

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

THIRD SEMI-ANNUAL PERFORMANCE & FINANCIAL REPORT  
FOR PERIOD SEPTEMBER 6, 2001 – MARCH 6, 2002

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

April 19, 2002

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 September 6, 2001 - March 6, 2002. This is Pierce Atwood's third 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;  
Gerald Amero, Energy Attorney;  
Isabel Traugott, Energy Attorney;  
Deborah Shaw, Energy Attorney;  
Adam Cote, 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;  
Biljana Kamceva, Regional Legal Consultant, Macedonia; and  
Lulin Radulov, Regional Legal Consultant, Bulgaria.

As discussed in more detail below, the goal of the regional Task Order, both originally and as amended, is to provide legal, regulatory, and technical assistance to various countries throughout South East Europe to help them prepare the foundation for participating in a Regional Energy Market ("REM"), consistent with commitments made under the Stability Pact. The Task Order focuses on institutional and regulatory reform designed to help create a regional electric power pool and power trading operation. Its main focus is on creating and developing the legal, regulatory, commercial and institutional infrastructure required to make a regional power market successful. Such efforts follow up on the commitment to create a regional power market by 2006 compatible with UCTE integration standards, executed by countries in Southeast Europe under the Thesaloniki Agreement.

The Regional Task Order is supplemented by two Task Orders in Croatia and Albania. Both are directed at country specific work, with the goal of institutional and regulatory reform to assist those countries in developing toward an REM. 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, importantly, supporting the regulatory framework needed for real reform.

Work under this Task Order and the accompanying Croatia and Albania Task Orders have 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.

Under the original Task Order for this contract, the five tasks assigned to Pierce Atwood 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 Original Task Order was set to close on September 6, 2001, and was amended on September 27, 2001. 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 information; placement of along-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.

Since entry of the amended order, work has evolved from development of exchange contracts and visits (Tasks 3 and 4) toward fundamental regulatory reforms. 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. The amended work supplements prior efforts by focusing on (1) a natural progression in Croatia and Albania to long-term residential advice upon the establishment and implementation of the legal and regulatory blueprint – most notably, the regulatory body; and (2) regional conferences and papers on pertinent REM subjects.

## **1.1 WORK PLAN**

In various countries, Pierce Atwood has been and continues to be engaged in the preparation of legislation, secondary legislation, licensing, and tariff activities, with the one-on-one goal of improving the legal and regulatory sector environment within each country, and the goal of facilitating regional coordination and cooperation, all with the objective of developing the REM.

With the appointment of Commissioners in Croatia, work in Croatia will focus on institutional development of ERC, finalization of secondary legislation that advances this development, tariff and grid code assistance. Similarly, in Albania, primary objectives are regulatory competence and finalization of the Policy Statement. The fundamental question in Albania is whether other non-energy economic and political difficulties with delay these efforts. In Macedonia, USAID is poised to provide a comprehensive package of assistance welcomed by the Government of Macedonia, in tandem with privatization efforts, including a market options study and tariff methodologies and review. Such assistance should prove critical to the success of privatization plans and the advancement of regional energy market goals.

## **2. PROGRESS**

### **2.1 OVERVIEW OF ACTIVITIES: SEPTEMBER 6, 2001 - MARCH 6, 2002**

During the fifth and sixth quarters of the project, the country specific work has focused on Albania, Croatia, and Macedonia. Efforts included continued implementation of the Strategic Action Plan and finalization of the Policy Statement in Albania; assisting in Charter and secondary legislation issues, as well as a cooperative licensing and training program with the Hungarian Energy Office (“HEO”) in Croatia; and implementation of task 3.2.3, assistance with Privatization of Elektrostopanstvo na Makedonija (“ESM”), in addition to regulatory institution building in Macedonia.

On the regional front this quarter, Pierce Atwood followed up on the Regional Workshop on Grid Codes in Bucharest, Romania on October 30 – 31, 2001, by submitting a supplemental collection of materials to USAID for approval. A formal report on the Workshop was delivered to USAID on January 4, 2002.

### **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 current 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

- Assistance in Albania on the developing a legal framework consistent with EU and international norms.
- Regional presentation regarding the role of the Regulator in recent regional laws.
- The October Regional Workshop on Grid Codes.
- Assistance in Croatia on the development of viable licensing and tariff structures for ERC.
- Re-establishment of communication with Macedonian energy officials regarding Energy Law amendments and privatization of ESM.
- A list of supplemental Regional Workshop on Grid Codes materials was sent to USAID, approved, and distributed to participants.

