

CARDS Project 2005

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

Reference: 100231

**QUARTERLY PROGRESS
REPORT**

(July – September 2006)

2006

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1. INTRODUCTION

1.1. Project background

The project "*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. 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.

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, etc.

In order to achieve these objectives, four relevant tasks are listed in the Annex 1 of the Grant Contract, as follows:

- Task 1) Activities related to 'Market Structure and Oversight';
- Task 2) Provision of Technical Assistance to the signatories (of the MoU) to adopt the *Acquis Communautaire* on energy (electricity and gas networks and production/generation standards) as laid down in the Memoranda and the draft Energy Community Treaty;
- Task 3) Act as an information centre on donors' activities with respect to investments and technical assistance;
- Task 4) Coordination of the donors' group, work presently done by the European Commission.

The Project, as described in the Grant Contract was designed well before the signing of the Treaty on 25 October 2005, and it was regarded as an interim tool for advancing the Athens Memoranda's targets with respect to the creation of the regional electricity market in South East Europe, with a gas market following.

One of the major tasks of the Project was to set up and manage an interim Energy Community Secretariat (iECS), before the Treaty establishing the Energy Community (the Treaty) was coming into force. This Secretariat was required to assist the European Commission and the Permanent High Level Group (PHLG) in guiding the process of creating an Energy Community.

Therefore, all the activities undertaken by the Energy Community Secretariat are related to one of the institutions under the Treaty.

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.

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 that “quarterly progress reports including a section assessing progress with respect to the road map” shall be presented.

1.3. Scope of the report

The 3rd Quarter Progress Report reflects the technical activities undertaken by the Energy Community Secretariat for the period July - September 2006, and the related budget execution, from January to September 2006; this is in line with the Scope of Work defined under point 4 of Annex I to the Grant Contract, as well as the reporting requirements under the above.

The activities of the Secretariat, more specifically related to the process of the establishment and development of the Energy Community, make the subject of a separate report “Energy Community Report” in accordance with the requirements of Annex I, item 8 of the Grant Contract.

2. KEY ACTIVITIES

2.1. Summary

During the period of July – September 2006, the interim Energy Community Secretariat (iECS) undertook a number of tasks requested by the Grant Contract, the Permanent High Level Group and the Ministerial Council. Some work represents the continuation of activities started in the second quarter of 2006, like the preparation of state level Road Maps; the assessment and the comparison of the state of play of the Contracting Parties to the Treaty with respect to the implementation of the *Acquis Communautaire*.

Based on the request of the PHLG members, the iECS prepared a number of papers and delivered a series of presentations related to Security of Supply issues.

The full list of reports and papers, templates, etc. prepared by the iECS up to present, is as follows:

- Summary of the adoption of the *Acquis Communautaire* by the Contracting Parties in accordance with the Treaty establishing the Energy Community, Report, Agenda Item nr. 8, PHLG Meeting 30 -31 May 2006
- On the current developments related to the preparation of the national Road Maps towards adoption and implementation of the *Acquis Communautaire* in accordance with the Treaty establishing the Energy Community, Report, Agenda Item nr. 2, PHLG Meeting 30 -31 May 2006
- Comparison Tables (narrative format) - Report
 - Table 1: Institutional Building
 - Table 2: Electricity
 - Table 3: Gas
 - Table 4: Competition
 - Table 5: Environment
 - Table 6: Renewable Energy
 - Table 7: Energy Infrastructure Projects
 - Table 8: Conclusions
- Comparison Tables (colour grading format) - Report
 - Table 1: Institutional Building
 - Table 2: Electricity
 - Table 3: Gas
 - Table 4: Competition
 - Table 5: Environment
 - Table 6: Renewable Energy
- Electricity Transition Strategy Report, 1st Follow Up: December 2005 – May 2006 - Report

- National investment priorities and ongoing projects in the energy sector - Report
- Regional and national priority projects in the energy sector- Report
- Electricity Road Map Template
- Gas Road Map Template
- The Explanatory Note on the Road Maps
- Structure for the statements on monitoring of security of supply – Report
- Concept paper on Mutual Assistance
- The safeguard measures in the Energy Community - register, information and supervision mechanism - Report

Other activities were related to the transition from the interim phase of the iECS to the final one, and represent mainly preparation of draft Procedural Acts and related papers.

During the reporting period, the iECS was also involved in the organisation of the 1st Mini-Gas Forum on 13 October 2006 and the 9th Athens Forum on 24-25 October 2006.

