Klepo and Dina Marusic), the Ministry of Economy (Messrs. Maksijan and Nota), the USAID Mission in Zagreb (Pamela Baldwin) and USAID Washington (Messrs. Ichord and Heidarian).

The program of the Conference covered the following topics:

- Regional Power Markets, with two speakers discussing and comparing EU and US power market structures;
- Transmission System Operators, with concentration on transmission organizations worldwide and the benefits of regional organizations;
- Tariffs & Pricing, with special focus given to regulator's perspective, with in-depth discussion of transmission pricing, including both principles and theory, presenting practical examples and sample calculations;
- Legal & Contractual Issues, with focus on commercial, payment and finance issues and standardized contracts. A case study on Italy was presented by one of the regulators from the Italian Electricity and Gas Authority;
- EU Markets, Transmission & Pricing Developments, with an examination of EU policies and electricity practices and two study cases presented on Hungary and the Baltic states.

On June 14, 2001, John Gulliver attended a Contractors' Coordinating Meeting in Washington DC. This coordination meeting was one of a series designed to engage various contractors (Pierce Atwood, CMS, USEA, NARUC, Electrotek) operating in the region in an information sharing exercise. Led by CTO Robert Ichord, the June session focused on Stability Pact plans for the region, an update of each contractor's activities, and identification of scheduled meetings and actions. After a meeting in Washington to go over the progress on the work to date outlined in the existing Task Order, the CTO issued the June 18, 2001 noted above, with follow up as also described above.

Through the month of August, discussions took place on the substance and budgets for Task Order extensions. On August 30th we sent our final task order modifications and cost proposals to USAID. In the meantime, the CTO filed a 60-day extension to continue work in progress. As noted, the amendment and extension was executed at the end of September.

4. DELIVERABLES

Below is the list of all written documentation produced by Pierce Atwood since September 6, 2000:

- Comments on USAID-NARUC Import-Export Working Group paper on electricity trade and role of regulator, submitted September 15, 2000;
- "Lessons Learned for Macedonia from the Privatization Experience in Central and Eastern Europe and Eurasia to Date," presented in the NARUC-USEA workshop held in Skopje on October 12 – 13, 2000;
- "Preliminary Unbundling and Privatization Electric Sector Republic of Croatia," presented in the Croatian Workshop on October 17, 2000;
- Memorandum re Strategy for Albania, submitted to R. Rastogi on October 27, 2000;
- "Interface between the existing USAID Task Order and the EU Quickstart infrastructure studies until 2002," submitted to CTO on November 4, 2000;
- Agenda – Conference on Energy Sector Strategy for the Republic of Albania;

- Workshop on Energy Sector Strategic Development – An Outline of Strategic and Policy Options – Pierce Atwood for USAID, November 16, 2000;
- “Electric Sector Reform – Republic of Albania”, presented to NEA, ENEL, the World Bank and other high-level counterparts on November 16, 2000;
- Memorandum – Illustrative Legislative and Regulatory Frameworks for Emerging Competitive Electric and Gas Markets, Pierce Atwood for Boris Maksijan, Government of Croatia, November 28, 2000;
- Matrix of Electricity Laws, sent to B. Maksijan, Nov. 28, 2000;
- Matrix of Gas Laws, sent to B. Maksijan, Nov. 28, 2000;
- Harmonization of National Energy Legislation to Meet European Union Requirements (presented for Romania on December 10, 2000);
- The Privatization Experience: Regulatory Issues (presented for Romania on December 11, 2000);
- Agenda and Working Group Assignments for the Task Force meeting on December 18, 2000 in Albania;
- Four sets of comments on the draft Energy Law, Regulatory Services Law, Gas Law and Electricity Market Law for Croatia;
- Draft Action Plan for Albania (February 2, 2001);
- Memorandum to Salman Zaheer of the World Bank concerning Comments on the Current Draft Amendments to the Bulgarian Energy Law. (Presented February 9, 28, 2001)
- Proposed revisions to the Bulgarian Energy and Energy Efficiency Law
- Further comments on the World Bank Comments for Croatia;
- Talking points for March 1 meeting with U.S. Ambassador Dr. Granic, local Mission Director and Energy Institute, including a background paper for the Ambassador on work done to date and planned in the future dated February 28, 2001;
- Albania Power Sector Reform Task Force – Strategic Action Plan, February 28, 2001;
- Memorandum/Agenda to Croatian Energy Institute date February 28, 2001;
- Two versions of the Draft Action Plan for Macedonia, submitted to Ministry January 30, 2001 and February 28, 2001;
- Memorandum/Agenda to the Croatian Energy Institute date February 28, 2001.
- Memorandum on Creation of an Energy Regulator in Macedonia, submitted March 7 to the Macedonian Task Force and USAID, with attached matrix of energy regulator laws. (Delivered to USAID with March Monthly Report)
- *Albania’s Power Sector, A Vision for the Future*, Presented in Albania, March 21, 2001. (Delivered to USAID with J. Gulliver’s Trip Report from Albania, March 19-24, 2001)
- Memorandum summarizing discussions with Macedonian Task Force regarding fulfilling the Action Plan, presented to R. Cvetkovic on April 3, 2001. (Delivered with March Monthly Report)
- Presentation on *Overview and Implementation of the Strategic Action Plan* for the International Donor’s Meeting in Albania, April 26-27, 2001. (Delivered to USAID with J. Gulliver’s Trip Report from Albania, April 24-28, 2001)
- Table of Contents and outline for Croatian Energy Charter, submitted April 30, 2001. (Delivered to USAID with April Monthly Report)

