

## IPA National Programme 2011 – Bosnia and Herzegovina

### 1. IDENTIFICATION

<b>Project Title</b>	Support to energy market liberalisation
<b>CRIS Decision number</b>	
<b>Project no.</b>	11
<b>MIPD Sector Code</b>	9. Support and other activities
<b>ELARG Statistical code</b>	3.15 Approximation of European Standards - Energy
<b>DAC Sector code</b>	23010 – Energy policy and administrative management
<b>Total cost (VAT excluded)<sup>1</sup></b>	EUR 2 500 000
<b>EU contribution</b>	<b>EUR 2 500 000</b>
<b>Management mode</b>	Centralised
<b>EU Delegation in charge</b>	Delegation of the European Union to Bosnia and Herzegovina
<b>Implementation management</b>	Delegation of the European Union to Bosnia and Herzegovina
<b>Implementing modality</b>	Stand alone project
<b>Project implementation type</b>	See CRIS DAC Form
<b>Zone benefiting from the action(s)</b>	BiH

### 2. Overall Objective and Project Purpose

#### 2.1 Overall Objective

To contribute to the creation of a market oriented energy sector in line with EU Directives and to the creation of a functional institutional framework integrated in the regional markets of South Eastern Europe and the EU.

#### 2.2 Project purpose

The purpose of the project is the creation of a functioning institutional framework through strengthening of coordination and cooperation mechanisms between energy stakeholders (at

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<sup>1</sup> The total project cost should be net of VAT and/or of other taxes. Should this not be the case, clearly indicate the amount of VAT and the reasons why it is considered eligible.

the state and entity levels), thereby promoting economic efficiency, market development and attracting investment.

### **2.3 Link with AP/NPAA / EP/ SAA**

BiH signed on 16 June 2008 the Stabilization and Association Agreement (SAA). The reform and restructuring of the energy sector are some of the key areas under the SAA. Article 107 of the SAA reads that, in the field of energy:

"Cooperation shall focus on priority areas related to the Community *acquis* in the field of energy [...]. It shall be based on the Treaty establishing the Energy Community and shall be developed with a view to the gradual integration of Bosnia and Herzegovina into Europe's energy markets."

Energy reform is also foreseen under the European Partnership priorities. Among the short-term energy priorities (point 3.1. of the EP) feature:

- The fulfillment of obligations arising from the Energy Community Treaty (EnCT) since 1 July 2007 as regards the full implementation of the *acquis* on the internal gas and electricity market and on cross-border exchanges in electricity.
- The development and adoption of a comprehensive (state-level) energy strategy.

None of these priorities has yet been fulfilled at the state level, and continued assistance is needed if the country is to meet its commitments vis-à-vis the EnCT (which represents the country's main agreement currently in force in terms of EU *acquis* requirements).

### **2.4 Link with MIPD**

#### *MIPD 2011-2013*

The project is linked to the Acquis related and other interventions section under the MIPD 2011-2013. Page 13 of the MIPD version of January 2011 reads:

"In addition, IPA may finance actions that fall outside the scope of these sectors such as, but not limited to: [...] ii) *acquis* related actions that need to be adopted/implemented according to an established timetable." As explained in 2.3, BiH has clear commitments and deadlines under the EnCT that has not yet fulfilled.

Further, the MIPD attests to the importance of the energy sector in the economic growth of the country. Page 5 reads: "The energy sector [...] is expected to have [a] significant positive contribution to the BiH economic growth [...]"

Finally, challenges to climate change (mentioned on pages 11 and 12 of the MIPD among the main sectors of support for 2011-2013) cannot be addressed in a credible way if there is no continued assistance in the development of an all-embracing energy strategy.

## **2.5 Link with National Development Plan**

Bosnia and Herzegovina prepared the Strategy of Development and the Strategy of Social Inclusion, which remain to be adopted.

Within the Strategy of Development of Bosnia and Herzegovina the stimulation of development of the energy sector is recognized as one of the priority strategic goals in the country as well as sustainable development with increasing use of renewable energy and improving energy efficiency.

For each of the above mentioned priorities lists of measures are also given, together with an Action plan for their implementation.

## **2.6 Link with national/ sectoral investment plans**

Pursuant to the Law Establishing ISO and the Grid Code, ISO BiH has developed and submitted to the State Electricity Regulatory Commission (SERC) the *Indicative Generation Development Plan for the period 2011-2020*, drawn on the basis of available data in the power sector.

The country-wide energy development strategy was agreed to be developed once the entities' strategies are prepared and adopted. The Federation of BiH has prepared and adopted "Strategic Plan and Program for Energy Sector Development in FBiH" (up to 2020), Republika of Srpska has prepared "Energy Sector Development Strategy of Republika Srpska", which is in the final stage of adoption. The funds for drafting the state strategy are committed under an IPA 2008 energy project, which should start in 2011 once the process of adoption of Republika Srpska's strategy is complete. However, it is likely that, given the current political situation, no endorsement will come from beneficiaries before a new government is formed and RS National Assembly adopts its energy strategy; and this will hardly happen on time (IPA 2008 contracting deadline expires in July 2012). Future assistance should take account of this possibility.