The iECS also assisted the European Commission in preparing the final text of the Memorandum of Understanding for the development of a social pillar of the Energy Community Treaty.

2.2. iECS transition towards an international organisation

2.2.1. iECS involvement in preparation of Procedural Acts

As mentioned above, the Grant Contract foresaw the set up of an interim Energy Community Secretariat for the period before the Treaty entered into force. The Treaty entering into force on 1 July 2006 provided the legal basis for setting up the Secretariat, as a permanent Institution under the Treaty, having an international organisation status.

The transition process from the current phase of an interim Secretariat to the final one, requires a number of actions that includes, among others:

- The signing of the Headquarter Agreement between the Republic of Austria and the Energy Community (under preparation),
- The preparation and adoption by the Ministerial Council of Procedural Acts,
- The design of the new organisation structure and personnel, and
- Recruitment of personnel.

The iECS was involved in assisting the European Commission and the PHLG in the preparation of several draft rules of procedure and Procedural Acts, for the adoption by the Ministerial Council in the meeting of 17 November 2006, in Skopje. These are:

- Rules of procedure for the PHLG,
- Rules of procedure for the Ministerial Council,
- Procedural Act on budgetary rules,
- Rules for recruitment, working conditions of the Secretariat's staff, and
- Procedural rules on the status of Observer.

This is nevertheless a work in process and the iECS will also be involved in the implementation of these acts, in the future.

2.2.2. Preparation of the new organisation structure and staffing

The definitive Secretariat as an international Institution created under the Treaty is expected to have an enlarged number of personnel and additional functions. The Secretariat prepared a proposal on this matter and discussed it with the European Commission in the meeting on 27 September 2006, in Brussels. Having in view that the recruitment process is based on international competition, the Secretariat prepared draft job descriptions.

2.3. Assistance to the Contracting Parties

This subchapter refers mainly to the assistance given by the iECS to the Contracting Parties at the request of the Permanent High Level Group for the implementation of the Treaty. It refers to other provisions of the Treaty than those dealing with the opening of the electricity and gas market. This latter one is presented in detail under subchapter 2.4.

The iECS prepared and presented a number of papers to guide the Contracting Parties through the Treaty implementation process, especially related to the Security of Supply (Article 29), Safeguard Measures (Articles 36-39) and Mutual Assistance (Articles 44-46). These are described below and also available upon request at the iECS's office.

2.3.1. Draft Structure for the statements on monitoring of security of supply

The agenda of the Expert Meeting held in Vienna on 14-15 September 2006 included the Security of Supply issues. In order to assist the Contracting Parties better understand this, the iECS presented the obligations on the Security of Supply under the Energy Community Treaty. Case studies on electricity security of supply in Albania, Bulgaria, the former Yugoslav Republic of Macedonia and UNMIK were also described. The presentation made also by the iECS on gas short term Security of Supply issues stressed the need to adopt national measures for managing supply disruptions, giving also some guidelines for their development.

The Treaty (Articles 29-30) requires the Contracting Parties to adopt the Security of Supply Statements, within one year from the entry into force. The Expert Meeting's Conclusion nr. 12 asked the iECS to draft the structure of Security of Supply statements, for the approval at the PHLG meeting on 17-18 October 2006. Consequently, the iECS has prepared the draft which is presented at the 18th PGLH meeting.

2.3.2. Nomination of Security of Supply Coordinators

At the Ministerial Council meeting of 7 June 2006, Ministers called for the establishment of a system for the active monitoring of security of supply issues. Parties agreed to establish a system of coordinators for this matter on a governmental level (it being understood that this system excludes operational issues). Further, the Parties will appoint a coordinator before the Ministerial meeting in November 2006 and will submit the name and contact details to the iECS. The co-coordinator shall be responsible to respond to all reasonable requests for information of the other parties on security of supply issues. As a response to this request, the iECS organised a system of registering the coordinators, and having this information available at all times.

2.3.3. Concept paper on Mutual Assistance

According to Article 3c of the Treaty establishing the Energy Community, the activities of the Energy Community shall, among others, include “the creation for the Parties of a market in Network Energy without internal frontiers, including the coordination of mutual assistance in case of serious disturbance to the energy networks or external disruptions, and which may include the achievement of a common external energy trade policy”.

Having this in view, the iECS was asked at the Expert Meeting on 14-15 September 2006 (Conclusion nr.15) to prepare a concept paper on Mutual Assistance.

