

CARDS Project 2005

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

Reference: 100-231

QUARTERLY PROGRESS REPORT

(April - June 2007)

July 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 entire personnel was recruited, the project implementation period was extended until 30 June 2007, through an amendment to the Grant Contract between the European Commission and the *Bundesministerium fuer Wirtschaft und Arbeit* of Austria (BMWA)¹. Financing of activities for this project is provided under the CARDS² program (3,3 MEUR, 96% of the total) through the Grant Contract No.100-231 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, 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:

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

¹ The 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.

² 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.

- 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 establishing the Energy Community 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.

Between 1 March 2005 and 30 June 2007, an interim Energy Community Secretariat (iECS) was established first and then as becoming operational it was mandated to assist the European Commission (EC) and the Permanent High Level Group (PHLG) in guiding the process of establishing the Energy Community (EnC).

Therefore, all the activities undertaken by the iECS 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.

Starting from 1 July 2007, the iECS will be functioning as international organisation based on the Headquarters Agreement between the Energy Community and the Republic of Austria regarding the seat of the Secretariat.

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 *Quarterly Progress Report 2007 QR2* reflects the technical activities undertaken by the iECS in the period April - June 2007 and the related budget spending within the reporting period. 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 called "*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 2nd Quarter of 2007 is also due by mid of July 2007. The two reports are complementary to each other: while the *Quarterly Progress Report* reflects mainly the activities undertaken by the iECS with the view of advancing the implementation of the Treaty in the Energy Community, the *Energy Community Update* focuses more on the progress made by the Energy Community in the reporting period, as reflected through the findings of the iECS in missions, interviews, questionnaires and also reported by the Parties themselves in the PHLG meetings, etc.

2. KEY ACTIVITIES

This chapter reflects all the new activities undertaken in the 2nd Quarter of 2007, and also the way they relate to previous activities, of the 1st Quarter of 2007, where it is the case; it 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.

2.1. Summary

During the period April – June 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 1st Quarter of 2007, such as the *Final Report on compliance with electricity benchmarks* (delivered on 30 April 2007), which was based on the *Report on compliance with electricity benchmarks - March 2007 Revision* (delivered on 30 March 2007), the *Report on regional market design* (delivered on 28 February 2007), as well as the *Report on state level compliance with regional market design* (delivered on 30 March 2007).

In the reporting period, the iECS also prepared a *Report on gas regional market design*, although the Grant Contract does not request for it. This was done for the easier monitoring of the progress of gas market progress in the Energy Community.

The full list of reports and papers prepared by the iECS in the 2nd Quarter of 2007 is described below:

General Reporting Requirements related to the Grant Contract

- *Quarterly Progress Report – 2007 QR2, June 2007*
- *Energy Community Report and its quarterly update – 2007 QR2, June 2007*

Electricity Reporting Requirements related to the Grant Contract

- *Final Report on compliance with electricity benchmarks* (related to the Grant Contract), April 2007

Gas Reporting Requirements related to the Grant Contract

- *Nothing scheduled*

Overall Reporting Requirements related to the Grant Contract

- *Final Report, June 2007*

Reporting related to the Treaty

- *Report on gas regional market design, April 2007*
- *List of Generally Applicable Standards for electricity* (for the Ministerial Council Meeting on 29 June 2007), May 2007
- *List of Generally Applicable Standards for gas* (for the Ministerial Council Meeting on 29 June 2007), May 2007

- *Annual Report on the Activities of the Energy Community to the European Parliament and the National Parliaments* (for the Ministerial Council Meeting on 29 June 2007), May 2007
- *Report on the plans for implementation of the Acquis on renewables in the Contracting Parties* (for the Ministerial Council Meeting on 29 June 2007), May 2007
- *Interim Report of the study "Implementation of the Acquis on renewables in the Energy Community Contracting Parties"* contracted by EIHP Zagreb, June 2007
- Report on the implementation of the Treaty (for the PHLG Meeting on 28 June 2007), June 2007
- *Report on the statements on monitoring of security of supply* (for the Ministerial Council Meeting on 29 June 2007), June 2007.

