

**CARDS Project 2005**

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

**Reference: 100-231**

# **QUARTERLY PROGRESS REPORT**

**(January - March 2007)**

**April 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 foreseen to be executed from 1 March 2005 until 31 December 2006, in total 22 months. 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)<sup>1</sup>.

Financing of activities for this project is provided under the CARDS<sup>2</sup> program (3.3 MEUR, 96% of the total) through Grant Contract No 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:

- To provide assessment on the energy reform progress, mainly interconnection networks, dispatching centres and legislative framework;
- To achieve an operational, integrated wholesale energy market from the end of 2007;
- To strengthen the relevant energy institutions, create the legal basis for a regional energy market and follow up implementation and progress of the Energy Community;
- To define necessary steps as established by the Athens Memoranda, Tirana Declaration and the Energy Community Treaty to create an Energy Community;
- To enhance access to networks and security of supply throughout the area, contributing to those objectives within the EU - it implies an assessment of reconstruction works of electricity, oil and gas infrastructure, power stations and transmission lines damaged by the war or by insufficient maintenance;
- To raise the efficient use of resources throughout the area and contribute to energy efficiency policies, renewables and any other matter as directed by the Energy Community Treaty or by its executive body, the Permanent High Level Group.

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

<sup>1</sup> Delay in project objectives' implementation resulted in an amendment of the commencement date of the project, i.e. 1 February 2006 instead of 1 March 2005, and end date of the project, i.e. 30 June 2007 instead of 31 December 2006. Consequently, deadlines for the reporting requirements in accordance with the Grant Contract 100-231, Annex I, had to be amended respectively.

<sup>2</sup> 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.

- 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;
- Task 5) Provide input to the Energy Community web site.

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 (EC) and the Permanent High Level Group (PHLG) in guiding the process of creating the Energy Community (EnC).

Therefore, all the activities undertaken by the interim Energy Community Secretariat as described bellow are related to the institutions under the Treaty, the provisions of the Treaty itself, or the Scope of Work from the Grant Contract.

## **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 1<sup>st</sup> Quarter 2007 Progress Report reflects the technical activities undertaken by the interim Energy Community Secretariat in the period January - March 2007 and the related budget spending within the reporting period January to March 2007. This is in line with the scope of work defined under point 4 of Annex I to the Grant Contract, as well as with the reporting requirements under this.

Apart from the *Quarterly Progress Report*, the iECS reflects the progress in the process of establishment and development of the Energy Community in a separate report "*Energy Community Report and its quarterly update*" in accordance with the requirements of Annex I, item 8 of the Grant Contract. This reporting requirement for the 1<sup>st</sup> Quarter of 2007 is due on 15 April 2007.

## 2. KEY ACTIVITIES

This chapter is organised in the following sub-chapters: (i) Summary; (ii) The iECS transition towards an international organisation; (iii) Assistance to the Contracting Parties; (iv) Activities related to the process of power and gas market opening; (v) Activities related to support of institutions under the Treaty. It presents all the new activities undertaken in the 1<sup>st</sup> Quarter of 2007, and also the way they relate to previous activities, of 2006, where it is the case.

### 2.1. Summary

During the period January – March 2007, the iECS undertook a number of tasks requested by the Grant Contract, the PHLG and the Ministerial Council (MC), and the Treaty itself. Some work represents the continuation of activities started in the 3<sup>rd</sup> and the 4<sup>th</sup> Quarter of 2006, such as the update of the Electricity and Gas Action Plans of each Contracting Party, to reflect the progress from November 2006 to March 2007. The update of the Comparison tables for electricity and gas (narrative and colour benchmarking, first prepared in July 2006) based on the developments in the Energy Community in the second half of 2006 and the first quarter of 2007. The update of the *Report on compliance with electricity benchmarks* with a revised version of March 2007.

The full list of reports and papers, templates, etc. prepared by the iECS in the 1st Quarter of 2007 and described bellow, is as follows:

#### Electricity Reporting Requirements

- Plan for implementation of the *Acquis* on renewables, template for the use of Contracting Parties in the preparation of their own plans;
- Report on compliance with electricity benchmarks - Revised March 2007;
- Report on regional market design;
- Report on state level compliance with regional market design.

#### Overall Reporting Requirements

- Quarterly Progress Report – QR4 2006 and present QR1 2007;
- Energy Community Report and its quarterly update – QR4 2006 and present QR1 2007;
- Good governance report;
- Energy Community Annual Report.

In the reporting period, the iECS assisted the Institutions under the Treaty as follows: the Energy Community Regulatory Board (ECRB) with the organisation of the Informal drafting meeting on 16 January 2007 in Vienna and with the 2<sup>nd</sup> ECRB meeting on 1 March 2007 in Athens; the PHLG with the organisation of the 4<sup>th</sup> PHLG meeting on 15 March 2007 in Vienna.

It contributed in the coordination of the Donors' Community work and the further programming of the technical assistance to the Contracting Parties.

The iECS also made progress with the transformation process in an international organisation, in the reporting period.

The iECS participated with papers or in the debates in a number of events (8) in the Energy Community.