The iECS prepared a paper, which purpose was to explain the legal background set by the Treaty establishing the Energy Community, and which relates to the mutual assistance in case of serious disturbance. The Treaty also calls for a Procedural Act for the operation of the mutual assistance obligation. The paper that will be discussed at the 18th PHLG meeting on 17-18 October 2006, presents also a well known case of electricity crisis in Albania which occurred in the 4th quarter of 2005, and points out to the solidarity exhibited and mutual assistance offered by the neighbouring country, the former Yugoslav Republic of Macedonia.

2.3.4. The safeguard measures in the Energy Community - register, information and supervision mechanism - draft paper

As the Treaty entered into force on 1 July 2006, its provisions and the deadlines became mandatory for all signatory parties.

Under Title III Chapter VII, Articles 36-39 Safeguard measures – the Contracting Parties may temporarily take necessary safeguard measures. The party concerned shall without delay notify these safeguard measures to the Secretariat, which shall immediately inform the other Parties. The Treaty and the Directives (electricity 2003/54/EC and gas 2003/55/EC) give to the Parties a possibility to take non-specified emergency measures in the event of a sudden crisis. It is evident that the measures taken by the Parties must comply with the normal criteria of being the measures least restrictive of trade and competition necessary to prevent a sudden crisis.

In order to assist the Contracting Parties to prepare themselves to undertake measures in the event of a sudden crisis on the Network Energy market, the iECS prepared a guiding paper that proposes the establishment of a register, communication information and supervision mechanism about safeguard measures, including the list of the documents containing provisions relevant for the safeguard measures in the event of a sudden crisis:

- The Treaty establishing the Energy Community: Title III – Mechanism for Operation of Network Energy Markets, Chapter VII – Safeguard Measures, Articles 36-39 (more closely, Article 38 in relation with Article 36)
- Directive 2003/54/EC: Chapter VIII – FINAL PROVISIONS, Article 24 – Safeguard measures
- Directive 2003/55/EC: Chapter VII – FINAL PROVISIONS, Article 26 – Safeguard measures
- Directive 2005/89/EC² (concerning measures to safeguard security of electricity supply and infrastructure investment): Article 1(1) – Scope, Article 4(3-4) – Operational network security

² Not listed in the acquis on energy for the purpose of the Treaty establishing the Energy Community (Art. 11). Transposition in the EU Member States due by 24 February 2008.

- Directive 2004/67/EC³ (concerning measures to safeguard security of natural gas supply): Article 1 – Objectives, Article 5(1a) – Reporting, Article 8 – National emergency measures, Article 9 – Community mechanism.

2.4. Activities related to the process of power and gas market opening

The Grant Contract requires the iECS, under Task 1.) Activities related to Market Structure and Oversight to undertake the following actions:

- (1) Draft and provide a Road Map at state and regional level for necessary reform following the direction of the EC and the PHLG (Permanent High Level Group as to Athens Memorandum) and the input of the forum; and
- (2) Assist authorities to developing state Action Plans, monitoring the implementation of the *Acquis Communautaire*, including the use of benchmarking and reporting to relevant parties.

The entering into force of the Treaty establishing the Energy Community on 1 July 2006, gave another boost to the implementation process, and raised the level of engagement by the Contracting Parties. As a consequence, at the 17th PHLG meeting in Zagreb on 31 May 2006, the Contracting Parties expressed interest to prepare their own tailor-made, state level Road Maps/Action Plans that will be based on the same platform, under the guidance and with the assistance of the iECS.

Based on this decision, the iECS has initiated and facilitated the process by preparing a template/outline which is used as a guide for the Contracting Parties when preparing their own Action Plans. The first draft outline of a Contracting Party's Electricity Road Map was presented at the 8th Athens Forum in June 2006 when the stakeholders were invited to make comments and give recommendations.

The Ministerial Council at its meeting in Luxembourg in June 2006 stated a need for a report on the state of implementation and the challenges ahead of the internal market directives for electricity and gas and accompanying environmental safeguard legislation. That report would be accompanied by the Road Maps for market reform in electricity and gas as submitted by each Contracting Party.

Having this in view, the Expert (PHLG) Meeting in Vienna in September 2006, agreed on further steps relating to filling in the templates of the Road Maps by each Contracting Party. It is expected that each Contracting Party will fill in the templates, and the iECS will provide technical assistance to all those that requested it. The timetable proposed considered agreement on tailor made Road Maps at the PHLG meeting in October 2006, and report on the state of play to the Ministerial Council in November 2006.

