

## **FINAL VERSION**

### **1. Basic information**

**1.1 CRIS Number:** 2009/021-665

**1.2 Title:** Strengthening the Administrative Capacity of the Energy Department in the Ministry of Economy and the Energy Agency

**1.3 ELARG Statistical code:** 3.15

**1.4 Location:** nationwide project activities

### **Implementing arrangements:**

#### **1.5 Implementing Agency:**

The Central Finance and Contracting Department (CFCD) will be the contracting authority and will be responsible for all administrative and procedural aspects of the tendering process, contracting matters and financial management including payment of project activities, upon conferral of management. The Head of CFCD will act as the Programme Authorizing Officer (PAO) of the project.

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The Beneficiaries of the Project will be the Ministry of Economy (MoE) as main beneficiary including the Energy Agency of the former Yugoslav Republic of Macedonia:

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### **Financing:**

**1.7 Overall costs (VAT excluded)<sup>1</sup>:** EUR 1 890 000

**1.8 EU contribution:** EUR 1 701 000

**1.9 Final date for contracting:**

The final date for contracting is two years from the signature of the Financing Agreement.

**1.10 Final date for execution of contracts:**

Two years from the final date for contracting

**1.11 Final date for disbursements:**

One year from the final date of the execution of the contract

## **2. Overall Objective and Project Purpose**

### **2.1 Overall Objective:**

The overall objective of the project is to achieve a more competitive energy market through a market-oriented energy sector reform process with integration into the Regional Energy Market (REM).

### **2.2 Project purpose:**

The purpose of the project is to strengthen institutional capacities of the Ministry of Economy's Energy Department and the Energy Agency, for developing, monitoring and evaluating the energy sector reforms necessary for alignment with the Energy Acquis and other relevant EU obligations.

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

#### **2.3.1 Link with AP**

The Accession Partnership priorities referring to the energy sector focus on the following:

- Continue alignment of the legislation on the internal electricity and gas markets, energy efficiency and renewable energy sources with the *acquis* in order to gradually open the energy market to competition;
- Continue strengthening of the regulatory body;

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

- Fulfilling the obligations arising from the Energy Community Treaty; as regards the full implementation of the *acquis* on the internal gas and electricity market and on cross border exchanges in electricity;
- Strengthening the administrative capacity in all energy sectors, in the area of energy efficiency and renewable energy resources.

### **2.3.2 Link with NPAA**

The National Programme for the Adoption of *Acquis* envisages further legal development and harmonisation of the national legislation with the relevant *Acquis*, strengthening of the administrative capacity of the energy department in the Ministry of Economy, as well as capacity building of the Energy Agency.

### **2.3.3 Link with Progress Report 2008**

The 2008 Progress Report notes progress in the field of energy, in particular as regards transposition of EU *acquis* and the liberalisation of the electricity market. Regarding the internal energy market, the Report highlights that the administrative capacity has to be further strengthened, as well as the capacity to effectively promote energy efficiency and renewables. In the field of energy, the country is not yet sufficiently prepared.

### **2.3.1 Link with SAA**

The project will contribute towards the implementation of the Stabilisation and Association Agreement, Article 99 on Energy, on the principles of the market economy and the European Energy Charter Treaty, including in particular: formulation and planning of energy policy, modernisation of infrastructure, improvement and diversification of supply and improvement of access to the energy market, management and training for the energy sector and transfer of technology and know-how, promotion of energy saving, energy efficiency and renewable energy sources, assessment of the energy production and consumption impact to the environment, with a view to the gradual integration with Europe's energy markets.

## **2.4 Link with MIPD**

According to the Multi-Annual Indicative Planning Document (MIPD) 2008-2010, the focus of pre-accession assistance will be on the adoption of the *acquis* including building institutional and administrative capacity for transposing, implementing and enforcing the *acquis* according to the priorities identified in the Accession Partnership.

In the field of energy, the support will be given to reorganising and strengthening the public administration and institutions in the energy sector and to implementing the requirements of the Energy Community Treaty.

In the field of energy, the aim of Multi-beneficiary IPA assistance is to support the operations and objectives of the Energy Community in order to create a stable and regulatory SEE market capable of attracting investment, and to advance the implementation of investments in the field of energy efficiency and renewable energy in compliance with the EU *acquis*.

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

Based on the detailed assessment of the current economic, social and environmental situation in the country, one of the key strategic objectives of the NDP 2007 – 2009 is to develop new and improve existing infrastructure, particularly those related to energy.

Key objective is to develop an efficient, cost-effective energy sector that will take due account of security of supply, flexibility, safety of the population and protection of the environment. The objectives include: (i) to substantially increase the hydroelectric power generation capacity, (ii) to proceed with the gasification, (iii) to improve energy interconnection and transmission infrastructure, as well as distribution networks, and (iv) to improve the investment climate for the construction of new energy capacities, for energy efficiency improvements, and for increasing the use of renewable energy sources.

The National Development Plan 2008 - 2013 is in a final procedure of approval by the Government. Based on detailed assessment of the current economic, social and environmental situation in the former Yugoslav Republic of Macedonia, the key strategic objectives of the NDP for the period 2008 – 2013 are: to develop an efficient, cost-effective energy sector that will take due account to security of supply, improvement of energy efficiency and utilisation of renewable energy resources, as well as the social aspect.

This project is linked with the National Development Plan of the Government and will contribute to the fulfilment of the energy chapter of the NDP.

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

N/A

## **3. Description of project**

### **3.1 Background and justification**

The Government's national energy policy is based on the following principles: supplying consumers with safe, reliable and good quality electricity, natural gas, thermal energy, oil and oil derivatives; creation of transparent, attractive and stable conditions for a competitive and financially viable energy sector; promotion of a competitive market in the delivery of energy services, based on principles of non-discrimination and transparency; efficient provision of services to consumers at the lowest reasonable cost; promotion of energy efficiency and sustainable development of renewable energy sources; protection of the environment from adverse impacts of energy sector activities; and compliance with international treaty obligations.

In May 2006 a new Energy Law was enacted. It redefines energy policy, the status and functioning of the ERC, the licensing procedure, the role and responsibilities of the energy market participants, third-party market access, as well as transmission and distribution connections. The law regulates the markets for electricity, gas, crude oil and oil derivatives, heating and geothermal energy. It also includes provisions relating to energy efficiency and the use of renewable energy. The law was amended in April 2007 to allow for gradual opening to competition of the electricity market for eligible consumers. The latest amendments to the energy law were made in August 2008 and provide for an amended electricity market model. In particular, the new model moves away from the single-buyer market model that had been developed previously, and in which MEPSO, the TSO, played a pivotal role. The new model is based exclusively on over-the-counter contracts. Furthermore, the electricity market will evolve from a centralized and entirely regulated market to an open market structure. This is in line with the Government policy in respect of market opening.

The Ministry and the Energy Agency now face important institutional, management and policy challenges. The Ministry needs to develop, adopt and implement medium and long term energy strategies that clearly identify energy policy objectives and responsibilities, establish an appropriate internal structure and train staff for delivering these objectives. At the same time, the Ministry needs to develop and implement policies that increase competition in the energy sector.

The energy department will increasingly focus on the development and implementation of market-oriented policies with a view to creating a more favourable business environment and fostering competition and sustainable private sector growth. Many of these policies will be directed at implementing the National Development Plan and the comprehensive structural reform programmes financed by the World Bank.

These policies will include further liberalisation of prices and markets, encouraging competition, raising labour and capital productivity, stimulating innovation, promoting exports and investment, and creating a more transparent legal, tax and regulatory framework. To achieve these objectives, the ME will need to work closely with other ministries and energy sector actors, as well as with the EU and other international partners.

The administrative capacity in all fields is limited, including completion of the internal energy market, security of supply, renewable energy development and energy efficiency, effective development and implementation of the energy policy and project management capacities.

Overall, with the support of the Project it is expected to:

- enhance the administrative and institutional capacity of the Ministry of Economy and especially its Energy Department by developing and implementing a Management Plan;
- assess the alignment with the EU Acquis Communautaire in the energy sector in order to apply the relevant acquis in the electricity and gas sectors, energy efficiency and renewable energy sources (RES) and to implement relevant legislation;
- further improve energy efficiency and utilization of RES by strengthening the administrative and institutional capacity of the Energy Agency;
- facilitate and update programmes for the implementation of a strategy for energy development, and the action plan for further liberalization of the internal energy market and activities necessary for participating in the regional market;
- Contribute to the protection of the environment through an improved energy mix by using and stimulating more renewable energy in the former Yugoslav Republic of Macedonia.