In the reporting period, the iECS assisted the Institutions under the Treaty as follows:

- the Regulatory Board - Working Groups on electricity, and respectively gas, with the organisation of their meetings on 24 April 2007 in Athens;
- the Electricity Forum with the organisation of the 10th Athens Forum on 24-25 April 2007, in Athens;
- the Gas Forum with the organisation of the 2nd Mini-Gas Forum on 11 May 2007, in Vienna, including the 4th Joint Working Group on Gas Infrastructure and Regulation meeting which took place on 10 May 2007, prior to the Mini-Gas Forum;
- the PHLG with the organisation of the 5th PHLG Meeting on 28 June 2007 in Becici, Montenegro;
- the MC with the organisation of the 2nd Ministerial Council Meeting on 29 June 2007 in Becici, Montenegro.

The iECS also organised the *Seminar on Electricity Investments in the Energy Community: Challenges and Opportunities*, on 23 April 2007 in Athens.

It contributed to the coordination of the Donors' Community work and to further programming of their technical assistance to the Contracting Parties (the iECS supported the Donors' Community with the organisation of the meeting on 24 April 2007 in Athens).

The iECS also concluded the transformation process of the interim ECS into an international organisation, by signing the Headquarter Agreement between the Republic of Austria and the Energy Community, on 29 May 2007.

The iECS participated with papers/presentations or in the debates in a number of eleven events 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 continued in the 1st and the 2nd Quarter of 2007, and was finalised on 29 May 2007 with the signing of the Headquarter Agreement between the Republic of Austria and the

Energy Community. Ratification of the aforementioned Headquarter Agreement is pending as of the date of reporting.

In the process of establishing the Energy Community Secretariat as a full international body, a number of activities were undertaken by the interim ECS, that included:

- Design of the new organisational structure: the organisational chart³ was endorsed by the Ministerial Council in the meeting of 29 June 2007 in Montenegro; and
- Recruitment of new personnel matching the chart.

The Secretariat as an international body created as one of the Institutions under the Treaty is expected to have an enlarged number of personnel and additional functions. Director of the Secretariat prepared a proposal of a new organisational structure. The personnel recruitment process was prepared and implemented under the coordination of DG TREN. Job advertisements were placed in *Der Standard* (Austrian daily newspaper), *the Economist*, the Energy Community web page and were circulated to a large data base of national and international stakeholders by email, on the 30 March 2007. The selection process was conducted through the months of May and June 2007 and was finalised in July 2007 with the successful recruitment of 10 staff members. This concluded the interim phase of the Secretariat.

2.3. Assistance to the Contracting Parties

This subchapter refers mainly to the assistance provided by the iECS to the Contracting Parties for the implementation of the Treaty, at the request of the PHLG members. It also refers to the work derived from the provisions of the Treaty, other than those dealing explicitly with the opening of the electricity and gas market. For the latter ones, the assistance provided to the Contracting Parties is presented 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.

In accordance with the timeline proposed by the iECS and accepted by the PHLG members in the 4th PHLG meeting on 15 March 2007, and with the view to assist Contracting Parties, the iECS prepared an explanatory paper, distributed a template⁴ recommended to be used in elaboration of Contracting Parties individual plans to implement the Directives 2001/77/EC and 2003/30/EC. The use of such a common platform will also enable an easier and more explicit comparison and monitoring of the Contracting Parties' plans.

During the months of April and May 2007, the iECS assisted the Contracting Parties to fill in the proposed template and by doing this, to prepare the implementation plans for the

³ The Organisational Chart of the Energy Community Secretariat, 2nd MC Meeting, Becici, June 2007 ([link](#))

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

Directives 2001/77/EC and 2003/30/EC. The Plans were reviewed by the Secretariat and consolidated in a report entitled as the *Plans for implementation of the Acquis on renewables in the Contracting Parties*⁵.

