

CARDS Project 2005

**Facilitating and Implementing
the Energy Community in South East Europe**

Reference: 100231

ENERGY COMMUNITY REPORT

**QUARTERLY UPDATE
(October - December 2006)**

2007

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1. INTRODUCTION

1.1. Project background

The project "*Facilitating and Implementing the Energy Community in South East Europe*" was initially planned to be implemented from 1 March 2005 until 31 December 2006. As the effective start up date of this project was 1 February 2006 when the full staff was recruited, the project duration was extended until 30 June 2007, through the agreement between the European Commission and the *Bundesministerium fuer Wirtschaft und Arbeit* of Austria (BMWA).

Financing of activities for this project is provided under the CARDS¹ programme (3.3 MEUR, 96% of the total) through Grant Contract N°. 100231 with a contribution from the Republic of Austria (4%) – henceforward referred to as 'the Grant Contract'. The contracting parties are the European Commission acting through DG Enlargement and the *Bundesministerium fuer Wirtschaft und Arbeit* of Austria (BMWA) with its office at Schwarzenbergplatz 1, 1015 Vienna in Austria.

The activities covered by this report are related to the overall objective of the project that is "to facilitate the creation of a stable and reliable regional energy market", as well to the specific objectives of the project, that include among others:

- To provide assessment of the energy reform progress, and
- To achieve an operational wholesale energy market from the end of 2007.

1.2. Legal background for the report

The preparation of this report is based on the requirement of Item 8 of Annex I to the Grant Contract and namely that "Energy Community Report and quarterly updates" shall be presented by the interim Energy Community Secretariat.

1.3. Scope of the report

The Energy Community Report – 4th Quarter Update reflects the developments in the Energy Community with respect to the implementation of the Treaty establishing the Energy Community (Treaty), as well as the activities undertaken by the interim Energy Community Secretariat (iECS) to facilitate this process, in the period October - December 2006.

¹ The CARDS (Community Assistance for Reconstruction, Development and Stabilization) Program underpins the objectives and mechanisms of the Stabilization and Association Process, which is the EU policy framework for the Western Balkan countries until their eventual accession: Albania, Bosnia and Herzegovina, the former Yugoslav Republic of Macedonia and Serbia and Montenegro, including Kosovo (as defined by the UN Security Council Resolution 1244). Croatia which has been granted candidate country status is benefiting from pre-accession financial assistance while remaining eligible for participation in the CARDS regional programme.

2. KEY DEVELOPMENTS

2.1. Summary

In the 4th Quarter of 2006, one of the most notable events for the Energy Community was the fulfilment of the ratification process by all nine Contracting Parties.

The 1st Ministerial Council meeting after the Treaty entered into force was held on 17 November 2006 in Skopje. It passed a number of Procedural Acts and recognised the following EU member states as Participants: Austria, Cyprus, Czech Republic, Germany, Greece, Hungary, Italy, Slovakia, Slovenia, and United Kingdom, and the following countries as Observers: Moldova, Norway, Turkey and Ukraine.

The other important achievement was that the Ministerial Council has endorsed the state level Road Maps for electricity and gas market opening, prepared by iECS in consultation with the Contracting Parties, and based on the Electricity and respectively Gas Action Plans.

The iECS prepared at the end of 2006, an assessment of the compliance of the Contracting Parties with the Electricity and respectively Gas benchmarks, and identified bottlenecks from both the Acquis, and the Market related perspectives.

In the reporting period the institutions under the Treaty had regular meetings as follows: three PHLG meetings, one Ministerial Council Meeting, one Mini Gas Forum and one Athens (Electricity) Forum, as well as the 1st Energy Community Regulatory Board meeting.

There was a significant progress in the preparation and discussion of the New Gas Investment Infrastructure Guidelines.

A political Declaration with respect to the interest of Contracting Parties for adopting the Memorandum of Understanding for the development of a social pillar of the Energy Community was issued at the Ministerial Council, on 17 November 2006 in Skopje. Following this, the Contracting Parties and the EC will finalize the text and each Contracting Party will adopt it through the country's legal procedure.

A calendar of Events in the Energy Community in 2007 was agreed with the European Commission.

2.2. Progress with ratification and entry into force of the Treaty

▪ Ratification progress and entering into force

The Treaty establishing the Energy Community entered into force on 1 July 2006, by which date six Contracting Parties and the European Union have ratified it and notified the ratification to the Secretary General of the Council of the European Union. The entry into force of the Treaty signed in Athens on 25 October 2005 represents the achievement of the largest internal market for electricity and gas in the world.