## **Legal framework**

### **Strategy for Energy Development**

The long-term priorities of specific energy fields, as well as the development of the overall energy sector would be laid down within the **Strategy for Energy Development**, which is envisaged to be adopted by the beginning of 2009. The Strategy shall address: long-term objectives for development of specific energy activities; development priorities; sources and methods of supplying the energy and energy fuels needs; identification and utilization of energy resources and capacities of strategic relevance for the country; restructuring of the energy sector; incentives for investment in energy facilities that shall utilize renewable energy sources; incentives regarding the enhancement of energy efficiency; realization of the

obligations arising from the international charters, treaties, agreements, conventions and other documents ratified and accessed to by the country; requirements and methods for ensuring environmental protection; and other elements with relevance for the development of the energy sector. The Strategy is being prepared by the Macedonian Academy for Science and Arts. World Bank has offered support in preparation of the Strategy.

### **Strategy for Exploitation of Renewable Energy Sources**

Besides the Energy Development Strategy that concerns the overall energy sector and in accordance with the Energy Law, the policy for exploitation of renewable energy resources needs to be established within the Strategy for utilization of renewable energy resources. The Strategy for the Exploitation of Renewable Energy Sources is envisaged to be adopted during 2009. This strategy shall define the aims of exploitation of renewable energy resources and the ways to achieve these aims, in particular: the potential of renewable energy sources, the feasibility of exploiting the potential of renewable energy resources, the target volume and timeline for introduction of electricity consumption from renewable energy sources in the energy balance, measures to support the exploitation of renewable energy sources. The strategy will cover a period of at least 10 years.

### **Treaty Establishing the Energy Community**

The country is a signatory to the Treaty Establishing the Energy Community (25.10.2005). The Treaty's primary goals are: to establish integrated electricity and natural gas markets in South East Europe (SEE), which will operate under the same rules and principles applicable in the EU Member States with a view to their further integration; to provide for stable, continuous and economical supply of energy as a service of public interest, to create a single legal and regulatory framework and stable market conditions for trade in energy throughout the region in order to attract the required private investments and to create conditions for sustainable development; to develop competition and liquidity for these markets and employ economies of scale; to improve the overall environmental conditions, energy efficiency and social conditions within the territories of the signatory parties from the SEE region.

### **Privatisation status**

The formerly integrated, state-owned utility Elektrostopanstvo na Makedonija (ESM) has been unbundled into three legally separate entities responsible for generation, transmission and distribution of electricity, as well as one independent electricity producer, i.e. the Negotino thermal power plant. In 2006 the distribution company was privatised and sold to EVN of Austria. In 2009, all major functioning electricity generation plants were state owned.

### **Regulatory framework**

*The Energy Regulatory Commission (ERC)* was established as an independent body by the Law amending the Energy Law (Official Gazette 94/2002) and became operational in 2003. The ERC is led by five Commissioners, one of whom acts as its President. The Commissioners, including the President of the ERC, are appointed and dismissed by Parliament, upon a proposal of the Government, taking into consideration the appropriate and fair representation of all communities.

## **Institutional capacity**

The present organisational structure of the Ministry of Economy is shown in Annex 3. At the moment, the Ministry of Economy's Energy Department consists of five units: The Unit for Power System, the Unit for Investments in the Energy Sector, the Unit for Fossil Fuels, the Unit for Energy Efficiency and Renewable Energy Sources and the Unit for Planning and Energy Development. These five units have 11 permanent employees and 2 experts on a contractual basis.

The department suffers from a lack of capacity to develop, implement and monitor sector reforms. There is a lack of sufficiently trained personnel in the field of energy policy and energy strategy definition, energy analysis, and development of legislation and regulation in the energy sector.

The development of an energy policy and implementation of the energy strategy is essential for the country. The framework of an energy strategy is being developed, but the strategy itself needs to be elaborated in detail. Weaknesses in data gathering, policy planning and energy policy making capacity in the Ministry have hampered the development of this energy strategy framework. Reform projects are developed and implemented by technical assistance.

The establishment of the ERC involved the transfer of responsibility for developing implementing legislation (i.e. detailed regulation) to the ERC. The Ministry remains responsible for drafting primary legislation, specific implementing legislation, as well as other legal acts. The alignment with the energy acquis and the implementation of the Energy Law will require the strengthening of the Ministry's legal capacity.

The newly created Energy Agency continues to suffer from a lack of capacity to support the development, implementation and monitoring of sector reforms. There is a lack of sufficiently trained personnel in the field of energy policy and energy strategy, energy planning and energy statistics, as well as in development of legislation and regulation in the energy sector.

Any analysis of the options for strengthening the capacity of the Energy Agency for policy-relevant and operational activities needs to start by determining the actual scope of action which the Agency has within the present institutional framework: identification of the present scope of action and status of the Energy Agency, the role of the Energy Agency in the energy sector, possibilities for enhancing the Energy Agency's capacities and interfaces to other relevant institutions.

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

Through strengthening the capacities of the Energy Department in the Ministry of Economy and the Energy Agency, improving legislation and further harmonisation with the Acquis, the project is expected to contribute to the creation of more favourable conditions for attracting private investments in the energy sector.

The strengthening of the administrative capacity of the Ministry's Energy Department and of the Energy Agency for conducting economic analysis and energy planning, will contribute to enhanced security of supply, better coordination with other Ministries and energy sector stakeholders and the completion of the restructuring of the energy sector. The project will have

impact on improving the systems of of the relevant institutions. These changes will facilitate the sustainable impact of outcomes beyond the end of the project. Additionally, relevant steps are foreseen to improve participation in a Regional Energy Market, which will generate added value over time.

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

In order to fulfil their strategic role in implementing the policy in the Energy sector, the Energy department within the MoE (ED/MoE) and the Energy Agency (EA) need to be reorganized, especially because the Energy Agency, in its mandate, has some responsibilities that were originally within the MoE's Energy Department. It is expected that the Project will achieve the following general results: greater efficiency in performing day to day operations in both institutions, streamlined procedures for adopting legal documents in line with EU regulation and better implementation national strategies in the energy sector.

Expected results are aimed in the following four areas:

#### **1. Strengthened institutional capacity and improved operations of the Energy Department within the ME**

The reorganization of the ED/MoE will result in the Department being able to perform its duties in a more efficient way, as well as providing higher quality output. The activities in this process shall result in:

- New organization scheme for the Department;
- Elaborated a Management plan for the Energy Department and put into operation;
- Procedure established for the regular updating of the Management Plan;
- Department restructured according to a plan agreed between project partners;
- Internal and external communication procedure drafted and implemented;
- Training plan prepared and gradually implemented.

#### **2. Increased alignment with the EU Acquis Communautaire in the energy sector and with other acquis covered by the Energy Community Treaty**

The process of adoption and implementation of new legislation in line with EU legislation, as well as changes in the existing legislation is expected to be streamlined and will result in increased alignment with EU Acquis in the Energy Sector and with other acquis covered by the Energy Community Treaty. The expected results are seen in the following four categories:

- Functional Legal Approximation and Implementation Working Group (LAIWG) strengthened;
- Improved knowledge of EU energy policy and legislation in the MoE, State Administration and energy sector companies through adequate training and participation in the LAIWG;
- Gap analysis report prepared with a proposal for further alignment with the Acquis.
- Effective implementation of adopted legislation in line with the principles of the Energy Community Treaty.

#### **3. Review of existing Programmes for implementation of the Strategy for energy development and revision of the action plan for ongoing liberalisation of the internal energy market and for strengthening the regional market**



By the time the project starts, two energy-related strategies (Energy Strategy and Strategy for RES) will be adopted by the relevant institutions and their implementation will be underway. In this area it is expected that project activities will result in better implementation of these strategies. Also, it is expected that the project will help both institutions in the process of updating strategic documents related to the energy sector. Four results are envisaged:

- Programmes of the Energy Strategy reviewed, gap analysis;
- Programmes for implementation of the Strategy for RES updated;
- Programmes for fulfilment of the action plan for the liberalisation of the energy market updated;
- Programmes for implementation of the action plan for the country's integration into the regional energy market analysed and updated with a special focus on the attraction of investments;
- Programmes for ensuring security of supply, including crisis management plans, developed.

#### **4. Strengthened capacity of the Energy Agency**

The Energy Agency as very new institution needs to be organized in an efficient way in order to carry out its responsibilities defined in the Law for establishment of the Agency. As one of the institutions responsible for implementation of parts of the energy related policies and providing assistance to the ED/MoE, the EA needs to be adequately staffed and its staff trained. One particular field will be affected by the results of the Project. Namely, there is a lack of quality information for the energy consumption and the Project will provide a framework how energy related data need to be collected and organized. The expected results within this Project component are:

- New organization scheme of the Agency developed;
- Increased capacity to develop and/or assist the ED/MoE in development of strategic documents in the energy sector;
- New framework for energy statistics established.