- Draft Resolution for Council of Ministers in Albania
- All of the conference materials, including the agenda, conference papers, and related documents have been previously delivered to USAID in hard copy and CD ROM along with J. Gulliver's and C. Connor's Trip Reports from the Zagreb Conference, May 3-11, 2001.)
- Matrix of regulatory information for Croatia, submitted May 4, 2001 (Delivered to USAID with April Monthly Report).
- Memorandum on Agency Qualifications in Croatia, submitted May 4, 2001. (Delivered to USAID with April Monthly Report)
- Croatia Work Plan and Cost Proposal. (Delivered to USAID May 18 and June 2, 2001)
- Albania Work Plan and Cost Proposal (Delivered to USAID on May 18 and June 7, 2001)
- Proposed Draft Amendments to Macedonia Energy Law to create a regulatory body, with comments, submitted May 4, 2001. (Delivered to USAID with May Monthly Report)
- Draft Outline of Comprehensive Albania Energy Law. (Attached to J. Douglass' Trip Report for May 27 – June 9, 2001)
- Chart entitled Structure of Gas Market Under the Draft Croatian Energy Laws Matrix entitled The Structure of Government Regulation over the Energy Sector Under the Draft Croatian Energy Laws (Attached to June Monthly Report)
- Draft Law on Second Amendments and Supplements to the Macedonian Law on Energy. (Attached to June Monthly Report)
- Chart entitled The Structure of Government Regulation Over the Energy Sector Under the Draft Croatian Energy Laws. (Attached to June Monthly Report)
- Chart entitled Structure of Oil Market Under the Draft Croatian Energy Laws. (Attached to June Monthly Report)
- Chart entitled Structure of the Electricity Market Under the Draft Croatian Energy Laws. (Attached to June Monthly Report)
- Matrix entitled Survey of Regulatory Agencies – 1. (Attached to June Monthly Report)
- Matrix entitled Survey of Regulatory Agencies – 2. (Attached to June Monthly Report)
- Draft Croatian Charter (Delivered to USAID on July 11, 2001)
- Albania Strategic Action Plan Implementation Status Table. (Attached to J. Douglass' Trip Report for July 16 – 26, 2001)
- KESH Organizational Chart. (Attached to J. Douglass' Trip Report for July 16 – 26, 2001)
- Albania Tariff Working Group Minutes. (Attached to J. Douglass' Trip Report for July 16 – 26, 2001)
- ENEL/KESH Tariff Concept Paper. (Attached to J. Douglass' Trip Report for July 16 – 26, 2001)
- Concept Paper for the Development of an “Energy MBA”. (Delivered to USAID on August 10, 2001)

- Memorandum entitled Enacted Croatian Energy Laws, discussing contents of the laws and potential follow-up strategies (Delivered to USAID on August 23, 2001)
- Various draft preparatory materials for Romanian Grid Code Conference dated August 27, 2001. (Attached to August Monthly Report)
- Task Order Modification and Cost Proposal (Delivered to USAID August 30, 2001)
- Draft of Proposed Albanian Energy Law. (Delivered to USAID on August 31, 2001)

5. TASKS AND PLANS FOR THE REMAINDER OF THE PROJECT

Tasks will continue as identified in the Task Order amendment, noted above. Notably:

- In Albania, Pierce Atwood will continue to assist with the implementation of the Strategic Action Plan and coordinate with local counterparts and the international donor community. A long-term resident advisor will begin the process of providing ongoing assistance focusing on legal, regulatory, and tariff issues.
- In Croatia, we will provide short-term assistance as appropriate, designed to (a) meet immediate ERC needs; (b) foster Energy Institute and ERC relationships; and maximize ERC competence and autonomy. As in Croatia, preparation for the installation of a long-term energy regulatory advisor will be a high priority in the near future.
- In Macedonia, our plans are contingent on the CTO's instructions.
- Regional efforts shall be closely coordinated with the CTO, to ensure synergy between the papers and conferences required under the Task Order amendment.

6. BUDGET

As of the end of the initial one-year period of Task Order, approximately \$1,299,148.45 of the \$1,498,964.21 included had been spent. Budget breakdowns for the period March-August are attached.