

Annex 4/16th MC/28-09-2018

Annex 11/50th PHLG/21-06-2018

**Director's Report
under Article 75 of the
Treaty establishing the Energy Community**

Financial year 2017

Contents

INTRODUCTION	3
Legal basis.....	4
Content of the report	5
SECTION I - 2017 ENERGY COMMUNITY BUDGET	6
Biannual Financial Framework.....	6
The budgetary procedure.....	7
Budget Management.....	8
Control of the Energy Community budget (audit)	11
SECTION II - 2017 ENERGY COMMUNITY BUDGET IMPLEMENTATION OVERVIEW.....	12
SECTION III - REVENUE.....	14
SECTION IV - EXPENDITURE	17
SECTION V - ANNEXES	21
Annex 1 - Rules and Procedures with relevance for the implementation of the budget	21
Annex 2 - Repayments of not used budget appropriations (2008-2017).....	22
Annex 3 – Legal Commitments carried forward from 2017 into 2018	23
Annex 4 - Utilization of budget appropriations (2008-2017).....	24
Annex 5 – Not used budget appropriations 2017	25
Annex 6 – Glossary.....	26

Introduction

The present 2017 annual report of the Director to the Ministerial Council (as required under Art 75 of the Treaty) gives an overview on the Energy Community spending in 2017, a year full of achievements and challenges. Realisation of the those was possible through provided funds to the Energy Community by Parties, i.e. the European Union (in 94,94%) and by the Contracting Parties (remaining 5,06%). Available funds were sufficient to implement all the tasks from the work program.

The Secretariat, as one of the institutions under the Treaty was steering the direction of development as regards the implementation of the European energy *acquis* in the region of the Contracting Parties. To perform this task the Secretariat

- drafted several primary laws and dozens of secondary legal acts to assist Contracting Parties in their transposition attempts,
- overseen implementation of the *acquis* under the Treaty by each of the Contracting Parties and reported on the progress through the Implementation Report,
- continued market monitoring activities through the independent regional body and institution of the Energy Community – Energy Community Regulatory Board (ECRB) - and entered into a cooperation with ACER to report for the first time on the data of the Contracting Parties' relating to gas and retail markets,
- through the ECRB further continued cooperation with other regional bodies such as Council of European regulatory Energy Regulators and the Mediterranean Energy Regulators by holding joint events,
- contributed to an increased presence of the Energy Community in social media (Twitter, Facebook) and continued to be the focal point for journalists seeking detailed information on the process and energy developments in the Contracting Parties,
- facilitated the process of relaunching of the Energy Community website (go-live in June 2017, more than 0,5 Mio visited the new webpage in 2017), with the aim to increase user friendliness and introduce new features allowing better use of it as a communication tool,
- In total, the Secretariat organised more than 250 meetings in 2017, which were of the established working groups, task forces, coordination groups and institutional bodies of the Energy Community.

Secretariat addressed challenges for the energy sectors of the Contracting Parties in line with those of the European energy policy, such as climate change. Through organisation of inaugural sustainability forum in 2017 key stakeholders discussed the pathway of transition towards the sustainable energy sources in the geographical scope of work of the Energy Community.

Secretariat put also its efforts to integrate and support Georgia as a new Contracting Party (joined on 1 July 2017) in the transposition and implementation of *acquis*.

It is through the other sources of financing, entrusted by the EU and other donors to the Secretariat (representing the Energy Community), in the amount of EUR 1,7 Mio. that a) electricity market reforms were further pursued in the Western Balkan countries, b) first activities related to the improvements of the legislative and regulatory framework in the Eastern Neighbourhood were defined and implemented in the area of electricity market reform with the identification of key regional energy infrastructure projects with the aim to improve security of supply.

Secretariat successfully organised Summer School of the Energy Community (with financial support by Vyshegrad Fund) that, in the long run, aims to promote the development of participants' competences in all topics related to energy and thus having positive impact on the region.

The Secretariat established also cooperation with International Financial Institutions ('IFI') through (1) signed (June 2017) **Memorandum of Understanding between the European Bank for Reconstruction and Development** ('EBRD') in respect of cooperation on sustainable development and 2) through **Framework For Cooperation between the United States Agency for International Development** ('USAID') and **Energy Community Secretariat** (in October 2017) to facilitate continued and deepened cooperation in the energy sector reforms in Europe and Eurasia region (including countries of coverage by the Energy Community process).

With all this efforts, the Secretariat is committed to ensuring that the Energy Community budget achieves the best outcomes for providing support for the Energy Community priorities and activities defined in the work program. Secretariat puts in place continued vigorous efforts towards implementation of the budget in accordance with the principle of the sound financial management.

Budget implementation in 2017 was smooth, effective, efficient and timely. It was discussed on regular basis as well as overseen by the Budget Committee.

Audits of one of the EU funded project were carried out twice (July 2017 and in December 2017); the overall results of the audited year-end accounts resulted in an *unqualified auditors' opinion*.

At the beginning of 2018, the annual accounts of the Energy Community ('financial statements') for 2017 were drawn up, audited and reported to the Budget Committee. The overall results of the audited year-end accounts resulted in an *unqualified auditors' opinion*.

To demonstrate Secretariat's commitment to providing necessary conditions for a result-oriented approach, and to ensure that the focus is placed on results (rather than amounts spent), a debate on the future possible approaches towards budgeting was launched at the end of 2017. This review will be an opportunity to take stock of Energy Community's achievements and of the need to react to major challenges in the future through performance based budgeting.

Legal basis

Article 75 of the Treaty establishing the Energy Community ("the Treaty") stipulates that the Director of the Secretariat shall report annually to the Ministerial Council on the execution of the budget.

Article 38 of the *Procedures for the Establishment and Implementation of Budget, Auditing and Inspection* ("*Budgetary Procedures*") stipulates further the obligation of the annual activity report of the Director.

The purpose of this report is to present a synthesis of the budgetary and financial management, as required by the above mentioned legal framework, of appropriations for the period ending 31 December 2017.

The analysis follows the International Public Sector Accounting Standard (IPSAS) 24 "*Presentation of Budget information in Financial Statements*" issued by the International Public Sector Accounting Standards Board (IPSASB) in December 2006. In accordance with the standards, the comparison of the budget and actual implementation shall be presented, for each heading (budget line)

separately, on the basis of both the original and the final budget amounts. Changes approved by the Director and/or Budget Committee to revise the original budget and the actual implemented amounts shall be also explained.

Content of the report

The report presents in details the expenditure and revenue side of the budget of the Energy Community. It also provides *information on (...) received donations and their usage*¹, as expressed in Article 15 of the *Procedures for the Establishment and Implementation of Budget, Auditing and Inspection*.

The report analyses the year at budgetary level including:

- A summary of the budgetary procedure 2017, explaining how the appropriations for 2017 arrived;
- A description of the main adjustments to this budget during the financial year and reasons for these adjustments, leading to final appropriations of the year;
- An overview of budget implementation;
- A summary of information on the revenue 2017;
- A summary of information on the expenditures of 2017 and
- An information of the outstanding commitments at the end of the financial year.

