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## **Regulatory and Energy Assistance**

**Regulatory and Energy Assistance Project in Bosnia and  
Herzegovina (BiH) – REAP BiH**  
IQC Contract # EPP-I-00-03-00004-00  
Task Order # 05

**Quarterly Progress Report**  
**January 1, 2008 – March 31, 2008**

Submitted to:  
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This report is made possible by support from the American People sponsored by the United States Agency for International Development (USAID). The contents are the sole responsibility of the author/s and do not necessarily reflect the views of USAID or the United States Government.

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## **I. EXECUTIVE SUMMARY**

The most important REAP activities during the first quarter, 2008, involved not only trying to hold on to the sector reform progress made to date by submitting a series of comments to the Working Group on proposed amendments to the Federation Electricity Law, but also working to move sector reform forward. The latter activities involved providing the first gas training in BiH, developing an Internal Action Plan for the country based on the Energy Community Secretariat's Road Map (with the blessing of the Secretariat), and becoming involved in the Gas Expert Group's attempt to agree on a state law for BiH. While at first REAP's participation had been resisted, most strongly from the Federation, not only was REAP included in the Working Group meetings but also requested to make suggestions on a body to coordinate the operation of the transportation network. Finally, a revised work plan was developed by the public outreach group that outlines activities and deliverables to be completed in 1 ½ years from March 1, 2008.

## **II. SUMMARY OF TECHNICAL ACTIVITIES AND OUTCOMES**

### **A. Fully Integrated Energy Sector into the Regional Market and the EU**

#### **1. Creation of Legal and Regulatory Framework for Gas**

*Gas Training.* REAP successfully conducted a one and one-half day gas training for approximately 60 attendees from the three regulatory commissions, ministries and gas companies. REAP technical assistance conducted the training. The subjects covered were an overview of natural gas systems (how gas pipelines work), supply planning options, principles of natural gas pricing, the role of the regulator and operational issues. The most exciting and effective part of the training was a participative exercise in which 6 groups considered three possible project uses of a newly discovered, significant deposit of natural gas offshore of a country with an under-developed economy. The discussion groups were dynamic and lively; and the presentations by the discussion groups to the entire group were thoughtful and well-prepared. Technical assistance noted that this exercise had been utilized all over the world; however, the competence of the group in Bosnia and Herzegovina was the best he had ever seen.

*Meeting regarding development of the Road Map for Gas in BiH.* MOFTER with the Energy Community Secretariat organized a one and one-half day meeting for developing the Road Map for BiH. The goal of the meeting was to develop the plan for achieving the objectives that were defined by the participants of the meeting of Energy Community Ministerial Council held in Belgrade in December 2007. The meeting was attended by representatives of gas sector participants in BiH and the Energy Community Secretariat Representative. The most important issues considered were the following:

- Regarding a question from the Federation integrated transportation company that contracts with Gazprom to supply all of BiH's natural gas (and transport it within the Federation) as to whether a single company could be formed for both as transmission and supply. The Energy Community Secretariat Representative's response was that it is possible to form single company for gas transmission and supply as one holding company with legally unbundled transmission and supply.
- In response to a question about whether there is a possibility for derogation from the Gas Directive's market opening requirement, the Representative's response was that it is possible to request derogation as provided in the EU directive.
- In response to a question as what kind of law would be recognized by the Energy Community, the response was that the Energy Community recognizes only a State law, and there is a possibility of issuing Entity laws.

*Gas Expert Group.* REAP attended the last three of six meetings of the Expert Gas Group. The Expert Group consists of the three representatives from the Federation, one from

MOFTER and three representatives from the RS. Formally, the remit of the Expert Group is to (i) to analyze the existing gas legislation on the Entity level; (ii) develop a draft legal act that regulates the gas sector in BiH; and (iii) give recommendations on the required amendments for the Entity gas legislation for the purpose of harmonization with the new proposed legal act. In a nutshell, the expert group is required to create a State Gas Law. Thus far, the Expert Group has generally agreed at a high level that some operational issues will be on the State level, specifically:

- Cut-off of supply. A provision to be included in the State law that provides that the operator at the entry point into BiH is obligated to keep the gas flowing.
  - Coordinator of operations at the level of the State. The participants agreed that there could be coordination at the level of the State if it were given certain jurisdiction.
- REAP was nominated to put together talking points on a structure that combines into one legal body the coordination of operation of the BiH transportation network, without harming either the RS Gas Law or the Federation decree. REAP's initial research indicates that Austria has a transportation model where five TSOs are technically operating their networks and a common grid manager (Austrian Gas Grid Manager – AGGM, which was actually formed as a way to avoid being merged into one transportation company.) is handling and managing capacity, allowing for an increase in capacity by 10% for a peak load without any additional investment.

## **2. Unification of the Regulators**

Because the three Ministers agreed not to unify the three regulators, REAP put immediate action on this item on hold, pending a better political environment that is more conducive to accomplishing this task.

*Meeting with SERC.* USAID and REAP met with SERC. Most of the discussion with SERC centered around market design. SERC would like a document to memorialize the BiH market situation. SERC is against forcing customers to exit the tariff regime into the market because it would result in more difficult problems. A deregulated generation price will occur when the other elements – renewable certificates and green certificates, for example – are instituted. SERC also wants a provision that forbids export until all customers are served.

## **B. Restructuring and Commercialization of Energy Companies**

*Republika Srpska Transmission Company Reorganization Proposal.* The most critical proposals made by the reorganization proposal include a decentralization of the management and operation into three operational areas consistent with the EP geographic areas with a central headquarters; the reduction of executive directors from five to two, the conveyance of all 110 kV lines back to the EPs, investments and employment to be in accordance to the ownership ratio between the Federation and Republika Srpska, full control of management of the company given to the General Director, which removes any requirement for consensus in the management team which is required to be, according to the law, balanced with the three constitutive peoples. REAP is in the process of performing a detailed technical analysis of the proposal.