Up to the date of this report, all nine Contracting Parties (Albania, Bosnia and Herzegovina, Bulgaria, Croatia, the former Yugoslav Republic of Macedonia, Montenegro, Romania, Serbia and UNMIK) and the European Union have ratified the Treaty establishing the Energy Community.

▪ **Participants and observers**

As the Treaty entered into force, the Ministerial Council in its meeting of 17 November 2006 recognized the following EU Member States as Participants: Austria, Cyprus, Czech Republic, Germany, Greece, Hungary, Italy, Slovakia, Slovenia, and United Kingdom. Having regard to the submitted requests, the Ministerial Council accepted in accordance with the relevant provisions of the Treaty establishing the Energy Community and, as appropriate, with the relevant procedural rules, the following countries as Observers: Moldova, Norway, Turkey and Ukraine.

Table 1 Overview of the ratification process of the Treaty

Overview of the ratification process of the Treaty - status as of 31 December 2006 -			
	Party	Date of Ratification	Date of Notification to the Secretary-General of the Council of the European Union in accordance to the Article 105 of the Treaty
1	UNMIK	08.12.2005	23.12.2005
2	Bulgaria	08.02.2006	07.03.2006
3	Albania	03.04.2006	24.05.2006
4	The former Yugoslav Republic of Macedonia	03.05.2006	29.05.2006
*	European Union	18.05.2006	29.05.2006
5	Romania	01.06.2006	26.07.2006
6	Croatia	02.06.2006	30.06.2006
7	Bosnia and Herzegovina	27.07.2006	20.09.2006
8	Serbia	14.07.2006	07.08.2006
9	Montenegro	26.10.2006.	15.12.2006

2.3. Progress with the implementation of the Treaty by Contracting Parties

In order to be able to monitor the progress in the implementation of the Treaty, the iECS, in consultation with EC DG TREN, and in close collaboration with the Contracting Parties, undertook a number of activities. These activities are also included in the Energy Community Work Programme that was approved by the Ministerial Council in its Meeting of 17 November 2006 in Skopje (Conclusion 11).

2.3.1. Electricity and Gas Action Plans²

By the end of October 2006, each Contracting Party has prepared very detailed Action Plans for the electricity and gas market opening at state level. These Action Plans were following the template that iECS prepared and the PHLG members endorsed at the Experts meeting of 14-15 September 2006. In October 2006, the iECS provided technical assistance to all the Contracting Parties that requested it for the preparation of Action Plans; these were Albania, Bosnia and Herzegovina, Croatia, the former Yugoslav Republic of Macedonia, Serbia and UNMIK. The Action Plans were part of the package presented at the Ministerial Council meeting on 17 November 2006 in Skopje. These represent not only a commitment by the Contracting Parties to undertake the measures required in order to be able to open the energy markets at the deadlines foreseen by the Treaty, but also a tool for the Energy Community Secretariat to review the proper implementation by the Parties of their obligations under the Treaty.

2.3.2. Electricity and Gas Road Maps³

Based on the Action Plans, iECS prepared, in consultation with the Contracting Parties, state level Road Maps for electricity and gas market opening for each Contracting Party. These Road Maps were endorsed by the Ministerial Council in its meeting on 17 November 2006. The Electricity and Gas Road Maps used the same structure (template) for all Contracting Parties (see this below), but the actions introduced were customised for each of them.

ELECTRICITY AND GAS ROAD MAP

- Contracting Party -

Background

Purpose

Electricity Road Map

- (1) Adoption of the Acquis Communautaire*
- (2) Market structure*
- (3) Wholesale market*
- (4) Retail market*
- (5) Tariff reform and affordability*

Gas Road Map

- (1) Adoption of the Acquis Communautaire*
- (2) Market structure*
- (3) Wholesale market*
- (4) Retail market*
- (5) Tariff reform and affordability.*

The Road Maps should be considered together with the Action Plans in order get the full perspective of the Energy Community.

² Electricity and Gas Action Plans of each Contracting party are available on the Energy Community website: http://www.energy-community.org/portal/page?_pageid=34.65260&_dad=portal&_schema=PORTAL&&p_eve_id=188

³ Electricity and Gas Road Maps of each Contracting party are available on the Energy Community website: http://www.energy-community.org/portal/page?_pageid=34.65260&_dad=portal&_schema=PORTAL&&p_eve_id=188

2.3.3. Contracting Parties' report on progress

At the 1st PHLG meeting on 17-18 October 2006 in Vienna, most of the Contracting Parties informed the audience on the progress achieved since the previous meeting. The progress is summarised below.