The implementation data is based on the final and audited actual results for the financial year 2017².

Amounts are presented in *EURO*, after rounding.

The term “final budget” in this report refers to the initial (original) budget adjusted with the changes due to other sources of revenue and after the budget transfers.

¹ 15(2) of the amended *Procedures for the Establishment and Implementation of Budget, Auditing and Inspection* (Ref.:2014/01/MC-EnC) of 23 September 2014

² See *Auditor's Report on the Financial Statements as of 31 December 2017* dated 23 March 2018

SECTION I - 2017 Energy Community budget

Biannual Financial Framework

The overall objectives and principles that guide the Energy Community and the institutions are set in the Energy Community Treaty. To attain its objectives and carry out its policies, EU and Contracting Parties to the Treaty provide the necessary funds for the functioning of the process.

The Director of the Energy Community Secretariat has a sole responsibility on the implementation of the budget in accordance with the principle of sound financial management.

The budget 2017 was approved by the Ministerial Council on the proposal of the European Commission³ at its meeting in 2015⁴.

The budget of the year was established in correspondence with the strategic planning of activities within the overall objectives of the Treaty establishing the Energy Community ("EnC") for the same period. Those activities are laid down in the corresponding EnC Work Program that was part of the budget proposal, which is also required under Article 25 of the *Budgetary Procedures*.

Ceilings

The biannual financial framework lays down the maximum amounts (ceilings) which Energy Community may spend in different categories of expenditure (headings, budget lines) each year. These ceilings set limits for commitments appropriations for each category of expenditure for each of the year.

Headings (Budget lines)

As far as the structure of the budget is concerned, Title V of the *Budgetary Procedures* defines the principle relevant for it.

Following the initially established structure, the distribution of the budget funds is allocated to four major categories of expenditures of the Energy Community, the so called "*budget lines*", subdivided into the subordinated lines, called "*budget positions*". The headings correspond to different types of expenditures (not activities).

1. Human resources include the resources for the employment of the Energy Community Secretariat personnel (temporary and permanent)
2. Travel budget line defines resources as required for the travel activities of the personnel;
3. Office expenditures include any resources that are necessary for the functioning of the Secretariat as a seat of the Energy Community
4. Other costs and services include resources required partially for further functioning of the Secretariat (outsourced services for IT and accounting) and for technical assistance provided to the Contracting Parties as well as management and refunding of events.

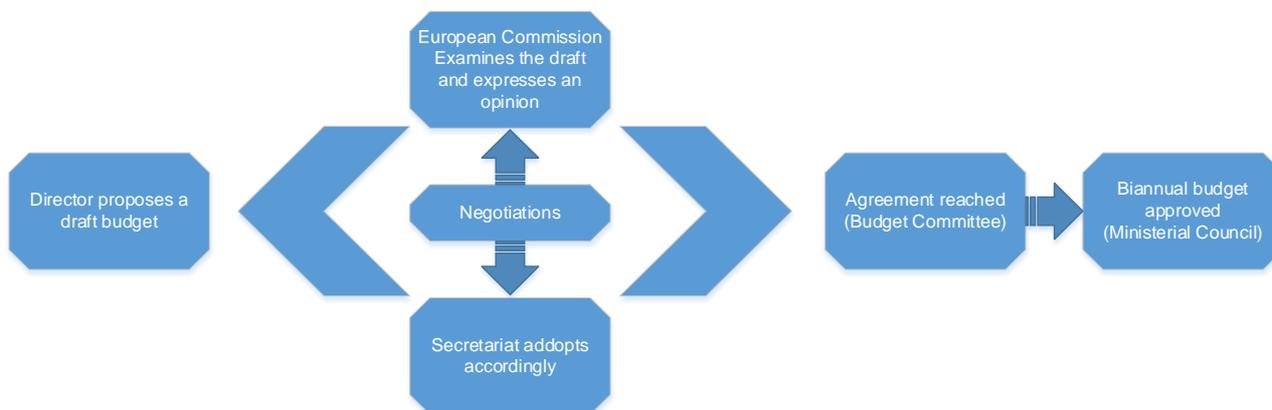
³ Article 88 of the Treaty establishing the Energy Community [see: http://www.energy-community.org/portal/page/portal/ENC_HOME/ENERGY_COMMUNITY/Legal/About_the_Treaty].

⁴ Procedural Act PA/2015/01/MC-EnC

Operational expenditures necessary for the functioning of its institutions are laid down in different parts of the budget. For the year 2017 the biannual budget sets a maximum of EUR 4.586.931 for commitment appropriations.

The budgetary procedure

Every second year the director of the Secretariat prepares a draft of the Energy Community budget respecting the structure of the budget and following the priorities of the Energy Community established in the outline of a work program of the upcoming period (2 years as a rule).



Commission’s draft proposal and Ministerial Council’s decision

Based on the proposal of the Director, the Commission decided 7 August 2015 on its proposal to the Ministerial Council on the budget of the Energy Community 2016-2017 (ref.: C(2015) 5526 final). Council of the Energy Community agreed on it by unanimity on 16 October 2015.

Summary of approved budget headings for both years is presented below:

BL	Description	Initial Budget 2016	Initial Budget 2017
1	Human Resources	2,408,900	2,457,079
2	Travel	360,600	367,812
3	Office	338,200	275,084
4	Other services	1,466,800	1,486,956
	Special instruments	p.m.	p.m.
	Total expenditure	4,574,500	4,586,931

Table 1: Energy Community Statement of Expenditure 2016-2017 (approved)

Budget Management

Budget management modes

Once the budget of the Energy Community is adopted, it is implemented directly by the Director of the Secretariat (Art 75 of the Treaty establishing the Energy Community) in accordance the procedure for the implementation of the budget, and for the presenting and auditing accounts and inspection (Art 74 of the Treaty).

During a year, the budget of the Energy Community is modified as it is often required by the changing conditions during the year of implementation. It is usually done either through transfers or through amending budgets that is based on the decision of the Director.

The final budget of a given year is considered as a final one, once the year in question ended and all its changes have been approved, within given competences by the Director or of the Budget Committee (see Art 18 of the Budgetary Procedures). The following aspects may cause changes in the annual budget of the financial year:

- **Unused Commitments** are budget contributions which have not been used (paid or invoiced) at the balance sheet date but for which commitments (e.g. by the commissioning of studies) have been entered into in the current year or in prior years;

At the end of 2017, an amount of EUR 423.110,00 was carried over from 2017 into 2018 by a decision of a Director (see Annex 3).

- **Amending** budgets take into account any aspects that could not been foreseen at the point at which the budget was prepared and adopted (i.e. financial interest gained).

Energy Community makes a technical adjustment to the budget at the end of each year, taking into consideration other sources of revenue, value of which is known only after the closure of the year-end accounts (special instrument 'pro memoria', see page 6). It is based on the decision of the Ministerial Council of 6 October 2011⁵ based on Commission decision (C(2011)6207 final) of 5 September 2011. For the year 2017, one budget modification was adopted ('pro memoria'). The impact on the revenue side of the 2017 budget is indicated in the table below:

Main subject	Total revenue 2017
Incorporation into budget position PI 330 (Consumables) relating to the other sources of revenue	1.878,95
TOTAL	1.878,95

Table 2: 'pro memoria' adjustment - Other sources of revenue 2018

⁵ MC-2011/PA/2011/01 Procedural Act of the Ministerial Council of the Energy Community on the adoption of the Energy Community budget for the years 2012 – 2013 and on the contributions by the Parties to this budget.