## **3. Description of project**

### **3.1 Background and justification**

Until 2006, the BiH power sector was composed of three vertically integrated utilities. Each electricity company had its own source of raw materials (coal and hydro), power generation facilities, transmission networks and distribution facilities.

In order to create a more unified, competitive and transparent energy system, BiH has commenced reforming the energy sector. The cornerstone of this reform involved the unbundling of the three vertically integrated, state owned monopolies - Elektroprivreda Bosne i Hercegovine (EP BiH) and Elektroprivreda Hrvatske Zajednice Herceg-Bosna (EP HZHB) both in the Federation of Bosnia and Herzegovina (FBiH), and Elektroprivreda Republike Srpske (EP RS) in Republika Srpska (RS), into separate structures for generation, transmission and distribution of electricity.

Action Plans for the restructuring of the energy sector along these lines were agreed by the RS in April 2003<sup>2</sup> and the FBiH in May 2005. These plans set a time frame for restructuring the sector by the end of 2007. This involved different stages of 1) reallocation of assets; 2) Corporatisation; and 3) Commercialisation.

The legal background for restructuring of the electricity sector was set in the Law on Electricity Transmission, Regulator and System Operator in BiH, passed in April 2002, which sets out the goals for creating a competitive environment for an electric power market and integration with regional markets. Specifically, it identified the need to set up institutions responsible for managing the electricity sector including:

- State Electricity Regulatory Commission (established in 2003) – responsible for regulating transmission, transmission-related activities, and international trade.
- Entity Regulatory Commissions (established in 2004) - responsible for regulating generation, distribution and supply activities.
- Independent System Operator (ISO)– responsible for the management and operation of the transmission network, directing, scheduling and coordinating maintenance, construction and expansion of the grid with the company for transmission of electric energy (TRANSCO). ISO was registered in July 2005 and started operation in February 2006 when TRANSCO was registered.
- Electricity Transmission Company (TRANSCO) – responsible for transmission, maintenance and construction of the grid. TRANSCO was registered and started operating in February 2006.
- Ministry of Foreign Trade and Economic Relations (MoFTER) – responsible for policy formulation in the energy sector. Within MoFTER the Energy Department is established and has the task of coordinating energy sector activities in BiH, including relationships with international and regional bodies.

The electricity transmission system has been unified and assets and authorities moved into two entity-owned joint stock companies operating at the State level, TRANSCO, and the Independent System Operator (ISO). By the end of 2007 the generation and distribution assets of the three power utilities (Elektroprivredas) were supposed to be unbundled and corporatized.

In July 2006, BiH ratified the Energy Community Treaty. Under the Treaty participating countries agree to:

- a) develop a functioning electricity market including the agreed market liberalisation targets;
- b) integrate it into the internal electricity market of the European Union.

In order to develop a regional energy market, the Energy Community Treaty promotes the establishment of compatible national electricity market models in line with the *applicable EU Acquis* in force<sup>3</sup> and requires the Contracting Parties to engage in<sup>4</sup> (a) implementation of the

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<sup>2</sup> Updated in July 2006, with some deadlines moved.

<sup>3</sup> According to the Treaty:

For Electricity – Regulation 1228/2003 and Directive 2003/54/EC (which should have been transposed by 1 July 2007), Commission Decision 2006/770/EC and Directive 2005/89/EC (which should have been implemented by 31 December 2009). Besides, the electricity market should have been open to non-household customers since January 2008, and to all customers by January 2015. and in October 2009

specified *Acquis*, (b) setting up of a specific regulatory framework permitting the efficient operation of electricity markets across the territories of the Contracting Parties and part of the territory of the EU, including the creation of a single mechanism for cross-border transmission of electricity, and (c) creation of a harmonised electricity market. Furthermore, since March 2011, the Energy Community Secretariat is studying the modalities for transition to the "Third Energy Package" of *acquis* adopted at the EU level in 2009-2010.

The Energy Community Treaty represents BiH's main agreement currently in force with EU *acquis*-requirements. BiH signed in 2008 the Stabilisation and Association Agreement (SAA) with the EU. The reform and restructuring of the energy sector is one of the key areas under the SAA.<sup>5</sup>

The project aims to support the energy stakeholders to continue the energy reform agenda and to meet the obligations of the Energy Community (transparent and well-functioning electricity market). The project will assist the development of the common harmonised base for monitoring, regulating and overseeing the energy sector through strengthening coordination and cooperation mechanisms between energy stakeholders thus promoting economic efficiency, market development and attracting investment.

BiH has a comparative advantage in relation to its regional neighbours in that it is an exporter of electricity. With the right policies in place it can remain as such. The opening of the regional electricity market in SEE and the policies being developed in the EU such as "20/20/20" constitute an opportunity for BiH to take advantage of its strong regional position in electricity generation, including renewable energy sources.

