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Regulatory and Energy Assistance

Regulatory and Energy Assistance Project in Bosnia and Herzegovina (BiH) – REAP BiH

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Quarterly Progress Report January 1, 2011 – March 31, 2011

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I. EXECUTIVE SUMMARY

REAP worked with the three regulatory commissions to facilitate activities with regard to opening the local and regional wholesale market. The most important efforts on the regional electricity market took place through REAP's work with the Market Working Group to develop an explanatory paper on the implementation of the World Bank Study on the Wholesale Market opening in South East Europe. The explanatory paper was prepared and distributed to the BiH Governments in BiH, both Entity and State. REAP also assisted the Market Working Group Subgroup to prepare a draft document on a proposed regulatory approach to a new extension of transition period. As requested by MOFTER, REAP analyzed the Third Liberalization Package and developed a memorandum that reviews the changes to the Second Liberalization Package and addresses their effect on the structure of the energy sector of BiH. In addition, REAP did a detailed analyses of the new FERC Tariff Model in order to ask technical assistance to make the necessary changes so the model could be used to calculate the generation, supply and distribution tariffs separately. REAP developed a proposed Communication Policy for MOFTER, so that information is shared appropriately and MOFTER can fulfill its coordination role in the energy sector. The document was developed and submitted to MOFTER. Finally, REAP assisted MOFTER to communicate and respond to the ECRB on the Wholesale Market Opening Study, as well as responding to the Energy Community Secretariat on the opening letter regarding a dispute settlement process that the Secretariat initiated with regard to the implementation of the Regulation 1228.

II. SUMMARY OF TECHNICAL ACTIVITIES AND OUTCOMES

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

Regulatory Market Working Group

Regional Wholesale Market Subgroup. Explanatory paper on the Implementation of the World Bank Study on Wholesale Market Opening in South East Europe:

The three regulators assigned the MWG, which formed a subgroup, to develop an explanatory document on the World Bank Study on Wholesale Market Opening in South East Europe. REAP was requested to join the Subgroup and assist it in development of a document for the Regulators that defined the key concepts, outlined the current status of the country with regard to the elements of the proposed World Bank Wholesale Market Opening study, outlined necessary steps to meet the requirements of such wholesale market, and proposed a response to the ECRB. The purpose of the document is to serve as information for decision makers in the Governments.

The following items were described in the draft explanatory document: (i) Implicit auction as the basic mechanism for the establishment of the regional wholesale Day Ahead Market. The implicit auction process was described in a separate document that was attached to the explanatory document; (ii) Balancing responsibilities and the establishment of a Real Time Balancing Market where tertiary reserve will be traded; (iii) Market transparency and market monitoring; (iv) Additional markets that will be established in the latter stage of the regional market development – Intra-Day, Tertiary Reserve and Financial; (v) Possible changes, if the proposed market design were implemented, regarding relations between the EPs and the customers related to electricity supply and the process of selling and buying EPs' electricity surplus in the market.

Transition Period Subgroup:

The regulators established the Transition Period Subgroup to draft a new regulatory approach to the current transitional period, which is expiring 1-1-12, as provided in the Entity Regulators' Decisions on Obtaining Eligible Customer Status. These decisions allow customers to choose whether they want to be supplied as a tariff customer or buy electricity at the market price during the transitional period, leaving them able to reenter as a tariff customer as desired. The Subgroup is formed of representatives of all three regulatory commissions and REAP. Based on the input and data from the three commissions, the Subgroup developed the first draft of the Extended Transition Period Paper which contained four options for the potential extension of the transition period. The draft Paper was presented to the Joint Regulators Meeting. The regulators analyzed the Paper and the options proposed and chose two options out of for further development. The chosen options were (i) the gradual deregulation of tariffs, and (ii) introduction of default supplier service.

Case Study: During the work on the Wholesale and Transition Period papers, the MWG and subgroups discussed the current status of certain preconditions and impediments for market functioning and found that there is a disagreement as to whether these preconditions have been met or some action still needs to be taken. REAP thought that a good approach to resolve these diverging points of view would be if the three regulatory commissions performed a Case Study, with assistance from REAP. The product of the case study will be a gap analysis to identify missing processes, contracts and technical issues for successful market functioning, along with recommended actions to fill in the gaps. The case study should give the regulators and staff a clear, realistic and unbiased view of the actual status of the sector's readiness for market opening. REAP developed a short document on the idea about the Case Study and presentation on that issue that were presented in the Joint Regulators Meeting. The regulators enthusiastically accepted the idea, and REAP will commence the activities on the implementation of the Case Study next quarter.