Albania

Electricity sector

- New scheme for the protection of vulnerable customers was adopted through Government Decree and funding will be made available;
- Rules for tendering of new generation capacity and the Concession Law compatible with EU standards are in preparation;
- TSO full ownership unbundling is foreseen by the end of 2006;
- Electricity Market opening: ERE will propose further electricity thresholds in an amendment to the Power Sector Law;
- SoS situation in 2006 improved compared to 2005;
- Action Plan with short term and medium term measures put in place, in order to avoid power supply cuts;
- Promotion of other energy resources for heating purposes will be encouraged.

Gas sector

- The Gas Act is in preparation and will be followed by the relevant institutions development, and also by technical preparation for the gas market.

Bosnia and Herzegovina

Electricity sector

- Relating to the electricity market opening, the Entity Regulators (FERC and REERS) prepared decisions to align with the requirement from the Treaty . In November 2005 the SERC drafted a proposal for the electricity market opening in BiH as follows: >10 GWh/year from January 2007, >1 GWh/year from January 2008, all non-household consumers from January 2009 and all consumers from January 2015. As it differed from the timetable of the Treaty (all non-household consumers from January 2008), in September 2006 the FERC and REERS adopted the Book of rules for obtaining eligible customer status ("Official Gazette of F BiH"; 53/06) defining the market opening dynamics in compliance with the Treaty:
 - a) 1 January 2007 – all customers >10GWh/year which are connected to transmission network;
 - b) 1 January 2008 – all non-households customers; and
 - c) 1 January 2015 – all customers.
- The FERC is in the process of defining the General Conditions for Electricity Supply (it has made a draft, conducted public consultations and expects its adoption very soon);
- Distributions System Operators have not been established yet.

Gas sector

- A Discussion paper of an overall strategy for gas sector was developed; further discussions are currently stalled;

- Draft Gas Act has been prepared;
- Proposal to create a single TSO was put forward.

Bulgaria

Electricity sector

- The Bulgarian Energy Act was amended on 8 September 2006 and is now in full compliance with the EU energy Directives;
- DSO unbundling was foreseen by the end of 2006;
- Reduced electricity exports are expected as the effect of closing down two units of NPP Kozloduy at the end of 2006; There might be a possible internal deficit, but not yet quantified.

Gas sector

- Elaboration of legal provisions regarding the appointment of a supplier of last resort undergoing;
- TSO unbundling is foreseen by the end of 2006;
- Continuation of restructuring of the gas industry;
- Increasing provision of more cost reflective tariffs;
- Preparing market opening also for household customers by July 2007;
- Elaboration of monitoring tools in accordance with the requirements of Directive 2003/55/EC;
- Developing and improving customer switching procedures.

Croatia

Electricity sector

- In October 2006, the Managing Board of HEP adopted the decision on separation of HROTE (Market Operator) from the HEP Group. The decision comes in force on the day of the adoption. Deadline for finalising the process is 1 January 2007. In sight of the decision made, the board has empowered the Directorate for economy affairs, the Sector for business informatics and HROTE to execute all the activities necessary in order for HROTE to handed over to full ownership of Republic of Croatia on 1 January 2007;
- In October 2006, the Managing Board of HEP decided to establish a company for trading in electricity. The company will be named HEP Trade. The Board has empowered a lawyer to handle this case on behalf of HEP. The lawyer will act as the responsible for signing and verifying the statute, processing incorporation documents and concluding activities necessary for the registration of the company with responsible legal entities in Croatia;
- In October 2006, the Supervising Board of HEP-TSO gave a green light to the Managing Board of HEP-TSO to pass the Rules on the allocation and use of cross border capacities and the Balancing energy rules. The Supervising Board of the HEP-TSO also gave a green light to the Managing Board of HEP-TSO to proceed with confirming the Rules on electricity market operation, as this regulation is foreseen in the 2nd paragraph of the Article 30 of the Electricity Market Act;

- HEP-TSO brought up the Rules on balancing of electric power system (published in NN no. 133 on 11 December 2006) which will enter into force on 1 January 2007. This is based on the Law on electricity market, Article 15, Para 1;
- Governing Board of HERA brought up the Methodology for provision of services related to balancing of electrical energy in electric power system (published in NN no. 133 on 11 December 2006) which will enter into force on 1 January 2007. This is based on the Law on regulation of energy activities, Article 11, Para 1, Subpara 3.

Gas sector

- Continuation of updating the Transitory Market Model and the Market Rules;
- Completion of the first draft of the amended Gas Act;
- Preparation of market opening;
- Preparation of a strategy for further gasification of the country;
- Development of cost determination procedures;
- Drafting a concept for all inclusive tariffs.