Implementation of energy efficiency measures with transfer of new technologies will contribute to energy security of supply, mitigation of climate change, and to employment opportunities as well as to significant development of public private partnerships.

### **3.2 Assessment of project impact, catalytic effect, sustainability and cross border impact**

Continuing EU assistance in the energy field and, in cooperation with other donors and IFIs, this project will help to consolidate a distinct institutional framework and to minimize the existing bottlenecks in the development of legislation that is required under the Energy Community Treaty. A competitive and harmonized market, providing a safe and reliable supply, and regionally integrated, will be established, in order to create an adequate climate investment in the electricity, gas, environment, energy efficiency and renewable energy sectors.

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the EE directives; in March 2011 the Energy Community is developing modalities for transition to the "Third Energy Package"

For Gas – Directive 2003/55 (which should have been transposed by July 2007), Regulation 1775/2005 and Directive 2004/67/EC (which should have been implemented by 31 December 2009). The same market opening deadlines apply.

For Energy Efficiency there is a number of directives that apply. Energy Community Ministerial Council Decisions in December 2009 and September 2010 agreed to extend the *acquis* to three new EU Directives in the areas of energy end-use efficiency and energy services, energy performance of buildings, and labelling, including the recast directives. The implementation deadlines vary from 31 December 2011 to January 2017.

For Renewables – Directives 2001/77 and 2003/30. Implementation Plans for these directives should have been submitted by July 2007.

*Acquis* on Environment and Competition also applies.

<sup>4</sup> Article 3, Energy Community Treaty

<sup>5</sup> The SAA has not yet entered into force, instead the Interim Agreement applies.

The project also addresses social and educational issues, as required by the Energy Community Treaty and various EU Directives. This is achieved by improved public consultation and educational programmes. The emphasis is on awareness of the changes taking place in the energy sector and on the need for efficiency improvements. The same campaigns may also be used for improving public awareness. Additionally, these programmes should also address internal stakeholders such as ministries, government agencies, and utilities, so that they can provide the necessary information to the Energy Community Secretariat and increase their understanding of the upcoming changes within the sector.

### **3.3 Results and measurable indicators**

**Result 1:** Support to deliverables under the Energy Community Treaty.

Indicators:

- "Benchmarking" report produced on the existing situation of BiH energy sector.
- The bottlenecks in energy sector operations are identified.
- Identification of energy efficiency measures in the public sector.
- BiH is in a position to fulfil its commitments vis-à-vis the Energy Community Treaty by transposing and implementing the relevant EU energy *acquis* directives and regulations.

**Result 2:** Improved cooperation and coordination of energy stakeholders, improved guidance for investments and public awareness.

Indicators:

- Energy stakeholders (state and entity ministries, power utilities, Transmission System Operator, Independent System Operator, state and entity regulators) able to implement transparent business strategy enabling investments in the energy sector.
- Regional workshop organized in BiH to increase awareness of the benefits for BiH to be integrated in the regional market and attract investment in the sector.
- Increased public awareness, understanding and acceptance of the EnCT commitments, benefits of price liberalization and market opening.

### **3.4 Activities**

#### **Activities related to Result 1**

- 1.1. Comprehensive research of current situation in the BiH energy sector.
- 1.2. Training on Energy Community and market opening delivered to relevant stakeholders (state and entity ministries, power utilities, Transmission System Operator, Independent System Operator, state and entity regulators).
- 1.3. Training on Energy Community and market opening delivered to industrial consumers,

SMEs and other small consumers.

1.4. Study tour to a neighbouring country with a liberalized (and EnC Treaty-compliant) energy market, such as Slovenia.

1.5. Continued support for legal development, transposition and implementation of EnCT relevant directives and regulations.

## **Activities related to Result 2**

2.1 Devise and carry out a multifaceted campaign to raise capacity among decision makers and stakeholders around the following issues:

- The Energy Community Treaty - Benefits of compliance, risks and lost opportunities with non-compliance; what still needs to be done, weakness
- How competition should work in BiH in electricity and gas,
- How pricing policy works in competitive markets
- How the EU protects vulnerable customers
- Governance issues for public companies and SME in a market economy/role of regulator
- Energy efficiency – electricity is expensive
- How EU assistance works
- Who uses electricity, whose costs are significant

2.2 Develop transparent procedures-guidelines for new investments covering:

- The main parties and their roles in authorising new capacity
- The need to promote competition in generation
- What to do with an unsolicited offer to invest?
- What a developer needs to get a plant built
- License to operate

2.3. Train stakeholders on operation of procedures (workshop and on the job training)

2.4. Prepare recommendations for dealing with existing concessions

2.5. Identify costs and uses of energy in the public sector (including financial accounting for energy), assess possible use of renewable energy in public buildings, and organize a capacity building programme on sustainable energy management for key public sector personnel.

## **3.5 Conditionality and sequencing**

With regard to conditionality, it should be noted that the results specified in the previous section are the overall process results that can be expected and are dependent to some extent on the actions of other IPA projects. It is assumed at this stage that the new key requirements of the EnC Treaty will be defined by the end of 2011.