Third Liberalization package: As requested by MOFTER REAP analyzed the Third Liberalization Package and developed a memorandum that reviews the provisions in the Third Liberalisation Package and addresses their effect on the structure of the energy sector of BiH. The package and the Memo were focused on the following six areas:(1) Unbundling regime, (2) Stronger authorities of National Regulatory Authorities, (3) Retail market, (4) European Network of Transmission System Operators (ENTSO), (5) Agency for Cooperation of Energy Regulators (ACER), (6) Gas storage and LNG Facilities. On 24 September 2010, the Ministerial Council of the Energy Community Treaty, recommended adoption of the Third Liberalisation Package. Since the Third Liberalisation Package expands significantly the previous liberalisation policies, REAP suggested the following:

- An analysis and transposition effort is required to bring BiH in line with the Third Package's requirements;
- A decided effort and coordination among all market participants is required to implement the provisions, which are quite detailed.
- The effort that has begun with the Market Working Group should be intensified;
- Where BiH is creating or amending its rules and regulations for the market, it should comply with the Third Liberalisation Package now; and
- Since the material that comprises the Third Liberalisation Package is voluminous, an immediate effort should be undertaken to be sure that all market participants can acquaint themselves with it in local language.

The proposal of a Communication Policy for MOFTER: As promised to MOFTER, REAP developed a proposed Communication Policy for MOFTER to enable MOFTER to better perform its coordination function in the sector. The function requires that the entire sector be well informed. The proposed communication procedure particularly addresses information that should be shared, material requiring feedback from the recipient by a certain deadline, careful timing of requests for comments and notice for meetings, and communications with EPs. The proposed Communication Policy emphasized that communication to receive input needs to be unfailingly prompt and that comments submitted need to be incorporated in BiH responses and all final documents need to be circulated promptly to MOFTER's counterparts. MOFTER responded that the document had been received and that the timing was excellent, since MOFTER is currently working on communication mechanisms for energy-related issues.

Energy Community Secretariat Opening Letters to Contracting parties on Dispute Settlement Process: MOFTER asked REAP for advice on the Energy Community Secretariat opening letter on dispute process to Contracting parties. On January 20, 2011, the Energy Community Secretariat sent Opening Letters to Albania, Bosnia and Herzegovina, Croatia, the Former Yugoslav Republic of Macedonia, Montenegro and Serbia, in accordance with Article 12 of the Rules of Procedure for Dispute Settlement. The Secretariat noted that these six Contracting Parties have not yet adopted a common coordinated congestion management method and procedure for the allocation of capacity to the market. The Letter is based on the Energy Community Ministerial Decision (Decision) on implementation of the Annex to Regulation No 1228 on conditions for access to the network for cross-border exchange in electricity. The decision obligated the Contracting Parties to implement Regulation 1228 and to develop a model for coordinated cross-border capacity allocation. All but two of the contracting parties under the Energy Community Secretariat signed a Memorandum of Understanding for the establishment of the Coordination Auction Office (CAO) for the 8th Region, which should provide coordinated cross-border capacity allocation for the countries mentioned above. Although the MoU was signed back in 2009, not much was done on its implementation, which was the reason the Secretariat sent the letter. REAP informed MOFTER about the entire process of the establishment of the CAO, focusing on impediments to the establishment of the CAO.

Assist MOFTER to communicate the Bosnia and Herzegovina position on the wholesale market and market operator to ECRB and Energy Community Secretariat: REAP analyzed the conclusions from the joint ECRB and Permanent High Level Group Meeting held on March 24, 2011, prepared and sent a Memorandum on the subject matter to MOFTER, the body with primary responsibility for coordinating BiH opinion on the implementation of the World Bank Wholesale Market Opening Study. REAP reminded MOFTER of the obligation to create the National Implementation Plan by the end of 2011 contained in the Final Conclusions from the joint meeting of the Energy Community Regulatory Board (ECRB) and Permanent High Level Group (PHLG). REAP suggested that MOFTER organize a meeting with the Entity Ministries and SERC to discuss the explanatory document on the Study prepared by the three regulatory commissions and take a position on the Study's recommendations and development of the Plan.

III. PROBLEM AREAS

- Unbundling. The Federation EPs still remain fully bundled.
- Investments. Investment is still problematic in BiH. In spite of the plans to build new power plants in both Entities, very little interest has been shown by investors. High investment risk

remains due to the political situation, the situation with Transco and an unclear investment legal framework.

- A new Federation Government was just established in March 2011. As is usual in BiH, the new Government will change the management team in both Federation EPs (EPBiH and EPHZHB); therefore, not much can be done with regard to further reform involving the EPs until management in the EPs is stabilized.