2.4.1. Development of comparison tables

In order to be able to monitor 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. The activities were aimed at enabling the iECS to estimate the state of play with respect to the adoption of the *Acquis Communautaire* on energy, environment, renewable energy sources and competition, and use it as a reference starting point for the Road Maps/Action Plans.

³ Not listed in the *acquis* on energy for the purpose of the Treaty establishing the Energy Community (Art. 11). Transposition in the EU Member States due by 19 May 2006.

These activities included the preparation and circulation of a detailed questionnaire on the adoption of the *Acquis Communautaire*, as well as one on the implementation of the Electricity Transition Strategy. These were filled in by the Contracting Parties, assisted by the iECS, through structured interviews with the relevant institutions in country missions.

The findings that are also relevant for the achievement of Task 1.1 and 1.2 under the Grant Contract were incorporated in the following reports:

- *Report on the adoption of Acquis Communautaire by each Contracting Party*

The party by party report offers an accurate assessment of the status of the adoption of the Directives 2003/54/EC, 2003/55/EC and the Regulation 1228/2003 that have a bearing on the creation of liberalized energy markets. A summary report was presented at the PHLG Meeting on 31 May 2006 in Zagreb having in view also its presentation at then upcoming Ministerial Council meeting in June 2006. From the perspective of Task 1.1.a of the Grant Contract, the findings from these reports will be incorporated into the Contracting Parties' Road Maps/Action Plans, as well as into the Road Map at the regional level, and will also be used to monitor progress.

- *Comparison tables of key findings in the Acquis adoption, with respect to Institutional Building, Electricity, Gas, Competition, Environment, Renewable Energy Sources, Energy Infrastructure Projects and finally Conclusions*

As requested by the PHLG members at their meeting on 31 May 2006 in Zagreb, for the sake of the mutual explicit comparison of the Contracting Parties, the iECS prepared the tables in July 2006, in both narrative, and graphic, colour grading form, for each Directive/Regulation required by the Treaty to be adopted. In relation to the Task 1.2 of the Grant Contract, the comparison tables could be used as the basis for the benchmarking and reporting to the relevant parties, but also for easier monitoring of progress. These reports are available upon request at the iECS's office.

2.4.2. Development of state and regional level Electricity and Gas Road Map outlines

The approach proposed by the iECS for the Road Map/Action Plans outline – the same for electricity and gas – was to prepare a most comprehensive list of actions structured in 5 chapters for state level actions and chapter 6 with regional level one. This list represents the 'menu' necessary to fully adopt and implement the *Acquis Communautaire* on energy, and create a functional and liberalized electricity and gas market. The Contracting Parties are expected to extract from this template, the actions that are still pending and those that have been undertaken, but are not in full compliance with the Directives 2003/54/EC and 2003/55/EC, and the Regulation 1228/2003, or the Electricity Transition Strategy and prepare their own Action Plans.

The timetable provided by the outline indicates the final deadline as provisioned in the Treaty, while the Contracting Parties are expected to introduce their own deadlines for each pending action, but not later than the Treaty's final one.

The Road Map outline was designed to reflect actions that include both national and respectively, regional level actions that would make an impact on the electricity and gas

market opening. A similar outline was prepared for gas, taking nevertheless into account the particularities of gas industry and market.

In order to better assist the Contracting Parties to prepare their tailor-made Action Plans, the iECS proposed a full package to them, including:

1. The Explanatory Note
2. The Road Map structure
3. The Action Plan template
4. The Guidelines for each action under the Action Plan

The Explanatory Note was prepared to guide the Contracting Parties through the process of preparing tailor-made Action Plans including a practical example and offering a staged approach with the following deadlines:

- i. Drafting the outline by the iECS - September 2006
- ii. Tailor making the Action Plans by each Contracting Parties: September – October 2006
- iii. Obtaining the political commitment on the Road Maps at the Ministerial Council's meeting of November 2006
- iv. Implementation by the Contracting Parties: November 2006 – January 2008
- v. Monitoring by the iECS: November 2006 – January 2008.

The **Electricity Road Map structure** for electricity related topics included the following chapters: Chapter 1 - *Acquis Communautaire*; Chapter 2 – Market Structure; Chapter 3 – Wholesale market; Chapter 4 – Retail market; Chapter 5 – Tariff reform and Affordability; Chapter 6 – Market integration.