Given the difficult situation in the energy sector, characterised by a lack of cooperation and coordination between the entities and the state, three conditions must be met before the project can be implemented meaningfully:

- Adoption of entity energy strategies and commitment by entity ministries, with coordination by MoFTER, to engage in the development of a state-level energy strategy.
- Commitment by entity ministries to engage in the drafting of a state-level gas law, as BiH is the only country in the Western Balkans that does not yet have a gas law at the state level.
- Commitment by Transco's two main shareholders (namely, the entity prime ministers) to at least adopt a transmission network development plan.

### **3.6 Linked activities**

This project builds on a series of previous projects, some complete, some on-going and some to start in 2011. Detailed account of some linked activities is given below.

#### **EU involvement in the sector**

This project would be a continuation of past and on-going technical assistance of the EU in the energy sector in Bosnia and Herzegovina. EC CARDS funded projects supported the power transmission company (TRANSCO) and regulatory Commissions in BiH in response to the first wave of Energy Community Treaty requirements. Continuity will be important to ensure that BiH is able to satisfy the Energy Community Treaty requirements and optimally manage transition in this key sector. Other donors have been and remain involved in the sector and are looking for leadership from the EU. Close coordination with other donors has been established in the sector, remains an imperative and is envisioned to continue.

The following are the projects supported by EU so far:

- *Technical Assistance to Support the Set-up and Effective Operations of an Independent System Operator and Transmission Company (ISO/TRANSCO): - €1 Million (September 2004 – June 2006).*

In the framework of Power III, the EC project supported the formation of the TRANSCO and ISO in line with respective laws, thereby ensuring reliable transmission capacity to meet the demands of the electricity market. By February 2006, both ISO and TRANSCO were registered as companies and operating with effective and independent management boards which are responsible, respectively, for performance and development of the transmission system and co-ordination and control of despatch and scheduling arrangements.

- *Technical Assistance to Strengthen the Energy Department of MOFTER and develop an overall energy strategy for BiH (TASED): - €1.4 Million (February 2006 – December 2009).*

The primary objective was to strengthen the Energy Department of MOFTER with a strong emphasis on capacity building through the preparation of guidelines for sustainable energy development. The project has established an energy database and developed an energy balance model.

- *Technical Assistance to ISO/TRANSCO (TATSI): - €1.0 Million (June 2006 – December 2008).*

This project started in August 2006. Its aim was to provide continued support primarily to TRANSCO, concentrating on the areas of accounting and finance, including preparation of tariff submissions, and regulatory affairs.

- *Technical Assistance to support Energy Regulation in Bosnia and Herzegovina - €1.5m (20 months).*

The project aimed to support the energy regulation in BiH in line with the respective laws and in a manner that is in line with business practices in the EU electricity and gas sectors, by completing the unification process and by building capacity at the state level regulator in regulating electricity and gas on a BiH-wide basis.

- *IPA 2007 Support to Bosnia and Herzegovina to meet the requirements of the Energy Community Treaty with specific reference to on Energy Efficiency and Renewables (Ongoing)*

The project includes the following 4 components: Demonstration projects for energy efficiency/renewable energy, Institutional and technical capacity building, Public Education and Legal Framework.

- In 2011, it is envisaged that the EU carries out a pre-screening of all electricity legislation in BiH. Furthermore, it is planned to develop the state level energy strategy in 2011/2012 with the assistance of the EU. Other outstanding tasks such as the development of gas market legislation are foreseen for 2012.

## **Complementarities and co-ordination with other donors**

### ***UNDP Energy Efficiency Project***

This project is focused on following key areas:

- Strengthening of legislative and institutional framework for energy efficiency
- Long-term and sustainable financing for energy efficiency
- Improvement of energy efficiency at local level and strengthening capacities to manage energy-pilot projects (Fund for 10-20 Energy Efficiency pilot projects)
- Strengthening of public awareness on energy efficiency and energy management

### ***GTZ Open Regional Fund Energy Facility (ORF-E)***

The main objective of this project is to assist in promoting reform processes and the development of institutional capacities on energy efficiency and renewable energies in the South Eastern European countries on their way towards the European Union.

Currently, this project provides in BiH technical assistance to the officially established working group on development of the National Energy Efficiency Action Plan (NEEAP).

### ***USAID Project 3E (Economy of Energy Efficiency)***

The project is focused on BiH private sector participation in EE development. The key areas of work are support of development of energy efficiency initiatives and technologies, increase public and private sector capacity to implement energy efficiency projects (including up to 10 pilot projects) and raise public awareness of energy efficiency potential.

### ***Norway Norsk Energi-CDM Projects***

The focus of this technical assistance was on development of greenhouse gas reduction projects in the heating sector in BiH. The Project supported the participants from municipalities, district heating companies and other institutions to prepare projects for

funding using the clean development mechanism (CDM). The project experts were giving assistance also in development of the required Project Design Document for selected potential eligible projects.

