2008 Report on the execution of the Energy Community Budget pursuant to Article 75 of the Energy Community Treaty

Prepared by the Energy Community Secretariat
2009
CONTENT

INTRODUCTION ........................................................................................................................................ 3

PART I: BUDGET 2008 IN THE CONTEXT OF THE TREATY AND RELATED LEGAL FRAMEWORK 7

1. RESOURCES 2008 ................................................................................................................................8

2. MANAGEMENT AND INTERNAL CONTROL SYSTEMS OF THE ENERGY COMMUNITY ........... 8
   2.1 Background and characteristics of management environment .................................................. 8
   2.2 Monitoring and Reporting Scheme ........................................................................................... 9
   2.3 Financial Management ............................................................................................................ 10

PART II: ENERGY COMMUNITY BUDGET EXECUTION REPORT 2008 ............................................. 11

1. ESTABLISHING THE INITIAL BUDGET ......................................................................................... 12

2. CARRY OVER FROM 2007 ............................................................................................................. 12

3. LIST OF TRANSFERS 2008 ........................................................................................................... 13

4. AMENDMENTS WITHIN BUDGET 2008 ...................................................................................... 14

5. BUDGET IMPLEMENTATION 2008 - OVERVIEW .................................................................... 15

6. AUDIT 2008 ................................................................................................................................. 17

CONCLUSION ......................................................................................................................................... 18

Attachment 1: Energy Community Events 2008 - Overview ............................................................... 19

Attachment 2: Energy Community Contracting Parties Missions 2008 – Overview ......................... 20
INTRODUCTION

1. Background and Scope

This report presents a final synthesis of the financial and budgetary management of the Energy Community for year 2008\(^1\) issued on the basis of Article 75 of the Treaty establishing the Energy Community. The annual accounts of the Energy Community have been audited by its external audit company, Ernst & Young.

2. General on the financial and budgetary management within 2008

Following the transitional character of the year 2007 from the point of view of the financial and budgetary management\(^2\), 2008 represents the very first full regular year of financial operations of the Energy Community. Thus, in 2008 the full establishment and definition of the required framework of financial operations has been concluded and was followed by focus on its efficient and effective implementation of internal management and control systems within the Energy Community Secretariat.

The overall financial management of the Energy Community and its representation in the respect is given to the Director of the Energy Community Secretariat, who, according to Article 75 of the Treaty “the Director of the Secretariat shall implement the budget ………..”

3. Budget frame 2008

Budget 2008 is part of the biannual budget of the Energy Community 2008-2009 approved by the Ministerial Council at its meeting on 18 December 2007 in Belgrade. Despite its biannual concept of establishment, annual reporting requirements (internal and external obligations) apply.

Budget 2008-2009 has been established in correspondence with the strategic planning of activities within the overall objectives of the Treaty establishing the Energy Community for the same period. Those activities are laid down in the Work Program 2008-2009 of the Energy Community approved at the occasion of the Ministerial Council meeting of 18 December 2007 and indicate both activities and resources planning within the period.

4. Review of activities and results in the area of budget implementation for 2008

As regards the main achievements reached in the months January - December 2008 in the area of budget implementation and related areas of work, these are summarized as follows:

- On 16 January 2008 International Public Sector Accounting Standards (IPSAS) issued by the International Public Sector Accounting Standard Board (IPSASB) were adopted as accounting rules and methods of the Energy Community for the period commencing 1 July 2007\(^3\);

- The financial statements of the Energy Community for the period 1 July 2007\(^4\)- 31 December 2007 were finalized in the month of March 2008. "Ernst & Young" acted as designated external audit company with the approved mandate to audit the annual accounts of the Energy

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\(^1\) Actual data for the period 1 January – 30 December 2008
\(^2\) EnC Budget for the financial year 2007 has originated from the different sources of financing, i.e. grant from EC based on contract 100-231 and from the Contributions of the Parties to the Treaty establishing the Energy Community (for details see MC/18/12/07-Annex 1/20-11-2007)
\(^3\) Procedural Act on Adoption of the Accounting Rules and Methods of the Energy Community (Ref.:2008/01/ECS)
\(^4\) Opening balance sheet of the Energy Community of 1 July 2007
Community for the period ending 31 December 2007. Based on qualified Audit opinion of 10 March 2008 by "Ernst & Young", the Ministerial Council adopted on 28 June 2008 its decision to grant the discharge to the Director of the Secretariat from his management and administrative responsibility for the financial year 2007.