*Federation Government Working Group Amendments to Law on Electricity.* REAP finalized its comments on the final proposed amendments to the Law on Electricity, also attending a number of meetings of the Working Group established by the Federation Ministry responsible for energy to develop amendments to the Federation Electricity Law. The key topics addressed were the following:

- Approval of FERC's acts by the Government. The new proposal of the working group suggested that the Government will issue an initial approval on FERC's draft acts from the standpoint of their compliance with other laws and the adopted, official energy policy. REAP developed a recommendation, explaining the normal regulatory process would requires the Ministry be a participate in the regulator's public hearing process; to ensure

that the Ministry would be able to review the final order from the regulator, a request for rehearing process was recommended, that would allow any party, including the Ministry, to request for rehearing of a final FERC order.

- Parliament's forming an authority for resolving complaints on FERC's decisions. The working group proposed that Parliament form an authority to which appeals from the regulator be made. REAP strongly suggested that such provisions be removed because such provision would create a political conflict that destroys the independence of the regulatory commission. The role of the Parliament is to provide the Commission with its budget and oversee its activities. The Parliament, being a political body, cannot render the objective judgment of the court system.
- Appointing acting Commissioner. The new proposal of the Working Group accepted REAP's suggestion that a Commissioner be replaced if he/she intentionally disregards the energy policy issued by the Federation Government and approved by the Parliament.
- Socially vulnerable customers. The working group agreed to incorporate "social policy" in the law.
- License for operation. The working group maintained its position that FERC need not issue a license for operation of a new facility because this type of license is granted by another competent institution, and there is no need for duplication of procedures.
- Authorization and Tender procedure in regard to building new power plants. It was suggested by REAP to the working group there is a need for issuing a uniform and transparent procedure in accordance to EC Directive 2003/54 and to simultaneously harmonize the multiple laws that address building new facilities.

The conclusion from the meetings was that the Working Group will prepare a new version of amendments, which will be sent to all participants (including REAP) for consideration as soon as possible. The Federation Minister had requested the Working Group to move faster in order to send the amendments into the Federation Parliamentary procedure as soon as possible.

*Meeting on the Road Map for electricity in BiH.* Together with the Energy Community Secretariat MOFTER organized 1 1/2 day meeting on the Road Map for BiH. The objective of the meeting was to make a plan for achieving the set objectives, defined by the participants on the EC Ministerial Meeting held in Belgrade on December 17 and 18, 2007. The meeting was attended by the representatives of all stakeholders in electricity sector in BiH. The participants created an updated Road Map which will be sent to the Secretariat for its review. During the course of the meeting, the need for a detailed Action plan was emphasized a number of times.

*Internal Action Plan.* Both MOFTER and the Energy Community Secretariat approved of the idea of the Internal Action Plan, meaning an internal action plan that sets forth in detail the steps needed for each of the items included in the Secretariat Road Map, who is responsible, the realistic timeframe to accomplish the effort and what technical assistance is needed. The representatives from both entity ministries supported the document with the suggestion that the REAP harmonize the submitted document with each ministry and then send it to the other stakeholders involved. REAP made amendments to the Internal Action plan based on the discussions and conclusions from the meeting held in MOFTER and sent it to the Ministry of Energy, Economy and Development of RS and Ministry of Energy, Mining and Industry FBiH. In a meeting with RS Ministry representatives one good point was made that the status of reform in the two Entities is so different that the country will have a hard time moving forward until there is some kind of parity between the two Entities. Further, given this point, the time periods indicated in the Internal Action Plan are too short. RS representatives also pointed out that certain pre-conditions are to be created in order to commence the market opening process. In order to make this process realistic, a time schedule should to be developed so that everybody can see who, what and when a task is to be done in order to open the market that is for benefit of BiH. REAP is working on a milestone dependent analysis of the Internal Action Plan.

*Market Design.* REAP worked with technical assistance to finalize the consulting deliverables for market design. REAP reviewed (i) the Northern Ireland electricity market; (ii) the

Hungarian electricity market; (iii) the Bulgarian electricity market. REAP is in agreement that an original and most likely unique market design will have to be created for Bosnia and Herzegovina in order to get all decision makers “on board.”

### **C. Broader Public Understanding of Specific Energy Sector Issues and Challenges**

*Public Outreach Activities.* During the First Quarter, 2008, the following public outreach activities occurred:

- Based on the results of the public opinion survey conducted on behalf of the REAP in November, REAP designed an paid advertisement entitled, “Who determines the price of electricity,” that was published for two days in three major dailies, on Jan 17 & 21, 2008.
- During discussion on the FERC budget in the FBiH House of Representatives on January 17, 2008, the FERC Chairman refused to answer the Members of Parliaments’ questions on the highest and lowest salary in FERC, causing a disturbance in the House. As a result, the MPs refused to pass the budget. The following day all major daily newspapers published rather negative stories on FERC. REAP with the FERC Commissioners and the FERC PR person and advised them to write a conciliatory letter to the FBiH Parliament and media. With the assistance of REAP, FERC drafted the letter which was sent to the FBiH Parliament.
- REAP organized the second in the series of press briefings and briefed the journalists about the gas sector and the participants in the energy sector, their roles and authorities.
- In order to deal with possible negative publicity and to prepare the media and public on the upcoming FERC decision on an increase of electricity prices in the tariff proceeding, REAP advised FERC to provide possible scenarios they are reviewing on the FERC website. FERC put the report from its formal session on the website.
- REAP warned FERC that some of their internal documents were not in line with the Freedom of Information Act and suggested they review those and make necessary corrections. This opportunity was used to explain the Act to the Commissioners.
- RSERC Media and Public Relations training: On Jan 24 & 25, 2008, REAP conducted a two-day training at the RSERC in Trebinje. The training was attended by ten key RSERC personnel, including the three Commissioners. The training was very well accepted and appreciated, with plenty of questions being asked and answered. RSERC Chief of Staff asked REAP to provide assistance and one-on-one training to their newly appointed PR person.
- MOFTER Media and Public Relations training: The three-day training for the MOFTER staff took place from Jan 30 to Feb 1, 2008. It was attended by eleven MOFTER employees from different departments. After being prepared by REAP, the MOFTER Public Relations person, successfully assisted in delivering the training. The idea was to strengthen the position of the Public Relations person in the Ministry.
- REAP produced a press release for the Gas training in Tuzla. It was broadcast and published in many media outlets, including some internet portals.
- REAP developed an activity plan for building cooperation with FBiH parliamentarians.
- During this quarter, REAP met with three groups of FBiH Parliament MPs - Social Democratic Party (SDP), Party for Democratic Action (SDA) and Social Democratic Union. REAP presented the project, gave an overview of energy reform in BiH and presented comprehensive information related to the proposed amendments to the electricity law with special emphasis on energy policy and the independence of regulators, restructuring of the sector, gas issues and the Road Map. The Parliamentarians’ response was very positive.