IV. FIFTEENTH QUARTER DELIVERABLES

Information for USAID

- ECS-2 Letter to Minister Zirojevic, dated 20-01-2011, in English language only
- FERC proposal for the duration of transitional period, dated 2-21-11, in English and local language
- Document on transition period by Alija Mujcinagic, dated 02-28-2011, in English and local language
- Final Conclusions from the 2nd ECRB and PHLG meeting, in English language only
- SERC research results on SOLR and DS, dated 4-5-11, in English and local language

Deliverables

- Memo REAP to MOFTER, dated 1-20-11, in English and local language.
- Trip Reports, Joint from Ralph Zarumba of Navigant and Dennis Kelter of Commonwealth Edison, Load Research Training, dated 12-20-10, in English only.
- Trip Report Tatjana Konjic, Load Research Training, dated 12-20-10, in English only.
- Trip Report Nuno Fidalgo, Load Research Training, dated 12-20-10, in English only.
- Presentation by Eknerg to Croatian CIGRE on TSO v. ITO,, dated 01-28-11, in English and Croatian.
- EMail REAP to MOFTER re Letter to H.E. Minister Mladen Zirojevic, dated, 1-28-11, in English and local language.
- Proposed Communication Policy for MOFTER, dated 2-17-11 in English and local language
- Memorandum on Protocol between Serbia and Italy, dated 2-16-2011, in English only
- REAP to MWG on SOLR and DS, Clean version, dated 2-18-2011, in English and local language.
- MWG Subgroup paper structure to respond to ECRB letter, dated 2-24-11, in English and local language.
- USAID – Ms Mahoney Presentation, dated 3-3-11, in English only.
- REAP Subgroup proposal for duration of transitional period in redline, dated 3-16-11, in English and local language
- REAP Subgroup proposal for duration of transitional period clean version, dated 3-16-11, in English and local language
- Presentation for regulators - to read, dated 3-16-11, in English and local language
- Presentation for regulators - to present, dated 3-16-11, in English and local language
- REAP to MWG on Case study, dated 3-16-2011, in English and local language
- Presentation on Case Study, dated 3-16-11, in English and local language
- ERRA Winter Newsletter, dated 2011, in English language only
- Minutes from the three Regulatory Commissions meeting, dated 3-18-11, in English and local language

- REAP Subgroup proposal for duration of transitional period, FERC comments, dated 3-25-11, in English and local language
- REAP Research on DS, dated 4-1-2011, in English and local language

V. ANTICIPATED ACTIVITIES FOR THE FOLLOWING QUARTER

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

- REAP will continue to update the Internal Action Plan that has been prepared by REAP.
- REAP will work with different subgroups of the Market Working Groups that are or will be established to deal with the following issues:
 - Work to further discuss the explanatory paper on the Regional Wholesale Market as proposed by the World Bank with regulators and if and when requested with governments. REAP will assist regulators to develop national action plan if and when requested;
 - Extension of the Transitional period
- REAP will commence its research on ancillary services and balancing service and elicit comments and suggestions from the utilities.
- REAP will draft a detailed Scope of Work on Load Research Study and discuss its proposed approach to implement it with the three regulatory commissions.
- REAP will draft a detailed Scope of Work for the Case Study and discuss its proposed approach to implement it with three regulatory commissions.

Restructured and commercialized energy companies

- REAP will discuss energy policy and new draft electricity law with representatives of the Federation Ministry responsible for energy.

VI. ADDITIONAL INFORMATION

A. Progress during the quarter v. scheduled

Although the progress on reform in Bosnia and Herzegovina has slowed almost to a halt, affecting REAP's activity timetable REAP has initiated number of activities regarding reform and electricity market opening:

TO1: BiH Energy Sector Fully Integrated Into the Regional Market and the EU

KRA 1.1 Legal gas framework creation. The political situation has delayed all efforts on creating a State Gas Law.

KRA 2.1 Market Opening Plan [Market Design.]

In cooperation with the Market Working Group, comprised of representatives of the regulators and formed by the regulators, REAP developed cover document for the Draft Policy Paper for policy makers. Further, the Market Working Group subgroups, together with REAP, developed documents to assist regulators and policy makers on the World Bank Regional Wholesale Market Study and the Adjustment of the Transition Period.

KRA 2.6-KRA 2.8 Balancing market activity. In the process of the work of the Market Working Group, it was discovered that there is a disagreement as to whether preconditions for successful market functioning have been met or some action still needs to be taken. One of these issues is Balancing service in BiH. The REAP-proposed Case Study will deal with ancillary services and balancing service as key elements of the electricity market.