▪ **Transfers**

In 2017, several transfers were approved by the Director on the basis of Article 18(1) of the *Energy Community Budgetary Procedures*⁶.

The Budget Committee supported the Director on transfers of budget appropriations in the overall amount of EUR 272.200 within and between the budget lines of the overall (original) budget appropriations of EUR 4.586.931. This support related to the transfers within 10% of the total budget amount (Director's competence for transfers) and in the amounts exceeding 10% of total budget (the Budget Committee preliminary agreement requested)⁷. Transfers affect the total appropriations by increasing them with amounts released from the other budget lines/positions. Transfers between the budget lines modify the total appropriations of those lines.

The impact of all transfers is summarized in a table format below:

Budget line	Description	Initial budget 2016	Transfers		Final budget 2016
			to	from	
1	Human Resources	2,457,079.00			2,457,079.00
2	Travel				
	DSA	122,400.00		-18,700.00	103,700.00
	Travel Expenses	245,412.00		-29,600.00	215,812.00
3	Office				
	Office rent	25,000.00	40,000.00		65,000.00
	Office equipment	50,000.00	22,500.00		72,500.00
	Consumables	147,084.00		-8,100.00	138,984.00
	Other (office) Services	53,000.00		-200.00	52,800.00
4	Other Costs and Services				
	Advertising, communication, representation	56,304.00		-18,000.00	38,304.00
	Studies, research and consulting	459,000.00	7,500.00		466,500.00
	Costs of outsourced services	132,600.00		-10,500.00	122,100.00
	Costs of Audit, Legal and Financial Advice	106,080.00	202,200.00		308,280.00
	Financial services	15,300.00			15,300.00
	Conference costs	214,200.00		-76,100.00	138,100.00
	Refunding	330,480.00		-56,000.00	274,480.00
	Training	172,992.00		-55,000.00	117,992.00
	TOTAL	4,586,931.00	272,200.00	- 272,200.00	4,586,931.00

Table 3: Details of Transfers Budget Appropriations 2017

⁶ See *Procedures for the Establishment and Implementation of Budget, Auditing and Inspection* ([https://www.energy-community.org/portal/page/portal/ENC_HOME/DOCS/3570154/EnC_Budgetary_Procedures_update_2014_final_22-05-2014_\(new_template\).pdf](https://www.energy-community.org/portal/page/portal/ENC_HOME/DOCS/3570154/EnC_Budgetary_Procedures_update_2014_final_22-05-2014_(new_template).pdf)).

⁷ See Articles 18(1) and 18(2) of the *Procedures for the Establishment and Implementation of Budget, Auditing and Inspection* (MC/PA/2014/01).

Budgetary Procedures

The procedure applicable to the implementation of the Energy Community budget, and for presenting and auditing accounts and inspection (*Budgetary Procedures*) provide general principles governing the Energy Community budget.

It was adopted upon establishment of the Energy Community by Ministerial Council's decision in November 2006 and last amended in 2014⁸ with the purpose of simplification and allowing more flexibility in the budget management.

The revision clarified few aspects of budget implementations, clarified the roles and responsibilities and aligned the function of accountancy with the requirements of the Energy Community making it adequate to the organization' size.

Accounting Framework

The Energy Community is accountable for the money invested to the parties of the Treaty establishing the Energy Community and their citizens, who contribute to the Energy Community budget. As a single responsible for the implementation of the budget, the Director reports to the Council on how the budget was carried out under his responsibility, also through the present report.

The Energy Community accounts are prepared in accordance with the International Public Sector Accounting Standards (IPSAS), ensuring that the accounts provide relevant, reliable, comparable and understandable financial information to its stakeholders.

Annual accounts

The accounts provide information on the financial position (statement of financial position), financial performance (statement of financial performance) with detailed explanation of respective positions presented (notes to the financial statements). Further, a detailed report as required under IPSAS 24, on the execution of the Energy Community budget is part of the annual accounts.

Annual accounts comprise two main elements:

- Financial statements that show Energy Community's assets and liabilities and the revenues and expenditure of the period,
- Budget implementation report showing the ordinary budget, deriving from the contributions of the parties and extraordinary budget, established through other sources of revenue received (direct grants, donations).

The budgetary discharge

Every year the Ministerial Council, after taking account of the potential observations of the Budget Committee, examines the certified accounts and financial statements of the Energy Community and of the report of the external auditors, the view of granting the discharge of the Director from his/her management and administrative responsibility in respect of the budget of the year in question.

⁸ See MC-2014_PA_2014-01-MC-EnC of 23 September 2014

This procedure ensures full accountability and transparency and when granted, this discharge leads to formal closure of the accounts for a given year.

The integrated financial package being a basis for the discharge decision comprises the following documents:

- Director's Report on the budget utilization as required under Article 75 of the Treaty (the present Report)
- Annual accounts of the Energy Community 2017 that are produced in accordance with IPSAS
- Potential observations of the Budget Committee in relation with the audit as per Article 82 of the Budgetary Procedures

Control of the Energy Community budget (audit)

The annual accounts are audited by the assigned external audit company (in the biennium 2016-2017 KMPG), which gives its opinion both in a public report (published on a website of the Energy Community) and directly to the Budget Committee of the Energy Community therefore to the representatives of the parties to the Treaty.

In March 2018 the designated external audit company⁹ finalized the audit of the financial statements of the Energy Community for the year ended 31 December 2017. The audit scope included the review of the annual accounts of the Energy Community as well as of the internal control systems relevant for the implementation of the budget.

The key statement of the auditors for the relevant period ending 31 December 2017 is the following:

*"In our opinion, the financial statements present fairly, in all material respects, the financial position of the Organization as of 31 December 2017, and its financial performance for the year then ended in accordance with International Public Sector Accounting Standards (IPSAS)."*¹⁰

As a final result, statement of assurance has been issued by the audit company, which is the sound basis for the proposal of the decision on the discharge of the Director from his management and administrative responsibility for the financial year 2017.

For the last 10 years Energy Community has always received unqualified (clear) audit opinion on the reliability of the accounts.

⁹ In accordance with Article 80 of the *Budgetary Procedures*.

¹⁰ See Auditors' Report 2017.

SECTION II - 2017 Energy Community budget implementation overview

This section gives an overview of the implementation to the budget during the financial year 2017 and comments on the utilization of 2017 budget appropriations in comparison to the actual amounts.

As required by IPSAS 24¹¹, the execution of 2017 budget is presented as comparison of the budget and actual implementation, for each heading (budget line) separately, on the basis of both the original and the final budget (budget after 'pro memoria' adjustments) amounts.

This presentation is made both at the level of the budget line as well as of each budget positions within budget lines.