The former Yugoslav Republic of Macedonia

Electricity sector

- Privatisation of TPP Negotino is expected to result also in fuel substitution and increase of capacity; Construction of 2 new sHPPs will be tendered soon; Still dependent on imports of electricity;
- Regulator approved the TSO Grid Code;
- DSO was privatised recently; Payment discipline is expected to increase, as the privatised distribution company started to disconnect customers in case of non-payment; Retail prices are still too low - the proper pricing strategy is needed, but currently missing;
- Market Rules are under preparation and will be soon approved by the Regulator;
- All participants in the electricity and gas market are licensed;
- Eligibility threshold, if exercised, would cover 20% of the consumption;
- National consolidation of the restructured companies – expected by the end of 2007;
- EBRD is expected to finalise the project “Combat of the energy poverty” (end 2006).

Gas sector

- Transitory Market Model and the Market Rules are being updated;
- A methodology for promotion of gasification of cities is in preparation;
- Procedures for collection rate improvement are under preparation;
- Development of unbundling provisions;
- Process of drafting the secondary law ongoing;
- Elaboration of provisions for eligibility of customers in accordance with the requirements of Treaty is ongoing;
- Preparation of customer switching mechanism.

Montenegro

Electricity sector

- No progress in the Q4 was reported;

Gas sector

- Agreement to develop primary legislation on the basis of the Treaty establishing Energy Community.

Romania

Electricity sector

- Legal unbundling of the DSO under discussion;
- The amendment of the Electricity Law is in Parliament for debate;
- Preparation of the metering system for full market opening for all consumers in July 2007;
- Monitoring of Security of Supply will be put in place by the end of 2006;
- Supplier of last resort is under discussion;
- Generation extra-capacity is available;
- Unit 2 of the NPP Cernavoda will be commissioned in 2007;
- The Romanian Electricity and Heat Regulatory Authority (ANRE) has passed the following Orders on:
 - New Regulation for the Organisation and Functioning of the Green Certificates Market
 - Green Certificates mandatory quota for 2006;
 - Rules on offers for the Balancing Market;
 - New tariffs for captive consumers;
 - Cap tariffs for electricity distribution;
 - The TSO "Transelectrica" revised the procedure for allocation of interconnection capacity, in order to be in compliance with the EC Regulation 1228/2003.

Gas sector

- The Decision of the National Authority for Natural Gas on full unbundling (legal, accounting, functional and management) of TSO and DSO was passed on 16 October 2006;
- Elaboration of provision regarding New Infrastructure in completion phase;
- Preparation of full market opening for all consumers in July 2007;
- Adoption of secondary legislation on imposing public service obligation in completion phase;
- Further elaboration of the network code;
- Further elaboration of a non-discriminatory balancing regime.

Serbia

Electricity sector

- The winter situation is expected to be stable with 600 GWh contracted;
- EMS brought up in December 2006 the Temporary rules for allocation of available transmission capacities on interconnectors valid in the period from 1 January 2007 to 30 June 2007;
- The Council of AERS brought up a decision to decrease the eligibility status to 3 GWh/year (instead of 25 GWh/year so far) in December 2006. The decision will be implemented from 1 January 2007. There will be 350 customers with consumption larger than 3 GWh/year (so far 38), which amounts to 21% of total electricity consumption in Serbia;
- AERS passed seven tariff systems and sent them for the consent to the Government in November 2006. The new system for regulating prices will apply from 1 January 2007. The tariff systems do not determine actual prices, since they are subject to calculation by the energy undertakings which upon previously obtained opinion of the Agency shall submit them to the Government for final approval. Competencies of the AERS in regulating prices include determining methodologies for setting tariff elements for calculating prices, approving tariff systems as well as giving opinions on prices of energy and services that energy entities put forward. The Government approves tariff systems and prices of energy and services;
- The Council of AERS approved the issuing of energy licenses for electricity distribution to three distribution companies in October 2006. With these three approved licenses, all distribution companies in Serbia have energy licenses;
- The Energy Law has been adopted in July 2006;
- The electricity tariff methodology was approved by the regulator. The market rules and the grid code are under preparation.

Gas sector

- Continuation of updating the Transitory Market Model and the Market Rules;
- Developing unbundling provisions;
- Elaboration of provisions for eligibility of customers in accordance with the requirements of Treaty establishing the Energy Community;
- Preparation of procedures for collection rate improvement;
- Approval of methodologies for cost reflective tariffs in completion phase;
- Planning a strategy for removal of the dominant position of the incumbent company;
- Preparation of a strategy for further gasification of the country;
- Customer switching mechanism is in preparation.