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.

- Licensing and tariff assistance in Croatia advances the market, as does on-going grid code assistance and database and ERC training and support.
- Assistance in Albania on the legal framework will help advance the state market.
- The 3.2.3 tasks in Macedonia are designed to directly advance both domestic and regional markets.
- The Regional Workshop on Grid Codes discussed a necessary element to proper market functioning.

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

- Paper submitted on contract standardization follows up on the May Zagreb presentations on this issue, using the EEI model contract and the EFET Agreement as templates.
- Assistance in Croatia involving the development of viable licensing and tariff structures incorporates model frameworks for reform based upon transparency, commercial viability and regional consistency.

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

- The October Regional Workshop on Grid Codes, for which a formal report on the Workshop was delivered to USAID on January 4, 2002.
- During this period, USAID opted not to schedule a third regional workshop at this time in order to concentrate fully on country specific needs to enable those countries to advance regional cooperation and work on a regional level

to develop the energy market.

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 Regional Workshop on Grid Codes focused on these issues.
- The one-on-one work in each country, particularly in Albania and Croatia is also designed to facilitate development of national codes geared toward regional cooperation.
- Pierce Atwood submitted a Regional Workshop on Grid Codes follow-up memorandum and CD of supplemental materials during this period.
- With respect to assistance in Croatia, Ms. Traugott worked with database and grid code experts to select assistance providers.

Task 6: Croatia – Legal and Regulatory Assistance – Review of New Legislation; Development of the Regulatory Agency; Long-Term Advisor, Licensing and Tariff Methodology; Procurement/Equipment

- Pierce Atwood has drafted a priority task memo that focused on pricing, the ERC Charter, ERA organizational issues, and market development.
- We have provided assistance to ERC on the Charter, licensing issues, and the financing decree, through Pierce Atwood, Tin Matic, and Dr. Gabor Szorenyi.
- Tariff and grid code assistance and procurement of equipment is underway and awaits CTO instructions now that the ERC Commissioners have been chosen.
- Tin Matic has submitted comments on the ERC Charter and recommendations on the secondary legislation regarding ERC fees.
- Dr. Szorenyi prepared and submitted two draft decrees on license duration and conditions.
- Dr. Szorenyi assisted in the development of the legal and regulatory framework for the ERC and hands-on training of the ERC, particularly with respect to licensing issues, including providing commentary on draft licensing secondary legislation produced by the Energy Institute.
- Pierce Atwood submitted a revised Work Plan and budget for Croatia.
- Data was collected on information gathering systems.

Task 7: Albania – Assistance to Albania in Legal and Regulatory Development – Draft Electricity Law; Resident Regulatory and Tariff Advisor; Support SAP Implementation

- During this period, the provisions of the law relating to the independent regulatory agency and its functions were reviewed.
- Pierce Atwood submitted a finalized Work Plan.

- Pierce Atwood submitted a Policy Statement and six policy papers addressing competition, restructuring and unbundling, investment and privatization, legal and regulatory reforms, and institutional and organizational arrangements. The Policy Statement and six policy papers incorporate provisions recommended in the Strategic Action Plan.

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

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

#### **3.1 ALBANIA**

During this period, Mr. Prifti was appointed Minister of the State for Energy. Although he has no supporting ministry under the new government, we are hopeful that he will be given real authority over the energy area and that his position will evolve into a separate Ministry of Energy. Also, KESH, for the first time, filed its current tariffs with the ERE. The development of seasonal and two-part tariffs has proceeded slowly due to various administrative roadblocks, but slow forward movement is nonetheless visible.

On October 14 and 15, 2001, Gerald Amero and Enver Masud traveled to Albania to consult with Albanian counterparts, the USAID mission in Albania, ENEL and KESH representatives, and CORE International. During this trip, Pierce Atwood worked to coordinate the Electric Policy Paper required by USAID and the World Bank, assess the status of ERE, develop a Work Plan, continue work on the new Draft Law, and establish milestones for the ERE consistent with the SAP. Several meetings were held to discuss USAID assistance goals of improving the competence of the Regulator to fulfill its tariff and other responsibilities under the existing law, and to prepare the Regulator for its role under the proposed revised law relating to the ERE. As a result of those meetings, a set of goals and objectives were developed to be achieved by the ERE in pursuing regulatory acceptance with appropriate deadlines for achieving those objectives. The chairman of the ERE, Mr. Cuci, expressed agreement with these goals and objectives and committed the Commission to work toward them.