- Public Outreach Strategy and Annual Plan. REAP created a revised detailed public outreach and communication strategy with an implementation plan, schedule, and list of deliverables.

### **III. PROBLEM AREAS**

- Transco reorganization. The proposal of the RS basically decentralizes the organization of Transco into the geographic regions of the three EPs. This and other issues in the proposal must be addressed from a technical and political point of view. Further, issues, if any, regarding the other pieces of the transmission sector – the ISO and SERC – should be dealt with at the same time as the Transco reorganization.
- Expert Gas Working Group. Whereas REAP is now working to facilitate the Working Group, the challenges are clear since the RS' position is a minimum of State involvement in the gas sector and the Federation insists on full State regulation, a State transportation company and a State system operator. This polarization of political positions makes reaching agreement on a State law impossible.

### **IV. THIRD QUARTER DELIVERABLES**

- REAP Comments on Draft Working Group Amendments to Federation Electricity Law, dated 1-11-08, in English and local language.
- Cover Letter for FBiH Ministry regarding Internal Action Plan, dated 1-15-08, in local and English language
- Cover Letter for RS Ministry regarding Internal Action Plan, dated 1-15-08, in local and English language
- Gas MOL offer, dated Dec. 2007, scanned English and translation into local
- Internal Action Plan re Road Map for BiH, dated 1-12-08 in local and English language
- Legal Memo REAP to USAID tender on automatic measurement system, dated 1-15-08 in local and English language
- Letter from USAID to Minister Hećo regarding amendments, dated 1-15-08 in English and local language
- Article from Nezavisne novine on Elektroprenos tender, dated 1-15-08, scanned local and translation into English
- Paid Ad regarding Who determines the price of electricity, dated 1-17-08 in English
- Paid Ad in Dnevni Avaz regarding Who determines the price of electricity, dated 1-17-08 scanned
- Paid Ad in Dnevni List regarding Who determines the price of electricity, dated 1-17-08 scanned
- Paid Ad in Nezavisne novine regarding Who determines the price of electricity, dated 1-17-08 scanned
- Mr. Bosnjak's report on the third tariff proceeding initiating by EP HZHB
- CV of Mr. Borgstrom, the speaker on the Gas Training, dated 12-24-08, in English and local language
- Draft Agenda for the Gas Training, dated 12-31-07, in English and local language
- Invitation to the Gas Training, dated 1-10-08, in English and local language
- Updated Internal Action Plan regarding Road Map for BiH, dated 01-23-08, in English and local language.
- REAP Memorandum to RS Ministry regarding telecommunications, dated 1-15-07, in English and local language
- Draft Overview of the USAID REAP activities related the ISO for the period of October - December 2007, dated 1-25-08, in English and local language

- Minutes of the Meeting on the Action Plan for Gas, dated 1-18-08, in English and local language
- Paid Ad in Dnevni Avaz regarding Who determines the price of electricity, second appearance, 1-21-08 scanned, local
- Paid Ad in Dnevni list re Who determines the price of electricity, second appearance, 1-21-08 scanned, local
- Paid Ad in Nezavisne novine re Who determines the price of electricity, second appearance, 1-21-08 scanned, local
- Letter from SERC to ISO regarding Decision on ancillary services, dated 1-24-08, in English and local language
- Letter from ISO to USAID regarding meeting schedule, dated 2-1-08, in English and local language
- Letter from ISO to SERC regarding tariff for ancillary services, dated 1-22-08, in English and local language
- Letter from ISO to SERC regarding allocation of cross-border capacity, dated 1-24-08, in English and local language
- Excerpts from Heco interview in Oslobodjenje, dated 1-28-08, in English and local language
- Talking Points for meeting with SDP Nermin Niksic, et al, dated 2-8-08, in English only.
- Letter USAID to Prime Minister Brankovic, et al., re expiration of FERC member technical mandate, dated 2-7-08, in English and local language.
- Draft Revised Memorandum REAP to USAID regarding Federation Electricity Law amendment regarding rehearing process, dated 2-11-08, in English only.
- Revised amendments to Federation Electricity regarding rehearing [Article 14], dated 2-11-08, English only.
- Letter from Minister Heco to REAP regarding appointment of members to the market design task force, dated 1-25-08, in English and local language.
- Press Release on upcoming gas regulatory training, dated 2-8-08, in English and local language.
- Gas Training presentations, dated February 13-14, 2008, in English and local language.
  - Part 1 – Overview of Natural Gas Systems
  - Part 2 – Supply Planning Options
  - Part 3 – Principles of Natural Gas Pricing
  - Part 4 – The Role of the Regulator
  - Part 5 – Group Exercise
  - Part 6 – Operational Issues
- Presentations from the Training Exercise, dated February 14, 2008, in local language only:
  - Group 1: Grupna vjezba – Ministarstvo Energetike [Group Exercise: Ministry of Energy]
  - Group 2: Drzavna kompanija za gas [State Gas Company]
  - Group 3: Nacionalna kompanija [National Electricity Company]
  - Group 4: LNG group ltd
  - Group 5: Vijece za savjetovanje potrosaca [Consumer Consultative Council]
  - Group 6: Okvir za donosenje regulatorne odluke [Regulatory Authority framework for issuing regulatory decision]
- Email from Ognjen Markovic to Jane Wilson, summary of RS Transco proposal, dated 2-15-08, in English only.
- REAP Technical Comments on RS Transco proposal, dated 2-15-08, in English only.
- REAP Political Comments on RS Transco proposal, dated 2-15-08, in English only.
- Letter from Federation Ministry of Energy, Mining and Industry to Translation of RS Government to REAP, dated 2-18-08, in English and local language.
- Travel Report from Bob Borgstrom, dated 2-16-08, in English only.
- Letter from Almir Becarevic of BH Gas to Ms. Wilson, dated 2-13-08, in local language and English.
- Draft Brcko Memorandum of Understanding received from the Brcko Mayor's office and translated, dated 2-19-08, in English and local language.