(in EUR)	Original Budget 2017	Changes due to other Sources of Revenue	Budget Transfers 2017	Final Budget 2017	Actual amounts 2017 on a comparable basis	Legal Commitments 2017	Actual amounts 2017 on a comparable basis incl. Legal Commitments	Actual amounts on a comparable basis incl. Legal Commitments [in %]	Unused Donations	Unused Appropriations
Notes		13			15					17
ORDINARY BUDGET										
1. HUMAN RESOURCES										
Subtotal Human Resources	2.457.079,00		0,00	2.457.079,00	2.405.635,29		2.405.635,29	97,91%		51.443,71
2. TRAVEL EXPENSES										
Daily Subsistence Allowance (DSA)	122.400,00		-18.700,00	103.700,00	103.644,80		103.644,80	99,95%		55,20
Travel Expenses (flights and incidentals)	245.412,00		-29.600,00	215.812,00	214.415,77		214.415,77	99,35%		1.396,23
Subtotal Travel Expenses	367.812,00		-48.300,00	319.512,00	318.060,57		318.060,57	99,55%		1.451,43
3. OFFICE EXPENSES										
Office rent	25.000,00		40.000,00	65.000,00	64.935,67		64.935,67	99,90%		64,33
Office equipment	50.000,00		22.500,00	72.500,00	72.404,81		72.404,81	99,87%		95,19
Consumables	147.084,00	1.878,95	-8.100,00	140.862,95	138.958,43		138.958,43	98,65%		1.904,52
Other Services	53.000,00		-200,00	52.800,00	52.795,86		52.795,86	99,99%		4,14
Subtotal Office Expenses	275.084,00	1.878,95	54.200,00	331.162,95	329.094,77	0,00	329.094,77	99,38%		2.068,18
4. OTHER COSTS AND SERVICES										
Advertising, communication and representation	56.304,00		-18.000,00	38.304,00	38.280,05		38.280,05	99,94%		23,95
Studies, research and consulting	459.000,00		7.500,00	466.500,00	466.500,00	374.380,00	466.497,00	100,00%		3,00
Costs of outsourced services (IT, payroll, etc.)	132.600,00		-10.500,00	122.100,00	122.032,69		122.032,69	99,94%		67,31
Costs of Audit, Legal and Financial Advice	106.080,00		202.200,00	308.280,00	308.219,25		308.219,25	99,98%		60,75
Financial services	15.300,00		0,00	15.300,00	15.137,60		15.137,60	98,94%		162,40
Conference costs	214.200,00		-76.100,00	138.100,00	132.553,52		132.553,52	95,98%		5.546,48
Refunding	330.480,00		-56.000,00	274.480,00	274.172,32		274.172,32	99,89%		307,68
Training	172.992,00		-55.000,00	117.992,00	69.099,03	48.730,00	117.829,03	99,86%		162,97
Subtotal Other Costs and Services	1.486.956,00		-5.900,00	1.481.056,00	1.051.611,46	423.110,00	1.474.721,46	99,57%		6.334,54
Subtotal Operating Expenses	2.129.852,00	1.878,95	0,00	2.131.730,95	1.698.766,80	423.110,00	2.121.876,80	99,54%		9.854,15
TOTAL EXPENSES - ORDINARY BUDGET	4.586.931,00	1.878,95	0,00	4.588.809,95	4.104.402,09	423.110,00	4.527.512,09	98,66%		61.297,86
EXTRAORDINARY BUDGET										
Donation Austria		170.000,00		170.000,00	170.000,00		170.000,00	100,00%	0,00	
Sponsor's Donation		7.200,00		7.200,00	7.200,00		7.200,00	100,00%	0,00	
Donation Poland		59.915,89		59.915,89	6.991,38		6.991,38	11,67%	52.924,51	
IVF Vyshegrad Fund		35.000,00		35.000,00	35.000,00		35.000,00	100,00%	0,00	
Grant Contract CONNECTA		497.515,08		497.515,08	227.547,09		227.547,09	45,74%	269.967,99	
Grant Contract EU4Energy		920.041,08		920.041,08	682.167,14		682.167,14	74,15%	237.873,94	
TOTAL EXPENSES - EXTRAORDINARY BUDGET		1.689.672,05		1.689.672,05	1.128.905,61		1.128.905,61	66,81%	560.766,44	0,00
ORDINARY & EXTRAORDINARY BUDGET	4.586.931,00	1.691.551,00	0,00	6.278.482,00	5.233.307,70	423.110,00	5.656.417,70	90,09%	560.766,44	61.297,86

Table 4: Comparison of Budget and Actual amounts for the year 2017 (see also Report on the Audit of the Financial Statements for the year ended 31 December 2017; "Audit Report", Annex I/3)

¹¹See glossary

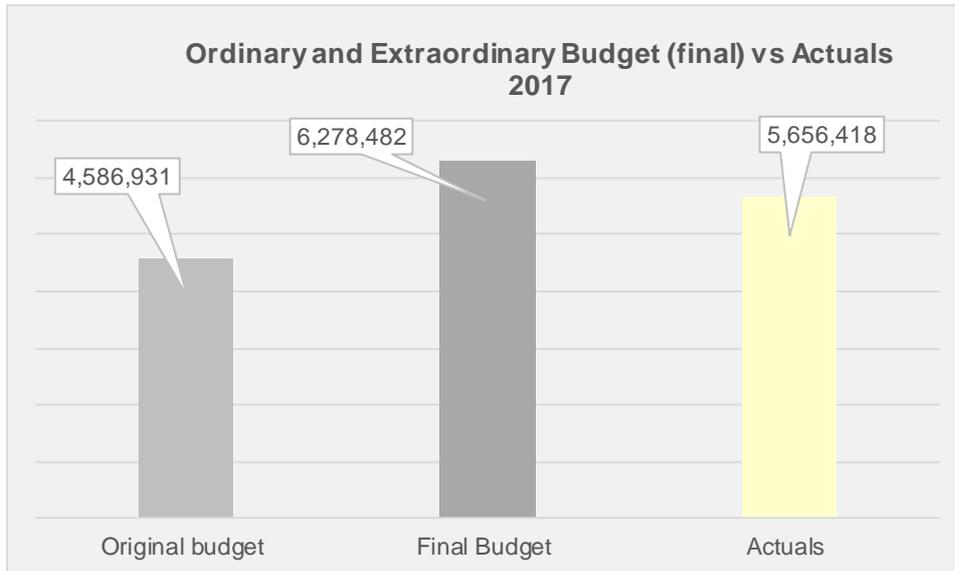


Chart: Energy Community Budget 2017 vs Actuals

SECTION III - Revenue

According to the principle of equilibrium the total Energy Community revenue must equal the total Energy Community budgeted expenditure. When determining parties' contributions, the starting point is the total amount of authorized expenditures.

Whereas the budget must be always kept in balance, at the end of the year there can sometimes be a positive difference (surplus) in comparison to the budget estimates. This, so called, not used budget appropriations are subject to repayment on annual basis to the Parties in accordance with the ratio established for the budget contributions (see Annex 5).