Mr. Amero and Mr. Masud met several times with Messrs. Posner and Rastogi from USAID and Messrs. Shrivastava and Hertzmark from CORE International to develop priorities and focus for the Work Plan for the period ending September 30, 2002. That Work Plan anticipated (1) working closely with the Regulator to improve regulatory competence and (2) completing the policy statement and modules supporting analysis in coordination with CORE International. Also, Mr. Gulliver and Mr. Amero of Pierce Atwood attended a strategy meeting in Washington D.C. on November 19, 2001. Representatives from USAID and CORE International, Inc. attended a discussion focused on the content and scope of the six supporting analyses and the coordination in preparation of the policy statement.

December 3-11, 2001 Gerald Amero was on TDY in Albania. While in Tirana, he gathered sufficient data and information to complete the three supporting studies for the Policy Statement for which Pierce Atwood is responsible. He assisted the rate and market analysis consultants employed by gathering information from Albanian counterparts with whom Pierce Atwood has worked closely over the years. A key part of Mr. Amero's work of late has been assessment of the climate for implementation of the Strategic Action Plan ("SAP") and the TOR to develop an Energy Policy Statement for the GOA, and for completion of the supporting studies for the policy statement. Mr. Amero reviewed the Albanian political crisis that was precipitated by the resignation of four ministers of the Prime Minister's Socialist Party government, including the Finance Minister and Minister of Public Economy and Privatization, and evaluated its effects upon the USAID Work Plan for Albania.

Throughout December Mr. Amero continued to work toward an updated Memorandum of Understanding for the provision of USAID Assistance to the Government of Albania and the facilitation of its execution. He met with the local USAID Mission to discuss the start-up of the Executive Energy MBA program. He also reviewed the rate cap and rate proposals approved by the Government of Albania and the ERE, including the two-step rate intended to curb the unrestrained demand for electric heat by household ratepayers, which is a major contributing factor to the continuing electricity crisis.

On January 9, 2002, John Gulliver met in Washington DC with Rajiv Rastogi and Bob Ichord from USAID, and with Don Hertzmark from CORE International, Inc. The purpose of this meeting was to discuss and outline the TOR policy papers and the Policy Statement and to establish a two month Work Plan that coordinates efforts in order to complete the project.

On January 25, 2002, Pierce Atwood submitted to USAID drafts of the Albanian Policy Statement and six other policy papers prepared individually by Pierce Atwood, NERA, Applied Technologies International, Inc., and CORE International, Inc. The Policy Statement addresses vital energy concerns, especially market structure and wholesale power market development, KESH restructuring and unbundling, policy framework for tariff reform, KESH investment and privatization, implementing legal and regulatory reforms, and institutional and organizational arrangements for policy implementation. The Policy Statement and the six supporting papers that were submitted to USAID all have specific dates for implementing reforms. This is especially important now as the Albanian energy crisis deepens because the Albanian government needs specific, succinct and targeted proposed reforms to improve the energy sector.

## **3.2 BULGARIA**

Pursuant to a separate Task Order with the local mission in Bulgaria, Catherine Connors and Isabel Traugott traveled to Sofia and prepared an energy assessment report, identifying the current situation in the Bulgaria energy sector and potential areas for USAID assistance.

### 3.3 CROATIA

After providing assistance in the finalization of the English text of the five enacted Energy Laws, on September 22, 2001, Catherine Connors traveled to Croatia to discuss the new laws, review the status and content of the HEP privatization, gather information on the new regulatory agency (the “ERC”), and determine short-term assistance needs. At that point, the ERC Commissioners had not been nominated; the Government was not yet prepared to discuss privatization terms; and the Energy Institute and the Ministry were still working out responsibilities for preparation of secondary legislation, a heating law, HEP and INA privatization laws and the Energy Strategy.

In response to Mr. Maksijan’s request, Ms. Connors prepared a priority task memo while she was in Croatia, which focused on pricing, tariffs, ERC organization, and market development.