## 2.2. The iECS transition towards an international organisation

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 body to the final one started in 2006 and continued in the QR1 of 2007; this has required a number of actions, including among others:

- The signing of the Headquarter Agreement between the Republic of Austria and the Energy Community<sup>3</sup>;
- The preparation and adoption by the Ministerial Council of Procedural Acts;
- The design of the new organisation structure and personnel; and
- Recruitment of new personnel.

In reference with the Headquarters Agreement, the Secretariat and responsible Ministry in Austria have finalised the negotiation of the Agreement and only some fine tuning remains to be done, at the time of the reporting. The relevant administrative steps for signing of the document, envisaged for some time in May 2007, have been initiated by the Ministry of Foreign Affairs in Austria.

In order to be able to progress with this, the following procedural acts were adopted by the Ministerial Council in the meeting of 17 November 2006, in Skopje:

- Rules of procedure for the Ministerial Council<sup>4</sup>;
- Rules for Recruitment, Working Conditions and Geographical Equilibrium of the Secretariat's staff<sup>5</sup>;
- Procedural act on budgetary rules<sup>6</sup>;
- Procedural rules on the status of Observer<sup>7</sup>;
- Procedural act on the Implementation of Annex IV of the Treaty<sup>8</sup>; and

<sup>3</sup> This is work in progress as of the date of this report.

<sup>4</sup> *Procedural Act No. 2006-01 Internal Rules of Procedures of Ministerial Council of Energy Community*, Energy Community Secretariat, Ministerial Council Meeting, Skopje, November 2006 ([link](#))

<sup>5</sup> *Procedural Act No. 2006-02 Rules for Recruitment, Working Conditions and Geographical Equilibrium*, Energy Community Secretariat, Ministerial Council Meeting, Skopje, November 2006 ([link](#))

<sup>6</sup> *Procedural Act No. 2006-03 Procedures for Establishment and Implementation of Budget, Auditing and Inspection*, Energy Community Secretariat, Ministerial Council Meeting, Skopje, November 2006 ([link](#))

<sup>7</sup> *Procedural Act No. 2006-04 Acceptance of Countries as Observers to the Energy Community*, Energy Community Secretariat, Ministerial Council Meeting, Skopje, November 2006 ([link](#))

<sup>8</sup> *Procedural Act No. 2006-05 Implementation of Annex IV of the Treaty establishing the Energy Community*, Energy Community Secretariat, Ministerial Council Meeting, Skopje, November 2006 ([link](#))

- Procedural act on appointment of a Director of the Secretariat<sup>9</sup>.

The Secretariat as an international institution created under the Treaty is expected to have an enlarged number of personnel and additional functions. The Director of the Secretariat prepared a proposal of a new organisational structure in this respect to become effective 1 July 2007 and presented to the European Commission for further proceedings. Having in view that the recruitment process is based on international competition, the interim Secretariat prepared draft job descriptions.

The staff members of the interim Secretariat who expressed their interest to apply for positions offered by the international organisation were interviewed on 6 December 2006 and 5 March 2007, in Vienna and Brussels by the Selection Committee. The Selection Committee is defined in the relevant article of the *Rules for Recruitment, Working Conditions and Geographical Equilibrium* and is to be composed in any case of representatives from the Commission, Presidency of EnC and the Director. The following persons were present at the Selection Committee meetings during the selection process in December 2006/March 2007: Mr. Brendan Devlin (European Commission DG TREN), Mrs. Chrysoula Argyriou (European Commission DG TREN), Mr. Eduards Deksnis (European Commission DG Enlargement), Mrs. Sofia Papantoniadou (DG ENLARG), Mr. Jean-Andre Barbosa (DG TREN), Mr. Simon Uzunov (EnC Presidency in office, 2<sup>nd</sup> HY 2006), Mr. A. Krcalovic (President in office, 1<sup>st</sup> HY 2007) Mr. Slavtcho Neykov (Director of the Secretariat). As a follow up, all the staff members who applied, were interviewed and offered to continue work with the Secretariat beyond the interim phase that is expected to end on 30 June 2007.

Following the envisaged increase in the number of Secretariat's officials, preparation of recruitment process for additional staff was undertaken in the reporting period. The advertising for new vacancies started on 30 March 2007, application deadline ends on 27 April 2007.

## 2.3. Assistance to the Contracting Parties

This subchapter refers mainly to the assistance given by the iECS to the Contracting Parties for the implementation of the Treaty, at the request of the PHLG. It also refers to a work related to the provisions of the Treaty other than those dealing explicitly with the opening of the electricity and gas market. For these ones, the assistance provided to the Contracting Parties is presented in detail under subchapter 2.4.

### 2.3.1. Plan for implementation of the *Acquis* on renewables

Article 20 of the Treaty establishing the Energy Community specifies that each Contracting Party shall provide to the European Commission within one year of the date of entry into force of the Treaty:

- a plan to implement **Directive 2001/77/EC** on the promotion of electricity produced from renewable energy sources in the internal electricity market and
- a plan to implement **Directive 2003/30/EC** on the promotion of the use of biofuels or other renewable fuels for transport.

The European Commission shall present the plan of each Contracting Party to the Ministerial Council for adoption.