In 2017, the Energy Community revenue amounted to EUR 6.278.482 and derived from parties' contributions (ordinary budget, EUR 4.586.931, see Annex 5) and other sources of revenue (extraordinary budget, EUR 1.691.651). Its composition (in %) is presented and explained below:

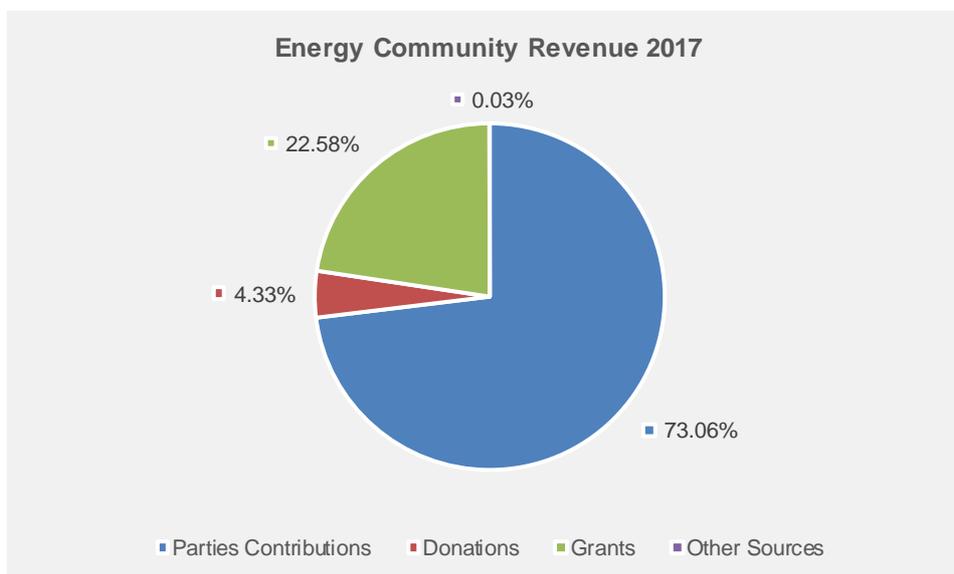


Chart: Energy Community Revenue 2017 Composition

Parties Contributions

The core financing of the Energy Community comes from parties' contributions that are funds that EU and Contracting Parties make in advance available to the Energy Community and which are collected by the Secretariat every year on behalf of the Energy Community.

The key for determining the level of parties' contributions is the table of the budget contributions Annex IV of the Treaty (see Annex 5). Annex IV is amended accordingly, when a Contracting Party exits from or joins the Energy Community process. The Council of the Energy Community's ministers then adopts this.

Other Sources of Revenue

Other Sources of Revenue represent additional revenue received by the Energy Community (also called 'extraordinary budget'). In 2017, it comprises donations from the Republic of Austria, from the

Republic of Poland as well as direct grants received from the European Commission and Vishegrad Fund. Details regarding the respective sources of revenue are explained below:

Donations

According to the Budgetary Procedures of the Energy Community, the Director may accept donations with prior agreement of the Budget Committee.

Donation from the Republic of Austria ('D-AT') occurs every year and is for the purpose of the contributions to the rent expenditures of the Secretariat's office and Energy Community's headquarter in Vienna.

In 2017, also Republic of Poland provided a donation¹² ('D-PL') in the amount of EUR 30.000 defined for a purpose of implementation of the Treaty obligations in one of the Contracting Party (Ukraine) as well as to deepen energy dialogue with Belarus as a candidate for the Observer status.

Another type of donation, sponsorships' monies, was received in 2017 in the amount of EUR 7.200 for the predefined purpose to contribute to the organisation of the Vienna Forum on European Energy Law. Last but not least, Vyshegrad Fund ('IVF') agreed to contribute to the organisation of the second edition of the Energy Community Summer School with an amount of EUR 35.000.

Grant Contracts

In 2017, Energy Community continued the implementation of two grants received from the EC¹³ in June 2016¹⁴, which are CONNECTA and EU4ENERGY.

CONNECTA

The CONNECTA project aims to support six Contracting Parties of the Energy Community (Albania, Bosnia and Herzegovina, Kosovo*, former Yugoslav Republic of Macedonia, Montenegro and Serbia) in strengthening regional cooperation and driving sustainable growth and jobs. The Energy Community implements the 'WB6' initiative in the areas of energy infrastructure development, energy 'connectivity' and sustainability.

EU budget contribution to the project is EUR 1 Mio, timeframe: 2016 to 2019¹⁵.

Only in 2017, Energy Community managed project related funds of EUR 497,515. The project and its results are subject to separate reporting under the provisions of the grant contact.

EU4ENERGY Governance

EU4ENERGY Governance project is part of the EU4Energy Initiative that covers all EU support for evidence-based energy policy-making and energy efficiency in the region of the Eastern Partnership. This initiative together the EU, its member states and six partner countries: Armenia, Azerbaijan,

¹² In 2016, it provided EUR 30.000 for the defined purpose to support the work of the Advisory Committee

¹³ 'CONNECTA' project with the duration of 3 years (as extended per amendment decision of April 2018) for Mio 1 EUR

¹⁴ EU4ENERGY grant for the implementation by June 2020 with the overall (amended) amount of EUR 5,3 Mio (amendment decision May 2017)

¹⁵ Based on extension of the implementation period from June 2018 until June 2019, amendment of the Contract dated 27 April 2018

Belarus, Georgia, Moldova and Ukraine. Components 1, 2 and 4 of the overall EU4Energy Programme are implemented by the International Energy Agency, whereas Component 3 – EU4Energy Governance "Legislative and Regulatory Environment and Key Energy Infrastructure" is implemented by the Energy Community Secretariat and the Energy Charter Secretariat based on separate direct grant agreements with the European Commission¹⁶.

EU Contribution to this project is EUR 6,5 Mio, timeframe is 2016 until 2020.

Only in 2017, Energy Community managed project related funds of EUR 920,041. The project and its results are subject to separate reporting under the provisions of the grant contact.

Other revenue

In 2017, the funds paid to the Energy Community earned an interest of EUR 1.879 (finance revenue). The finance revenue is a subject to repayment together with not used budget appropriations (see below).

The chart below presents the utilization of the budgets received from the other sources of revenues in comparison with actuals of the year.