UNMIK

Electricity sector

- Set up a Task Force of 7 experts to monitor the implementation of the Treaty;
- Secondary legislation is under preparation - Rules for authorisation are completed;
- Electricity market opening: eligibility criteria set based on voltage level and not on consumption;
- The TSO was legally unbundled from the KEK since July 2006; the PISG of Kosovo nominated the Kosovo Transmission System and Market Operator J.S.C (KOSTT) as TSO and MO enterprise in Kosovo in July 2006; ERO licensed it in October 2006;

- Small hydro power potential was identified;
- A program for energy efficiency in public consumption was put in place;
- As part of the implementation of the Energy Strategy, new generation capacity up to 2100 MW is under tender preparation;
- Plans to expand generation capacity associated with coal mining through private investment are under preparation;
- UNMIK remains a net electricity importer.

2.4. Compliance with electricity, and respectively gas benchmarks

In the 4th Quarter of 2006, the iECS prepared a “Report on compliance with the electricity and respectively gas benchmarks”⁴.

Based on the iECS findings up to date, it is expected that the same problems which exist in EU-25 will be replicated in the Contracting Parties as well. The most important ones of these are the following:

- The persistence of regulated prices, especially for the benefits of eligible customers, putting obstacles in the path of new market entrants;
- The lack of legal unbundling and insufficient managerial separation of TSOs/DSOs to ensure their independence;
- Discriminatory Third Party Access to networks and insufficiently transparent tariffs;
- The free choice of supplier;
- The power of regulatory authorities, in particular as regards setting tariffs for access to networks;
- The preferential access given in the case of certain long-standing electricity contracts; and
- Failure to notify Public Service Obligation and to indicate the origin of electricity (no labelling provisions).

The TSOs/DSOs’ and regulatory authorities’ related problems are of the utmost significance and could be categorised as follows:

- TSO/DSO related problems:
 - Absence of or insufficient legal unbundling of TSO/DSO in order to guarantee their independence;
 - Absence of independence of TSO/DSO in the management;
 - Absence of or insufficient functional and accounting unbundling of TSO/DSO in order to guarantee their independence; and
 - Delay in the entry into force of legal unbundling of TSO/DSO.
- Regulatory authorities related problems:
 - Insufficient competences of the regulators in relation to the Acquis, in particular with respect to
 - the possibilities to file complaints to the regulator,

⁴ The Report on Compliance with electricity benchmarks and the Report on Compliance with gas benchmarks were submitted to the European Commission on 27 December 2006.

- the management and allocation of interconnection capacity, and
- fixing the tariffs of access to the networks.

Besides the problems that have appeared in the EU-25, it is anticipated that some more specific problems which are characteristic for the Contracting Parties will also materialize in the course of opening of the electricity market. The main economic indicators of the Contracting Parties give an impression on the current status of their economies, revealing (too) often a very low income on an average basis, which may prevent timely introduction of cost-based market prices of electricity, and respectively of gas, and network related services.

Explicitly, the following problems are the most characteristic ones in the Contracting Parties:

- Low level of tariffs which leads to regulated whole energy chain;
- Metering, billing and invoicing of customers;
- Collection rates, both non payment and non invoicing as no data base of customers;
- Transparency in data and harmonisation of accounts;
- Lack of domestic generation which leads to high imports;
- Existence of wholesale suppliers;
- TSO bundled with Market Operator;
- Cross-border issues (Inter TSO Compensation mechanism and Capacity allocation procedures);
- DSO bundled with retail; and
- Lack of investments in distribution networks.

Moreover, some problems related to limited size of the electricity and respectively gas markets in the Contracting Parties are also anticipated, especially when it comes to consequences of their fragmentation and uncertain future development.

However, problems related to electricity and gas, assessed as being the most critical ones among the characteristic bottlenecks for the Contracting Parties can be divided into two groups: 1) Acquis related bottlenecks; and 2) Market related bottlenecks. These are the areas where the needs for assistance are highly expected.

The Party by Party situation is presented in Annex 1 Tables 1 and 2 for electricity and, respectively Tables 3 and 4 for gas.

2.5. Progress with the institutions under the Treaty

With respect to setting up the Energy Community Secretariat as an international organisation, in its meeting of 17 November 2006 in Skopje, the Ministerial Council mandated the interim Energy Community Secretariat, represented by its Director, to finalize the negotiations on the draft text of the Headquarters' Agreement with the competent Austrian authorities and to proceed to its signature on behalf of the Energy Community. A significant progress was made in December 2006, when the text of the Headquarters agreement was finalised with the Austrian authorities.