In accordance with the Treaty's requirements under Article 20, the Contracting Parties' individual plans were presented by the European Commission to the Ministerial Council for adoption, on 29 June 2007, in Montenegro.

On the same topic of renewable energy sources, the iECS commissioned a study on the *Implementation of the Acquis on renewables in the Energy Community Contracting Parties* to the ENERGY INSTITUTE HRVOJE POZAR of Zagreb, Croatia. The Interim Report was submitted in June 2007; the Final Report is due in August 2007. It is expected that this study will critically review the implementation plans prepared by the Contracting Parties and give a neutral estimation of the implementation outlook.

2.3.2. List of Generally Applicable Standards of the European Community (electricity and gas)

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:

- 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 4th PHLG meeting, a short paper⁶ in which informed the Contracting Parties on the Secretariat's activities planned for in the 2nd Quarter of 2007, in relation to this topic.

In accordance with the timeline proposed by the iECS and accepted by the PHLG, the iECS drew up a list of Generally Applicable Standards in the European Community for electricity⁷ and respectively gas⁸, on the basis of information provided on the relevant web pages by 17 April 2007; as the Contracting Parties did not provide comments on content and acceptability of the lists drawn by the iECS as agreed by latest 15 May 2007, the iECS concluded that the list was accepted by the Contracting Parties and presented it to the Ministerial Council for adoption in its meeting of 29 June 2007, in Montenegro.

2.3.3. Statements on Monitoring Security of Supply

In accordance with Article 29 of the Treaty, the Contracting Parties are requested to adopt statements on monitoring security of supply within one year from the entry into force. In the course of 2006, a large number of papers and presentations related to the Monitoring

⁵ *Plans for implementation of the Acquis on renewables in the Contracting Parties*, 5th PHLG Meeting, Becici, June 2007 ([link](#))

⁶ *Generally Applicable Standards – proposal for an approach*, Energy Community Secretariat, 4th PHLG Meeting, Vienna, March 2007 ([link](#))

⁷ *List of Generally Applicable Standards for electricity*, 2nd MC Meeting, Becici, June 2007 ([link](#))

⁸ *List of Generally Applicable Standards for gas*, 2nd MC Meeting, Becici, June 2007 ([link](#))

Security of Supply, Mutual Assistance and Safeguard Measures in the Energy Community were delivered by the iECS to the PHLG members, in order to inform them on these topics. These papers have been described in detail in the 4th Quarterly Progress Report 2006 (QR4 2006).

During this reporting period (QR-2/2007), iECS provided assistance to the Contracting Parties to prepare their national "Statements on Monitoring of Security of Supply". By 30 June 2007, six Contracting Parties (with the exception of the former Yugoslav Republic of Macedonia) have prepared their Statements and submitted them to iECS, which presented these to the PHLG⁹. These Statements were also presented at the 2nd Ministerial Council Meeting on 29 June 2007 in Becici, Montenegro. More details about the content of the statements are presented in the Energy Community Report 2007 QR2 Update. The iECS offered technical assistance for the preparation of the Statements on Monitoring Security of Supply to all the Contracting Parties that requested it, and, in particular to Croatia, whose statement has also become a reference document, and Albania, where country missions were undertaken specifically for that purpose.

2.3.4. Assistance for preparation of primary and secondary legislation

During the reporting period, the iECS also facilitated the progress with the adoption of the *Acquis* on energy by the Contracting Parties, which was due by 1 July 2007 by providing comments and general remarks with respect their draft energy legislation's compliance with the *Acquis*, in particular to gas acts in Albania and Croatia. The assistance was requested in general more for gas than for electricity related laws and secondary legislation.

2.3.5. Implementation of the Action Plans and the Road Maps

The iECS provided a specific and targeted assistance for the implementation of the Action Plans and the Road Maps to Albania, in a country mission undertaken by both electricity and gas experts on 28-30 May 2007. The scope of the mission was to register the country's progress with the Electricity Action Plan's implementation, and with the investment projects; to assist with the preparation of Statement on Monitoring Security of Supply, and of the Plan for Implementation of the *Acquis* on Renewables.