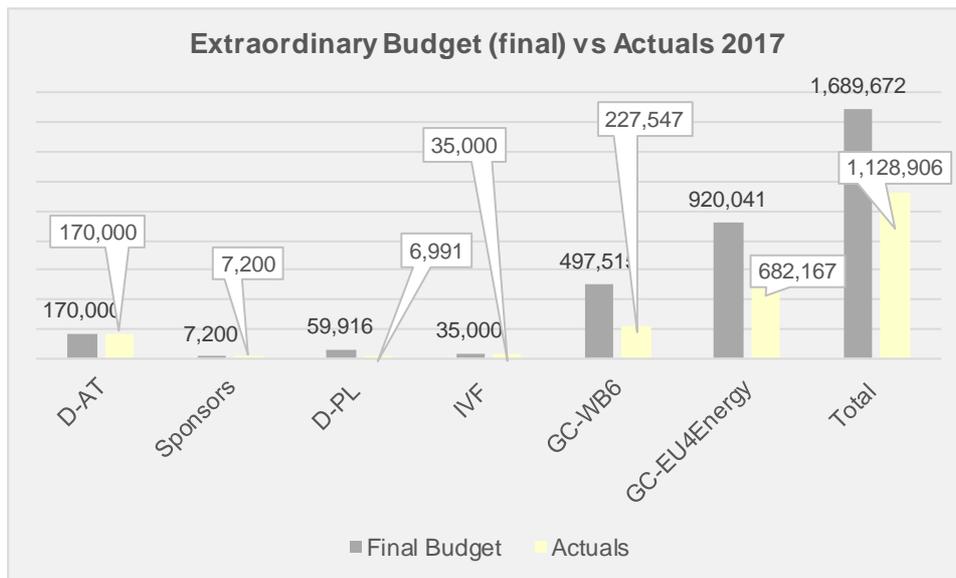


Chart: Energy Community Extraordinary Budget 2017 vs Actuals

¹⁶ Contact amendment of 30 April 2017

SECTION IV - Expenditure

In 2017, the Energy Community reporting on actual expenditure reflects the structure of the budget established. The budget lines and their definition can be found in the Section I of the report. In this section, details of utilization budget line per budget line are presented:

Human resources

Budget line (Human resources) covers the resources needed for employment of professionals and experts, assigned also on temporary basis, to manage the work of the Energy Community. The employment follows the approved in advance establishment plan approved by the Ministerial Council together with the statement of expenditures.

In 2017, Energy Community employed on average 34 staff members and 10 temporary staff (interns or other short assigned).

Budget for *Human Resources* amounted to EUR 2.405.635 and was used almost in its entirety (97,91%).

Travel

Resources assigned to the travel budget line are necessary to cover the activities of Secretariat's personnel required for the monitoring related to the implementation of the Treaty. Those concern either short-term assignments necessary for consulting and advising in the Contracting Parties in the area of energy policy and its implementation. It covers costs of transport as well refunding of travel expenses to the personnel.

In 2017, budget for *Travel* amounted to EUR 318.061 and was used in its entirety (99,55%).

Office

Under the Treaty, the Energy Community's seat is Vienna. Since 2006, the organization rents its premises from the Austrian property owner in charge of management of number of governmental buildings in Vienna ('BIG'). The premises are suitable for up to 50 working places and offers big conference area for the organization of events. The surface area is in total 1,325.94 m², of which 665.12 m² is for the office space and 660.82 m² for non-office space (that includes conference facilities). In 2017, annual rent (in EUR) was of EUR 234,935.67, of which EUR 170,000.00 was contribution of the Republic of Austria (see above).

In 2017, final budget for *Office* of EUR 331.163 was utilized in the amount of EUR 329.095.

Under this budget line also other resources are foreseen as required for the operations of the Secretariat in Vienna, i.e. budget for *Office Equipment and IT* (EUR 72.405), *Consumables* (EUR 138.958) and *Other Services* (telephoning) to EUR 52.796.

Other costs and services

The budget line 4 (other costs and Services) includes expenditure related to outsourced services related to IT and accountancy, legal and financial advice. It also provide funding for the implementation of technical assistance and consultancy as well as for the organization of the Energy Community events.

In the year 2017, implementation of the budget of EUR 1.474.721 resulted in entire usage.

All in all, budget of the year 2017 (EUR 4.588.809) was spent at high level of 98,66%, whereas the difference of EUR 61.298 defined as ‘not used budget appropriations’ is subject to repayment to the Parties (see below).

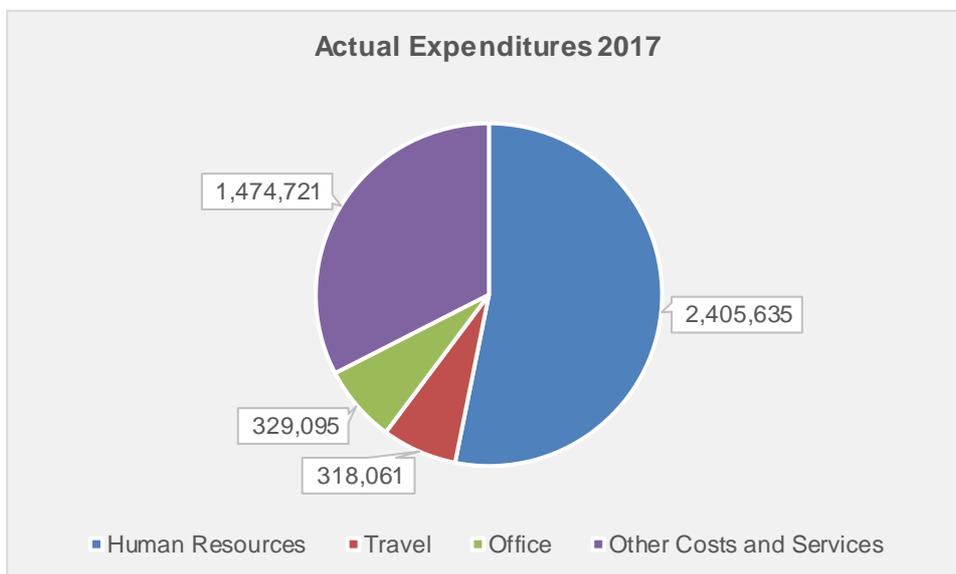


Chart: Energy Community Actual Expenditure split 2017

Not used budget appropriations 2017

In 2017 almost entire (final) budget 2017 (of EUR 4.588.809) was spent. An amount of EUR 62.618,78 remained not committed and therefore has to be paid back to the Parties in accordance table annexed (see Annex 5).

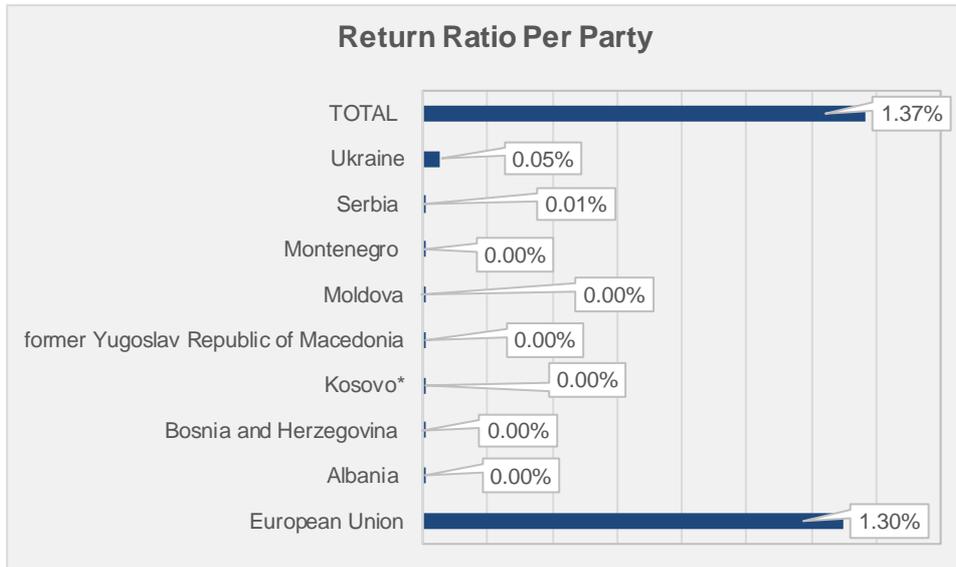


Chart: Energy Community Not used Budget appropriations 2017 repayments to the Parties