- Comments on further Working Group Proposed Amendments to the Federation Electricity Law, dated 2-20-08, in English and local language.
- Cover letter Markovic to Begic forwarding comments on proposed amendments, dated 2-20-08, in English and local language.
- Quarterly Report for the Quarter covering October through December, 2007.
- Full translation of Dodik's proposal for amendments to the Transco Statut, dated 2-15-08, in English only.
- Transco Statut with the proposed amendments redlined in place, dated 2-22-08, in English only.
- Report on FERC Public Hearing on General Conditions of Supply, dated 2-22-08, in English only
- Memorandum REAP to USAID on USAID/REAP's role in motivating Amendments to the Public Enterprise Law, 2-15-08, in English only.
- Draft MOU from Brcko to REAP, dated 2-19-08, in English and local language.
- REAP Comments on the Brcko District MOU Draft for Supply, dated 2-28-08, in English and local language.
- Transco proposal pros and cons draft, 2-26-08, in English only.
- Public Outreach high level strategy, 2-29-08, in English only.
- USAID version, REAP PR Training Certificate, dated 2-29-08, in English only.
- Memorandum REAP to USAID on Transco proposal, dated 3-6-08, in English only.
- Memorandum REAP to USAID on Transco law amendments, dated 3-6-08, in English only.
- Memorandum Markovic to Wilson on Hrvoje Pozar workshop on Investment, dated 2-28-08, in English only.
- Transco Proposal Technical Analysis Table for Distribution, dated 2-29-08, redlined and clean, in English and local language.
- Note on Automatic Metering System by Ognjen Markovic, dated 3-7-08, in English only.
- Presentations for Media Training by Public Outreach, dated 11-9-07 [local language versions previously delivered.]
  - Exercise Communication Skills.
  - Exercise Selecting the Facts.
  - Presentation Creation of Reputation.
  - Presentation Crisis Situation Management.
  - Presentation Persuasion.
  - Presentation Public Relations.
  - Presentation Radio.
  - Presentation Television.
  - Presentation Ways to Communicate.
- Annual Work Plan 2008-2009
- Attachment A to the Annual Work Plan: Table comparing the original work plan to the items included in the Internal Action Plan.
- Attachment B to the Annual Work Plan: REAP Activity Timetable 2008-2009.
- Attachment C to the Annual Work Plan: Public Outreach strategy, work plan and activity timetable.
- REAP summary of Court Award EPHZHB v. FERC, dated 3-3-08, in English only.
- Research paper on market design, dated 3-14-08.
- Excerpt from interview between Nezavisne Novine and Prime Minister Brankovic, dated 3-16-08, in English and the full interview in local language.
- REAP comments on SERC draft Brcko MOU, dated 3-21-08, in English and local language.
- Summary regarding project on gas technical rules, dated 3-28-08, in English and local language.
- Report by Markovic on Colloquium Decision making principles in building of electric power sources, dated 3-27,28-08, in English only.

## **V. ANTICIPATED ACTIVITIES FOR THE FOLLOWING QUARTER**

REAP's technical team will continue to meet and work with our counterparts to advance reform in the electricity and gas sectors:

### BiH energy sector fully integrated into the regional market and the EU

- Encourage the Expert Gas Law Working Group to address and compromise on the central issues.

### Implement the Action Plan

- Encourage the State and RS Ministries to nominate their market design task forces.
- Revise the first draft of the Internal Action Plan to tie the milestone dependent activities together and illustrate it through MSProject. Work with the Ministries to approve the Action Plan to circulate to the regulators and the regulated companies.
- Determine optimal changes to the organization of the entire transmission sector – not only the Transco as proposed by the RS Government, but also what changes are needed by the ISO and both companies' relationships with the SERC.

### Broaden public understanding of the BiH energy sector issues and challenges.

- Complete Public Relations and media training for SERC and Federation Ministry staff
- Continue to brief/train journalists in energy related issues
- Assist ISO and FERC to develop their Public Relations work-plans for 2008
- Assist ISO to organize the big Public Relations event, the opening of the new Dispatch Center
- Assist RSERC develop its Public Relations function
- Help NGOs understand energy related issues through presentations
- Develop lobby and information plan for Parliamentarians
- Deliver presentations on status of the energy reform to parliamentarians
- Create a presentation on Internal Action Plan
- Brief journalists on the Internal Action Plan
- Continuously act as a regular source of information on current energy issues

## **VI. ADDITIONAL INFORMATION**

### **A. Progress during the quarter v. scheduled**

All scheduled activities during the quarter were completed.

### **B. Supporting Materials**

Annex A includes (i) a task list from the Project Contract that shows accomplishments grouped under the appropriate task, and (ii) a task progress chart show activities completed, in process, or deferred during the quarter is included in Annex A. This is followed by a financial summary in Annex B, and a List of Staff in Annex C.

### **C. Staffing Status**

No change.

## ANNEX A

### TASKS, ACHIEVEMENTS AND PLANS

**Task 1: A fully integrated energy sector into the regional market and the EU.**

Task 1.A. **Unification of the Regulators.** The contractor shall help create a single energy market throughout BiH regulated by a single integrated regulation.