***GIZ bilateral project - Energy Efficiency consultancy***

Project assists BiH municipalities in development of SEAPs, efforts in energy intensity reduction, CO2 emission reduction as well as in making proposals for improvement of required legal framework.

***Norway: Energy Saving International AS (ENSI)***

The project's focus is on energy auditing of buildings (capacity building, methods and tools).

***SYNERGY Project - USAID Regional Energy Efficiency project and Greek Ministry of Foreign Affairs***

SYNERGY is regional cooperative program with the objective to advance development of energy efficiency and renewable energy alternatives within the EnC SEE region. The project provides technical assistance and capacity building for MoFTER and entity energy ministries for development of NEEAP for buildings in compliance with the Treaty.

***UNECE EE21 Project: Financing Energy Efficiency Investments for Climate Change Mitigation***

The objective of this project is to enhance energy efficiency, diminish fuel poverty arising from economic transition and meet international environmental treaty obligations under the UNFCCC and the UNECE. It aims to provide a pipeline of new and existing projects to dedicated public private partnership investment funds that can provide up to US\$ 500 million of debt, equity or both to project sponsors.

***IFC Project on small hydro power***

The overall goal of the Project is to create a comprehensive legal framework to support the development and implementation of hydro power plants in BiH. The Project has three components and a budget of €3.5m.

### **3.7 Lessons learned**

There is considerable experience in BiH gained in the development of the electricity laws and the formation of ISO and TRANSCO. A number of lessons emerge.

1. It is difficult to define a time schedule that is observed by all parties; however, it essential that clear targets and time frames are put in place and followed.
2. Flexibility of approach is essential along with an ability to change course to adapt to new situations.
3. Working in isolation leads to project failure. Close cooperation is required at all levels, especially with other consultants.
4. Donor coordination is extremely valuable in resolving issues and presenting a unified view. Conflicting advice from different consultants is not helpful to the beneficiaries.
5. Contact and cooperation between State and Entity governments and agencies needs to be improved to get buy-in from all parties.

6. The institutional set up in the energy sector remains problematic and the needs in the sector are considerable and growing rapidly as the sector seeks to meet the challenges of meeting EnC Treaty obligations and EU Directives as well as growth.

#### 4. Indicative Budget (amounts in EUR)

			SOURCES OF FUNDING									
			TOTAL EXP.RE	IPA COMMUNITY CONTRIBUTION		NATIONAL CONTRIBUTION					PRIVATE CONTRIBUTION	
ACTIVITIES	IB (1)	INV (1)	EUR (a)=(b)+(c)+(d)	EUR (b)	%(2)	Total EUR (c)=(x)+(y)+(z)	% (2)	Central EUR (x)	Regional/ Local EUR (y)	IFIs EUR (z)	EUR (d)	% (2)
Activity 1			2 500 000	2 500 000	100							
Contract 1.1 Technical Assistance	X	-	2 500 000	2 500 000	100							-
TOTAL IB			2 500 000	2 500 000	100							
TOTAL INV												
<b>TOTAL PROJECT</b>			<b>2 500 000</b>	<b>2 500 000</b>	<b>100</b>							

Amounts net of VAT

## **5. Indicative Implementation Schedule (periods broken down per quarter)**

Contracts	Start Tendering of	Signature contract of	Project Completion
Contract 1.1 Technical Assistance	Q3/2012	Q2/2013	Q2/2015

## **6. Cross cutting issues**

### **6.1 Equal Opportunity**

Based on the fundamental principles of promoting equality and combating discrimination, the participation in the project will not in any way be limited to any specific group of population or give preference to any particular territorial region in the country.

### **6.2 Environment**

The project will positively contribute to promotion of environment protection issues in line with Energy Community Treaty provisions and carbon trading schemes. It will provide a room for appropriate assessment of the implications of the major projects and activities under strategic plans and programs including the link to environment assessment impact, and in this way, enhance the environment legislation policy.

### **6.3 Minorities**

N/A

## **ANNEXES**

- I Log frame in Standard Format
- II Amounts contracted and Disbursed per Quarter over the full duration of Programme
- III Description of Institutional Framework
- IV Reference to laws, regulations and strategic documents
- V Details per EU funded contract

## ANNEX I: Logical framework matrix

LOGFRAME PLANNING MATRIX FOR Project Fiche		Programme name: IPA National Programme 2011 – Bosnia and Herzegovina Fiche 11 "Energy"		
Project title: “Support to energy market liberalisation”		Contracting period expires: Three years following the date of the conclusion of the Financing Agreement		Disbursement period expires: One year following the end date for the execution of contracts
CRIS Number:		Total budget : EUR 2 500 000	IPA budget: EUR 2 500 000	
<b>Overall objective</b>	<b>Objectively verifiable indicators</b>	<b>Sources of Verification</b>		
To contribute to the creation of a market oriented energy sector in line with EU Directives and to the creation of a functional institutional framework integrated in the regional markets of South Eastern Europe and the EU	Conditions for a functioning and transparent energy market in line with EU directives and Energy Community Treaty created	EU progress report Report on fulfilment of Energy Community Treaty by BiH		
<b>Project purpose</b>	<b>Objectively verifiable indicators</b>	<b>Sources of Verification</b>		<b>Assumptions</b>