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 the Grant Contract, undertook a number of activities in 2006 and the 1st Quarter of 2007 that continued also in the 2nd Quarter of 2007.

The Grant Contract requires the iECS, under Task 1.) "Activities related to Market Structure and Oversight" to undertake several 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 2.4.1-2.4.2. The main output of these tasks is the preparation for establishment and opening of electricity and gas markets, at the Contracting Parties.

⁹ *Statements on Monitoring Security of Supply*, 5th PHLG Meeting, Becici, June 2007 ([link](#))

2.4.1. 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*¹⁰, and respectively the *Report on compliance with the gas benchmarks*¹¹, 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.

An updated version of the *Report on compliance with the electricity benchmarks – Revised March 2007*¹² 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. In March 2007, the iECS also delivered the *Report on state level compliance with regional market design*¹³ on the basis of the *Report on regional market design*¹⁴ from February 2007.

In April 2007, the *Final Report on compliance with electricity benchmarks*¹⁵ was prepared, that responded 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 *Final Report on compliance with electricity benchmarks* first elaborates on the realisation of the objectives and then provides consolidated findings of all electricity related *Reports*, as follows:

- *Report on power and gas roadmaps for state and regional market opening*, Energy Community Secretariat, September 2006 ([link](#))
- *Report on electricity benchmarks*, Energy Community Secretariat, October 2006 ([link](#))
- *Road Maps and Action Plans*, for the Ministerial Council Meeting, Skopje, November 2006 ([link](#))
- *Report on compliance with electricity benchmarks*, Energy Community Secretariat, Initial findings of December 2006 ([link](#)) and Revised version of March 2007 ([link](#))
- *Report on regional market design*, Energy Community Secretariat, February 2007 ([link](#))
- *Report on state level compliance with regional market design*, Energy Community Secretariat, March 2007 ([link](#))

¹⁰ *Report on compliance with the electricity benchmarks*, Energy Community Secretariat, December 2006 ([link](#))

¹¹ *Report on compliance with the gas benchmarks*, Energy Community Secretariat, December 2006 ([link](#))

¹² *Report on compliance with electricity benchmarks – Revised March 2007*, Energy Community Secretariat, March 2007 ([link](#))

¹³ *Report on state level compliance with regional market design*, Energy Community Secretariat, March 2007 ([link](#))

¹⁴ *Report on regional market design*, Energy Community Secretariat, February 2007 ([link](#))

¹⁵ *Final Report on compliance with electricity benchmarks*, Energy Community Secretariat, April 2007 ([link](#))

More detailed information about the findings of the *Final Report* is presented in the *Energy Community Report Quarterly Update April – June 2007*.

2.4.2. Activities related to Regional Market Design

The activities related to the regional market design were mainly conducted in the 1st Quarter 2007 when two new reports and a revised one were prepared by the iECS related to electricity market design, as they are described below.

The first one is the *Report on regional market design* which 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 second one is the *Report on state level compliance with regional market design*, which was finalised in March 2007 together with a revised version of the *Report on compliance with electricity benchmarks*. It comprises the recognition of anomalies and abuses in the market administration on a state by state and regional basis, proposes an approach to correct and/or prevent anomalies and abuses, and endorses competition in the electricity sector to the benefit of the final consumers. It among others contains an analysis of the market administration and application of the peer review mechanisms to promote best practice, notification of anomalies and abuses on a state by state and regional basis, and technical assistance to the Contracting Parties to remove anomalies and/or abuses.

These *Reports* were described in detail in Quarterly Progress Report 2007 QR1.

In the 2nd Quarter of 2007, although the Grant Contract does not request for its preparation, the iECS has prepared the *Report on gas regional market design*¹⁶, in order to keep the symmetry in analysing energy markets by including gas as well. The *Report on gas regional market design* 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, identification of secondary legal and regulatory measures that are needed for the market operation and addressing them to the PHLG, recommendation of the guidelines for the market operation upon agreement with the Regulatory Board (RB), EC and PHLG.