Task 1.A.(i) Provide assistance to the existing regulators to further strengthen their principal functions of issuing licenses and tariffs;

REAP successfully conducted gas training for approximately 60 attendees among which were regulatory commission representatives.

REAP held a number of meetings with FERC and SERC and provided advice on the issues that were of concern to the commissions and also listened to their input on the issues on which REAP is currently working.

Task 1.A.(ii) Draft amendments to the electricity law that are consistent with the unbundling of the existing company structure. **ENREG dependent.**

Task 1.A.(iii) Draft necessary by-laws; and assist in their implementation to assist with the passage of the amendments to the electricity laws to enable unification of regulators; and **ENREG dependent.**

Task 1.A.(iv) Once in place, assist the unified regulator to reconfigure itself – which would include organizational issues and the revision of all internal documents (Statute, Rules of Work, organization charts, internal financial procedures, and the like) as well as the Rules of Practice and Procedure, and assist the State Regulatory Commission (SERC) in its interactions with the Energy Regulators Regional Association (ERRA) in moving towards the single regulator. **ENREG dependent.**

Task 1.B **Creation of the Legal and Regulatory Framework for Gas.** The contractor shall assist the state regulator to consolidate and incorporate the regulation of gas into its regime and to assemble a capable staff to support the gas sector.

Task 1.B.(i) Draft a state level gas law working with a Gas Working Group.

REAP is now assisting the Expert Gas Group, having attended the first three of the first six meetings. The remit of the Expert Gas Group is to work on a State Gas Law. REAP was nominated to put together talking points on a structure that combines into one legal body the coordination of operation of the BiH transportation network, without harming either the RS Gas Law or the Federation decree.

Task 1.B.(ii) Provide technical assistance to MOFTER to complete the enactment of the Gas Law;

Task 1.B.(iii) Draft foundation gas regulation documents and plan training on gas specific regulatory issues.

REAP successfully conducted 1½ days of natural gas regulatory training for approximately 60 attendees from the three regulatory commissions, ministries and gas companies.

Task 1.B.(iv) Assist the state regulator to hold public hearings and issue rules for gas regulation, including such matters as the practice and procedure for establishing tariffs and the conditions for licenses, third party access, and market opening.

ENREG dependent.

Task 1.B.(v) Assist the state regulator to consolidate and incorporate the regulation of gas into its regime and to assemble a staff to support the gas sector; and

ENREG dependent.

Task 1.B.(vi) Assist the regulators in planning activities to require the appropriate and timely filings from all gas companies and ensure that concomitant changes called for in the law are made for the gas sector, as required.

ENREG dependent.

Task 1.C. **Transformation of the Independent System Operation (ISO) into a Full Market Operator for all of BiH.**

Task 1.C.(i) Assist the state regulator (SERC) in its approval of ISO activities to create the Market Operator function for balancing the market.

Task 1.C.(ii) Assist MOFTER in the ongoing efforts to formulate the Market Rules for the energy market (electricity and gas) and to help delineate the rules for a financial settlement system;

Task 1.C.(iii) Help revise the Grid Code; and

Task 1.C.(iv) Ensure that the appropriate market monitoring mechanisms are in place and being utilized to ensure that ISO governance is proper.

Task 1.D. **Broader Public Understanding of Specific Energy Sector Issues and Challenges.** The contractor shall develop and implement a program of public outreach and education efforts to develop broader understanding of the energy sector, its needs, the challenges it faces, the major issues of the reform of this sector and what are the means needed to achieve them. Through a variety of efforts, e.g., short-term trainings, the project should strive to educate cabinet members and parliamentarians, both at the entity and state level, the media and the broader public. While serving as an educational effort, the aim is to help develop advocates for energy sector reform in these areas. This will require consultation and working closely with USAID Economic Reform Office CTOs, with parliaments, and the media. This may include, but not be limited to:

Task 1.D.(i) Support reform efforts surrounding the drafting and adoption of legislation and regulation for the unification of regulators. **On hold.**

Task 1.D.(ii) Support the drafting of legislation and regulation supporting the state level gas law, and

Task 1.D.(iii) Assist the state energy regulator to hold hearings and issue rules for gas regulation on topics such as tariff setting, conditions for licenses, and helping the regulators in developing and implementing requirements that the gas sector meetings the new requirements under the law on the gas sector. [On hold.](#)

## **Task 2. Restructuring and commercialization of energy companies.**

Task 2.A. **Implementation of the Action Plans.** The contractor shall assist with a number of actions to help facilitate action plan implementation. These shall include:

Task 2.A.(i) The formation of Headquarters functions in the EP companies.

Task 2.A.(ii) Integration and coordination of the Federation coal Mine Action Plan with the Electricity Action Plans in preparation for the privatization of the thermal power plants along with the coal mines that support them.

Task 2.A.(iii) Separation of the accounting of all of the daughter business units of the EPs.

Task 2.A.(iv) Combination of certain of the generating companies and distribution companies into more efficient operating units as identified in the action plans.

[Both MOFTER and the Energy Community Secretariat approved of the idea of the Internal Action Plan, meaning an internal action plan that sets forth in detail the steps needed for each of the items included in the Secretariat Road Map, who is responsible, the realistic timeframe to accomplish the effort and what technical assistance is needed. In addition, the representatives from both entity ministries supported the document with the suggestion that the REAP harmonize the submitted document with each ministry and then send it to the other stakeholders involved. REAP forwarded a draft of the Internal Action Plan to both Entity Ministries.](#)

Task 2.A.(v) Incorporation of Holding Companies and the separate daughter companies as joint stock companies from the reconfigured EPs.

Task 2.A.(vi) Transition to full cost-based tariffs for all of the new Joint Stock Companies; and

Task 2.A. (vii) Preparation of the generation and distribution companies in BiH for privatization plus agreement with the Governments on social programs for redundant workers.