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<sup>9</sup> *Procedural Act No. 2006-06 Appointment of a Director of the Energy Community Secretariat*, Energy Community Secretariat, Ministerial Council Meeting, Skopje, November 2006 ([link](#))

In order to facilitate the Contracting Parties' work in relation to this obligation under the Treaty, the iECS prepared a paper, proposing a common template<sup>10</sup>, which could be used in elaboration of their individual plans to implement the Directives 2001/77/EC and 2003/30/EC (the *Acquis* on renewables from the Treaty). Usage of such a common platform will also enable an easier and more explicit comparison of the Contracting Parties' plans.

This template outlines, in a structured and integrated way, the most important items from the Directives which need to be implemented by the Contracting Parties. It directly builds on provisions of the two Directives which are referenced throughout the template. The objective is to address in a single framework specific tasks which should be realised by the Contracting Parties and the European Commission. The Contracting Parties are expected to provide information in the empty fields dedicated to filling in data on responsible authority for the implementation, completion timeframe, and reference documents/status of the action.

In reference to the implementation plans, and in order to be able to adopt these within the deadline required by the Treaty, the iECS proposed, and the Ministerial Council adopted in Skopje (17 November 2006), the Work Programme for 2006 - 2007; under item B.4 this envisages a step by step approach to the preparation and adoption of the plans for implementation of the *Acquis* on renewables, which includes the following actions:

- iECS to conduct consultations on the approach with the Contracting Parties by 23 December 2006;
- iECS to provide assistance to the Contracting Parties in preparation of the implementation plans by 1 March 2007;
- Contracting Parties to provide implementation plans to the EC and iECS by 31 March 2007;
- EC and iECS to consolidate all plans by 31 May 2007;
- EC to present the plans of each Contracting Party to the Ministerial Council on 29 June 2007.

The template was sent out by the iECS to the Contracting Parties on 30 January 2007, with the request to fill it in and submit it to the iECS by 1 March 2007. The Parties that sent their Plan for the implementation of the *Acquis* on renewables before the PHLG meeting on 15 March 2007 included: Croatia, Serbia and UNMIK (but the latter one has not used the proposed common template).

At the same time, based on the information provided by the Contracting Parties up to 15 March 2007, the iECS updated the Comparison Table nr. 6 on Renewables, which was prepared in July 2006. The topic of Renewables (the template and the updated Comparison Table no. 6) was discussed at the 4<sup>th</sup> PHLG meeting<sup>11</sup> on 15 March 2007 in Vienna.

### **2.3.2. List of Generally Applicable Standards of the European Community**

As a part of the Treaty establishing the Energy Community (Title II – The Extension of the *Acquis communautaire*, Chapter VI – Compliance with generally applicable standards of the European Community), Articles 21-23 specify the following obligations:

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<sup>10</sup> *Plan for implementation of the Acquis on renewables – proposal for a template*, Energy Community Secretariat, 4<sup>th</sup> PHLG Meeting, Vienna, March 2007 ([link](#))

<sup>11</sup> The 4<sup>th</sup> PHLG Meeting, Vienna, March 2007 ([link](#))

- within one year of the date of entry into force of the Treaty, the Secretariat shall draw up a list of the Generally Applicable Standards of the European Community, to be submitted to the Ministerial Council for adoption; and
- the Contracting Parties shall, within one year of the adoption of the list, adopt development plans to bring their Network Energy sectors into line with these Generally Applicable Standards of the European Community.

In order to respond to its obligations from the Treaty related to drawing up a list of Generally Applicable Standards of the European Community, the iECS prepared and presented at the 4<sup>th</sup> PHLG meeting, a short paper<sup>12</sup> in which informed the Contracting Parties on the Secretariat's activities planned for in the 2<sup>nd</sup> Quarter of 2007, in relation to this topic.

The paper introduced also the next steps foreseen to facilitate the completion of the task by the Treaty deadline, as follows:

- iECS to draw up a list of Generally Applicable Standards in the European Community on the basis of information provided in given web pages by latest 30 April 2007;
- Contracting Parties to provide comments on content and acceptability of the list drawn by the iECS by latest 15 May 2007;
- iECS to finalise the list on the basis of comments given by the Contracting Parties by 30 May 2007 and submit it in due time for the PHLG and Ministerial Council's meeting, in June 2007.

### **2.3.3. Security of Supply**

In the course of 2006, a large number of papers and presentations related to monitoring Security of Supply, Mutual Assistance and Safeguard Measures in the Energy Community were delivered by the iECS to the PHLG members. These have been described in detail in the Quarterly Progress Report QR4 2006. During the reporting period, there was little progress registered with the preparation of the "Statements on monitoring of security of supply" or the nomination of Security of Supply Coordinators by the Contracting Parties, as foreseen by the Treaty. Therefore, the iECS re-iterated the importance of this topic and the need for progress at the Contracting Parties, at the 4<sup>th</sup> PHLG meeting (15 March 2007).

### **2.3.4. Assistance for preparation of primary and secondary legislation**

The iECS also facilitated the progress with the adoption of the *Acquis* on energy by the Contracting Parties, which is due by 1 July 2007 by providing comments and general remarks with respect to the compliance of their draft energy legislation, with the Directives provisions. The assistance was requested more for gas than for electricity related laws and secondary legislation.