Budget of the Institutions

Under Article 74 of the Treaty the budget of the Energy Community covers operational expenditures as necessary for the functioning of its institutions. These expenditures contain the budget estimates for the events and refunding of travel expenditures. The institutions under the Treaty are the following:

- Ministerial Council (incl. bodies established by its decisions, procedural acts..)
- Permanent High Level Group
- Energy Community Regulatory Board
- Electricity Forum
- Gas Forum
- Oil Forum end
- Secretariat

Out of the institutions, only the Secretariat acts on permanent basis, employs personnel and requires resources for office and functioning of it.

In 2017, the budget for the functioning of the listed institutions was at the level of EUR 544.680 and it was amended to a level of EUR 412.580 within the competences of the Director. Details of the utilization through comparison of the final budget with actual results, are presented in details, in the table below:

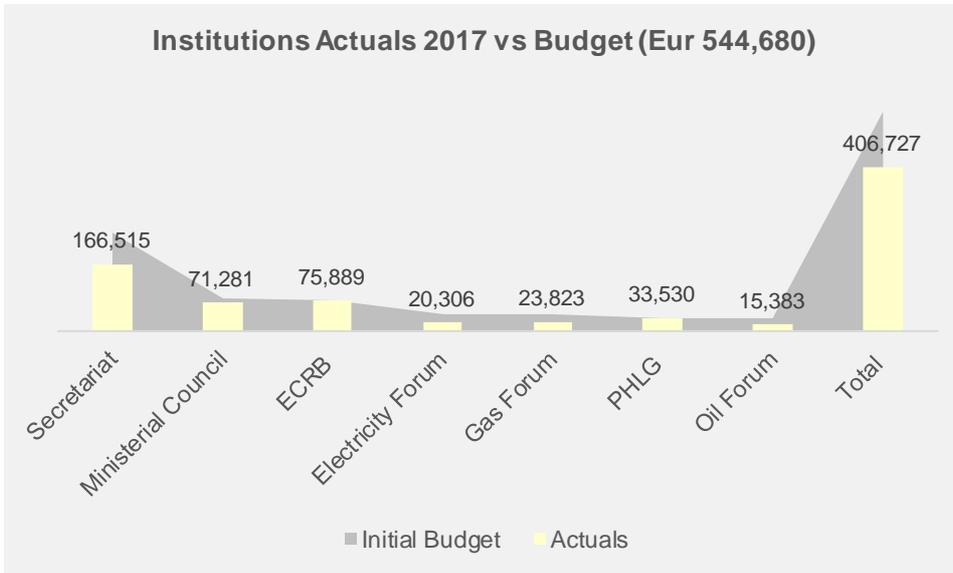


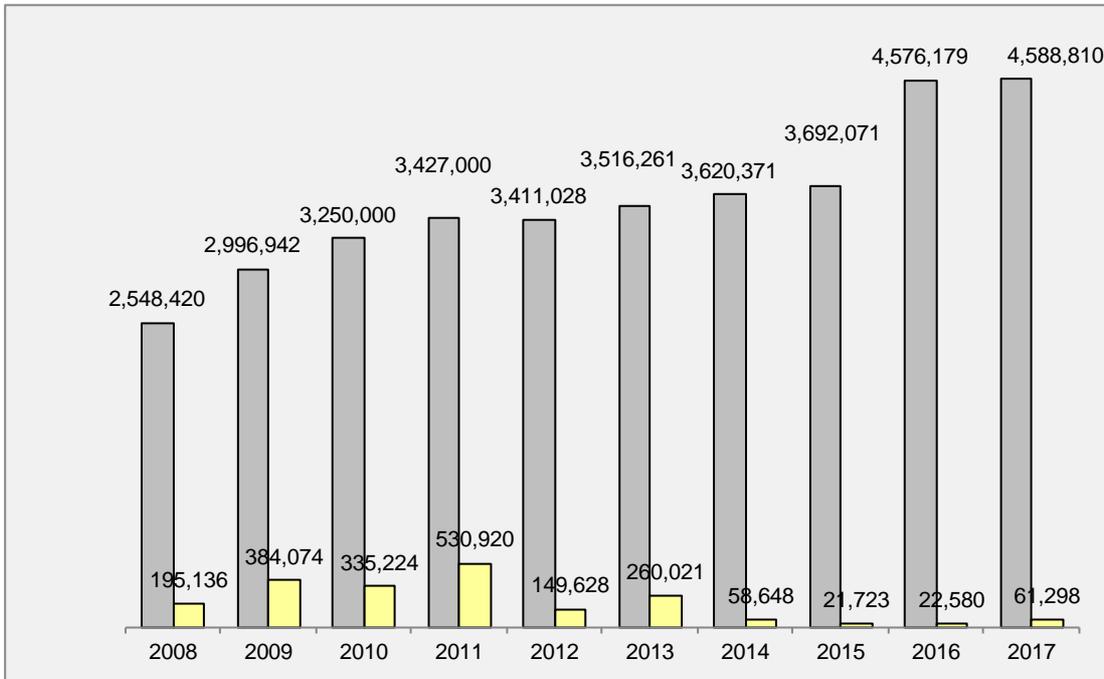
Chart: Budget of the Energy Community Institutions vs Actuals (Costs of event/refunding only)

SECTION V - Annexes

Annex 1 - Rules and Procedures with relevance for the implementation of the budget

	Description	Reference to a legal document	Year of decision
1	Rules for Secondees, Interns and other assignments	PA 2018/02/ECS-EnC	2018
2	Financial Handbook on the Management of the EU4Energy EU funded projects	PA 2018/01/ECS-EnC	2018
3	Procedural Rules for appointment of the temporary staff	PA 2016/02/ECS-EnC	2016
4	Reimbursement Rules of the Energy Community	PA 2015/05/ECS-EnC	2015
5	Energy Community budget 2016-2017 and on the contributions by the Parties to this budget	PA 2015/01/MC-EnC	2015
6	Procedures for Establishment and Implementation of Budget, Auditing and Inspection	MC/PA/2006-03-MC; PA/2014/01/ECS-EnC	2006; 2014
7	Financial Management Rules	PA 2014/05/ECS-EnC	2014
8	Internal Management Rules of the Energy Community Secretariat on Personnel Administration	PA 2014/02/ECS-EnC	2014
9	Energy Community Property Inventories	PA 2014/01/ECS-EnC	2014
10	Energy Community Accounting Policy	PA 2012/03/ECS-EnC	2012
11	Transfer of Appropriations within the Budget of the Energy Community	PA 2008/06/ECS-EnC	2008
12	Energy Community Staff Regulations	MC-D; MC/2009/PA/2009/04	2008; 2009
13	Accounting Rules and Methods of the Energy Community	PA 2008/01/ECS-EnC	2008