## **Task 2.B. Broader Public Understanding of Specific Energy Sector Issues and Challenges**

The contractor shall develop and implement a program of public outreach and education efforts to develop broader understanding of the energy sector, its needs, the challenges it faces, educate entity and state level cabinet members and parliamentarians, the media and the

broader public. This program will support the efforts to transform the ISO into a full market operator. It will also educate stakeholders and the public on the need for the privatization of the EPs, including the preparatory steps required to do so, i.e., the reorganization of EPs, the hiving off of EPs' daughter business units, the incorporation of Holding Companies, etc. While serving as a broad educational effort, the chief aim of this program will be to help develop advocates for energy sector reform in these specified areas. This will need to consult and work closely with USAID's Economic reform Office CTOs, with parliaments and the media.

### Media.

Several paid advertisements were published entitled, “Who determines the price of electricity,” that was published for two days in three major dailies, on Jan 17 & 21, 2008.

REAP organized the second in the series of press briefings and briefed the journalists about the gas sector and the participants in the energy sector, their roles and authorities.

### Regulators and ISO Governments

REAP advised FERC on managing the media frenzy resulting from the FERC Chairman’s refusal to answer a Parliament Member’s question on the highest and lowest pay in the FERC, resulting in the Parliament failing to approve FERC’s budget. In addition, REAP assisted FERC to draft a letter which was sent to the FBiH Parliament.

REAP advised FERC on compliance with the Freedom of Information Act.

REAP conducted a two-day training at the RSERC in Trebinje.

A three-day training for the MOFTER staff was conducted for MOFTER by REAP.

REAP produced a press release for the Gas training in Tuzla. It was broadcast and published in many media outlets, including some internet portals.

### Parliamentarians

REAP developed an activity plan for building cooperation with FBiH parliamentarians and met with Parliamentarians from three parties in the FBiH Parliament. REAP presented the project, gave an overview of energy reform in BiH and presented comprehensive information related to the proposed amendments to the electricity law with special emphasis on energy policy and the independence of regulators, restructuring of the sector, gas issues and the Road Map.

ANNEX A Cont'd

Task Progress Chart

ACTIVITIES & DELIVERABLES Scheduled For This Period	PROGRESS TO DATE		
	Completed	In Progress	Deferred
Contract signature and authorization to start work	•		
Inception meetings with USAID CTO, March; project briefing with USAID Mission BiH	•		
Install REAP systems and equipment in local office	•		
Introduce project to the stakeholders	•		
Review and finalize Annual Work Plan and PBMS with USAID; performance indicators with CTO	•		
PBMS and R-4 reporting to USAID	•		
Annual and Completion Reports	•		
Demobilization Plan			•
<b>TO 1: BIH ENERGY SECTOR FULLY INTEGRATED INTO THE REGIONAL MARKET AND THE EU</b>			
<b>KRA 1 Creation of Legal and Regulatory Framework for Gas</b>			
<b>KRA 1.1 Legal gas framework creation</b>			
<b>KRA 1.1.1 Draft three gas laws</b>			
RS Draft Gas Law brought into substantial compliance with the EU Gas Directive.	•		
State Gas Law draft from previous project separated into draft Federation and State laws based on the electricity sector structure and to the extent possible, harmonized with the RS passed gas law.		•	
<b>KRA 1.1.2 Introduce draft gas laws into three legislative bodies and work to assist their passage</b>			
Assisted with revisions to the law when the individual Ministries put it into final format.		•	
Interacted as requested with the legislative committees responsible for an energy law, individual parliamentarians or party heads that desired information on the law.			•
Reviewed as requested amendments from the committees and the plenary sessions from each House of the RS National Assembly and Federation and State Governments.			•
Talking points, presentations and other lobby materials were prepared in conjunction with the REAP Public Outreach program to make the laws understandable for parliamentarians and the media, as well as the Ministries involved.			•
<b>KRA 1.2 Secondary gas legislation</b>			
Advised regarding the amendment of the existing regulator formation documents to include jurisdiction over the gas sector.			•
Advised and assisted with regard to appropriate regulations to be drafted by each regulator covering practice and procedural rules, tariff methodology, licensing rules, system operational rules, conditions of supply, third party access rules and uniform system of accounts;			•
Advised on design of coordinated format for drafting of the system			•

operational rules, conditions of supply, and submission to commissions for approval.

**KRA 1.3 Gas license and tariff proceedings commenced and completed**

According to REAP advice, regulators ordered commencement of interim licensing proceedings.

Regulated companies filed applications for interim licenses.

Interim licenses issued to natural gas undertakings.

Regulators ordered the commencement of initial tariff proceedings utilizing the uniform system of accounts.

Regulated undertakings filed applications for tariffs as ordered.

Decisions on tariffs were issued in all proceedings.

**KRA 2 Transformation of ISO into a full MO after the Transition Phases of the internal BiH Market**

**KRA 2.1 Market Opening Plan**

Held a large conference with presenters from the region that addresses fundamental market concepts.

Developed a market design to move from the current closed market to bilateral contracts and the balancing market, with gradual deregulation of generation, addressing the issue of export in a hydro-thermal generation market.

The market design clarified the party responsible for each step of market evolution and for market operation.

The market opening plan for both electricity and gas included a vulnerable customer plan.

A concerted lobby and communication effort for a vulnerable customer plan, directed to the RS Ministry of Economy, Energy and Development, Federation Ministry of Energy, Mining and Industry, MOFTER, the Entity Prime Ministers and Presidency, the legislative bodies, and the public as appropriate and necessary was effected.

The electricity market opening plan was built upon, and one was created for natural gas with detailed regulations for suppliers of last resort and customer switching.

A new Grid Code was developed by the ISO and approved by the State Electricity Regulatory Commission.

New Market Rules were developed by the ISO and approved by the State Electricity Regulatory Commission.

A tactical decision was made with the ISO, Technical Committee, regulator(s), and other stakeholders whether to develop new Market Rules for the balancing market as provided in KRA 3.8, or whether to evolve the Market Rules in two steps.

Support was given to the ISO in working with the Technical Committee on any revisions needed to the Grid Code and Market Rules.