### **2.3.5. Implementation of Action Plans and Road Maps**

The iECS provided a specific and targeted assistance for the implementation of Action Plans and Road Maps to Bosnia and Herzegovina and Montenegro, in country missions undertaken on 19-21 March 2007. In BiH, the scope of the mission was to register progress with the Electricity Action Plan implementation, and also to foster more activities in the implementation of the Gas Action Plan. Having in view the particular institutional regulatory

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<sup>12</sup> *Generally Applicable Standards – proposal for an approach*, Energy Community Secretariat, 4<sup>th</sup> PHLG Meeting, Vienna, March 2007 ([link](#))

set up in BiH, a specific assistance was dedicated to harmonisation of approaches of all three regulatory authorities in the implementation of the Treaty.

In Montenegro, the mission was dedicated to register progress, and advise the stakeholders on further actions for the implementation of the Electricity Action Plan. It also assisted the responsible authorities with the preparation for the Ministerial Council meeting, scheduled for 29 June 2007, in Montenegro.

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

With the entering into force of the Treaty on 1 July 2006, the Treaty provisions and deadlines became obligatory for the Parties that ratified it; by December 2006, all nine Contracting Parties and the European Community have ratified the Treaty.

In order to be capable to assist the Contracting Parties in the process of implementation of the Treaty's provisions, the iECS following the tasks provided under Grant Contract, undertook a number of activities in 2006 that continued also in the 1<sup>st</sup> Quarter of 2007.

The Grant Contract requires the iECS, under Task 1.) "Activities related to Market Structure and Oversight" to undertake the following actions that contribute to the realisation of the tasks as described in the Annex I to the Grant Contract - subparagraph "Specific activities"; these actions are given hereafter in 2.4.1-2.4.5.

The main output of these tasks is the preparation for establishment and opening of electricity and gas markets, at the Contracting Parties.

### 2.4.1. Update of the state of play reports, and the 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, made a significant preparatory work between March and June 2006. The activities were aiming 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; later on, the findings were also used as a reference starting point for the Road Maps/Action Plans, prepared by the iECS and the Contracting Parties. The 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, in the second and third quarter of 2006.

The findings (state of play as of June 2006) that are also relevant for the achievement of Task 1.1 and 1.2 under the Grant Contract were incorporated in the following reports:

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

These included "*The Country Reports*", "*Summary of the adoption of the Acquis by Contracting Parties*", the party-by-party report on "*Electricity Transition Strategy*". All these were largely presented in the *Quarterly Progress Report QR3 2006*<sup>13</sup>, and the *Energy Community Report – update QR3 2006*<sup>14</sup>.

<sup>13</sup> *Energy Community Report Quarterly Update 2006: QR3 July-September 2006* ([link](#))

<sup>14</sup> *Energy Community Quarterly Progress Reports 2006: QR3 July-September 2006* ([link](#))

In the first quarter of 2007, based on the updates received from the Contracting Parties and presented at the 4<sup>th</sup> PHLG meeting, the iECS prepared the update of the “*Electricity Transition Strategy - Progress Report*” for Albania, Bosnia and Herzegovina, Croatia, the former Yugoslav Republic of Macedonia, Montenegro, Romania and Serbia. They are included in Annex 1 of the *Report on state level compliance with regional market design*, as described in sub-chapter 2.4.5 of the present report.

- *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 December 2006, the Comparison tables for electricity and gas were updated, in form of the *Progress notice on electricity, and respectively gas* for the second half of 2006, with the information collected by November 2006; these were reported in the *Report on compliance with electricity benchmarks* and *Report on compliance with the gas benchmarks*, presented in the *Energy Community Report - 4<sup>th</sup> Quarter update* and also in the sub-chapter 2.4.3. The most recent developments in electricity within the Contracting Parties were consolidated in the Annex 1 of the *Report on compliance with electricity benchmarks – Revised March 2007*.

#### **2.4.2. Development and update of state level Electricity and Gas Road Maps and Action Plans**

In relation to the state and regional level Electricity and Gas Roads Maps and Action Plans, the Grant Contract requested 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 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 Treaty set the timetable for the implementation of the Directives 2003/54/EC and 2003/55/EC, and the Regulation 1228/2003/EC within twelve months of its entry into force. Having in mind that the Treaty entered into force on 1 July 2006, the deadline for the adoption and implementation of these two Directives and one Regulation is 1 July 2007.

The important preparatory work for the achievement of Task 1.1) was undertaken in the course of 2006 and presented in detail in the Energy Community Report and Quarterly Updates 2006: QR3 July - September 2006 ([link](#)); QR4 October - December 2006 ([link](#)). By October/November 2006, the iECS and the Contracting Parties finalised the Action Plans, which included the iECS proposing templates and providing guidance and assistance to all those that requested it. Based on the Action Plans, the iECS prepared the Electricity and Gas Road Maps for each Contracting Party in November 2006.

As a result of that, the most significant achievement of the last quarter of 2006, in relation to electricity and gas market opening for all non - household consumers since 1 January 2008 as foreseen by the Treaty, was the preparation of the Electricity and Gas Action Plans and

Road Maps for each Contracting Party and their endorsement by the Ministerial Council in its meeting of 17 November 2006 in Skopje. These will contribute, when fully implemented, to the realisation of the project's specific objective given as to "achieve an operational, integrated wholesale energy market from the end of 2007".

