

CARDS Project 2005
Facilitating and Implementing the Energy Community in South East Europe
Reference: 100231
Energy Community Report (2006 Q1 Quarterly Update January – March 2006)

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ENERGY COMMUNITY REPORT

**QUARTERLY UPDATE
(January – March 2006)**

July, 2006

CONTENT

I. INTRODUCTION	3
1. Basic project data.....	3
2. Legal background for the Report	4
3. Scope of the Report.....	4
II. KEY ACTIVITIES.....	4
1. Summary	4
2. Activities, related to the ratification of the Treaty establishing the Energy Community	5
3. Activities, related to the development of a Work Programme of the Secretariat for 2006.....	6
4. Work on infrastructure/investment priorities.....	6
5. Activities, related to substantial analysis of strategic nature concerning the Energy Community	7
6. Activities, related to substantial analysis of concrete nature concerning the Energy Community	8
7. Activities, related to adoption and implementation of the acquis under the Treaty by the Contracting Parties.....	9
8. Steps towards popularization of the objectives of the Energy Community and Treaty Establishing the Energy Community	9

I. INTRODUCTION

1. Basic project data

A project called "*Facilitating and Implementing the Energy Community in South East Europe*" is in execution from 1 March 2005 until 31 December 2006, in total 22 months. . A major task of the Project has been to set up and manage an interim Energy Community Secretariat. This secretariat is to assist the European Commission and the Permanent High Level Group in guiding the process of creating an energy community.

Project activities concentrate on putting principles in place that were set in the Athens Memoranda 2002 and 2003, related to creation of mutually compatible internal energy market in South East Europe that is, in turn, compatible with the EU internal energy market (IEM).

Financing of activities for this project is provided under the CARDS¹ program (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.

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. 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 that “Energy Community Report and quarterly updates” shall be presented.

3. Scope of the Report

This report refers particularly to the Scope of Work defined under point 4 of Annex I to the Grant Contract and identifies the focus of activities of the Secretariat, related to the process of establishment and development of the Energy Community.

The report reflects the key work being done within the period January – March 2006. However, due to the appointment of the Director and substantial part of the staff of the Secretariat in February 2006, the report in practical terms reflects activities undertaken within the period February – March 2006.

All documents, to which this report contains any reference, are available upon request.

II. KEY ACTIVITIES

1. Summary

Within the identified period, the key activities of the Secretariat, related to the establishment and the development of the Energy Community, were concentrated on the following:

- Activities, related to the ratification of the Treaty by the Parties;

- Activities, related to the development of a Work Programme of the Secretariat for 2006;
- Work on infrastructure/investment priorities;
- Substantial analysis of strategic nature, concerning the Energy Community;
- Substantial analysis of concrete nature, concerning the Energy Community;
- Activities, related to adoption and implementation of the acquis by the Contracting Parties;
- Popularization of the objectives of the Energy Community and the Treaty establishing the Energy Community (contribution of the Secretariat to the international conferences and seminars).

Each of these items is elaborated in brief below.

2. Activities, related to the ratification of the Treaty establishing the Energy Community

Within the period, further to the previous ratification by UNMIK (December 2005), the Secretariat started operationally to discuss with the signatories of the Treaty issues, related to eventual support needed as to speed up the ratification process. Further, in this aspect, the status of preparation for ratification was on the agenda of the PHLG (March 2006) as to identify eventual obstacles.

During the revised period, Bulgaria ratified the Treaty (date of ratification - 08.02.2006; date of notification in accordance with Article 105 of the Treaty – 07.03.2006).

3. Activities, related to the development of a Work Programme of the Secretariat for 2006

The development of Work Programme of the Secretariat turned to be of substantial importance as it was expected to outline the work priorities in line with the Energy Community objectives and the respective time frame for each of the tasks under it with the relevant justification on the ground of the Grant Contract and the relevant Treaty articles, although the Treaty was not yet into force.

Therefore, its preparation was a focus of particular attention immediately after the appointment of the Director of the Secretariat.

The Work Programme was drafted within the month of February 2006 and was presented to the Permanent High Level Group, which approved it during its meeting on 8-9 March 2006.