KRA 2.5 Labeling sources of energy. This item is complete.

TO2: Restructured and Commercialized Energy Companies

KRA 2.2 Full Cost-based Tariffs. After the detailed analyses of the new FERC Tariff Model on needed adjustment of the model to reflect the Federation's regulatory situation was made, REAP prepared an explanation for the correction to be made by technical assistance.

KRA 2.3 Integrate coal mine and electricity Action Plans. This activity is being driven by EPBiH and the Ministry without consultant assistance.

KRA 2.6 Commercialization/privatization of generation and distribution. Whereas both Entities have declared their lack of desire to privatize electricity assets, all documents that the Market Working Group has developed to date with REAP assistance, have addressed unbundling as a precondition for successful market functioning. Therefore, REAP expects further actions to unbundle EPs, particularly in the Federation.

TO3: Cross Cutting Objective: Broaden Public Understanding of BiH Energy Sector Issues and Challenges. This portion of the project has been completed. Even so, REAP provided training on market opening to two customer associations.

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 changes in staffing status occurred in this quarter.

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 regulator.

[The three regulators work to harmonize their regulations and approach to market opening.](#)

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

[Additional analysis was done with regard to the revision of the FERC tariff model.](#)

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

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

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.

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.

[Due to the ongoing political and constitutional difficulties in the country, all work on the legal and regulatory framework for gas has stopped.](#)

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

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.

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.

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

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.

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;

As REAP had committed to MOFTER, a proposed Communication Policy for MOFTER was developed. The document is based on the concept that MOFTER is the coordination body for the sector and the country with regard to issues that concerns energy.

On January 20, 2011, the Energy Community Secretariat sent an opening letters on dispute settlement to Bosnia and Herzegovina noting, that BiH is among six Contracting Parties that have not yet adopted a common coordinated congestion management method and procedure for the allocation of capacity to the market. In response to a request from MOFTER, REAP informed MOFTER about the entire process of the establishment of the CAO, focusing on the impediments to its establishment

REAP analyzed the conclusions from the joint ECRB and Permanent High Level Group Meeting held on March 24, 2011, regarding the regional opening of a wholesale market, and prepared and sent a Memorandum on the subject matter to MOFTER, the body with primary responsibility for coordinating the BiH opinion on the implementation of the World Bank Wholesale Market Opening Study (Study). REAP suggested that MOFTER organize a meeting with the Entity Ministries and SERC to discuss the explanatory document on the Study prepared by the three regulatory commissions and take a position on the Study's recommendations and development of the Plan.

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

The need for revisions to both the Market Rules and Grid Code are being noted in the work of the Market Working Group.

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 COTRs, with parliaments, and the media. This may include, but not be limited to:

The public outreach portion of the REAP project has been completed.

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

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.

Task 2. Restructuring and commercialization of energy companies.

The EPs and Ministries are working on this issue without consultant assistance.

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.

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 incorporate 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 COTRs, with parliaments and the media.

The Public Outreach portion of the project has been completed.

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		•	
TO 1: BIH ENERGY SECTOR FULLY INTEGRATED INTO THE REGIONAL MARKET AND THE EU			
KRA 1 Creation of Legal and Regulatory Framework for Gas			
KRA 1.1 Legal gas framework creation			
KRA 1.1.1 Draft three gas laws	•		
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.	•		
KRA 1.1.2 Introduce draft gas laws into three legislative bodies and work to assist their passage			
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.			•
KRA 1.2 Secondary gas legislation			
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.

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

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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.

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.

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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 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

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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.

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.

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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.

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.

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

Effectuated 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

KRA 1 Regulators and ISO efficiently communicate

KRA 1.1 Regulators and ISO Promote Liberalization

Ongoing, one-on-one assistance provided to the three regulators in developing communication strategy, skills and techniques of public advocacy;

Defined the ongoing methodology for promoting liberalization in the electricity sector in general, the transparency of regulators' work;

Identified in-house capacity for carrying out future PR activities and/or creating a new job position for an outside PR specialist

KRA 1.2 ISO communicates and promotes its function as

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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

Name	Position	Start Date
Jane Wilson	<i>Country Project Director</i>	<i>May 4, 2010</i>
Ognjen Markovic	<i>Chief of Party</i>	<i>May 4, 2010</i>
Alma Brkovic	<i>Office Manager/Translator</i>	<i>March 16, 2007</i>
Elma Haveric	<i>Legislative and Regulatory Specialist</i>	<i>October 19, 2007</i>