As the Action Plans and the Road Maps were drafted in October/November 2006, there appeared the necessity to update the *Action Plans* with recent progress<sup>15</sup> achieved within the last six-month period (till the end of March 2007). Therefore, the consolidated version of the *Report on compliance with electricity benchmarks – Revised March 2007* includes also the updated Electricity Action Plans for each Contracting Party.

### **2.4.3. Electricity and gas benchmarks and compliance with benchmarks**

Benchmarks are a very important tool for comparison of implementation level of the *Acquis*, in the Contracting Parties. Consequently, in October 2006, the iECS prepared the *Report on electricity benchmarks* and the *Report on gas benchmarks* in accordance with the reporting requirements as outlined in Annex I (Description of the Action), Chapter 8: REPORTS, of the Grant Contract Ref.:100-231 of the project "Facilitating and Implementing the Energy Community in South East Europe". These two reports were submitted to the European Commission on 31 October 2006.

Based on the same reporting requirements as above, the iECS produced, the *Report on compliance with the electricity benchmarks*<sup>16</sup>, and respectively the *Report on compliance with the gas benchmarks*<sup>17</sup>, which were submitted to the European Commission, by 29 December 2006. More information on the reports themselves is presented in the Energy Community Report – Update QR4 2006.

The main findings, derived from the iECS assessment, were organised in the following chapters: Institutional Organisation; Public Service Obligations and Customer Protection; Monitoring Security of Supply; Technical Rules; Generation; Unbundling Provisions and Access to Accounts; Third Party Access; Market Opening; Cross Border Trade Mechanism. An updated version of the *Report on compliance with the electricity benchmarks – Revised March 2007*<sup>18</sup> was produced by the iECS in March 2007 that consolidated all the developments in the electricity sector of the Contracting Parties between November 2006 and March 2007.

### **2.4.4. Good Governance Report**

The *Good Governance Report*<sup>19</sup> responds to the reporting requirements as outlined in Annex I (Description of the Action), Chapter 8: REPORTS, of the Grant Contract Ref.:100-231 of the project "Facilitating and Implementing the Energy Community in South East Europe".

This Report was finalised in January 2007 and provided the annual update on a state by state basis on issues relating to good governance, corruption and transparency. The information on current state of play and new developments within 2006 had been collected in

<sup>15</sup> *Progress notice in electricity*, 4<sup>th</sup> PHLG Meeting, Vienna, March 2007, *Notice* ([link](#)), *Meeting* ([link](#))

<sup>16</sup> *Report on compliance with the electricity benchmarks*, Energy Community Secretariat, December 2006 ([link](#))

<sup>17</sup> *Report on compliance with the gas benchmarks*, Energy Community Secretariat, December 2006 ([link](#))

<sup>18</sup> *Report on compliance with electricity benchmarks – Revised March 2007*, Energy Community Secretariat, March 2007 ([link](#))

<sup>19</sup> *Good Governance Report*, Energy Community Secretariat, January 2007 ([link](#))

a complete and symmetrical manner enabling state by state comparison. All issues of concern were listed in the Report and thereby made publicly available.

This first Good Governance Report was not restricted to an annual monitoring of specific behaviour of market participants and institutional organisations in the Contracting Parties. The Report singled out structural issues that impede the development of competitive markets in the Energy Community and therefore focused more on the establishment of institutional and legislative framework as a prerequisite to good governance.

The Report has been disseminated through posting on the Energy Community website, after being submitted to the European Commission by the end of January 2007.

### 2.4.5. Activities related to Regional Market Design

During the reporting period, two reports were prepared by the iECS that were related to the regional market design, as they are described bellow.

The first one is the *Report on regional market design*<sup>20</sup> responded also to the same reporting requirements as outlined in Annex I (Description of the Action) of the Grant Contract.

This was finalised in February 2007 and it contains, among others, an analysis of relevant market issues related to bilateral contracts, regional contract exchange and regional balancing, arrangements for protection of residential customers; it also identified secondary legal and regulatory measures that are needed for the market operation and submitted them for the attention of the PHLG.

The *Report on regional market design* is directly related to the *Report on state level compliance with regional market design* which was delivered by 30 March 2007, and contains an analysis on a party-by-party basis of the market administration and application of the peer review mechanisms to promote best practice. Indirectly, the *Report on regional market design* is linked to the *Report on compliance with electricity benchmarks* which contained the Road Maps and the Action Plans for national and regional electricity market opening, including a timetable of state and regional level actions required to support market opening with a regional dimension from 2008.

The second one is the *Report on state level compliance with regional market design*<sup>21</sup>. The iECS has conducted a series of activities prior to preparing this report. These activities are related to the indicators of achievements as presented in the (Table 1.1 of the LOG Frame Matrix from the Inception Report) in the following way:

1. Recognize anomalies and abuses in the market administration on a state by state and regional basis;

The iECS has collected, reviewed and compiled in the *Report* the most relevant information relating to national arrangements in the electricity markets of the Contracting Parties. The information is presented in detail in the Annexes (1-6) to the *Report*. First, provisions from the *Electricity Transition Strategy*<sup>22</sup> are analysed on a party-by-party basis; the *1<sup>st</sup> Follow Up Report*<sup>23</sup> from May 2006 has been updated to the March 2007 level. Then,

<sup>20</sup> *Report on regional market design*, Energy Community Secretariat, February 2007 ([link](#))