**The measurable indicators are:**

#### **1. Strengthened institutional capacity and improved operations of the Energy Department within the ME**

- Reorganized Energy Department in the MoE according to the Management plan;
- Training plan adopted;
- Number of trainings implemented for the energy sector staff;
- Number of staff trained.

#### **2. Increased alignment with the EU Acquis Communautaire in the energy sector and with other acquis covered by the Energy Community Treaty**

- Number of EU Directives and Regulations transposed in national legislation;
- Number of implementing legislation prepared;
- Number of WG meetings;
- Number of participants in the WG (% representing different institutions);
- Number of trainings conducted.

**3. Review of existing Programmes for implementation of the Strategy for energy development and revision of the action plan for ongoing liberalisation of the internal energy market and for strengthening the regional market**

- Adopted Programmes for implementation of the long term Energy Strategy and Strategy for utilization of RES;
- Action plans for further liberalization of energy market and for development of the regional energy market integration adopted by the Government and put into implementation.

**4. Strengthened capacity of the Energy Agency:**

- Reorganized Energy Agency according to the new organization scheme;
- Action plan on energy saving and concept for reduction of energy dependency adopted, taking into consideration the work of the Energy Efficiency Task Force of the Energy Community;
- Functional database on production and consumption statistics taking into account the methods of the International Energy Agency (IEA).

**3.4 Activities:**

**1. Strengthen the institutional capacity and improve the operations of the Energy Department**

- Review the current organization, functions, responsibilities, staffing and management systems of the Energy Department;
- Propose new organizational scheme or propose changes in the existing one;
- Prepare *a management plan* for the Department identifying any recommended changes in the functional and operational structure, staff numbers, skills needed and other resource requirements. Embed procedures for the annual updating of the plan;
- Assess the adequacy of resources necessary for *the implementation of the Management Plan* and prepare strategies (including outsourcing if necessary) to overcome any resource constraints;
- Improve internal and external communication systems and procedures.

**2. Assess the alignment with the EU Acquis Communautaire in the energy sector and other acquis covered by the Energy Community Treaty**

- Strengthening the Legal Approximation and Implementation Working Group (LAIWG) consisting of experts from ME, the Energy Agency, ERC and other relevant stakeholders;
- Develop and deliver formal training on the provisions of the EU Acquis Communautaire in the energy sector and on other acquis covered by the Energy Community Treaty to LAIWG-members;
- Undertake study tours to institutions in EU member states to learn from best practices appropriate for the reality on the ground, especially:
  - the working methods and procedures of Member States with regard to legal aspects;

EU energy policy and internal energy market (development and interpretation).

- Compare current legislation with EU legislation in the energy field and with other acquis covered by the Energy Community Treaty and prepare a gap analysis report and develop proposals for how to address the identified gaps. This activity should build upon existing gap analyses carried out by the Energy Community Secretariat, as well as activities scheduled under other projects (i.e. the IPA 2007 project in support of ERC);
- Organize a series of seminars for relevant stakeholders of the state authorities, in order to achieve a common understanding of required legislative changes in the energy sector;
- Communicate necessary legislative changes to the energy industry.

### **3. Review of existing Programmes for implementation of the Strategy for energy development and revision of the action plan for ongoing liberalisation of the internal energy market and for strengthening the regional market**

- Review the Ministries planning (tasks, responsibilities and timetable) for the development of the internal energy market and for the implementation of the relevant legislation in special consideration of public service obligations and cross border trade mechanisms;
- Review the adopted technical rules, market rules, methodologies and other legal acts regarding the internal electricity and gas markets and the development of the regional energy market;
- Assist in the development of detailed planning for the establishment of a competitive internal energy market, including detailed market design, economic analysis of the functioning of the market in view of investment requirements, long term planning for generation capacity and infrastructure (taking also security of supply issues into consideration), and benchmarking and monitoring bearing in mind the targeted energy mix;
- Prepare programmes for the implementation of the so-called oil dimension of the Energy Community;
- Assist with the implementation of the Strategy for energy development through updating of implementation programmes taking into account European best practices;
- Update of Programmes for implementation of the Strategy for exploitation of RES.

### **4. Strengthen the institutional capacity of the Energy Agency and support the Agency to improve energy efficiency and utilisation of RES**

- Evaluate the current organization, staffing and management systems of the Energy Agency and prepare a management plan for the agency, recommending changes in functional structure, staff numbers, skill needs and other resource requirements according to the findings of the evaluation;
- Elaborate an action plan to provide incentives for households to save energy and to improve energy efficiency taking into account the work of the Energy Efficiency Task Force of the Energy Community;
- Prepare a draft concept on decreasing energy dependency by increasing the share of renewable energy sources in energy production and consumption;
- Assess and improve the data base of energy production and consumption statistics in cooperation with the State Statistical Office and the IEA where relevant;

- Improve the capabilities for measuring energy intensities so as to be able to analyze the effects of energy saving and renewable energy policies.

### **Management and contracting arrangements**

A project steering committee will be established. Advisory services will chiefly be provided to the Ministry of Economy and Energy Agency involved in the project as well as selected other stakeholders. A national project coordinator for the project will be appointed by the Ministry of Economy, while separate activities will be the responsibility of task managers.

A team leader for the project will be responsible for the overall management, representation (co-ordination with the other international bodies), and reporting. The team leader shall be responsible for the appropriate management of resources. Short and long term expertise will be engaged in the areas of harmonisation with the Energy Directives, capacity development, trainings etc. Some of these experts will address the cross-cutting issues (see below). A pool of short-term expertise will be made available to assist the key experts and to carry out activities in the remaining areas.

Distribution of responsibilities: The Department for Energy within the Ministry of Economy will have overall coordination and reporting role over implementation of the project, while the Energy Agency will be responsible to cooperate with and monitor and evaluate the project.

Reporting and progress monitoring arrangements: Regular reports (inception, mission, and monthly and mid-term progress reports) will be prepared. Monitoring and approval over the project outcomes will be provided by the Steering committee to be established at the very beginning of the project, composed of high level representatives from relevant institutions.

The detailed project management and implementation structure, with full descriptions of roles and responsibilities will be proposed during the preparation of ToRs.

### **The expected contracting arrangements are:**

- One service contract to be concluded through an international restricted tender procedure, for activities under this project. The contract will be of 24 months duration. Implementation of the project is to start one month after the contract is signed. The expected date for implementation to start is the Q1 2011, after signing of the contract. The amount for this contract is approx. EUR 1 890 000, of which IPA funds will be EUR 1 701 000 and the national co-financing will be EUR 189 000.

### **3.5 Conditionality and sequencing**

Contributions expected from the Beneficiary include:

- Strong involvement and commitment of the Energy Department staff at all levels;
- Assignment of indispensable personnel to activities connected with the project;
- Ensuring co-ordination between institutions connected with the project;
- Ensuring a legal framework for the introduction of changes resulting from the project;
- Ensuring access to indispensable information and documents;

- Providing suitable venues and equipment for training sessions that will be held under the project;
- Ensuring that Energy Department staff has the capability to absorb the output of the project;
- A sizeable staff increase before the start of project tendering (in accordance to the NPAA 4 new employments are foreseen for 2010);
- Adoption by the Government of the energy (policy) strategies before the start of project tendering.

If the conditions are not met, suspension or cancellation of the project will be considered.

### **3.6 Linked activities**

An EU CARDS project assisted the ERC in the period from July 2003 to August 2004 to design a market-based legal framework and develop its capacity. In particular, the project experts drafted the new internal organisation and operational procedures of the ERC, prepared implementing legislation for regulation of the energy markets in compliance with EU best practice and regulations.

Additionally, technical assistance was received from the World Bank through its Energy Community of South East Europe Programme (ECSEE), which aims at developing a regional energy market and helping to integrate it into the energy market of the European Union. Another World Bank project on Electric Power Development, supported by a grant from the Government of Japan, has dealt with the efficiency of the production of electric and thermal energy in Macedonia. The World Bank provided technical assistance project on reviewing methodology for setting regulated electricity prices.

Moreover, USAID has provided assistance for the restructuring of the electricity company ESM to convert the state-owned enterprise into a privately held, publicly regulated utility. In doing so, USAID has assisted in rewriting the energy law with an amendment to establish an Energy Regulatory Commission as well as drafting the transmission grid code.

The project approved under IPA 2007 has as an overall objective to promote the institutional strengthening of the ERC and, in doing so, to contribute towards the longer term development of the national energy market and its further integration into the Energy Community of Southeast Europe (ECSE). The project intends to further enhance institutional capacity of the ERC and develop management structures within the ERC, which are in line with international best practice and can take forward to transfer regulatory know-how and expertise to the staff of the ERC. The assistance under IPA 2007 has two components: a technical assistance component and a twinning component.