The **1st Mini-Gas Forum**⁵ was organised by the iECS in cooperation with the Austrian energy regulator, e-control, in Vienna, on 13 October 2006. The topics of the Forum included: Security of supply and gas to Europe issues, the South East Europe Regional

⁵ The Agenda, presentations and Conclusions are available at the Energy Community website http://www.energy-community.org/portal/page?_pageid=34.65260&_dad=portal&_schema=PORTAL&&p_eve_id=243

Gasification Study; Regional natural gas projects, etc. Prior to the Mini-Gas Forum, a preparatory meeting took place on the 12 October 2006, in Vienna, organised by the iECS. The Mini-Gas Forum's participants were representatives of all interested stakeholders, including industry, regulators, industry representative groups and consumers, which shall have an advisory role to the Energy Community. The next Gas Forum will be organised in the second Quarter of 2007.

The **1st PHLG meeting**⁶ after the Treaty entered into force was held in Vienna, on 17-18 October 2006; the **2nd PHLG meeting**⁷ took place in Skopje, on 16 November 2006 and the **3rd (extraordinary) PHLG meeting**⁸ was held on 5 December 2006 in Vienna.

The **1st Ministerial Council meeting**⁹ after the Treaty entered into force was held on 17 November 2006 in Skopje.

The **9th Athens Forum (Electricity)**¹⁰ was organised on 24-25 October 2006, in Athens. The Agenda included five sessions: I. Further actions for the development of the market; II. Internal market issues; III. Investments; IV. Market monitoring and transparency; V. Social impact and affordability. The iECS presented the progress with the preparation of Action Plans and Road Maps for electricity in the Energy Community.

Prior to the Electricity Forum, a number of preparatory meetings took place on the 23 October 2006 and in the morning of 24 October 2006; these are as follows: CEER TF SEE working meeting; 3rd preparatory ECRB meeting; ETSO preparatory meeting; Eurelectric meeting; the Regional Market Balancing Workshop, as well as the Donors' Community meeting.

The **Energy Community Regulatory Board (ECRB)** had its first meeting on 11 December 2006, in Athens. The Agenda of the meeting included: the Adoption of the Rules of Procedure, Election of the Board President, Organisational Issues, and the Energy Community Regulatory Board work programme 2007 and Establishment of working groups. The President of the Board was elected in the person of Mr. Slave Ivanovski, President of the Macedonian Energy Regulatory Commission. The second ECRB meeting is tentatively scheduled for 1 March 2007, in Athens.

2.6. Progress with the other Energy Community topics

▪ Preparation of New Gas Infrastructure Investment Guidelines

The iECS was largely involved in the 4th Quarter of 2006 in the preparation of the New Gas Infrastructure Investment Guidelines (NGIIG) in South East Europe (SEE). These are intended to provide a tool for the states in the SEE and the EU Member States neighbouring

⁶ The Agenda, presentations and Conclusions are available on the Energy Community website
http://www.energy-community.org/portal/page?_pageid=34.65260&_dad=portal&_schema=PORTAL&&p_eve_id=261

⁷ The Conclusions of the meeting is available on the Energy Community website
http://www.energy-community.org/portal/page?_pageid=34.65260&_dad=portal&_schema=PORTAL&&p_eve_id=187

⁸ The Agenda, presentations and Conclusions are available on the Energy Community website
http://www.energy-community.org/portal/page?_pageid=34.65260&_dad=portal&_schema=PORTAL&&p_eve_id=281

⁹ The Conclusions and related documents adopted at the meeting are available on the Energy Community website.
http://www.energy-community.org/portal/page?_pageid=34.65260&_dad=portal&_schema=PORTAL&&p_eve_id=188

¹⁰ The Agenda, presentations and papers, and Conclusions are available on the Energy Community website
http://www.energy-community.org/portal/page?_pageid=34.65260&_dad=portal&_schema=PORTAL&&p_eve_id=189

the region (see in Art. 26 and 27 of the Treaty) for a co-ordinated implementation of Directive 2003/55/EC, in particular in relation to the provisions on implementation and/or exemptions from third party access (TPA).

The approach takes the developments within the European Union (EU) and the experience gained within the EU into account whilst avoiding inefficiencies, resulting from the remaining obstacles in gas liberalisation and several regulatory gaps.