Ms. Connors returned to Croatia the week of November 25<sup>th</sup>. While in Zagreb, Ms. Connors met with representatives of the Energy Institute, the Mission, and the Ministry. Ms. Connors and Mr. Matic reviewed the draft Charter and discussed what comments needed to be transmitted to the Ministry and Energy Institute, focusing on the need to (a) comport with Croatian Law, (b) protect the autonomy of the ERC, and (c) ensure clarity and effective participation of all ERC Commissioners. Copies of these comments were sent to B. Maksijan, K. Stupin, N. Jandrilovich, and USAID representatives.

While awaiting appointment of the ERC Commissioners, work continued with the Energy Institute and Ministry on secondary legislation. During the second Southeast Europe Regulatory Forum in Bulgaria from December 1-2, 2001, Ms. Connors, Mico Klepo and Nada Jandrilovich of the Energy Institute, Boris Maksijan of the Ministry, and Zoran Grubisic-Cabo of the Croatian USAID Mission met with Dr. Gabor Szorenyi of Hungarian Energy Office on licensing and ERC organizational and staffing issues.

Based on these meetings and efforts, the Energy Institute and Ministry requested additional licensing drafting assistance from Pierce Atwood and Dr. Szorenyi. On December 11, 2001, Dr. Szorenyi traveled to work on the licensing secondary legislation.

In December, local counsel Tin Matic worked with Karmen Stupin and Mico Klepo on the ERC Charter, the financing decree for the ERC, and licensing issues. Catherine Connors worked with Tin Matic on secondary legislation issues to maximize the competence and autonomy of the new ERC. Working one-on-one with representatives of the Energy Institute, Mr. Matic provided assistance and comments regarding the ERC Charter and other secondary legislation related to the ERC, including recommendations on the secondary legislation regarding ERC fees.

Also in December, Dr. Szorenyi prepared and submitted two draft decrees on license duration and conditions. On December 12-13, 2001, he traveled to Zagreb to

assist in the development of the legal and regulatory framework for the ERC, concentrating on licensing issues and organizational questions relating to the new body.

Just before the end of the year, the Government nominated the Commissioners for the ERC, with Dr. Klepo as the head Commissioner. At that time, formal registration was pending, with formal registration (without which ERC is not authorized to work) targeted in April.

Catherine Connors traveled to Zagreb from January 21-26, 2002 to meet with Dr. Mico Klepo, and various representatives from the Ministry of Economy, Energy Institute, and USAID to establish an assistance program to strengthen the ERC's competence and autonomy. Thereafter, she prepared a Work Plan and budget for a package of assistance to the ERC on grid code, tariff issues and ERC training, including licensing, information gathering and internal operational protocols.

Notable progress occurred during the course of the meetings in Zagreb. Dr. Klepo has assumed responsibility for the ERC and for ensuring that the ERC obtains the assistance that it needs, without undue control by the Ministry. Another positive outcome of the meetings was that the Ministry, the Energy Institute, and Dr. Klepo each agreed that assistance from Gabor Szorenyi and the Hungarian HEO has proved very effective. From these meetings, consensus was reached to build a program of ERC assistance and training using the HEO and NARUC-sponsored support, in addition to assistance on the grid code and electricity tariffs.

Following up on these meetings, Dr. Szorenyi continued his licensing assistance with a visit to Zagreb on February 21, 2002. During this visit, Dr. Szorenyi provided additional comments to the Energy Institute on draft licensing secondary legislation, produced by the Energy Institute after review of Dr. Szorenyi's December 2001 comments. The draft secondary legislation fell short of Dr. Szorenyi's recommendations, particularly with respect to authority of the Regulatory Commission to set licensing conditions and evaluate compliance. February 21 therefore was a lengthy day of review, critique and explanation of problems with the legislation as drafted, and effort to redraft the legislation to create a stronger regulator.

During the month of February, further efforts were made to structure a six month program of grid code, licensing, training, tariff and database assistance in Croatia. Together with Jamshid Heidarian of USAID, Isabel Traugott and Gabor Szorenyi developed a preliminary assistance plan that includes one to two trips per month by HEO members to Croatia, facilitated by Pierce Atwood.

In addition, Ms. Traugott worked with database and grid code experts to select assistance providers for the upcoming six-month program. Work on the grid code for Croatia was originally scheduled to begin in mid-March. Due to delays in Croatia, this work has just begun, with the draft transmission code in the process of translation for USAID review and comments. Upon the recommendation of the HEO and work performed at the Regional Workshop on Grid Codes in Romania, Pierce Atwood, with

the approval of USAID, selected Juris Ozolins as an expert for development of the grid code in Croatia. Mr. Ozolins is available to comment on the grid code once the document has been translated.