4. Work on infrastructure/investment priorities

The issue of adequate development of the energy infrastructure is in full compliance with the necessities of the region of South East Europe, which is properly reflected in the Grant Contract as well. Moreover, it has always been in the focus of the European Commission, the Donors' Community and the Secretariat.

Within the revised period, the issue was discussed intensively at the Donors' Community meeting, organized and chaired by the European Commission (07.03.2006), as well as during the PHLG meeting (8-9 March 2006).

During the discussions, a revision was made of the national project priorities as the signatories to the Treaty see them, as well as the views of the Donors' community. The

necessity to identify regional investment criteria as well as key infrastructure projects of regional value was explicitly noted. Further, on the ground of the discussions, the need to update some analyses in this aspect was also identified. Besides, some initial discussions on the potential establishment of a Regional Investment Fund took place.

A concrete background for these discussions was the paper, prepared and presented by the Secretariat at the March PHLG meeting on “National investment priorities and ongoing projects in the electricity and gas sectors”.

However, as this topic is ongoing, it will be also subject to further reflection.

5. Activities, related to substantial analysis of strategic nature concerning the Energy Community

Taking note of the necessity to reflect actual energy related problems, the Secretariat prepared for the March 2006 meeting of the PHLG an analysis on Security of Supply issues (both electricity and gas) for the region of South East Europe.

Further, the Secretariat, together with the European Commission, prepared and actively participated in the round table discussion on the Electricity Transition Strategy (approved in 2005) during the PHLG meeting in March 2006. The key elements of the discussion were related to the state of play of the gradual market opening, and transitional plans to align to the Strategy guidelines.

Another key focus in general and in the context of the Electricity Transition Strategy, which is of strategic nature, and which was concrete subject of analyses within the revised period, is related to the protection of vulnerable customers. The issue, being of utmost importance for all the Contracting Parties, attracted concrete and huge attention.

The European Commission, which has a guiding role in these discussions, presented initial draft of Memorandum on Social Issues, which was discussed within the Permanent High Level Group meeting in March 2006.

6. Activities, related to substantial analysis of concrete nature concerning the Energy Community

In March 2006 the Secretariat started a series of activities, related to collection of data, which will be the basis for the roadmaps, which will give the necessary steps and time frame for the Contracting Parties as to achieve the electricity and gas market opening.

At the PHLG meeting in March the paper, developed by the Secretariat, on the 'Actions envisaged in the Electricity Transition Strategy and in the SEE Electricity Market Options paper' was presented.

At the same meeting the Secretariat presented the questionnaire on the Electricity Transition Strategy, which was the background to start the overall process of collection and consolidation of the questionnaires, filled in by the Contracting Parties.

In parallel, during the PHLG meeting, a follow up analysis on the proposal for establishment of the 'International Market Operator' was organized.

Besides, within the revised period the first concrete discussions on the questionnaire related to gas issues were initialled by the Secretariat on the ground of its proposals.

A key presentation by the Secretariat on the future development of the gas market in South East Europe was made by the Secretariat in Belgrade (February 2006).

Further, a member of the staff of the Secretariat was invited and made a Final presentation of the UNDP project 'Preparation of the Strategy for Development of Small Hydro Power Plants in Montenegro' (February 2006, Podgoritca, Montenegro), which was the first event, related to activities, concerning renewables.

7. Activities, related to adoption and implementation of the acquis under the Treaty by the Contracting Parties

As one of the key tasks of the Secretariat is to support the efforts of the Parties to the Treaty in adoption and implementation of the relevant energy acquis, in February 2006 the Secretariat started collecting the primary and secondary legislation of the Contracting Parties in the electricity and gas sectors (February 2006).

The process is ongoing.

8. Steps towards popularization of the objectives of the Energy Community and Treaty Establishing the Energy Community

Within this initial period, the Secretariat had some participations in events (conferences, seminars, workshops), related to energy issues, organized by other institutions. The experts of the Secretariat had the possibility to present both the Energy Community concept and the Treaty establishing the Energy Community, as well as some of their specific elements, to a broad auditory, which comprised state officials, representatives of international institutions, business people, representatives of non-governmental institutions etc.

Within the period, the experts of the Secretariat participated in such events in Serbia, Montenegro etc.