This is analysed in more details in the Energy Community Report Quarterly Update April – June 2007.

2.5. Activities related to support of institutions under the Treaty

According to the Treaty's provision under Art. 67a, 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 Ministerial Council

During this reporting period, the iECS assisted the Presidency in Office and the European Commission to organise the 2nd Ministerial Council Meeting¹⁷ on 29 June 2007, in Becici, Montenegro. The iECS contributed to the Agenda and prepared background reports and explanatory notes on its items, for the information to the participants of the Meeting.

¹⁶ *Report on gas regional market design*, Energy Community Secretariat, April 2007 ([link](#))

¹⁷ *The 2nd Ministerial Council Meeting*, Becici, June 2007, Meeting ([link](#)), Agenda ([link](#)) and Conclusions ([link](#))

These included the following:

- *Report on Generally Applicable Standards, including the list for both electricity and gas, and the Explanatory Note;*
- *Report on the Plans for implementation of the Acquis on renewables in the Contracting Parties and the Explanatory Note;*
- *Report on Statements on Monitoring Security of Supply and the Explanatory Note;*
- *Annual Report on the Activities of the Energy Community to the European Parliament and the National Parliaments¹⁸ and Explanatory Note.*

The iECS made a number of presentations at the Meeting, and also contributed to writing the meeting's Conclusions. The iECS assisted the Presidency in office with the organisation of the Meeting and supported financially the PHLG members from the Contracting Parties for their attendance costs.

2.5.2. Support to the Permanent High Level Group

In the 2nd Quarter of 2007, the iECS assisted the Presidency in Office to organise the 5th PHLG Meeting¹⁹ on 28 June 2007 in Becici. The iECS's 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. The reports that were presented at the Ministerial Council were endorsed first by the PHLG; in addition the following report was prepared explicitly for the PHLG Meeting:

- *Report on the implementation of the Treaty²⁰ with the description of the progress and the gaps in the adoption of the Acquis Communautaire on energy (electricity and gas) of each Contracting Party.*

2.5.3. Support to the Regulatory Board

The Regulatory Board's Electricity and Gas Working Groups organised meetings on 24 April 2007 in Athens, prior to the 10th Athens Forum, and the iECS's support consisted in providing logistic support for the organisation of the meetings. The iECS also assisted with logistics, the organisation of the 3rd RB meeting to be held on 5th July 2007 in Athens.

2.5.4. Organisation of the Investment Seminar and the 10th Athens Forum

In the 2nd Quarter of 2007, the iECS organised the Investment Seminar: "Electricity Investments in the Energy Community: Challenges and Opportunities"²¹ on 23 April 2007, and the 10th Athens Forum²² on 24-25 April 2007, both in Athens. The iECS's involvement in the two events included the preparation of the Investment Seminar (agenda, speakers, participants, venue, moderation and minutes, etc), as well as contributions to the Forum's

¹⁸ *Annual Report on the Activities of the Energy Community to the European Parliament and the National Parliaments*, 2nd MC Meeting, Becici, June 2007 ([link](#))

¹⁹ *The 5th Permanent High Level Group Meeting*, Becici, June 2007, Meeting ([link](#)), Agenda ([link](#)) and Conclusions ([link](#))

²⁰ *Report on the Implementation of the Treaty*, Energy Community Secretariat, 5th PHLG Meeting, Becici, June 2007 ([link](#))

²¹ *Electricity Investments in the Energy Community: Challenges and Opportunities – the Investment Seminar*, Energy Community Secretariat, April 2007 ([link](#))

²² *The 10th Electricity/Athens Forum*, Athens, April 2007 ([link](#))

agenda, development of participants' list, logistic arrangements (venue, participants' invitations, hotel reservation, etc.).