A GEF Grant in the amount of 5.5 million USD was approved in 2007 by IBRD acting as an implementing agency. The Grant will be used to fund (i) market transformation activities using technical assistance funds (ii) development of a utility-based Energy Service Company to implement third-party financing of energy efficiency projects; and (iii) investment in EE and RE through a Sustainable Energy Financing Facility (SEFF).

A Market Framework Component is being implemented by EARM, covering the following areas:

- Capacity Building, Strategic/Legislative/Institutional
- Capacity Building, Technical/Advisory
- Monitoring, Information Dissemination and Administration

In cooperation with Austrian Energy Agency, EARM is involved in the implementation of this project, whose goals are to reduce the energy demand in general and, more specifically, to reduce the use of electricity in residential and public buildings by 20-30% by 2020.

The specific results of the project are to strengthen capacities of the EARM, to establish a “Book of Rules”, the development of applicable energy efficiency tools, to create an enabling environment for the implementation of energy efficiency regulations in the building sector and to demonstrate energy efficiency on one public-building-pilot-project. EARM will be included in capacity building activities such as work shops, study tours and with a learning by doing approach.

### **3.7 Lessons learned**

Implementation of other projects highlighted a number of common difficulties, including insufficient availability of national staff, insufficient budget, late approval of relevant legislation, programmes, etc. With this Technical Assistance, it is intended to contribute to strengthen administrative capacity by elaborating and implementing strategies, developing and adapting relevant EU legislation, improving coordination between local institutions, establishing more training opportunities and creating a better culture of cooperation between the different stakeholders.

These lessons learned have been translated into the pre-conditions noted above, i.e. assignment of indispensable personnel to activities connected with the project; ensuring co-ordination between institutions connected with the project; ensuring a legal framework for the introduction of changes resulting from the project; ensuring access to indispensable information and documents; providing suitable venues and equipment for training sessions that will be held under the project; ensuring that Energy Department staff has the capability to absorb the output of the project; A sizeable staff increase before the start of project tendering (in accordance to the NPAA 4 new employments are foreseen for 2010); Adoption by the Government of the energy (policy) strategies before the start of project tendering.

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

			SOURCES OF FUNDING										
			TOTAL EXP.RE	TOTAL PUBLIC EXP.RE	IPA COMMUNITY CONTRIBUTION		NATIONAL PUBLIC CONTRIBUTION						PRIVATE CONTRIBUTION
ACTIVITIES	IB (1)	INV (1)	EUR (a)=(b)+(e)	EUR (b)=(c)+(d)	EUR (c)	% (2)	Total EUR (d)=(x)+(y)+(z)	% (2)	Central EUR (x)	Regional/Local EUR (y)	IFIs EUR (z)	EUR (e)	% (3)
Service contract	X	-	1 890 000	1 890 000	1 701 000	90	189 000	10	189 000	-	-	-	-
TOTAL IB			1 890 000	1 890 000	1 701 000	90	189 000	10	189 000	-	-	-	-
TOTAL INV			-	-	-	-	-	-	-	-	-	-	-
<b>TOTAL PROJECT</b>			<b>1 890 000</b>	<b>1 890 000</b>	<b>1 701 000</b>	<b>90</b>	<b>189 000</b>	<b>10</b>	<b>189 000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

NOTE: DO NOT MIX IB AND INV IN THE SAME ACTIVITY ROW. USE SEPARATE ROW

Amounts net of VAT

(1) In the Activity row use "X" to identify whether IB or INV

(2) Expressed in % of the **Public** Expenditure (column (b))

(3) Expressed in % of the **Total** Expenditure (column (a))

If relevant: For all types of training activities the project will provide the participants with travel, accommodation and subsistence allowance in line and to the amount of the standard practice of the beneficiary but only up to the relevant maximum per diem of the EU Commission.

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

Contracts	Start of Tendering	Signature of contract	Project Completion
TA to Energy Dept and Energy Agency	Q2 2010	Q1 2011	Q1 2013

## 6. Cross cutting issues

The cross-cutting issues will be addressed throughout this project. The major cross-cutting issues to be tackled are:

### 6.1 Civil Society development and dialogue

At this stage it is not envisaged that the project will have a component addressing civil society issues however nonetheless proper consideration will be taken into consideration of such issues where relevant and appropriate in the project.

### 6.2 Environment

The reform of the energy sector and an increased use of renewable energy sources (other than hydropower) in the former Yugoslav Republic of Macedonia will have a positive impact on environmental issues and climate change, at both national and regional level.

According to the Multi-beneficiary MIPD, environmental considerations will be duly reflected in all IPA financed activities in addition to specific actions, in particular as concerns Environmental Impact Assessments in line with the European Principles for Environment.

### 6.3 Equal Opportunities and non-discrimination

Equal opportunity principles and practices in ensuring equitable gender participation in the project will be guaranteed. Male and female participation in the project will be based on the relevant standards of the EU and will be assured by official announcements published to recruit staff needed for the project. The main criteria for recruitment will be based on appropriate qualifications and experience in similar projects regardless of gender or age. Both men and women will have equal opportunities.

### 6.4 Minority and vulnerable groups

Furthermore minority and vulnerable groups' concerns will be reflected in all activities programmed under IPA, in particular when it concerns public services, legislative matters and socio-economic development.

Particularly, where the main reference in the country in relation to minority groups is the Ohrid Framework Agreement, in an EU context, reference is made to the "Directive for implementing equal treatment between persons irrespective of racial or ethnic origin" (2000/43/EC of 29 June 2000), which has an important impact on employment (incl. vocational training, working conditions, social protection etc.) and is also a crucial aspect of the *acquis*.

The training activities will include a specific component to address equal opportunities of minorities and vulnerable groups through: a) training in the implementation of the Equitable Representation Strategy, following up on the Ohrid Framework Agreement, b) assessment of the particular requirements of dealing with minority and vulnerable group issues within the subject matter the beneficiary's mandate – mainstreaming minority and vulnerable group



issues throughout the policy and implementation sequence. (Specific reference here is made to construction standards vis-à-vis handicapped persons), and c) assist the beneficiary to implement an 'internal minority and vulnerable group assessment' to identify areas where it could improve its internal performance vis-à-vis minorities or other vulnerable groups.

#### **6.5 Good Governance, with particular attention to fight against corruption**

Proper consideration will be taken into consideration of such issues where relevant and appropriate throughout project activities.

## ANNEXES

- 1- Log frame in Standard Format
- 2- Amounts contracted and Disbursed per Quarter over the full duration of Programme
- 3- Description of Institutional Framework
- 4 - Reference to laws, regulations and strategic documents:
  - Reference list of relevant laws and regulations
  - Reference to AP /NPAA / EP / SAA
  - Reference to MIPD
  - Reference to National Development Plan
  - Reference to national / sector investment plans
- 5- Details per EU funded contract (\*) where applicable:
  - For *TA contracts*: account of tasks expected from the contractor
  - For *twinning covenants*: account of tasks expected from the team leader, resident twinning advisor and short term experts
  - For *grants schemes*: account of components of the schemes
    - For *investment contracts*: reference list of feasibility study as well as technical specifications and cost price schedule + section to be filled in on investment criteria (\*\*)
    - For *works contracts*: reference list of feasibility study for the *constructing works* part of the contract as well as a section on investment criteria (\*\*); account of services to be carried out for the *service part* of the contract

(\*) non standard aspects (in case of derogation to PRAG) also to be specified

(\*\*) section on investment criteria (applicable to all infrastructure contracts and constructing works):

- Rate of return
- Co financing
- compliance with state aids provisions
- Ownership of assets (current and after project completion)