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**KRA 2.2 Market Monitoring**

Developed practices and procedures for the ISO and the Regulatory Commission(s) to employ market monitoring for anticompetitive conduct/market power.

**KRA 2.3 Grid Code and Market Rules**

A new Grid Code was developed by the ISO and approved by the State Electricity Regulatory Commission.

New Market Rules were developed by the ISO and approved by the State Electricity Regulatory Commission.

A tactical decision was made with the ISO, Technical Committee, regulator(s), and other stakeholders whether to develop new Market Rules for the balancing market as provided in KRA 3.8, or whether to evolve the Market Rules in two steps.

Support was given to the ISO in working with the Technical Committee on any revisions needed to the Grid Code and Market Rules.

**KRA 2.4 ISO and Transco governance for smooth operations**

Reported with regard to the EU’s new energy directives’ direction to maximize the leverage of the ISO as the organization of the future, the alternative being the requirement to unbundled ownership of a TSO. This premise underlay and supported all activities of this KRA.

Areas where the Transmission Company, Elektroprivrede regulator(s), governments and other stakeholders do not accept the mandates of the Transco and ISO Laws were identified and those areas were included for consideration in the workshops identified in KRA 2.1.

The status and operability of the EBRD’s SCADA system installation and operation and the EBRD’s assessment of ISO operation were determined, along with the ISO’s and European Investment Bank (EIB) plan for funding of the ISO balancing market software and other software necessary for market monitoring, dispatch and other functions.

The regulatory filings of the ISO were reviewed, including the tariff filings, to determine if appropriate financial and legal support for tariff and any other requests had been included to enable SERC to afford nondiscriminatory support and all due consideration to the ISO to enable it to develop into a robust and functioning ISO that phases into the role of balancing market operator according to the ISO Law.

A financial plan was developed for the ISO’s next tariff proceeding to finance requirements for the future software and the ongoing training necessary for a robust ISO and balancing market operator.

Assisted with the compilation of the next ISO SERC tariff filing to assist with the inclusion of the appropriate legal and financial arguments to the regulatory commission to ensure legal and nondiscriminatory regulatory support to the ongoing development of this organization were agreed and approved.

**KRA 2.5 Labeling sources of electricity**

A suppliers’ labeling program developed and provided that enables customers to identify the characteristics of the electricity generated

REAP team gathered EU nuts and bolts practice and enlisted in-house experts for research. This information was passed to the regulators and other stakeholders for addressing in the technical or regulatory rules, and/or conditions of supply. The REAP team advised the regulators with regard to implementing this practice in its rules.

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**KRA 2.6 Balancing market price methodology**

An expert developed a price methodology for setting balancing market prices, which will govern the supply and purchase of electricity in the current non-liquid situation. The methodology was submitted by the ISO to the regulator and accepted thereafter.

Support was given to the ISO in working with the Technical Committee, if any, with regard to the balancing market price methodology.

Detailed workshops were arranged for the SERC and ISO with regard to implementation of the balancing market pricing methodology.

A workshop was arranged for the sector as a whole to explain the pricing methodology.

**KRA 2.7 State Regulatory Commission MO Approval**

Guidelines and draft procedures developed for the ISO to become a Market Operator in a procedure that complied with the ISO Law and any rules of the regulator.

Guidelines and draft procedures were provided to the state regulator regarding the approval of the ISO as a market operator.

The REAP Team submitted advice and assistance on recommended guidelines and procedures for the ISO to apply for the status of a balancing Market Operator.

Hands-on working meetings were held by the Chief of Party with the ISO and regulator(s) with regard to development of such guidelines and procedures.

**KRA 2.8 Procedures for balancing market**

Transparent, non-discriminatory and cost reflective mechanisms for balancing the market developed. Thereafter, they were approved by the regulator(s).

The decision regarding whether one or two sets of Market Rules would be developed determined whether both an interim and final set or only a final set of Market Rules were developed, the final set of Market Rules included the procedures for and operation of the mechanisms for the Balancing Market.

Support was given to the ISO in working with the Technical Committee and regulator on any drafting or revising of Market Rules.

Support was given to the ISO in creating a filing for approval of Market Rules that incorporated the procedures and mechanisms for market balancing, ensuring that the procedures were explained to the regulators (and public, since the filings are public) in an understandable way.

**KRA 3 Unification of the Regulators**

**KRA 3.1 MOU for unification of the regulators**

Developed a framework for an interim step to full unification that provides for more extensive interaction and cooperation between the three regulators.

Drafted a Memorandum of Understanding (MOU) to be signed by the Republika Srpska Ministry of Economy, Energy and Development, the Federation Ministry of Energy, Mining and Industry, and the Ministry of Foreign Trade and Economic Resources that memorializes closer

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coordination of the three regulators in planning and execution of their work, working toward the eventual full unification of the regulators into one regulator.

Obtained execution of the MOU by the respective Ministries.

Mobilized the public outreach and communication program to explain to the legislators, media and public the benefits of the work toward unification.

**KRA 3.2 Amendments to the three electricity laws**

**KRA 3.2.1 Draft amendments to the three electricity laws for unification of the regulators**

Drafted amendments to the three electricity laws that would allow the full and legal unification of the regulators.

**KRA 3.2.2 Introduce draft amendments into three legislative bodies and work to assist in their passage**

Assisted in getting the amendments to the three electricity laws passed through the legislative authorities, including:

Assisted with revisions to the amendments when the individual Ministries put them into final format;

Interact as requested with the legislative committees responsible for energy, individual parliamentarians or party heads that desire information on the draft laws.

Reviewed requested amendments from the committees and the plenary sessions from each House of the RS National Assembly and Federation and State Parliaments.

Mobilized of REAP public outreach and communication for lobby materials for all counterparts and press, including presentation materials to explain to the legislators, media and public what the unification effort means and what the benefits are.

**KRA 3.3 Establish State Energy Regulatory Commission**

State Energy Regulatory Commission established.

Assisted with the amendment of statutes, rules of work, organization charts, and internal procedures.