During this period, discussions between Pierce Atwood and Robert Ichord and Mr. Heidarian of USAID contributed to a revised draft Work Plan and budget for Croatia. On February 18, 2002, Pierce Atwood delivered a memo that re-works the budget and Work Plan for the activities in Croatia and a memo and excel spreadsheets on information gathering systems. The most recent trip to Croatia, the week of April 15, produced substantial progress, with incorporation of Dr. Szorenyi's licensing secondary legislation, meeting with the full ERC to schedule assistance, and details of that assistance, focusing on computers and database input, hands-on HEO support, concentrating initially on ERC organizational structure and remaining licensing issues, grid code and tariff issues.

### **3.4 MACEDONIA**

Through September and October work in Macedonia remained suspended due to the political and social instability in that region. However, Pierce Atwood was able to work with representatives from Macedonia at the Regional Workshop on Grid Codes in October. During this Workshop, Andres Doernberg and Catherine Connors were able to meet with Zlatko Cherepnalkoski of ESM and Simon Uzunov of the Ministry of Energy to discuss assistance possibilities and developments. Messrs. Cherepnalkoski and Uzunov stated that recent indications were that the amendments to the Energy Act would go to Parliament by the end of November. They indicated that only minor modifications have been made to the proposed amendments and that ESM would move forward with its privatization.

During the last quarter, the overall social and political environment in Macedonia improved. This allowed foreign assistance programs to resume and assistance providers to travel to Macedonia and continue working. In late November, Pierce Atwood was allowed to return to Macedonia. Ms. Connors visited Skopje from November 28–30, 2001 to develop a mutual understanding of the GoM's needs on assistance, focusing on the market choice task outlined in Section 3.2.3 of the GoM's privatization TOR tasks, *i.e.*, recommending market options to the Government in conjunction with its privatization of ESM, and a corresponding program for assistance to the Regulator.

In December, the amendments to the Energy Law, creating the Regulator, were submitted to Parliament. These amendments included minor changes from the draft produced by the Task Force. Shortly thereafter, pursuant to the CTO's request, Pierce Atwood prepared a detailed Work Plan and budget for the tasks set forth in Section 3.2.3 of its ESM Privatization TOR and transmitted these to the CTO. In addition, again pursuant to the CTO's request, Ms. Connors prepared and submitted to the CTO a more general plan for regulatory assistance, including discussions of how to interface with other contractors (*e.g.*, NARUC and USEA) after consultations.

On January 31, 2002, the Government of Macedonia signed a contract with its privatization consultants, a consortium led by Meinlbank. At this stage, Pierce Atwood was asked to re-activate its plans for assistance on the 3.2.3 tasks.

Catherine Connors traveled to Macedonia from February 18-22, 2002. Over the course of her stay in Skopje, she met with Mr. Heidarian of USAID, Karl McDermott of NERA, and various Ministry, ESM and Task Force participants, along with members of the consultant group chosen Meinlbank by the Government of Macedonia to assist in the privatization of ESM. Work on regulatory assistance has been accelerated to meet privatization demands, while at the same time protecting the integrity of the soon-to-be-created regulatory body and the electricity sector's long-term legal framework.

In February, the amendments to create the regulatory body were withdrawn from Parliament, now incorporating amendments to allow ESM privatization and passage is anticipated eminently. An outline of tariff methodology principles was submitted to the Government of Macedonia, and work is underway on the market study and tariff methodology assistance. Shortly thereafter, these amendments were re-submitted as drafted and are awaiting a vote. They are currently before Parliament, and passage is anticipated in April 2002.

### **3.5 REGIONAL**

During this period Pierce Atwood organized and led the Regional Workshop on Grid Codes, sponsored by USAID, in conjunction with the Romanian Electric and Heat Regulatory Authority (ANRE) October 29-31 in Bucharest, Romania. This Workshop was the second in a series of multilateral workshops planned by USAID to bring regional and electricity sector participants together to discuss issues critical to the development of a regional energy market. It was a focused, interactive Workshop designed to deal with a specific, single, critical topic to the development of regional electric market – grid codes. Grid code development was selected because it forms a crucial element of REM development. Because Romania has developed a well regarded grid code and revised the grid code recently (indeed, the revised grid code was made available at the Workshop for all participants, having just been released), Bucharest was selected as the Workshop site.