## ANNEX 1 - Logical framework matrix in standard format

LOGFRAME PLANNING MATRIX FOR THE PROGET FICHE: Strengthening the Administrative Capacity of the Energy Department in the Ministry of Economy and the Energy Agency		Programme name and number: National Programme for the former Yugoslav Republic of Macedonia under the IPA Transition Assistance and Institution Building Component for 2009  CRIS number: 2009/021-665	
Contracting period expires two years from the date of the conclusion of the Financing Agreement		Execution period expires two years from the final date for contracting	Disbursement period expires one year from the final date for execution of contracts.
		Total budget : EUR 1 890 000	IPA budget: EUR 1 701 000
<b>Overall objective</b>	<b>Objectively verifiable indicators</b>	<b>Sources of Verification</b>	
The overall objective of the project is to achieve a more competitive energy market through a market-oriented energy sector reform process with integration into the Regional Energy Market (REM).	<ul style="list-style-type: none"> <li>- Compliance of national energy legislation with EU Energy Acquis;</li> <li>- A more competitive energy market aligned with the relevant acquis and further integrated into the regional energy market;</li> <li>- Greater usage of renewable energies (meeting</li> </ul>	<ul style="list-style-type: none"> <li>- Energy Law</li> <li>- ECSE reports;</li> <li>- Conclusions from EC committees and sub-committees;</li> <li>- Government reports;</li> <li>- Data from relevant domestic and EU/international official statistics;</li> </ul>	

	international environmental protection standards).		
<b>Project purpose</b>	<b>Objectively verifiable indicators</b>	<b>Sources of Verification</b>	<b>Assumptions</b>
The purpose of the project is to strengthen institutional capacities of the Ministry of Economy's Energy Department and the Energy Agency, for developing, monitoring and evaluating the energy sector reforms necessary for alignment with the Energy Acquis and other relevant EU obligations.	<ul style="list-style-type: none"> <li>- Implementation of new management structures and processes within Energy Department of MoE and the Energy Agency;</li> <li>- Adopted procedures and action plans for further implementation of relevant energy sector strategies, programmes in use;</li> <li>- Transposed legislation.</li> </ul>	<ul style="list-style-type: none"> <li>- EU progress report;</li> <li>- Systematization act of the Ministry ;</li> <li>- Project Reports;</li> <li>- Databases of MoE and Energy Agency;</li> </ul>	<ul style="list-style-type: none"> <li>- Government maintains consistent policy and commitment for implementing the necessary reforms, for fulfilling the obligations arising from international treaties, charters, conventions, as well as the EU acquis;</li> <li>- Strong coordination among all the relevant institutions in the energy sector;</li> <li>- Strong commitment to enhanced regional cooperation;</li> </ul>
<b>Results</b>	<b>Objectively verifiable indicators</b>	<b>Sources of Verification</b>	<b>Assumptions</b>
<b>1. Strengthened institutional capacity and improved operations of the Energy Department within the ME</b> <ul style="list-style-type: none"> <li>• New organization scheme for the Department;</li> <li>• Elaborated a Management plan for the Energy Department and put into operation;</li> <li>• Procedure established for the regular updating of the</li> </ul>	Indicators for area 1: <ul style="list-style-type: none"> <li>- Reorganized Energy Department in the MoE according to the Management plan;</li> <li>- Number of trainings implemented for the energy sector staff;</li> </ul>	<ul style="list-style-type: none"> <li>- Rulebook for organization and systematization of the energy department in the MoE</li> <li>- Project Reports;</li> <li>- Web and official gazette EC report;</li> </ul>	<ul style="list-style-type: none"> <li>- - Commitment of the high-level management to introduce and maintain the necessary organizational changes;</li> <li>- Sufficient number of staff in the energy department employed and</li> </ul>

<p>Management Plan;</p> <ul style="list-style-type: none"> <li>• Department restructured according to a plan agreed between project partners;</li> <li>• Internal and external communication procedure drafted and implemented;</li> <li>• Training plan prepared and gradually implemented.</li> </ul> <p><b>2. Increased alignment with the EU Acquis Communautaire in the energy sector and with other acquis covered by the Energy Community Treaty</b></p> <ul style="list-style-type: none"> <li>▪ Functional Legal Approximation Working Group (LAWG) strengthened;</li> <li>▪ Improved knowledge of EU energy policy and legislation in the MoE, State Administration and energy sector companies through adequate training and participation in the LAWG;</li> <li>▪ Gap analysis report prepared with a proposal for further alignment with the Acquis.</li> </ul> <p><b>3. Reviewing of existing programmes for implementation of the Energy Strategy and existing action plan for further liberalization of the internal energy market and for establishing regional market</b></p>	<ul style="list-style-type: none"> <li>- Number of staff trained;</li> </ul> <p>Indicators for area 2:</p> <ul style="list-style-type: none"> <li>- Number of EU Directives and Regulations which are transposed in national legislation;</li> <li>- Number of implementing legislation prepared;</li> <li>- Number of WG meetings;</li> <li>- Number of participants in the WG (% representing different institutions)</li> <li>- Number of trainings conducted;</li> </ul> <p>Indicators for area 3:</p> <ul style="list-style-type: none"> <li>- Adopted Programmes for implementation of the long term Energy Strategy and Strategy for utilization of RES;</li> <li>- Action plans for further liberalization of</li> </ul>	<ul style="list-style-type: none"> <li>- MoE web and data base and official gazette;</li> <li>- Reports from the WG;</li> <li>- Government decisions;</li> <li>- EC and WB report;</li> <li>- MoE and Energy Agency data base, web sites.</li> </ul>	<ul style="list-style-type: none"> <li>retained;</li> <li>- Strong commitment to implement the adopted programmes and actions plans for realization of the strategies, alignment with the acquis and integration into the regional energy market;</li> <li>- Transparency in the reform process;</li> <li>- Strong collaboration with relevant parties.</li> </ul>
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<ul style="list-style-type: none"> <li>• Programmes of the Energy Strategy reviewed, gap analysis;</li> <li>• Programmes for implementation of the Strategy for RES updated;</li> <li>• Programmes for fulfilment of the action plan for the liberalisation of the energy market updated;</li> <li>• Programmes for implementation of the action plan for the country's integration into the regional energy market analysed and updated.</li> </ul> <p><b>4. Strengthened capacity of the Energy Agency</b></p> <ul style="list-style-type: none"> <li>• Reorganized Energy Agency according to the new organization scheme;</li> <li>• Action plan on energy saving and concept for reduction of energy dependency adopted, taking into consideration the work of the Energy Efficiency Task Force of the Energy Community;</li> <li>• Functional database on production and consumption statistics taking into account the methods of the International Energy Agency.</li> </ul>	<p>energy market and for development of the regional energy market integration adopted by the Government and put into implementation.</p> <p>Indicators for area 4:</p> <ul style="list-style-type: none"> <li>- Action plan on energy saving and concept for reduction of energy dependency adopted;</li> <li>- Functional database on production and consumption statistics.</li> </ul>		
<b>Activities</b>	<b>Means</b>	<b>Costs</b>	<b>Assumptions</b>

<p><b>1. Strengthen the institutional capacity and improve the operations of the Energy Department</b></p> <ul style="list-style-type: none"> <li>• Review the current organization, functions, responsibilities, staffing and management systems of the Energy Department;</li> <li>• Propose new organizational scheme or propose changes in the existing one;</li> <li>• Prepare <i>a management plan</i> for the Department identifying any recommended changes in the functional and operational structure, staff numbers, skills needed and other resource requirements. Embed procedures for the annual updating of the plan;</li> <li>• Assess the adequacy of resources necessary for <i>the implementation of the Management Plan</i> and prepare strategies (including outsourcing if necessary) to overcome any resource constraints;</li> <li>• Improve internal and external communication systems and procedures.</li> </ul> <p><b>2. Assess the alignment with the EU Acquis Communautaire in the energy sector and other acquis covered by the Energy Community Treaty;</b></p>	<p>Service contract - Technical Assistance –</p>	<p>Total: EUR 1 890 000  IPA: EUR 1 701 000  Nat. co-fin. EUR 189 000</p>	<ul style="list-style-type: none"> <li>- Strong involvement and commitment for project execution and facilitation by the MoE - Energy Department and Energy Agency staff at all levels;</li> <li>- Co-ordination between relevant institutions;</li> <li>- Willingness of the participants in the WG to meet regularly and implement the necessary activities;</li> <li>- Adequate participation of stakeholders in the WG (including private sector representatives);</li> <li>-Communicating the reforms;</li> <li>- Timely execution of tasks;</li> <li>- Key individuals trained are retained;</li> <li>- Commitment for contribution from the national budget;</li> </ul>
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<ul style="list-style-type: none"> <li>• Strengthening the Legal Approximation and Implementation Working Group (LAIWG) consisting of experts from ME, the Energy Agency, ERC and other relevant stakeholders;</li> <li>• Develop and deliver formal training on the provisions of the EU Acquis Communautaire in the energy sector and on other acquis covered by the Energy Community Treaty to LAIWG-members;</li> <li>• Undertake study tours to institutions in EU member states to learn from best practices appropriate for the reality on the ground, especially: <ul style="list-style-type: none"> <li>▪ the working methods and procedures of EU MS with regard to legal aspects;</li> </ul> </li> </ul> <p><b>3. Reviewing of existing programmes for implementation of the Energy Strategy and existing action plan for further liberalization of the internal energy market and for establishing regional market</b></p> <ul style="list-style-type: none"> <li>• Review the Ministries planning (tasks, responsibilities and timetable) for the development of the internal energy market and</li> </ul>			
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<p>for the implementation of the relevant legislation in special consideration of public service obligations and cross border trade mechanisms;</p> <ul style="list-style-type: none"> <li>• Review the adopted technical rules, market rules, methodologies and other legal acts regarding the internal electricity and gas markets and the development of the regional energy market;</li> <li>• Assist in the development of detailed planning for the establishment of a competitive internal energy market, including detailed market design, economic analysis of the functioning of the market in view of investment requirements, long term planning for generation capacity and infrastructure (taking also security of supply issues into consideration), and benchmarking and monitoring bearing in mind the targeted energy mix;</li> <li>• Prepare programmes for the implementation of the so-called oil dimension of the Energy Community;</li> <li>• Assist with the implementation of the Strategy</li> </ul>			
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<p>for energy development through updating of implementation programmes taking into account European best practices;</p> <ul style="list-style-type: none"> <li>• Update of Programmes for implementation of the Strategy for exploitation of RES.</li> </ul> <p><b>4. Strengthen the institutional capacity of the Energy Agency and support the Agency to improve energy efficiency and utilisation of RES</b></p> <ul style="list-style-type: none"> <li>• Evaluate the current organization, staffing and management systems of the Energy Agency and prepare a management plan for the agency, recommending changes in functional structure, staff numbers, skill needs and other resource requirements according to the findings of the evaluation;</li> <li>• Elaborate an action plan to provide incentives for households to save energy and to improve energy efficiency taking into account the work of the Energy Efficiency Task Force of the Energy Community;</li> <li>• Prepare a draft concept on decreasing energy dependency by increasing the share of renewable</li> </ul>			
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<p>energy sources in energy production and consumption;</p> <ul style="list-style-type: none"> <li>• Assess and improve the data base of energy production and consumption statistics in cooperation with the State Statistical Office and the IEA where relevant;</li> <li>• Improve the capabilities for measuring energy intensities so as to be able to analyze the effects of energy saving and renewable energy policies.</li> </ul>			
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**Preconditions**