The iECS also provided logistic arrangements for the Energy Community meetings held on the occasion of the 10th Athens Forum - of the ECRB and its WGs, SETSO, EURELECTRIC, and the Donors' Community - organised on 24 April 2007 in Athens as part of the Energy Community events.

More detailed information on the content and Conclusions of the Investment Seminar and the 10th Electricity/Athens Forum are presented in the *Energy Community Report and its quarterly update – 2007 QR2*.

2.5.5. Preparation of the 2nd Mini-Gas Forum

The iECS, under the guidance of the European Commission organised the 2nd Mini-Gas Forum²³ on 11 May 2007 in Vienna and also the 4th Joint Working Group on Gas Infrastructure and Regulation meeting which took place 10 May 2007, prior to the Mini-Gas Forum.

The iECS's tasks in the reporting period included preparing the Mini-Gas Forum's agenda, organising key speakers, selecting the venue, participants, and finally delivering the Forum. The same tasks were needed for the 4th Joint Working Group on Gas Infrastructure and Regulation meeting.

A more detailed description of the 2nd Mini-Gas Forum and the 4th Joint Working Group on Gas Infrastructure and Regulation meeting, including the topics discussed and the Conclusions will be presented in the Energy Community Report – Update 2007 QR2.

²³ *The 2nd Mini-Gas Forum*, Vienna, May 2007 ([link](#))

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 this 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 participated in the Donors Community meeting on 24 April 2007 in Athens and presented the updated version of the *Request for Technical Assistance from the Contracting Parties for the implementation of the Treaty establishing the Energy Community*, taking into consideration the information received from the European Agency for Reconstruction in particular, and the USAID on their current or planned assistance to the Contracting Parties. Further decision of the Donors, on what projects may be eligible for technical assistance is still pending. The Conclusions of the Donors Community meeting, to be released, should indicate the timetable for further actions.

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".

All the relevant reports prepared by the iECS 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. The website is regularly updated and is considered important tool for information exchange between the stakeholders within the Energy Community.

3.3. Support to the adoption of the Memorandum of Understanding on Social Issues in the context of the Energy Community

The iECS continued to assist the European Commission in preparing the final draft text of this Memorandum of the Understanding on Social Issues in the context of the Energy Community, by facilitating further debates on the text proposed by the EC, during the 4th PHLG Meeting on 15 March 2007 in Vienna. Based on the Conclusions of the 2nd Ministerial Council, the Memorandum will be open for signatures from October 2007 on. The Ministerial Council asked the PHLG to present to the next Ministerial Council meeting an options paper for the establishment of a forum in charge of addressing social issues.

3.4. Preparation of the Energy Community Reports

During this reporting period, the following reports were prepared and submitted to the European Commission to reflect the activities undertaken and progress registered in the Energy Community in the 2nd Quarter of 2007:

- The Quarterly Progress Report 2007 QR224 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”;
- The *Energy Community Report – 2007 Update QR2*²⁵ that was prepared by the iECS to respond to the same reporting requirements of the Grant Contract; and
- The *Annual Report on the Activities of the Energy Community to the European Parliament and the National Parliaments*²⁶ that was prepared by the iECS to respond to the obligation from the Treaty.

3.5. Participation in the Energy Community’s events

In the 2nd 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:

1. Caspian And Black Sea Oil And Gas Transport, Alternative Export Routes and Infrastructure, London, United Kingdom, 2–3 April 2007;
2. SEECF Conference: Energy Security, Potentials and Investment Forum: South East Europe an Energy Bridge between Russia, Caspian & Middle-East regions and the EU, Zagreb, Croatia, 3-4 April 2007;
3. Hydrocarbon Conference "UPEI", Brussels, Belgium, 18-19 April 2007;
4. Electricity Investment Seminar and the 10th Athens Forum, Athens, Greece, 23-25 April 2007;
5. EU and Black Sea Regional Cooperation, Berlin, Germany, 7-8 May 2007;
6. 2nd Mini-Gas Forum, Vienna, Austria, 11 May 2007;
7. 6th Energy Regulation and Investment Conference, Istanbul, Turkey, 21-22 May 2007;
8. Parliamentary Conference: Developing the Energy Community in South East Europe, Sofia, Bulgaria, 24-26 May 2007;
9. Turkey and the EU: Together for a European Energy Policy, Istanbul, Turkey, 5 June 2007;
10. 8th Edition Energy Trading Central & Eastern Europe, Prague, the Czech Republic, 6-7 June 2007;
11. Vienna Economic Forum - Istanbul Meeting, Istanbul, Turkey, 24 – 25 June 2007.