Facilitators and presenters from the region with the type of experience noted included Dr. Ion Lungu, president of ANRE; Juris Ozolins, from the State Ministry of Energy, Latvia; Jean Constantinescu, Director General of Transelectrica, S. A. of Romania; Dr. Gabor Szorenyi, Deputy Director of the Hungarian Energy Office; and Maria Manicuta, of ANRE in Romania. Other regional facilitators included Professor Dimitrios Mavrakis, who has been instrumental in EU regional electrical reform, John Irving of EBRD, and Mark Trotignon of Electricity D'France. U.S. Experts who helped facilitate the workshops and move them towards conclusion included M. K. Sheen, Paul Giesbertz, and John Gulliver, Catherine Connors and Isabel Traugott of Pierce Atwood.

Through this Regional Workshop on Grid Codes, participants learned about and explored a platform of three critical elements to promote regional electric markets.

Participants were actively engaged in the Workshop and in the overall regional integration process. The next step should include further elaboration of these three building blocks.

On November 7, Pierce Atwood, through John Gulliver, attended a Project Coordination Meeting focusing on Stability Pact issues and USAID support for Balkan Regional Electric Market Initiatives in Washington D.C. The primary purpose of the meeting was to review activities in the region carried out by USAID and, in conjunction with the different contractors from the last coordination meeting, to identify upcoming activities extending into the first quarter of 2002.

As noted, Ms. Connors also participated in the Second Southeast Europe Regulatory Forum sponsored by NARUC in Sofia from December 1-2, 2001. This meeting discussed the status of laws and regulatory bodies in the region and provided a survey of common issues arising out of the development of the same. The meeting in Bulgaria gave Ms. Connors an opportunity to discuss developments with the Ministry representatives and regulators from the region, and to work with them on various issues, *e.g.*, the draft Serbian Energy Act.

On January 4, 2002, Pierce Atwood submitted to USAID a summary report, with attachments, of the Regional Workshop on Grid Codes hosted in Bucharest in October.

On January 8, 2002, John Gulliver traveled to Washington DC to attend a meeting of the SEETEC project. A brief presentation was made of the SEETEC project including its objectives and the approach used to identify the needs and the criteria used to select activities to be carried out in the various countries. Needs assessment reports prepared by SEETEC for each of the countries had been previously distributed by CIDA for information and comments to key donors and international organizations involved in the Balkans, including USAID and the World Bank. The intent is to develop conditions in each country that set that stage for and support development of a regional market.

During this time period, USAID made the decision to hold off on plans for additional workshops, to focus on more targeted assistance.

#### **4. DELIVERABLES**

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

- 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<sup>7</sup>.
- "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 Regional Workshop on Grid Codes 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).
- Energy Law and Statement of Legislative Purpose. (Attached to G. Amero trip report for Albania 9/23/01 – 9/29/01).
- List of ERC Regulations to be developed under Draft Energy Law. (Attached to G. Amero trip report for Albania 9/23/01 – 9/29/01).
- Proposed and Present Rate Cap Comparison. (Attached to G. Amero trip report for Albania 10/15/01 – 10/26/01).
- Goals and Objectives of ERE, English and Albanian Versions. (Attached to G. Amero trip report for Albania 10/15/01 – 10/26/01).
- Latest English and Albanian versions of Draft Regulatory Law. (Attached to G. Amero trip report for Albania 10/15/01 – 10/26/01).
- Albania Electric Sector Regulatory Reform and Utility Restructuring Work Plan. (Delivered to USAID on 11/7/01).
- Table of TDY Tasks. (Delivered to USAID on 11/7/01).
- Major Milestones for ERE Assistance in Albania. (Delivered to USAID on 11/7/01).
- Modified Albanian Cost Proposal. (Delivered to USAID on 11/7/01).
- Memorandum re Questions about the enacted Energy Laws in Croatia. (Delivered to USAID via email on 9/12/01).
- Review and comments on the Concession Act in Croatia. (Delivered to USAID via email on 10/23/01).
- Secondary Legislation in Croatia – summary of contents of priority (a) items. (Delivered to USAID on 11/23/01).
- Draft Decree on Financing the Council for Power Industry Management in Croatia. (Delivered to USAID on 12/19/01).
- GoC list of Secondary Legislation for Croatia to be prepared. (Attached to C. Connors trip report for Croatia 9/22/01 – 9/27/01).
- Pierce Atwood Memorandum on Priority Tasks. (Attached to C. Connors trip report for Croatia 9/22/01 – 9/27/01).
- Pierce Atwood Memorandum on Questions Regarding Law. (Attached to C. Connors trip report for Croatia 9/22/01 – 9/27/01).
- Memorandum from T. Matic answering Legal Questions. (Attached to C. Connors trip report for Croatia 9/22/01 – 9/27/01).
- Pierce Atwood Plan for Section 3.2.3 of Macedonian ESM TOR and budget. (Delivered to USAID 12.7.01).
- 3.2.3 Work Plan and budget. (Delivered to USAID 12/5/01).
- Memo on Macedonian Regulatory Assistance. (Delivered to USAID on 12/19/01).