Contributions expected from the Beneficiary include:

1. Strong involvement and commitment of the Energy Department staff at all levels;
2. Assignment of indispensable personnel to activities connected with the project;
3. Ensuring co-ordination between institutions connected with the project;
4. Ensuring a legal framework for the introduction of changes resulting from the project;
5. Ensuring access to indispensable information and documents;
6. Providing suitable venues and equipment for training sessions that will be held under the project;
7. Ensuring that Energy Department staff has the capability to absorb the output of the project;
8. A sizeable staff increase before the start of project tendering (in accordance to the NPAA 4 new employments are foreseen for 2010);
9. Adoption by the Government of the energy (policy) strategies before the start of project tendering.

**ANNEX 2 - Amounts (in €) contracted and disbursed by quarter over the full duration of the project (IPA funds only)**

	2011				2012				2013			
<b>Contracted</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>
Service Contract	1 701 000											
<b>Cumulated</b>	<b>1 701 000</b>											
<b>Disbursed</b>												
Service Contract	510 300		340 200		340 200		340 200		170 100			
<b>Cumulated</b>	<b>510 300</b>		<b>850 500</b>		<b>1 190 700</b>		<b>1 530 900</b>		<b>1 701 000</b>			

## ANNEX 3 - Description of Institutional Framework

### 1. Energy Department of Ministry of Economy

According to the systematization of the Ministry of Economy, the *Energy Department* consists of five units. Below are the defined responsibilities for each organizational unit: ***Unit for Energy Analysis and Development*** shall coordinate activities related to drafting of development documentation and action plans on implementation of complex energy issues, as well as of separate energy domains on the basis of which national energy policies are created. Shall also oversee the delivery of the energy strategies in the country, and prepare analysis on the basis of which energy balances shall be prepared; shall monitor the implementation of the energy balances and shall propose appropriate measures for potentially unresolved issues as regard to the implementation thereof. Shall obtain continuous cooperation with other energy units in order to propose measures for enabling stable and sustainable energy provision, liberalization of the energy market, growth of investments in the energy sector, enhancement of energy efficiency and greater involvement of renewable energy sources in the energy consumption. Shall also participate in the operation of energy international institutions and bodies, as well as in the separate development of the energy domains, including electricity, natural gas, fossil fuels and renewable energy sources.

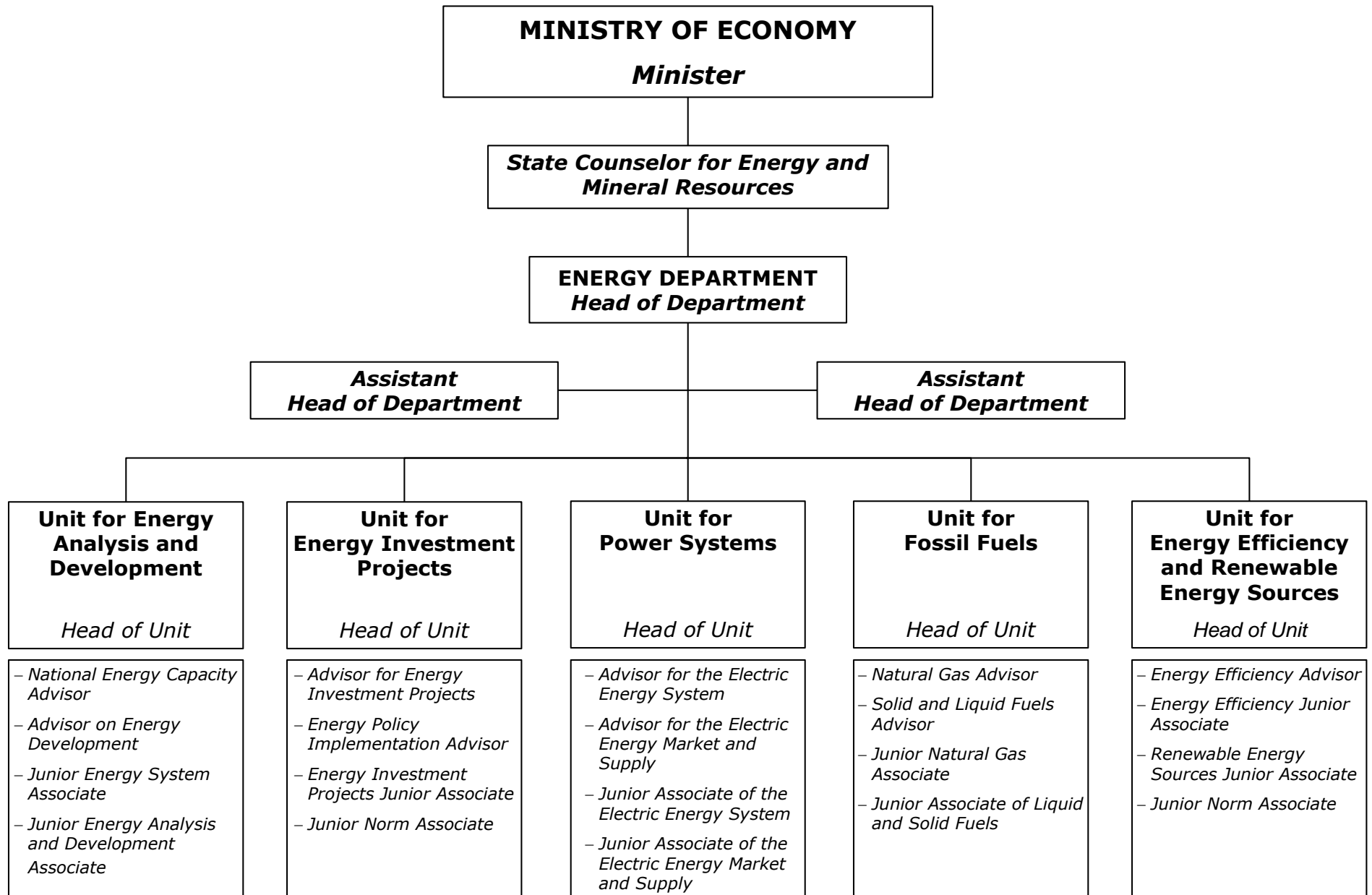
***Unit for Energy Investment Projects*** shall maintain implementation of energy policy by the means of appropriate programs, measures and activities; shall participate in drafting of primary and secondary legislation and other investment constructions regulations and shall also observe their implementation; shall organize and coordinate the preparation and adoption of development documentation on investment constructions in the former Yugoslav Republic of Macedonia; shall draft programs and other materials for the purpose of presenting all energy investment constructions; shall maintain active cooperation in the provision of appropriate funds and execution of specific energy projects; shall initiate, participate, coordinate and monitor the investments in this area; shall participate in the preparation of concession acts, approvals, decisions and other acts related to the construction and exploitation of energy constructions; shall obtain cooperation with other national bodies, organizations and institutions, shall propose measures and undertake activities for implementation thereof; shall participate and coordinate activities and oversee the implementation of the projects for which funds have been approved by the international funding institutions.