The Action Plan. Under each of the chapters, a number of subchapters were proposed, to make sure that Contracting Parties, when preparing their state Action Plan, cover all the areas that are foreseen in the Directive 2003/54/EC and the Regulation 1228/2003. For the sake of harmonization between the Contracting Parties' Action Plans, under each subchapter, an exhaustive list of actions is provided, with the overall deadlines that derive from the Treaty's obligations.

The Guidelines for each action under the Action Plan. It has been noticed by the iECS in the course of assessing the state of play, either by interviews or questionnaires, that some Contracting Parties reported as adopted or implemented a certain action, without this being properly or completely done so, in line with the Directives. Hence, the need has appeared to prepare detailed guidelines (check list) by the iECS for the Contracting Parties to use when adopting their own Action Plans. These include all the possible requirements under a certain subchapter and item. The checklist is expected to be used not only for new actions, but also to verify whether those that are already implemented are in compliance with the EC Directives/Regulations, or need an update or refining. For each subchapter and action, there is a checklist that should be consulted when preparing the state level Action Plans. The checklist/guidelines will also serve as an inventory of issues that needs to be answered to when it comes to monitoring of progress in the implementation of the Road Maps.

The **consultation process** on this approach included:

- The presentation of the first outline draft in the 8th Athens Forum
- Circulation of the draft to the PHLG members and other stakeholders for comments

- Development of the present Electricity Road Map/Action Plan outline, taking into account the comments received from some of the following Contracting Parties: Albania, Bosnia and Herzegovina, Croatia, Serbia, UNMIK, as well as from EFET, EURELECTRIC, E-Control (Austria), SEETEC project team and the World Bank
- A working session of the iECS with the SEETEC expert team to discuss especially the actions to be incorporated in the regional level Action Plan, based on the conclusions and recommendations of the SEETEC report “Study of the obstacles to trade and compatibility of market rules”
- Circulation of the package containing the Contracting Parties a most comprehensive list of actions structured in 5 chapters for state level and the Explanatory Note, the Electricity Road Map Structure, the Action Plan Template, and the Guidelines for each action under the Action Plan to the Contracting Parties for their final comments, and
- Discussion of these documents at the Experts Meeting in Vienna on 14-15 September 2006 for further clarifications with the Contracting Parties and the EC DG TREN.

The **Gas Road Map structure** follows the chapter structure of the Electricity Road Map, with some particular aspects of the gas sector, when referring to the action list.

The **consultation process** in the case of the Gas Road Map outline was less extensive than in the case of electricity, in the absence of a Gas Forum similar to Electricity Forum in Athens. Nevertheless the approach in this case, included also:

- Circulation of the draft to the PHLG members and other stakeholders for comments
- Development of the present Gas Road Map/Action Plan outline (no comments were received on the first draft)
- Circulation of the package containing the Explanatory Note, the Gas Road Map Structure, the Action Plan Template, the Guidelines for each action under the Action Plan to the Contracting Parties for their final comments
- Discussion of these documents at the Expert Meeting in Vienna on 14-15 September 2006 for further clarifications with the Contracting Parties and the EC DG TREN, and
- Presentation of the Gas Road Map outline in the Mini Gas Forum in Vienna on 13 October 2006, to stakeholders for information and comments.

2.4.3. Assistance to the Contracting Parties with their custom tailored Road Maps/Action Plans

This process has started with the preparation of the outlines, the Action Plan templates, the Guidelines and the Explanatory Note. The Expert Meeting that took place in Vienna on 14-15 September 2006 discussed the outlines and the action list and adopted these, as presented, with no changes. The iECS was requested by the Contracting Parties and supported by the EC DG TREN to provide technical assistance via emails, telephone calls and site visits when needed, to fill in the templates. In order to facilitate the process, the Director of the iECS sent letters to the Ministers in charge at each Contracting Party, highlighting the importance of the road mapping process, the need for coordinated actions at the regional level in order to be able to achieve the Treaty’s objective, as well as the tight deadlines given by the Treaty.

The following Contracting Parties requested assistance for the preparation of the Road Maps: Albania, Bosnia and Herzegovina, Croatia, the former Yugoslav Republic of Macedonia, Serbia and UNMIK. Country missions were scheduled for October 2006.