The iECS was mandated by the European Commission to further elaborate and finalise the NGLIG, in co-operation with the drafting Committee that worked on earlier versions. A revised version of the text was presented at the 3rd PHLG meeting on 5 December 2006 in Vienna, and the PHLG members recommended that the final text prepared in consultation with the European Commission and the ECRB will have the legal status of Guidelines and not of a Regulation, as was initially proposed.

- **Memorandum of Understanding for the development of a social pillar of the Energy Community Treaty**

The iECS assisted the European Commission in preparing the final text of the Memorandum, by facilitating the debate on the initial draft text during the Experts' Meeting in Vienna on 14-15 September 2006, collecting comments from the Parties, etc. Nevertheless, the discussions on the proposed text by the PHLG members in the meeting of 17-18 October 2006 did not conclude in a final version. Consequently, a political declaration with respect to the interest of Contracting Parties for adopting such a Memorandum of Understanding was issued at the Ministerial Council, on 17 November 2006 in Skopje. Following this, the Contracting Parties and the EC will finalize the text and each Contracting Party will adopt it through the country's legal procedure.

3. OUTLOOK

The 4th Quarter of 2006 was rich in developments in the Energy Community. The most notable achievements were the preparation of state level Action Plans and Road Maps for electricity and gas market opening, and their endorsement by the Ministerial Council. The second important achievement was the set up of the Energy Community Regulatory Board.

The 1st half of 2007 will be essential for the implementation of the Electricity and Gas Action Plans by the Contracting Parties and for meeting the deadline for the adoption of the energy Acquis, as set out by the Treaty.

In 2007, the ECRB and the European Commission are expected to play an important role in reaching agreements or proposing models related to¹¹:

- *Interconnection capacity*: Adoption of a regional coordinated market based mechanism for allocation of interconnection capacity;
- *Inter TSO Compensation (ITC)*: Agreement on the merger of the EU and SEE or other transition options as increasing the injection fee; Development of a methodology to invoice or credit market participants in relation with ITC;
- *Market Design/Market Rules*: The European Commission shall state a preference on wholesale market opening; Adoption of guidelines for market opening, indicating measures to start up competition; Development of guidelines for market rules;
- *Licensing*: Analysis of the compatibility and harmonization of licensing for trading energy across the region, including harmonization of the concepts of trade and supply.

The iECS prepared and agreed with the European Commission the tentative Events Calendar for 2007, which is presented in Annex 2. Some dates may be subject of change in the course of the year.

¹¹ Study of the obstacles to trade and compatibility of market rules (SEETEC report, financed by CIDA and undertaken by SEETEC Consortium) is available on the Energy Community website:
<http://www.energy-community.org/pls/portal/docs/61856.PDF>

4. ANNEXES

Annex 1: Main bottlenecks in the Road Maps and Action Plans of the Contracting Parties

Annex 2: Energy Community Indicative Event Calendar 2007

Annex 1

Table 1: Electricity: Main bottlenecks in the Road Maps and Action Plans of the Contracting Parties – Acquis related

Main bottlenecks	Albania	Bosnia and Herzegovina	Bulgaria	Croatia	The former Yugoslav Republic of Macedonia	Montenegro	Romania	Serbia	UNMIK
Acquis related bottlenecks									
Customer protection	X	X				X			
Authorisation procedures for new generation capacity	X	X				X			
Technical rules		X				X		X	
TSO unbundling	X	X	X	X		X			
DSO unbundling (network operation and supply)	X	X	X		X	X		X	X
Development of the Market Operator's functions	X			X					
Eligibility status	X				X	X		X	X
Allocation of cross border transmission capacity	X	X		X	X	X		X	X
Participation in the ITC mechanism				X					X

Table 2: Electricity: Main bottlenecks in the Road Maps and Action Plans of the Contracting Parties – Market related

Main bottlenecks	Albania	Bosnia and Herzegovina	Bulgaria	Croatia	The former Yugoslav Republic of Macedonia	Montenegro	Romania	Serbia	UNMIK
Market related bottlenecks									
Further structural development of incumbents	X	X	X					X	X
Generation unbundling and privatisation	X		X						
Restructuring and consolidation of the distribution companies before unbundling and privatisation	X								X
Business performance indicators, collection rate, reduction of losses	X				X	X			X
Market monitoring, including imports	X	X	X	X	X	X		X	X
Transparency of information related to market operation (TSO web pages)	X	X	X	X	X			X	X
Market rules	X			X	X	X		X	X
Application of technical measures and business procedures for customer switching		X		X	X	X		X	
Remote automatic meter reading on a wide scale		X		X					
Balancing market and auxiliary services market	X			X	X			X	X
Development of cost-reflective tariff methodologies, including ones for balancing and auxiliary services	X	X		X	X	X		X	X
Prediction of correct load profiles for different customer groups for further development of tariff methodologies		X		X					