***Unit for Power System*** shall prepare laws and other acts related to power sector and shall monitor their implementation; shall be engaged in linking the power system in the former Yugoslav Republic of Macedonia to the power systems in the neighbouring countries; shall monitor the supply of electricity to industrial and commercial consumers and households; shall be engaged in the implementation of the transformation and liberalization of the internal electricity market; shall participate in the operation of the international bodies and institutions engaged in establishing of the Southeast-European Regional Electricity Market and the activities of the Energy Community; shall initiate and coordinate the institutional and infrastructural

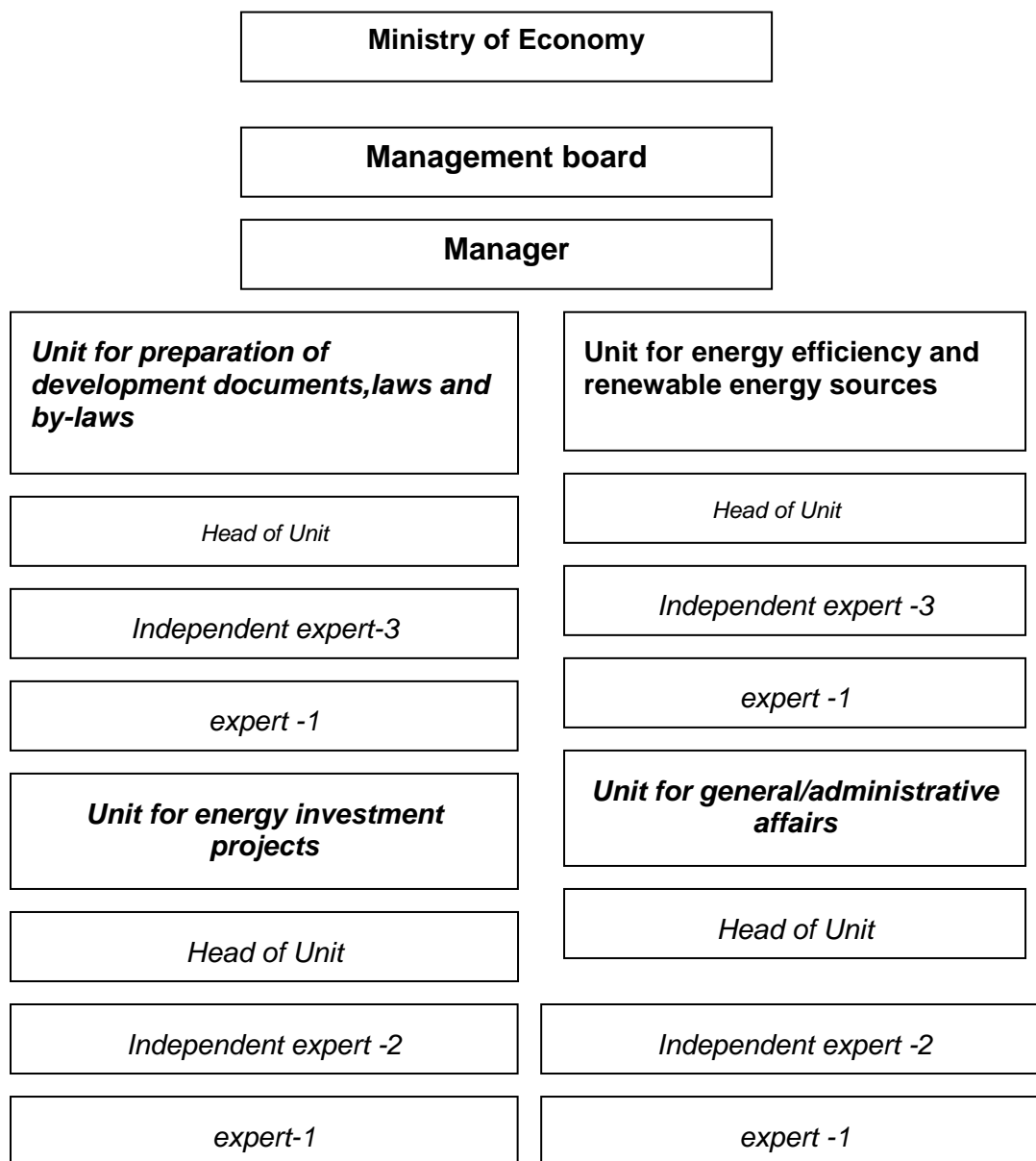
construction and alignment of the regulation necessary for the implementation of the electricity market reforms as well as its liberalization; shall engage in all issues associated with electricity arising from or addressing the European integration processes; shall also engage in the implementation of the Energy Strategy via appropriate programs, projects and action plans.

***Unit for Fossil Fuels*** shall organize, coordinate and monitor the preparation of the strategy and the programs for development of fossil fuels production and transport capacities (gas – natural gas, liquid- oil and derivatives and solid- coal and fire-wood); shall propose measures and keep in line with the fossil fuels market; shall prepare or coordinate the drafting of fossil fuels regulations; shall undertake measures for transposition of particular legal obligations from the international legislative, nominally of primary and secondary EU legislation and the Energy Treaty Agreement; shall participate in preparation of fossil fuels balances and shall monitor the implementation thereof; shall gather, process, systematize and store necessary data and information regarding fossil fuels; shall prepare necessary information, comments and proposals on fossil fuels issues; shall directly cooperate with the companies dealing with fossil fuels production and transport, as well as with other agencies and organizations in the former Yugoslav Republic of Macedonia. Shall comply with international contracts, regulations and other acts pursuant to gas and solid fuels, and shall particularly maintain and propose measures for all commitments arising from these documents to be duly adopted and ratified by the responsible national bodies.

***Unit for Energy Efficiency and Renewable Energy Sources*** shall provide initiative, shall coordinate and participate in the drafting of programs, studies and projects on energy efficiency and utilization of renewable energy sources; shall prepare primary and secondary legislation as well as other energy efficiency and renewable energy sources regulation and shall monitor the implementation thereof; shall propose sources and manner of securing funding for the delivery of all activities related to energy efficiency and intensifying the utilization of the renewable energy sources; shall keep track of and participate in the implementation of the program on efficient utilization of energy, shall analyze the achieved energy and economic effects and shall propose measures for the enhancement thereof; shall comply with and participate in the delivery of the programs of the action plan on the Strategy of Energy Efficiency of the former Yugoslav Republic of Macedonia, shall analyze the achieved energy and economic impact and shall propose measures for enhanced utilization of the renewable energy sources in the former Yugoslav Republic of Macedonia; shall establish close cooperation with the economic entities in relation to drafting and implementation of specific projects on energy efficiency and utilization of renewable energy sources; shall propose measures, undertake activities and coordinate and execute all tasks associate with the bilateral and multilateral cooperation with competent bodies and organizations; shall participate, coordinate and monitor the implementation of international projects on energy efficiency and renewable energy sources in the country, in the region and internationally; shall maintain cooperation with other national bodies, organizations and other institutions as regards to energy efficiency and renewable energy sources.



## 2. Energy Agency of the former Yugoslav Republic of Macedonia



The Energy Agency within the frames of its jurisdiction pursuant to the Law and other relevant regulations and acts, has the following responsibilities:

- Gives support in the implementation of the energy policy;
- Prepares long term and short term programs;
- Prepares and coordinates activities and implements investment projects;
- Carries-out regional cooperation and coordination of regional projects;
- Prepares proposals of Laws and by-laws, technical regulations in the area of energy and executes other activities.

The managing and organization structure of the Energy Agency is the following:



***The Director has the following responsibilities:***

- Represents and deputizes the EARM;
- Organizes the work and acts as a head of the EARM;
- Executes the decisions of the Management Board;
- Takes care for the legal working and for the financial expenditures
- Executes harmonization of the business activities of EARM;
- Prepares and proposes work programme, financial plan for the necessary means and their sources, and report for the work;
- Proposes general acts for organization and systematization of the work of EARM;
- Delivers single acts for the employees in the area of the working relations
- Appoints and dismisses employees on job positions, monitors the quality of the executed tasks;
- Organizes the work of EARM;
- Takes care for the suitable and just participation of the representatives of all communities;
- Executes other activities regulated with the Law and Statute of EARM.