Annex 2 - Repayments of not used budget appropriations (2008-2017)

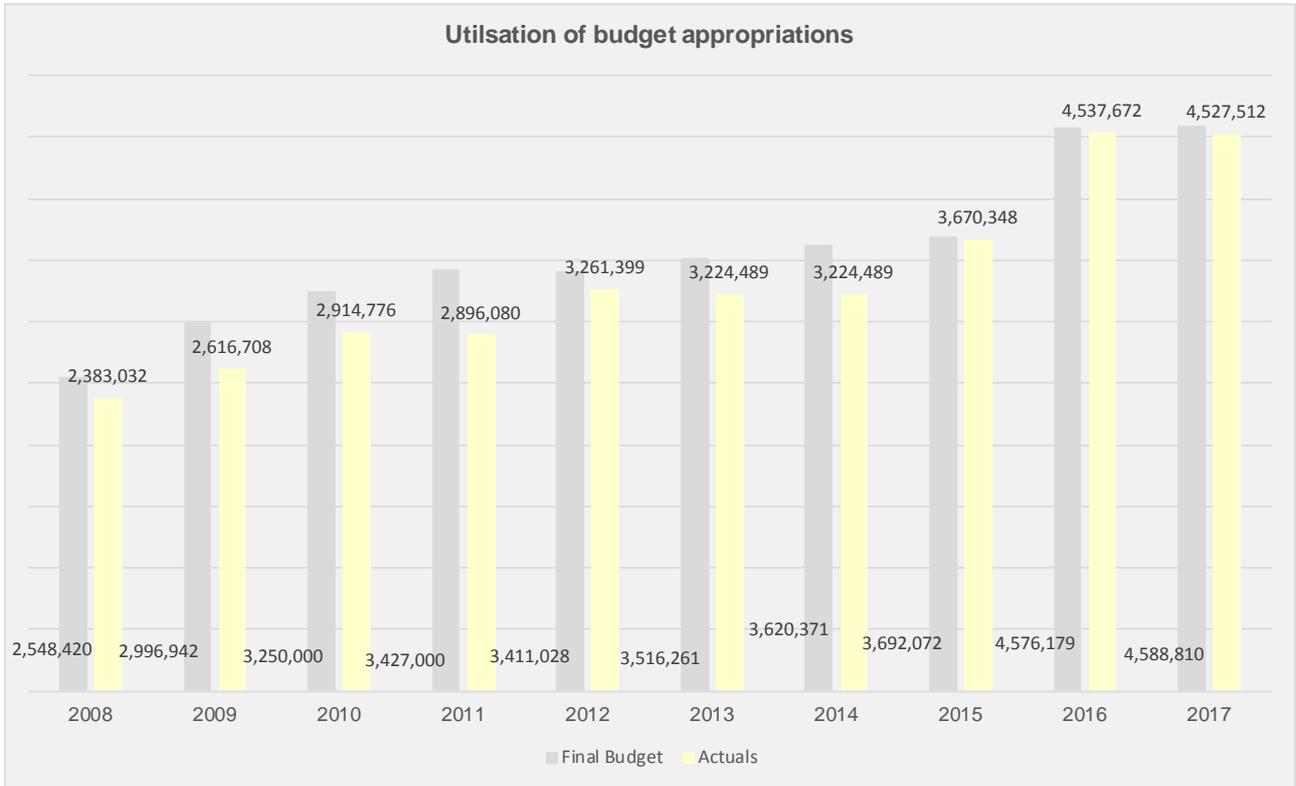


Annex 3 – Legal Commitments carried forward from 2017 into 2018

Title	Ref to Law ¹⁷	Value (in EUR)	Status 31/12/2017
1 Technical support to access the candidate projects of Energy Community interest and candidate projects of mutual interest	Art 25	168.970	Legal commitment
2 Study on 2030 targets (energy efficiency, renewables, GHG emissions reduction) for the Energy Community	Art 41	99.639	Legal commitment
3 Natural Gas market rules for the Republic of Moldova	Art 41	50.000	Legal commitment
4 Technical assistance to the Secretariat for the preparation of an impact assessment for the follow up recommendations on the implementation of chapters II and IV of the Directive 2010/75/EU (Industrial Emissions Directive) and Directive 98/70/EC (Fuel Quality Directive)	Art 41	39.971	Legal commitment
5 Technical assistance on drafting legal framework in compliance with Oil Stock 2009/119/EC in Georgia	Art 41	12.500	Legal commitment
6 Technical assistance to draft policy guidelines on Integration of small scale renewable installations	Art 41	3.300	Legal commitment
7 Administrative contract to educational measures	Art 41	48.730	Legal Commitment
Total		423.110	

¹⁷ In accordance with the Budgetary Procedures and its Art 66 the Austrian Procurement Law (BVerG) applies; Art 41 refers to Direct Award procedure; Art 25 Open Procedure

Annex 4 - Utilization of budget appropriations (2008-2017)



Annex 5 – Not used budget appropriations 2017

Parties	Contribution in EUR	Contribution in %	Unused Appropriations in EUR	Unused LC	Total repayment amount
			(1)	(2)	(3) = (1) + (2)
European Union	4,354,832.00	94.94%	58,196.10	1,254.15	59,450.25
Albania	4,128.00	0.09%	55.17	1.19	56.36
Bosnia and Herzegovina	9,174.00	0.20%	122.60	2.64	125.24
Kosovo*	3,211.00	0.07%	42.91	0.92	43.83
former Yugoslav Republic of Macedonia	4,587.00	0.10%	61.30	1.32	62.62
Moldova	4,587.00	0.10%	61.30	1.32	62.62
Montenegro	1,835.00	0.04%	24.52	0.53	25.05
Serbia	24,769.00	0.54%	331.01	7.13	338.14
Ukraine	179,808.00	3.92%	2,402.87	51.78	2,454.65
TOTAL	4,586,931.00	100.00%	61,297.78	1,320.98	62,618.76

Annex 6 – Glossary¹⁸

Appropriation(s) mean(s) budget funding;

Comparable basis means the actual amounts presented on the same accounting basis, same classification basis, for the same entities and for the same period as the approved budget;

Commitment appropriations are the total costs of the legal commitments entered into during the current financial year;

Unused appropriations are budget contributions from any sources of revenue (parties' contributions, finance income, other income) which have not been used in the current year and which have to be paid back to the parties in the following year; unused appropriations are calculated as a difference between total revenue (incl. interest and other income) and incurred actual expenditures (incl. unused commitments);

Donation means direct financial contribution;

Final budget is the original budget adjusted for all reserves, carry over amounts, transfers, allocations, supplemental appropriations, and other authorized legislative, or similar authority, changes applicable to the budget period;

Original budget is the initial approved budget for the budget period.

¹⁸ For the entire Glossary of Terms Defined under IPSAS see <https://www.ifac.org/system/files/publications/files/glossary-of-defined-terms-2.pdf>;