- Paper on transmission pricing, synthesizing the work and presentations of the speakers and participants in the seminar on “Transmission, Access, Pricing and Regional Electric Markets”. (Delivered to USAID on 9/28/01).
- Paper on commercial contracts, terms, conditions and standardization as a platform for a working group to be drafted necessary contracts to support regional electric market trade. (Delivered to USAID on 9/28/01).
- Draft Energy Policy Statement of Government of Albania by Pierce Atwood. (Delivered to USAID on 1/25/02).
- Draft Introducing Competition into the Albanian Electric Sector by Karl McDermott and Carl Peterson of NERA. (Delivered to USAID on 1/25/02).
- Draft KESH Restructuring and Unbundling Draft prepared by CORE International Inc., Albania. (Delivered to USAID on 1/25/02).
- Draft KESH Investment and Privatization Draft by CORE International Inc., Albania. (Delivered to USAID on 1/25/02).
- Draft Implementing Legal and Regulatory Reforms for the Albanian Electric Sector by Pierce Atwood. (Delivered to USAID on 1/25/02).
- Draft Institutional and Organizational Arrangements for Policy Implementation by CORE International, Inc., Albania. (Delivered to USAID on 1/25/02).
- Draft Policy Framework for Tariff Reform and Tariff Adjustment Strategy, Albania. (Delivered to USAID on 1/28/02).
- Draft Energy Policy Statement of Government of Albania. (Delivered to USAID on 2/15/02).
- Duration of Licenses Decree, Croatia. (Delivered to USAID on 12/31/01).
- License Conditions Decree, Croatia. (Delivered to USAID on 12/31/01).
- T. Matic comments on Charter and Financial Decree, Croatia. (Delivered to USAID on 12/19/01).
- Memorandum that re-works the budget and Work Plan for the activities in Croatia and a memo and excel spreadsheets from Mr. Merklein on information gathering systems. (Delivered to USAID on 2/18/02).
- A budget breakdown for the 3.2.3 tasks, Macedonia. (Delivered to USAID on 12/5/01).
- A Draft Work Plan, giving more details as to timeline, team members and how we anticipate performing the work, Macedonia. (Delivered to USAID on 12/5/01).
- A draft index of issues to be examined and discussed in determining market recommendations, Macedonia. (Delivered to USAID on 12/5/01).
- Draft Regulatory Work Plan, Macedonia. (Delivered to USAID on 12/19/01).
- Regional Workshop on Grid Codes follow-up Memorandum. (Delivered to USAID on 1/4/02).

## **5. TASKS AND PLANS FOR THE REMAINDER OF THE PROJECT**

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

## **Albania**

- Finalization of the Policy Statement and six policy papers.
- Further work with the Regulator to promote regulatory competence.
- Assistance in implementation of reforms outlined in SAP and Policy Statement.

## **Croatia**

- Grid code analysis and commentary.
- Continued expansion of the HEO licensing and hands-on training assistance, initially focusing on ERC organizational structure.
- Tariff assistance focusing on transmission fee and PBR principles.
- Computer and database assistance.

## **Macedonia**

- Continued implementation of assistance on 3.2.3 market tasks and regulatory development.
- Tariff methodology report and cost review to monitor privatization efforts.

## **Regional**

- Focused projects coordinated with the CTO, in turn coordinated with other donors, to advance the REM.

## **6. BUDGET**

An administrative report covering budget and personnel expenditures will be forwarded to USAID shortly.