<p>1.1.1. The main purpose of the project is the creation of a functioning institutional framework through strengthening of coordination and cooperation mechanisms between energy stakeholders (at the state and entity levels), thereby promoting economic efficiency, market development and attracting investment.</p>	<p>Coordination and cooperation mechanisms between energy stakeholders strengthened by promoting economic efficiency, market development and attracting investment</p>	<p>National and international reports on the progress of the country in fulfilment of different obligations in the energy market development</p>	<p>All relevant stakeholders willing to cooperate and contribute to implementation of the project</p>
<p><b>Results</b></p>	<p><b>Objectively verifiable indicators</b></p>	<p><b>Sources of Verification</b></p>	<p><b>Assumptions</b></p>
<p><b>Result 1:</b> Support to deliverables under the Energy Community Treaty.</p>	<ul style="list-style-type: none"> <li>- "Benchmarking" report produced on the existing situation of BiH energy sector.</li> <li>- The bottlenecks in energy sector operations are identified.</li> <li>- Identification of energy efficiency measures in the public sector.</li> <li>- BiH is in a position to</li> </ul>	<ul style="list-style-type: none"> <li>• Project implementation reports</li> <li>• Training sheets</li> <li>• Evaluation sheets</li> <li>• Government reports</li> <li>• Energy Community Secretariat reports</li> </ul>	<p>All concerned stakeholders willing to participate and cooperate on project activities</p>

<p><b>Result 2:</b> Improved cooperation and coordination of energy stakeholders, improved guidance for investments and public awareness.</p>	<p>fulfil its commitments vis-à-vis the Energy Community Treaty by transposing and implementing the relevant EU energy <i>acquis</i> directives and regulations.</p> <ul style="list-style-type: none"> <li>- Energy stakeholders (state and entity ministries, power utilities, Transmission System Operator, Independent System Operator, state and entity regulators) able to implement transparent business strategy enabling investments in the energy sector.</li> <li>- Regional workshop organized in BiH to increase awareness of the benefits for BiH to be integrated in the regional market and attract investment in the sector.</li> <li>- Increased public awareness, understanding and acceptance of the EnCT commitments, benefits of price liberalization and market opening.</li> </ul>		
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Activities	Means	Costs	Assumptions
<p><b><u>Sub-Activities related to Result 1</u></b></p> <p>1.1. Comprehensive research of current situation in the BiH energy sector.</p> <p>1.2. Training on Energy Community and market opening delivered to relevant stakeholders (state and entity ministries, power utilities, Transmission System Operator, Independent System Operator, state and entity regulators).</p> <p>1.3. Training on Energy Community and market opening delivered to industrial consumers, SMEs and other small consumers.</p> <p>1.4. Study tour to a neighbouring country with a liberalized (and EnC Treaty-compliant) energy market, such as Slovenia.</p> <p>1.5. Continued support for legal development, transposition and implementation of EnCT relevant directives and regulations.</p> <p><b><u>Sub-Activities related to Result 2</u></b></p>	<p>Technical Assistance contract</p>	<p>Total: EUR 2 500 000</p> <p>(IPA Contribution 100%)</p>	

<p>2.1 Devise and carry out a multifaceted campaign to raise capacity among decision makers and stakeholders around the following issues:</p> <ul style="list-style-type: none"> <li>▪ The Energy Community Treaty - Benefits of compliance, risks and lost opportunities with non-compliance; what still needs to be done, weakness</li> <li>▪ How competition should work in BiH in electricity and gas,</li> <li>▪ How pricing policy works in competitive markets</li> <li>▪ How the EU protects vulnerable customers</li> <li>▪ Governance issues for public companies and SME in a market economy/role of regulator</li> <li>▪ Energy efficiency – electricity is expensive</li> <li>▪ How EU assistance works</li> <li>▪ Who uses electricity, whose costs are significant</li> </ul> <p>2.2 Develop transparent procedures-guidelines for new investments covering:</p> <ul style="list-style-type: none"> <li>▪ The main parties and their roles in authorising new capacity</li> <li>▪ The need to promote competition in generation</li> </ul>			
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<ul style="list-style-type: none"> <li>▪ What to do with an unsolicited offer to invest?</li> <li>▪ What a developer needs to get a plant built</li> <li>▪ License to operate</li> </ul> <p>2.3. Train stakeholders on operation of procedures (workshop and on the job training)</p> <p>2.4. Prepare recommendations for dealing with existing concessions</p> <p>2.5. Identify costs and uses of energy in the public sector (including financial accounting for energy), assess possible use of renewable energy in public buildings, and organize a capacity building programme on sustainable energy management for key public sector personnel.</p>			
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**ANNEX II: Amounts (in EUR) Contracted and disbursed by quarter for the project**