Table 3: Gas: Main bottlenecks in the Road Maps and Action Plans of the Contracting Parties – Acquis related

Main bottlenecks	Albania	Bosnia and Herzegovina	Bulgaria	Croatia	The former Yugoslav Republic of Macedonia	Montenegro	Romania	Serbia	UNMIK
Acquis related bottlenecks									
Gas Law (Energy Law including gas)	X	X				X			X
Public Service Obligation and Customer Protection	X	X		X		X			X
Monitoring of Security of Supply	X	X				X			X
Technical Rules	X	X		X	X	X			X
Unbundling Provisions and Access to Accounts	X	X		X		X			X
Third Party Access	X	X				X			X
New Infrastructure and Exemptions	X	X	X	X	X	X	X	X	X
Market Opening	X	X			X	X		X	X

Table 4: Gas: Main bottlenecks in the Road Maps and Action Plans of the Contracting Parties – Market related

Main bottlenecks	Albania	Bosnia and Herzegovina	Bulgaria	Croatia	The former Yugoslav Republic of Macedonia	Montenegro	Romania	Serbia	UNMIK
Market related bottlenecks									
Further structural development of incumbent companies	X	X	X	X	X	X	X	X	X
Unbundling and Privatisation	X	X	X	X	X	X		X	X
Market Monitoring, including imports	X	X		X	X	X		X	X
Market Rules	X	X		X	X	X		X	X
Development of cost reflective tariff methodologies	X	X		X	X	X			X

Annex 2

INDICATIVE EVENT CALENDER 2007¹²

No.	EVENT	INDICATIVE VENUE	INDICATIVE DATE	CHAIR	COMMENTS
1.	1st Coordination Meeting: ECS – EC	Brussels	08 January 2007	EC	
2.	ECRB Meeting	Vienna	16 January 2007 (Tue)	President/EC	Working Meeting
3.	2 nd ECRB Meeting	Athens	1 March 2007 (Thu)	President/EC	
4.	4 th PHLG meeting	Vienna	13-14 March 2007 Tuesday-Wednesday	Montenegro/ EC	
5.	Donors Meeting	Athens	24 April 2007 Tuesday	EC	
6.	ECRB meeting	Athens	24 April 2007 Tuesday	Presidency/EC	TBC with ECRB President
7.	10 th Athens Forum	Athens	24 – 25 April 2007 Tuesday-Wednesday	EC	
8.	Gas Investment Regulatory Group (Gas Working Group Meeting)	Vienna	10 May 2007 Thursday	EC ECS	
9.	(Mini) Gas Forum	Vienna	11 May 2007 Friday	EC ECS	

¹² This draft document agreed in principle with EC

No.	EVENT	INDICATIVE VENUE	INDICATIVE DATE	CHAIR	COMMENTS
10.	Parliamentarians Conference	Sofia	24-25 May 2007 Thursday-Friday		Conclusion no. 42 of the 18 th PHLG meeting, 18 Oct 2006
11.	5 th PHLG	Podgorica, Montenegro	28 June 2007 Thursday	Presidency EC	
12.	2 nd Ministerial Council meeting	Podgorica, Montenegro	29 June 2007 Friday	Presidency EC	
13.	2 nd coordination meeting EC –ECS	Brussels	12 September 2007 Wednesday	EC ECS	
14.	ECRB Meeting	Vienna (TBC)	3 October 2007 (Wed)		TBC with ECRB President
15.	6 th PHLG meeting	Vienna	3-4 October 2007 Wednesday-Thursday	Presidency EC	
16.	11 th Athens Forum	Athens	17 -18 October 2007 Wednesday-Thursday	EC	
17.	Donors Meeting	Vienna	14 November 2007 (morning)	EC	
18.	Gas Investment Regulatory Group Working Group Meeting	Vienna	14 November 2007 (afternoon)	EC, ECS	
19.	1 st Gas Forum	Vienna	15 November 2007 Thursday	EC, ECS	
20.	ECRB meeting	Belgrade (TBC)	26 November 2007 (TBC)	Presidency	TBC

No.	EVENT	INDICATIVE VENUE	INDICATIVE DATE	CHAIR	COMMENTS
21.	7 th PHLG meeting	Belgrade	27 November 2007	Presidency, EC	
22.	Ministerial Council	Belgrade	28 November 2007	Presidency, EC	