<sup>21</sup> *Report on state level compliance with regional market design*, Energy Community Secretariat, March 2007 ([link](#))

<sup>22</sup> *The Electricity Transition Strategy*, Ministerial Council of the Energy Community, December 2005 ([link](#))

<sup>23</sup> *Electricity Transition Strategy 1<sup>st</sup> Follow Up: Dec 2005 – May 2006*, Energy Community Secretariat, 17<sup>th</sup> PHLG Meeting, Zagreb, May 2006, Report ([link](#)), Presentation 1 ([link](#)), Presentation 2 ([link](#))

items from the Electricity Action Plans<sup>24</sup> are brought up together at explicitly comparable level in the tables of the Annexes 2-6 (2: *Acquis Communautaire*; 3: *Market Structure*; 4: *Wholesale Market*; 5: *Retail Market*; 6: *Tariff Reform and Affordability*). Individual Electricity Action Plans are updated to the March 2007 level and included into the new version of the *Report on compliance with electricity benchmarks – Revised March 2007*. The iECS presents in the *Report* main findings as per structure proposed in the *Report on regional market design* for monitoring the key indicators of the operation of the regional market.

2. Propose an approach to correct and/or prevent anomalies and abuses;

On the basis of the information presented above, the iECS in its common work with the PHLG and other national stakeholders - mainly transmission system operators (TSOs) and regulatory authorities (RAs) - has identified the main activities needed per each Contracting Party and singled them out in so called Road Maps for the implementation of the *Acquis Communautaire* on energy (electricity part; Directive 2003/54/EC and Regulation 1228/2003/EC) and the adoption of necessary measures to open the electricity market to competition. Both, the Road Maps and the Action Plans, represent not only a commitment by the Contracting Parties to undertake the measures required for opening the energy markets at the deadlines foreseen by the Treaty, but also a tool for the iECS to review the proper implementation by the Parties of their obligations under the Treaty. Through a willing cooperation of the PHLG, the iECS has introduced a practice of a regular and periodic updating of the progress achieved along the Road Maps and the Action Plans starting from the 4<sup>th</sup> PHLG Meeting. The iECS will continue with monitoring of the key indicators through established structure and make the monitoring results publicly available to all relevant stakeholders within the EnC process (MC, PHLG, Electricity Forum) by issuing adequate benchmarking reports.

3. Endorse competition in the electricity sector to the benefit of the final consumers;

The iECS, in a willing cooperation with the PHLG and other national stakeholders, has developed the Road Maps and the Action Plans not only on the basis of the *Acquis Communautaire* on energy (electricity part; Directive 2003/54/EC and Regulation 1228/2003/EC) as required by the Treaty establishing the Energy Community (the Treaty), but also on the basis of the SEETEC's 'Study of the Obstacles to Trade and Compatibility of Market Rules'<sup>25</sup>, which was recently concluded and presented at the 9<sup>th</sup> Electricity Forum in Athens in October 2006<sup>26</sup>. The Study was launched with the aim to recognise the present status of wholesale trading and retail supply for big customers in an attempt to identify the main obstacles for the trading and competition to develop<sup>27</sup>. The Study contains an outline of action plan on how to remove the main obstacles and also includes specific recommendations applicable to individual Contracting Parties to the Treaty. The

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<sup>24</sup> *Electricity Road Map Template*, Energy Community Secretariat, 9<sup>th</sup> Electricity Forum, Athens, October 2006, Paper ([link](#))

<sup>25</sup> *Study of the Obstacles to Trade and Compatibility of Market Rules*, CIDA/SEETEC, 9<sup>th</sup> Athens Forum, Athens, October 2006 ([link](#))

<sup>26</sup> *The 9<sup>th</sup> Athens Forum*, 23-25 October 2006, Athens ([link](#))

<sup>27</sup> *Compatibility of market rules*, European Commission, Presentation, 7<sup>th</sup> Athens Forum, Athens, November 2005 ([link](#))

recommendations are developed more specifically (regional/national) ranking them in terms of priority (short/medium/long) and including timeframe for their implementation. Based on the Study, the iECS has conducted a further introspection of the national arrangements of the electricity market administration through the Road Maps and the Action Plans in an attempt to further endorse competition to the benefit of the final consumers, especially starting from 1 January 2008 when all non-households shall be given eligibility status as per Annex I of the Treaty.

The *Report on state level compliance with regional market design* presents the information collected in accordance with all three indicators of achievement (1 - 3), brought up at the same time level (March 2007), and also in an explicit and mutually comparable table format. Regular updates of the information are necessary and envisaged.

Both *Reports* are largely distributed through the Energy Community web site.

## **2.5. Activities related to support of institutions under the Treaty**

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

### **2.5.1. Support to the Permanent High Level Group**

In the 1<sup>st</sup> Quarter 2007, the iECS assisted the Presidency in Office to organise the 4<sup>th</sup> PHLG meeting (after the Treaty's entry into force), on 15 March 2007 in Vienna. The iECS support consisted of inviting participants, drafting Agenda, preparing and distributing materials for the meeting, making presentations, drafting conclusions, providing logistical and financial support for the event organisation, and travel financial support to the CARDS countries' representatives.