***Unit for preparation of development documents, Laws and by-laws:***

- Prepares strategies, development plans, and programs in the energy sector;
- Prepares proposals for laws and by-laws, technical and other regulations, proposes adoption of suitable standards;
- In the preparation of the acts, cooperates with the responsible ministries, business subjects, NGOs and other non profit associations;
- Monitors and analyses the needs in the energy sector and the possibilities for their satisfaction by using available resources in the the former Yugoslav Republic of Macedonia, as well as external sources;
- Takes care for the successful implementation of projects and measures from the long-term and short-term programs in cooperation with the local authorities, business subjects, consumer associations and other non profit organizations, as well as for the implementation of programs.

***Unit for energy efficiency and renewable energy sources:***

- Organizes and coordinates preparation of programs, strategies, studies and projects for promotion of the energy efficiency and use of the renewable sources of energy;
- Participates in the preparation of the Law and by-law regulative in this area;
- Coordinates activities for realization of concrete projects for EE and OIE;
- Monitors EU acts and proposes measures for their implementation within the national legislation;
- Takes care for implementation of measures for reduction of energy losses in the energy systems and for efficiency increase in the exploitation;
- Proposes measures for use of OEI (solar energy, wind energy, geothermal energy, biomass energy and others).

***Unit for investment projects:***

- Analyses conditions, possible solutions for existing problems in the energy and proposes priority investment projects;
- Prepares and proposes possible projects for potential investors;
- Takes care for the economic sustainability of the projects and relations in the energy sector;
- Informs the potential investors on the conditions for realization of investment projects;
- Participates in the activities for realization of concrete investment projects in the energy sector;
- Participates in international activities and regional cooperation connected with energy investments;
- Cooperates with other state organs, organizations, institutions in the area of investments, proposes measures and undertakes activities for their execution;
- Takes care of implementation of regional projects.

***Unit for general/administrative affairs:***

- Participates in the preparation of the Laws, by-laws and other regulations in the area of energy;
- Prepares and organizes other procedures that result from the implementation of the Law;
- Secures legal interpretation on certain issues;
- Participates in Agreements concluded by EARM;
- Participates in preparation of drafts and proposals for general acts of EARM;
- Proposes, monitors plans and implements procedures for public procurements;
- Participates in preparations for the Management Board sessions and their working bodies;
- Takes care for preparation of proposal-decisions, prepares minutes and other acts from the held sessions of the Management Board;
- Keeps evidence and maintains the documentation from the work of the Management Board;
- Participates in preparation of semi-annual and annual reports for the work of EARM and plan of work for EARM for the following year.

## **ANNEX 4 - Reference to laws, regulations and strategic documents**

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

Key laws and regulations for the sector:

Laws:

- Energy Law, 2006, 2007, 2008,
- Law on establishing Energy Agency of the former Yugoslav Republic of Macedonia, 2005

Sub Laws:

- Grid Code for Transmission of Electricity, 2006
- Grid Code for Distribution of Electricity, 2008
- Rulebook for energy labelling for household appliances
- Rulebook on the method and procedure for establishing and approving the use of feed-in tariffs for purchase of electricity produced from small hydro power plants- 2007
- Rulebook on the method and procedure for establishing and approving the use of feed-in tariffs for purchase of electricity produced from wind power plants- 2007
- Rulebook on the method and procedure for establishing and approving the use of feed-in tariff for purchase of electricity produced from power facilities which use bio gas got from biomass- 2007
- Rulebook on the method and procedure for establishing and approving the use of feed-in tariff for purchase of electricity produced from photo voltaic power Systems- 2008
- Rulebook for issuing guaranties of origin of electricity produced from Renewable Energy Sources
- Rulebook for utilization of Renewable Energy Sources
- Rulebook for liquid fuels

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

#### **Reference to Stabilisation and Association Agreement**

The programme will contribute towards the implementation of the SAA Article 99 Energy, in particular cooperation will reflect the principles of the market economy and the European Energy Charter Treaty, and will develop with a view to the gradual integration of Europe's energy markets. Cooperation shall include the following: formulation and planning of energy policy, including modernisation of infrastructure, improvement and diversification of supply and improvement of access to the energy market, including facilitation of transit; management and training for the energy sector and transfer of technology and know-how; the promotion of energy saving, energy efficiency, renewable energy utilities and cooperation between undertakings in this sector.

#### **Reference to Accession Partnership (2007-2008)**

The program will address the following AP priorities: "Continue to align the legislation on the internal electricity and gas markets, energy efficiency and renewable energy

sources with the *acquis* in order gradually to open up the energy market to competition; Continue to strengthen the independence of the Energy Regulatory Commission; Fulfil the obligations arising from the Energy Community Treaty as regards the full implementation of the *acquis* on the internal gas and electricity market and on cross border exchanges in electricity, Enhance administrative capacity in all energy sectors, including the Energy Agency in the area of energy efficiency and renewable energy resources”.

#### **Reference to the Progress Report (2008)**

The projects have reference to the Progress Report, which highlights the following: “In the field of security of supply some progress has been made”. .... “A strategy for long-term development of the energy sector has still to be completed”.

“Also, some progress has been made in the field of renewable energy. The manuals on feed-in tariffs for electricity produced from bio-mass, geothermal energy and photovoltaic systems which offer advantageous tariffs to potential investors were adopted. The implementing legislation on renewable energy sources has been adopted. The administrative capacity for developing renewable energy sources has been strengthened. Two bio-fuel refineries were commissioned, In the area of renewable energy the country is moderately advanced.”

“Some progress has been made in the area of energy efficiency. The manual on guarantees of origin of electricity has been adopted. The Energy Agency recruited additional staff. In the area of energy efficiency, the country has started to address its objectives.”

#### **Reference to NPAA 2008**

The proposed project has reference in following: The process of the preparation of the Strategy for Development of Energy in the former Yugoslav Republic of Macedonia is ongoing, so as to convey the energy policy of the former Yugoslav Republic of Macedonia. The Strategy envisages the long-term development goals of certain energy activities in order to enable secure supply of different types of energy, as well as the sources and manner of provisioning the necessary quantities of energy and energy products. Also, the Law amending the Law on Energy was adopted by the Parliament. The Law is aligned with Directive 2003/54/EC for basic rules on Internal Market of electricity; this provides creating conditions for liberalisation of energy market in the field of direct consumers.

#### **Reference to MIPD 2008-2010**

In the field of energy, the support will be given to reorganising and strengthening the public administration and institutions in the energy sector and to implementing the requirements of the Energy Community Treaty. In this field, the assistance will be oriented towards Institution Building, which is delivered through Component 1. It is expected considerable progress, in view to largely completed transposition of the Community *acquis* in the area of the Internal Market and energy.

#### **Reference to NDP 2008-2013**

The key strategic objectives of the NDP 2008 – 2013 is to develop an efficient, cost-effective energy sector that will take due account to security of supply, flexibility, safety

of the population and protection of environment, improvement of energy efficiency and utilisation of renewable energy resources, as well as the social aspect. In that direction, this project is linked with the National Development Plan 2008 – 2013 of the Macedonian Government and will contribute to the realisation of the key objectives stated in the energy chapter of the NDP.

#### **Reference to Multi-beneficiary MIPD**

In the field of energy, the aim of Multi-beneficiary IPA assistance is to support the operations and objectives of the Energy Community in order to create a stable and regulatory SEE market capable of attracting investment, and to advance the implementation of investments in the field of energy efficiency and renewable energy in compliance with the EU *acquis*. Additionally, in order to help the beneficiaries to improve their access to finance, the Commission will cooperate with IFIs to achieve the following objectives:

- “Financially assist to promote investments in energy efficiency and renewable energy generation in order to improve the energy performance of the building and industry sectors offering opportunities for the highest savings in energy and reduction in CO<sub>2</sub> emissions;”
- “Support the development and upgrading of transport, environment, and energy infrastructure.”

## **ANNEX 5 - Details per EU funded contract**

### **Management and contracting arrangements**

Steering Committee will be established to oversee the implementation of all project activities. In this Committee co-operation beneficiaries will be represented to ensure appropriate inclusion.

Advisory services will be provided to the beneficiary institutions. Appropriate overall management, representation (coordination with the EU and other international bodies), reporting and management of resources will be ensured. During the inception phase of the project, a detailed deployment plan will be developed under the coordination of the Steering Committee and the Team Leader/Senior Programming Officer.

Next to a Team Leader, additional experts will be engaged to provide support in realising different project activities.

### **The expected contracting arrangements are:**

- One service contract to be concluded through an international restricted tender procedure, for activities under this project. The contract will be of 24 months duration. Implementation of the project is to start one month after the contract is signed. The expected date for implementation to start is the Q1 2011, after signing of the contract. The amount for this contract is approx. EUR 1 890 000, of which IPA funds will be EUR 1 701 000 and the national co-financing will be EUR 189 000.