²⁴ *Energy Community Quarterly Progress Report 2007 QR2 April-June 2007*, Energy Community Secretariat, June 2007 ([link](#))

²⁵ *Energy Community Report Quarterly Update 2007 QR2 April-June 2007*, Energy Community Secretariat, June 2007 ([link](#)).

²⁶ *The Annual Report on the Activities of the Energy Community to the European Parliament and the National Parliaments*, Energy Community Secretariat, June 2007 ([link](#)).

4. FINANCIAL REPORT

4.1. Assets and financial situation as of 30 June 2007

<i>(in EUR)</i>	<i>QR 2-2007</i>	<i>Notes</i>
ASSETS		
FIXED ASSETS		
INTANGIBLE ASSETS		
Software, industrial property rights and similar rights	18.951,93	
TANGIBLE ASSETS		
Other fixtures and fittings, tools and equipment	37.205,41	
Total fixed assets	56.157,34	(1)
CURRENT ASSETS		
ACCOUNTS RECEIVABLE AND OTHER ASSETS		
<i>Other receivables and other assets</i>	-1.468,81	
<i>Cash on hand, equivalents and bank accounts</i>	60.519,21	(2)
Total currents assets	59.050,40	
TOTAL ASSETS	115.207,74	
Total Equity	475.148,57	(3)
Untaxed reserves from depreciations	-22.223,00	
PROVISIONS	-24.068,80	
LIABILITIES		
<i>Accounts payable from trade and services</i>	-50.760,06	
<i>Other liabilities</i>	-493.304,45	
TOTAL LIABILITIES	-544.064,51	
TOTAL EQUITY AND LIABILITIES	-115.207,74	(4)

Total assets (4) on 30 June 2007 amounts to EUR 115k and were composed of 49% related to the fixed assets and 51% related to the current assets.

Cash and cash equivalents stay at the level of EUR 60k; Note (2).

Equity, including retained earnings, equals EUR 475k at the end of June 2007; Note (3).

Liabilities from trade and service on 30 June 2007 amount to EUR 50k.

Other liabilities amount of EUR 493k represents a deferred income position meaning a non consumed portion of the grant received from the Commission with its status as of 30 June 2007. This amount will be adjusted accordingly in the course of closing the books and accounts of iSEG as per 30 June 2007. The final financial statement of iECS as of 30 June 2007 representing audited information (by Ernst & Young) will be finalised and presented to the Commission most likely by the end of August 2007.

4.2. iECS Budget Report QR2-2007

	ACTUAL 1-6/2007	BUDGET 1-6/2007	DEV (abs)	%
1. HUMAN RESOURCES				
Subtotal Human Ressources	310.231	741.166	-430.935	-58,1
2. TRAVEL EXPENSES				
Travel Expenses (flights and hotel)	21.355	152.427	-131.072	-86,0
Subtotal Travel	21.355	152.427	-131.072	-86,0
3. EQUIPMENT AND SUPPLIES				
Office equipment (furniture and communication equipment)	12.508	-96.505	109.013	113,0
Subtotal Equipment and Supplies	12.508	-96.505	109.013	113,0
4. OFFICE				
Office rent (excluding energy, water and chrges)	32.620	27.557	5.063	18,4
Consumables - office supplies, maintainance, cleaning	25.560	93.531	-67.971	-72,7
Other Services (tel/fax, IT and Communication)	27.551	34.459	-6.908	-20,0
Subtotal Office	85.730	155.547	-69.817	-44,9
5. OTHER COSTS, SERVICES				
Advertising and Communication (including publications)	8.403	47.513	-39.110	-82,3
Studies, research and consulting	92.716	665.538	-572.822	-86,1
Auditing costs, other legal-financial advice	5.352	18.000	-12.648	-70,3
Conference Organisation/Refunding	63.707	317.834	-254.127	-80,0
Financial Services (bank guarantee costs, etc.)	-1.560	0	-1.560	
Costs of conferences/seminars	1.488	31.210	-29.722	-95,2
Subtotal Other costs, services	170.106	1.080.095	-909.989	-84,3
TOTAL COSTS	599.931	2.032.730	-1.432.799	-70,5