### **2.5.2. Support to the Energy Community Regulatory Board**

The Energy Community Regulatory Board had an informal drafting meeting, for the preparation of the work programmes of the three ECRB working groups - Electricity, Gas and Customer Protection - on 16 January 2007 in Vienna. The iECS assisted with circulation of invitations, contributions to the Agenda, and the Minutes of the meeting, a presentation of the link between the ECRB and the iECS, etc. The iECS also offered logistic support for the meeting.

The second ECRB meeting took place on 1 March 2007 in Athens and the iECS's support consisted in circulation of materials and invitations, preparing the Minutes of the meeting, and providing logistic support for the organisation of the meeting.

### **2.5.3. Organisation of the Investment Seminar and the 10th Athens Forum**

In the 1<sup>st</sup> Quarter of 2007, the iECS started to organise, under the guidance of the European Commission, the Investment Seminar scheduled for 23 April and the 10<sup>th</sup> Athens Forum scheduled for 24-25 April 2007 in Athens. The iECS's involvement included preparation of the Seminar (agenda, speakers, participants, venue, etc), as well as contributions to the Forum's agenda, development of participants' list, logistic arrangements (venue, participants' invitations, hotel reservation, etc.); the iECS also provided logistic arrangements for the

Energy Community meetings, of the ECRB and its WGs, ETSO, EURELECTRIC, and the Donors' Community meeting, foreseen for 24 April 2007 in Athens.

#### **2.5.4. Preparation of the 2<sup>nd</sup> Mini-Gas Forum**

The iECS, under the guidance of the European Commission started the organisation of the 2<sup>nd</sup> Mini-Gas Forum, to be held on 11 May 2007 in Vienna.

The Secretariat's tasks in the reporting period included preparing the Mini-Gas Forum's agenda, organising key speakers, selecting the venue, participants, etc.

### 3. OTHER ACTIVITIES

The iECS undertook also other activities that derived directly from the Grant Contract, or from the Treaty itself, or they were mandated through the conclusions of the PHLG meetings, in the reporting period.

#### 3.1. Assistance to the Donors' Community

Following the obligations from the Grant Contract under Task 3 - Act as an information centre on donors' activities with respect to investments and technical assistance, and Task 4 - Co-ordination of the donors' group, the iECS undertook in 2006 the following activities that had an impact in the 1<sup>st</sup> Quarter of 2007:

- Organised the Donors' Community meeting on 5 December 2006 in Vienna.
- Organised a joint meeting Donors' Community and the Contracting Parties on 5 December 2006 in Vienna, in order to facilitate the communication between these. In this meeting, the Contracting Parties had a new opportunity to present their priority projects and the requests for technical assistance for the implementation of the Treaty.
- The iECS consolidated the requests for technical assistance received from the Contracting Parties, reviewed them in terms of prioritisation and submitted them to donors for consideration on 22 December 2006. This action was mandated by the conclusion nr. 4 of the joint meeting.

Continuing to assist the Donors' community, the iECS circulated the *Request for Technical Assistance from the Contracting Parties for the implementation of the Treaty establishing the Energy Community* and collected Donors' comments in the reporting period. Comments were received from the EAR and were incorporated in the initial version, to produce an update of 8 March 2007; this was re-circulated to the Donors' community for their consideration of support.

The iECS prepared also a paper called *Matrix of Donors and IFIs and their projects in the Energy Community*. This was intended to give a clear picture of the on-going and planned investment activities and technical assistance that would enable avoiding overlapping of assistance. The matrix was circulated within the Donors' Community, at the end of January 2007 and received a clarification from the European Investment Bank (EIB).

#### 3.2. The Energy Community website

Under the Task 5 of the Grant Contract, the iECS is requested to "provide input to the Energy Community website".

The initial project of designing the Energy Community website was developed into a better organised, more informative, easier to access information tool, in the 4<sup>th</sup> Quarter of 2006; this was continued in the 1<sup>st</sup> Quarter of 2007. The relevant reports prepared by the iECS and that are for public consultation, reports presented at the Fora, conclusions of the meetings of the institutions established under the Treaty, news, conference announcements, press releases, energy related reports released by international organisations, etc. are uploaded or have a link on the Energy Community website. This tool is also considered important for potential investors and is updated regularly.

### **3.3. Support to the adoption of the Memorandum of Understanding for the development of a social pillar of the Energy Community Treaty**

The iECS continued to assist the European Commission in preparing the final draft text of the MoU, by facilitating further debates on the text proposed by the Commission, during the 4<sup>th</sup> PHLG meeting on 15 March 2007. As a conclusion of this meeting, the PHLG asked the European Commission, with the support of the Secretariat, to develop and distribute for comments an updated version of the Memorandum with a detailed explanatory note on the content, the views on the next steps, the relevant time frame and legal justification of the envisaged steps. Based on that, the PHLG will be asked to provide comments and only after that, next steps shall be respectively considered.

### **3.4. Preparation of the Annual Energy Community Reports**

During the reporting period two reports were prepared to reflect the activities undertaken and the progress registered in the Energy Community since the start up phase in March 2005 and till December 2006.

The first one was the *ECSEE Annual Report*<sup>28</sup> prepared to respond to the reporting requirements as outlined in Annex I (Description of the Action), Chapter 8: REPORTS, of the Grant Contract Ref.:100-231 of the project "Facilitating and Implementing the Energy Community in South East Europe". This report was sent to the BMWA which submitted it to the European Commission - DG Enlargement.