2.5. Activities related to the support of the Fora

2.5.1. Preparation of the 1st Mini-Gas Forum

According to the Treaty's provisions (Article 67.a), the Secretariat shall provide administrative support to the Ministerial Council, the Permanent High Level Group, the Regulatory Board and the Fora.

Consequently, the iECS, under the guidance of the European Commission was deeply involved in the preparation of the 1st Mini-Gas Forum held in Vienna on 13 October 2006. Being the first preparatory Mini - Gas Forum, the iECS tasks carried out in August and September 2006 were more challenging and consisted of drafting the Forum's Agenda, organising key speakers, preparing presentations by the Secretariat's gas experts, and finally organising the event from the logistic viewpoint. The topics of the Forum included: Security of supply and gas to Europe issues, the South East Europe: Regional Gasification Study, Regional natural gas projects, etc. The Gas Forum is composed of all interested stakeholders, including industry, regulators, industry representative groups and consumers, and shall have an advisory role to the Energy Community.

The targets of the fully fledged Gas Forum, when established are as follows:

- To bring together all stakeholders, companies from the sector and governmental representatives, donors community on a regular basis in order to discuss and agree on the key issues concerning the establishment of a competitive internal market for natural gas
- To establish a link for dialogue between the governments (Ministries, Regulatory authorities...) and the private sector in order to improve the investment climate in the Energy Community
- To monitor and report on regular basis, on gas sector's compliance with the Energy Community Treaty (implementation of Gas Directive, Security of Supply matters...)
- To set up working groups, if necessary, within the Forum in order to pursue certain subjects of key importance for the process of a single gas market
- To identify preventive measures in case of possible disruptions of gas supply
- To follow up recommendations of the studies prepared within the gas sector (i.e. WB Gasification Study, CEER studies...) and monitor the fulfilment of tasks assigned at the Forum.

2.5.2. Preparation of the 9th Athens Forum

The iECS was also deeply involved during the month of September 2006, in the organisation of the 9th Athens Forum, to be held in Athens on 23-25 October 2006.

The iECS' involvement included contribution to the Forum's Agenda, development of participants' list, logistic arrangements (venue, participants' invitations, hotel reservation, etc.), circulation of distribution materials, and last but not least, preparation of a presentation on the "Status quo on the Road Map development by the Contracting Parties and the monitoring process".

2.6. Update of the iECS Work Programme 2006 -2007

Having in view the evolvement of the Energy Community since the start of the iECS in February 2006, it appeared the need to refine and update the Work Programme, to reflect better the current state of play. Hence, the iECS prepared an updated version of the Work Programme that expands also to 2007, as many of the tasks of 2006 have respective follow ups beyond that year, to be endorsed by the PHLG meeting on 17-18 October 2006.

2.7. Support to the adoption of the 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 MoU by facilitating the debate on the initial draft text during the Expert Meeting in Vienna on 14-15 September 2006, collecting comments from the Parties, etc.

The endorsement of the final text by the PHLG members is expected at the Meeting on 17-18 October 2006.

3. OUTLOOK

The Secretariat shall continue the implementation of the objectives of the Work Program 2006 as adopted in March 2006 by the PHLG Group. A number of tasks related to the institutions building (ECRB, Gas Forum) as well as to administrative support of the ongoing international events (first PHLG and MC meeting after the entrance into force of the Energy Community Treaty) have been scheduled for the last quarter of the year 2006. Increased costs of traveling are expected in the last quarter of 2006 due to the follow-up mission traveling arrangements by the Secretariat's experts. An overall cost year-end estimation shows additional expenditures of approx. EUR 0,7m in total. Those cost will related on one side to the *other costs* approx. EUR 0,5m and to human resources and its related costs of approx. EUR 0,2m (incl. 14 remuneration payout in 11/2006).

Further, in the 4th quarter of 2006, the iECS will be involved in a number of important events and activities that are closely related to the progress of the Energy Community and the implementation of the Treaty.

These are:

- The 18th PHLG meeting on 17-18 October 2006, in Vienna,
- The 9th Athens Forum on 23-25 October 2006, in Athens,
- The 19th PHLG meeting on 16 November 2006, in Skopje,
- The Ministerial Council meeting on 17 November 2006, in Skopje, and
- Seminar on investments in the Energy Community – jointly organised with the Italian Government (date to be confirmed).

Apart from this, the iECS will start monitoring the implementation of state level Road Maps/Action Plans and report regularly to the European Commission, the PHLG and the Ministerial Council on the progress achieved.