In the reporting period to June 30, 2007 overall costs of EUR 600k occurred. Significant part of the costs is related to the Human Resources Costs which remains at the level of EUR 310k in the period to June 30, 2007. Other expenditures related to the Office related expenditures remain at the level of EUR 85k; Other Costs, Services at the level of EUR 170k at the end of June 2007.

4.3. Financial Outlook

Budget expenditure for the overall iSEG activities for the time March 2005 and 30 June 2007 shows an estimated amount of ca. EUR 2 Mio (*subject to review upon finalisation of the financial statement of 30 June 2007*).

With the entry into force of the Headquarters Agreement between the Energy Community and the Republic of Austria regarding the seat of the Secretariat signed on 29 May 2007 (see Art. 22), the association iECS, founded in April 2005 for the purposes of the facilitating and implementation of the Energy Community in South East Europe, is considered as being dissolved. The assets of the association are passed on to the Energy Community (follow-up organisation of the interim structure of the Secretariat). Based on the relevant stipulations of the Headquarters Agreement as well as the relevant decision of the General Assembly of the iECS association of 26 June 2007, finalisation of the accounts of iECS is to take place accordingly. The audit of the financial statements as of 30 June 2007 will be done by the audit company Ernst & Young starting on 6 August 2007. Final result regarding closing of the accounts for the association shall be finalised by the end of August 2007.

5. OUTLOOK YEAR END 2007

In accordance with the Scope of Work and the Reporting Requirements of the Grant Contract 100-231, iECS almost fulfilled all its obligations by 30 June 2007. The Final Report containing a detailed description of the conditions under which the project was carried out including detailed financial part referring to the whole implementation period of the action as well as a final statement of all the eligible costs of the action must be presented at the end of the project duration. This final report required under the Grant Contract shall be submitted by the BMWA by the end of August 2007 for further proceedings.

Following the Work Programme 2007 as well as the Conclusions of the 5th PHLG and the 2nd Ministerial Council Meetings, held on 28-29 June 2007 in Becici, iECS will undertake the following main activities in the period post June 2007:

- Review the progress with implementation of the Electricity and Gas Action Plans and the Road Maps by the Contracting Parties and assist them when requested; Report on the progress to the next Ministerial Council 28 November 2007;
- Follow up the conclusions of the 5th PHLG and the 2nd MC Meetings related to extension of the *Acquis*, investments and prioritisation of regional projects;
- Follow up the ongoing work related to renewables and energy efficiency;
- Initiate the monitoring process of the implementation of the *Acquis on Environment and Competition*;
- 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 for the adoption and implementation of the Memorandum of Understanding on Social Issues in the context of the Energy Community.

Furthermore, in the 3rd and the 4th Quarter of 2007, 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 as follows:

- Investment Conference, 28 September 2007 in Athens;
- Conference on Social Issues, 18 October in Vienna;
- 1st Gas Forum, 9 November 2007 in Maribor;
- 11th Athens Forum, 15-16 November 2007 in Athens;
- 6th PHLG meeting, 3-4 October 2007 in Vienna;
- 7th PHLG meeting 17 December (tentative date) 2007 in Belgrade;
- 3rd Ministerial Council Meeting, 18 December (tentative date) 2007 in Belgrade.