<b>Contracted</b>	<b>Q1/2013</b>	<b>Q2/2013</b>	<b>Q3/2013</b>	<b>Q1/2014</b>	<b>Q2/2014</b>	<b>Q4/2014</b>	<b>Q2/2015</b>	
Contract 1.1 Technical Assistance			2 500 000					
<b>Cumulated</b>			<b>2 500 000</b>					
<b>Disbursed</b>								
Contract 1.1 Technical Assistance			750 000		550 000	550 000	650 000	
<b>Cumulated</b>			<b>750 000</b>		<b>1 300 000</b>	<b>1 850 000</b>	<b>2 500 000</b>	

## **ANNEX III Description of Institutional Framework**

### **Institutions of the Energy Sector in Bosnia and Herzegovina**

The energy sector in BiH is structured at two levels: State and Entity. The key organisation at the state level is the Ministry of Foreign Trade and Economic Relations of Bosnia and Herzegovina (MoFTER). According to Article 3 of the Law on Transmission of Electric Power, Regulator and System Operator of Bosnia and Herzegovina, MOFTER is responsible for the overall policy-making in the country and coordination with entities. It coordinates general policy activities and international relations with regard to energy and environmental protection, while the responsibility for implementation is with Entity-level Ministries.

The other State level bodies are: the Transmission System Operator (TRANSCO), the Independent System Operator (ISO) and the State Energy Regulatory Commission (SERC).

At the Entity level, the two key institutions operating in the Energy sector are the Entity Ministries; the Federal Ministry of Energy, Mining and Industry (FMEMI) in the Federation of Bosnia and Herzegovina and the Ministry of Economy, Energy and Mining (MEEM) in the Republika Srpska.

The Federal Ministry of Energy, Mining and Industry (FMEMI) is the ministry responsible for energy, mining, geological research and industry. This includes coordinating policy on energy, monitoring economic performance, coordination of project implementation, especially power generation facilities.

The Ministry of Economy, Energy and Mining (MEEM) has a similar role in RS, where its responsibilities include the coordination of generation, transmission and distribution of electricity and the production and processing of coal, petroleum products, natural gas. Its mandate also includes the development of medium-term and long-term plans including providing funds for their implementation and the development of annual energy balances. Additional data is provided in Annex III.

Both Ministries at the Entity level are responsible for coordinating the operation of three electric utility companies (EP).

In the area of regulation, BiH regulates at both the State and Entity levels for electricity only at present. This means that in addition to the State Electricity Regulatory Commission (SERC), there are entity level regulators; the Federal Electricity Regulatory Commission (FERC) and Regulatory Commission for Energy of RS (RERS). Transmission and system operation is regulated by SERC as well as for District Brcko, and generation and distribution by FERC and RSERC in their respective territories. In the electricity sector TRANSCO and ISO operate at the state-wide level while the three power utility companies (Elektroprivredas) operate in their respective territories and these companies are monitored and owned by the Entity governments.

## **ANNEX IV Reference to laws, regulations and strategic documents**

### **1.Reference list of relevant laws and regulations**

#### **State level**

1. Law on concessions (Official Gazette BiH 32/02)
2. Law on Transmission of Electric Power, Regulator and System Operator of BiH (Official Gazette BiH No. 7/02 and 13/03;
3. Law on Establishing Company for Transmission in BiH (Official Gazette BiH No. 35/04), and
4. Law on Establishing Independent System Operator for Transmission System in BiH (Official Gazette BiH No.35/04)
5. Connection Rules (2008)
6. Grid code

#### **Entity Level**

##### **Federation BiH:**

1. Law on Electricity of the FBiH (Official Gazette FBiH No. 41/02, 24/05, 38/05,)
2. The Law on Amendments and Modifications of Electricity Law (Official Gazette FBIH, No. 38/05)
3. Law on Application of Tariff System (Official Gazette FBIH, No. 06/04)
4. Federation of BiH Regulation on use of renewable energy and cogeneration (Official Gazette FBiH No. 36/2010)
5. Decree on modifications and amendments to the Decree on use of renewable energy resources and co-generation(Official Gazette FBiH No. 14/11)
6. Federation of BiH Draft law on renewable energy and cogeneration (2010)

##### **Republika Srpska:**

1. Bases of Energy Policy of Republika Srpska (Official Gazette RS No. 117/08)
2. Law on Electricity of the RS (Official Gazette RS No. 08/08)
3. The Law on Amendments and Modifications of Electricity Law in RS (Official Gazette RS, No. 92/09)
4. Law on Energy (Official Gazette RS No. 49/09)
5. Law on Petroleum and Petroleum Products (Official Gazette RS No. 36/09)
6. Law on Gas (Official Gazette RS 86/07)
7. Draft Rule on stimulating electricity generation from RES and efficient co-generation in RS
8. Draft Decision on stimulating electricity generation from RES and efficient co-generation in Republika Srpska (2011)

Draft Decision on the amount of the guaranteed purchase price and the premium for electricity produced from renewable sources and the efficient cogeneration plants in RS (2011)

## **2. Reference list of relevant Treaties and Agreements at International level**

The key documents applicable at the international level are the Energy Treaty (EnC), the Energy Charter Treaty and the Energy Charter Protocol on Energy Efficiency and Related Environmental Aspects (PEEREA).