The second one was the *Energy Community Annual Report* that was prepared by the iECS to respond to the tasks of the Energy Community Work Programme 2006-2007; this report has been distributed to the PHLG and the Ministerial Council members.

### **3.5. Participation in the Energy Community's events**

In the 1<sup>st</sup> Quarter of 2007 the iECS took part in a number of events organised within the Energy Community, with presentations and/or debate participation. These are listed below:

- 5<sup>th</sup> SEC-TF Meeting (ERGED), 15 January 2007;
- ECRB Informal drafting meeting, Vienna, 16 January 2007;
- EMRA Study Visit to E-control on Guarantees of Origin and Green Certificate Trade, Vienna, 22 - 24 January 2007;
- EC-Austrian Joint Meeting on the Energy Package, Vienna, 9 February 2007;
- Workshop between Austrian and Bulgarian Regulatory Authorities on the "Liberalisation of the Electric Power Market According to the Domestic Market Guideline", Vienna, 26-27 February 2007;
- ECRB 2<sup>nd</sup> meeting, 1 March, Athens;
- IIR Congress "EPCON 2007", Baden, 26 March 2007;
- Joint European Commission/ERGED conference "The Regional Initiatives – Progress and Prospects", Brussels, 28 March 2007.

<sup>28</sup> The *ECSEE Annual Report*, Energy Community Secretariat, March 2007 ([link](#))

## 4. OUTLOOK

Following the implementation of the Grant Contract and the Work Programme, in the next reporting period (April – June 2007), the iECS will undertake the following major activities:

- Review the implementation of the Action Plans by the Contracting Parties and assist them when requested; Report on the progress to the Ministerial Council 29 June 2007;
- Prepare the list of generally applicable European technical standards and norms of the European Community for the application in the Energy Community territory;
- Prepare the *Final Report on compliance with electricity benchmarks* as outlined in Annex I (Description of the Action), Chapter 8: REPORTS, of the Grant Contract Ref.:100-231 of the project “*Facilitating and Implementing the Energy Community in South East Europe*”;
- Prepare the *Energy Community Report – Quarterly update QR2 2007*, as outlined in Annex I (Description of the Action), Chapter 8: REPORTS, of the Grant Contract Ref.:100-231 of the project “*Facilitating and Implementing the Energy Community in South East Europe*”;
- Prepare the *Quarterly Progress Report – QR2 2007* as outlined in Annex I (Description of the Action), Chapter 8: REPORTS, of the Grant Contract Ref.:100-231 of the project “*Facilitating and Implementing the Energy Community in South East Europe*”;
- Prepare the *Final Report* as outlined in Annex I (Description of the Action), Chapter 8: REPORTS, of the Grant Contract Ref.:100-231 of the project “*Facilitating and Implementing the Energy Community in South East Europe*”;
- Facilitate the preparation of the *National Reports* (benchmarking reports) submitted by the relevant national authorities and produce the Annual Report on the implementation of the electricity and gas *Acquis* within the Energy Community;
- Assist the Contracting Parties to prepare the Action Plans for the implementation of the *Acquis* on renewable energy;
- Assist the Contracting Parties to prepare the *Security of Supply Statements*;
- Assist with the preparation of a *Procedural Act* for the operation of the mutual assistance obligation;
- Work with the Contracting Parties, the Donors’ Community and IFIs to progress in the definition of investment projects with true regional character;
- Continue to provide assistance to the Donors’ Community;
- Continue to provide assistance to the Institutions of the Treaty;
- Continue the support to the adoption of the Memorandum of Understanding for the development of a social pillar of the Energy Community Treaty;
- Finalise the transformation of the iECS into the Secretariat as an Institution of the Energy Community under the Treaty.

Further more, in the 2<sup>nd</sup> Quarter of 2007, the iECS will organise or be involved in a number of important events that are closely related to the progress of the Energy Community and the implementation of the Treaty.

These are:

- The Energy Security, Potentials and Investment Forum, 3 April 2007, in Zagreb;
- The Investment Seminar, 23 April 2007, in Athens;
- The 10<sup>th</sup> Athens Forum, 24-25 April 2007, in Athens;
- The Mini-Gas Forum, 11 May 2007, in Vienna;
- ERRA 6<sup>th</sup> Energy Regulation and Investment Conference, 21-22 May 2007, Istanbul;
- The Parliamentarian Conference on Developing an Energy Community in SEE, 24-26 May 2007, Sofia;
- The 5<sup>th</sup> PHLG meeting, 28 June 2007, in Podgorica;
- The 2<sup>nd</sup> Ministerial Council Meeting, 29 June 2007, in Podgorica.

The financing of iECS activities within 2007 will continue under the funds available to the iECS out of the Grant Contract project 100-231. In order to obtain further funds related to the project, the Beneficiary, BMWA shall submit an interim report being a requirement under Article 2 of Annex II of the Grant Contract, while applying. This report presents technical and financial information to the Counterpart of the Contracting Authority while presenting a request for payment. Further financing of the EnC activities in the years 2008-2009 will be provided under the scheme provided by the Treaty and its Annex IV and Articles 73-75.