**TO 2 Restructuring and Privatization of the EPs**

**KRA 1 Implementation of the Action Plans**

**KRA 1.1 Unbundled EP Companies Corporatized**

Produce current status of the Action Plan and a base line of action plan implementation.

Determined the legal framework for further implementation of the Action Plans.

Determined the status of the Federation Government/EP intentions with regard to further implementation of the APs.

REAP Participation ensured in any working groups with the three Ministries, WB, EC, EPs and other members of the IC on the energy study and/or strategy being funded by the WB and EC.

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Identified RS Government plan with regard to further re-organization of EPRS.

Provided advice and encouraged the unbundling of the Federation EPs and lobbied the Federation Government therefor.

Memorialized guidance on the development of accounting systems of the separate unbundled daughter companies.

Determined the three EPs' intentions with regard to recombining generation and distribution companies into more efficient units.

Provided assistance with regard to realization of the EPs' plans to rationalize unbundled companies.

**KRA 1.2 Accounting Unbundling and Full Cost-Based Tariffs**

Reviews provided of the current accounting system at present time in all three EPs, shares of liabilities and commercial relations within each company, if any.

Determined status of the Federation EPs' intentions with regard to unbundling and developing of their accounting systems.

Determined status of the WB Manitoba Hydro accounting system pilot projects that will enable accounting unbundling.

Determined plans and the timing of Entity Regulatory Commissions and EPs to develop DSOs.

The commencement of specific activities aimed at creating the DSOs in the near future encouraged.

The three regulatory commissions assisted and encouraged to establish their uniform system of account rules and enforce them.

The EPs capacity and capability to implement uniform and separate accounting system assessed.

Advice provided to EPs on capacity building with regard to separated accounting systems.

**KRA 1.3 Integrate Coal Mine and Electricity Action Plans**

Reviewed the Coal Mine Action Plan.

Determined the status of the Coal Mine AP and extent of harmonization with the electricity AP.

Analyzed the rationale and wisdom of the merger of coal mines into generation plans.

Analyzed a gap with regard to different commercial and legal status of coal mines in the Federation.

Assessed necessity of keeping or moving the regulation of coal prices into regulators.

Ensured that the International Community and ministries understand and assist with the plan to resolve potential problems with regard to different bodies in charge of regulation of coal and electricity prices.

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**KRA 1.4 Training Programs for Redundant Employees**

Policy options analyzed in the development of social programs for redundant employees made redundant because of efficiency streamlining measures as the unbundled EP companies are rationalized for current or future planned privatization,

Government’s intentions regarding the policy options determined,

Other countries’ experience with regard to redundancy programs communicated.

Appropriate training programs for redundant employees proposed.

Advice provided with regard to preparation of the EPs’ social programs for current or future streamlining that may render employees redundant.

Effected mobilization of REAP public outreach program with regard to better understanding the social program for persons made redundant by streamlining the EP unbundled companies.

**KRA 1.5 Implementation of EU Environmental Directives**

Status of environmental regulation in the Entities and the State level at present time determined.

Energy Community Treaty requirement assessed as well as the current legislation and rules applicable to new investments.

EC Directorate and SEE Energy Treaty Directorate consulted regarding plans to take appropriate steps to comply with the EnC Treaty.

Status of the EPs’ rules, practices and intentions with regard to such, current or future, requirements determined.

Advice and procedure developed for compliance with the EU Treaty environmental requirements.

**KRA 1.6 Commercialization/Privatization of Generation and Distribution**

The plans of the Entity Governments for commercialization of BiH generation and distribution determined.

Determined how the current privatization/commercialization investment plans are being framed and actualized.

Determined what plans of the Entity Governments are with regard to coal mines commercialization/ privatization if they have not been merged with EPs.

Other countries’ experience (transition countries, new EU member countries) with regard to commercialization/privatization communicated.

Plans for privatization co-created, whether immediate or future, with no definite implementation date but have a specific EU accepted structure that is transparent and organized.

**TO 3 Cross Cutting Objective: Broaden public understanding of BiH energy sector issues and challenges**

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reform sector which will use this knowledge to influence policy makers and encourage a more active citizen involvement in the decision making processes.

**KRA 3.2 NGOs help advance energy sector**

One-on-one work and joint effort provided with the selected NGOs on their mutual cooperation and the exchange of information related to the energy sector reform.

Developed a system of mutual information from the citizens to the regulators, the ISO and the decision makers, and cooperation with the media.

**KRA 4: media Reports on Energy Reform**

**KRA 4.1 Journalists/Editors Understand Energy Reform**

# trainings conducted for journalist/editors regarding Legal and Regulatory steps that BiH should take to meet the Energy Community Treaty requirements, the function of the ISO, the function of the regulators and restructuring and preparation for the commercialization of energy companies

**KRA 4.2 Media employ high professional standards**

# of trainings conducted for journalist in business and economy reporting, particularly in covering the energy sector.

**KRA 4.3 Use research and expert sources**

Meetings guided/organized and a collaborative relationship established between media outlets and professional research agencies and experts in the energy sector

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**ANNEX C**

**REAP Staff**

<b>Name</b>	<b>Position</b>	<b>Start Date</b>
<b>Jane Wilson</b>	<i>Chief of Party</i>	<i>March 14, 2007</i>
<b>Ognjen Markovic</b>	<i>Deputy Chief of Party</i>	<i>June 1, 2007</i>
<b>Drazena Peranic</b>	<i>Public outreach and communication specialist</i>	<i>April 9, 2007</i>
<b>Nermin Nisic</b>	<i>Public outreach and communication Assistant Specialist</i>	<i>August 1, 2007</i>
<b>Alma Hadziosmanovic</b>	<i>Office Manager/Translator</i>	<i>March 16, 2007</i>
<b>Dzenita Becic</b>	<i>Executive Assistant/Translator</i>	<i>April 9, 2007</i>
<b>Elma Haveric</b>	<i>Legislative and Regulatory Specialist</i>	<i>October 19, 2007</i>