### **Energy Community Treaty for South East Europe (EnC)**

BiH has entered into international agreements in the energy field. The most important is the Agreement on Establishment of the Energy Community which has been ratified and entered into force on 1st July, 2006.

The basic goals of the EnC are the creation of a stable and single regulatory framework and market space, which enables a reliable supply of energy products and also attract investments into the energy sector, especially electricity and natural gas. Competition is seen as a critical item in terms of supply, such as alternative routes of gas supply for example. The overall objective is to improve the availability and security of supply to SEE citizens and archive a corresponding improvement in the quality of life. Environmental protection, energy efficiency and conservation are seen as an integral part of the process, including the development of renewable resources.

By concluding this Agreement, contracting parties from the region commit to establish a common electricity and gas market among themselves, which will function in accordance with the standards of EU energy market, with which it will eventually be integrated. This is to be achieved by gradual takeover of parts of so-called *acquis communautaire* (legal heritage) of the EU, pertaining to energy, environment protection and competition. It is a matter of implementation of relevant EU directives and regulations for energy and environment protection. By participating in this process, Bosnia and Herzegovina confirms its commitment to energy sector reform, energy market liberalisation and harmonisation of its policy with the EU Member Countries.

### **Energy Charter Treaty and the Energy Charter Protocol on Energy Efficiency and Related Environmental Aspects (PEEREA).**

BiH is also a signatory member of the Energy Charter Treaty and the Energy Charter Protocol on Energy Efficiency and Related Environmental Aspects (PEEREA).

PEEREA's objectives are:

- the promotion of energy efficiency policies consistent with sustainable development;
- the creation of conditions which induce producers and consumers to use energy as economically, efficiently and environmentally soundly as possible;
- the fostering of cooperation in the field of energy efficiency.

The Contracting Parties undertake to establish energy efficiency policies and legal and regulatory frameworks which promote, inter alia, the efficient functioning of market mechanisms, including market-oriented price formation.

## **Kyoto Protocol**

BiH is ratified the Kyoto Protocol

### ***Reference to AP/NPAA/EP/SAA***

SAA – Article 107: Cooperation shall focus on priority areas related to the Community acquis in the field of energy, including, as appropriate, nuclear safety aspects. It shall be based on the Treaty establishing the Energy Community and shall be developed with a view to the gradual integration of Bosnia and Herzegovina into Europe's energy markets.

### ***Reference to MIPD***

*MIPD 2011-2013 (draft version)*

Project is linked to the Acquis related and other interventions section under MIPD 2011-2013:

...In addition, IPA may finance actions that fall outside the scope of these sectors such as, but not limited to: ...ii) *acquis* related actions that need to be adopted/implemented according to an established timetable...”

### ***Reference to National Development Plan***

Development Strategy of BiH 2010-2014 and Social Inclusion Strategy were developed and are yet to be adopted.

The country Poverty Reduction Strategy Paper (PRSP) 2004-2007, which is still in place until adoption of the country Development Strategy, highlights electricity sector reform priorities. The PRSP plan sets out the following goals of the energy sector reform as it pertains to poverty alleviation. The major goals of the energy sector reform as stated in the PRSP are:

- *stimulate national and international investment;*
- *ensure a more reliable supply of energy, in accordance with defined quality standards and at lowest prices;*
- *join the international market through a single market of electric power and gas in BiH;*
- *enhance cost-effectiveness and rational use of energy sources and improve energy efficiency;*
- *implement liberalization and introduce competition and transparency;*
- *ensure protection of environment in accordance with national and international standards;*
- *protect interests of the system users;*
- *increase the use of renewable energy sources;*
- *meets the conditions of the European Energy Charter Agreement, as well as other international contracts and agreements.*

***Reference to national / sectoral investment plans***

Pursuant to the Law Establishing ISO and the Grid Code, ISO BiH has developed and submitted to SERC the *Indicative Generation Development Plan for the period 2011-2020*, drawn on the basis of available data in the power sector.

The country wide energy development strategy was agreed to be developed once the entities' strategies are prepared and adopted. The Federation of BiH has prepared and adopted "Strategic Plan and Program for Energy Sector Development in FBiH" (up to 2020), Republika of Srpska has prepared "Energy Sector Development Strategy of Republika Srpska", which is in the final stage of adoption. The funds for drafting the state strategy are committed under IPA 2008 energy project, which will start in 2011 once the process of adoption of Republika Srpska strategy is complete.

**ANNEX V Details per EU funded contract:**

Project duration: 24 months

Key experts:

The implementation of the project will require engagement of at least 5 key experts as well as a pool of short term experts.