- On 30 January 2008 the Budget Committee started effectively functioning. In its constituent meeting of the same date, outline of activities 2008 and relevant for it internal rules of procedure of the Budget Committee were approved. The Budget Committee met in total three times in 2008; its work has been assisted by the Secretariat in terms of preparation of the agenda and meeting materials. However, following the Energy Community Procedures for Establishment and Implementation of Budget, Auditing and Inspection, operational correspondence with the Chairman of the Budget Committee was part of the financially related activities.

  Summary of the work of the Budget Committee has been reflected accordingly in the minutes of the meetings. The results of this work as well as decisions of the Budget Committee have been reported on a regular basis to the Permanent High Level Group at the occasion of its meetings.

- In March 2008, the Budget Committee decided in principle on carry over aspects within the scope of the Energy Community Procedures for Establishment and Implementation of Budget, Auditing and Inspection, in accordance with which legal commitments entered into during the respective financial year are be funded under the budget of the same financial year. A key guidance in this relation was that not used appropriations at the end of the financial year are not allowed to be carried over and therefore shall be shown as liability of the Energy Community towards the Parties to the Treaty.

- The Director continued to promote the principle of effective financial management by deciding on the revision of the Financial Management Rules of the Energy Community in June 2008 to reflect the necessary improvement of principles governing funds utilization based also on the auditor’s recommendation. In its major reason the Financial Management Rules were amended to take care of better definition of internal procedures concerning studies implementation through establishment of the Steering Committees related thereto.

- As far as budget execution reporting is concerned, the Director reported throughout the period January to December 2008 on monthly and quarterly basis to the Budget Committee through submission of relevant reports defined through the scheme of the financial reporting requirements for 2008.

- Further work on issuance, adoption and improvement of relevant rules and procedures within the area of management and administration continued, with the objective of responding to the requirements of the Staff Regulations of the Energy Community on one side and to the operational requirements of the Secretariat on the other side (e.g. Amendment of FMR in June 2008; issuance of property related rules in Dec 2008).

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5 Decision 2008/01/MC-EnC of 27 June 2008
6 The role of the Budget Committee prior its establishment in January 2008 was executed by the European Commission, see also Article 88 of the Procedures for the Establishment and Implementation of Budget, Auditing and Inspection (PA 2006/03/MC-EnC) dated 17 Nov 2006
7 e.g. 11 March 2008 (8th PHLG), 26 June 2008 (9th PHLG) etc.
8 see Articles 10 and 11 of the document;
9 Item 4 of the Minutes of the 3rd Meeting of the Budget Committee of 24 September 2008
10 Ref.: Procedural Act of the Energy Community Secretariat of 21 July 2008 on the appointment of ECRB Steering Committee
5. Audit 2008

Results of the audit of the year-accounts 2008 of the Energy Community has been finalized within February 2009. Key conclusions of the auditors were that the rules and regulations set by the Ministerial Council and by the Director have been observed in principle throughout the financial year of budget implementation and that the established internal control system is adequate to the size of the organization.

6. The Budget Frame and the Results in the Area of Energy Policy

The operational work between the Secretariat and the Budget Committee and its guidance on the ground of the regular reporting of the execution of the budget contributed to efficient management of the envisaged funds. Thus, the utilization of Budget 2008 indicated that the provided financial frame was sufficient for the operation of the Energy Community along the lines of its Work Programme.

The following results can be presented in summary in this direction:

In the months to December 2008 significant progress in the implementation of the Work Program 2008 has been achieved. Regular reporting on this progress took place at the occasions of the meetings of the Permanent High Level Group, the Ministerial Council as well as at of other institutions established under the Treaty, i.e. of Energy Community Regulatory Board, Athens and Gas Fora. In particular progress is noted in the implementation of the activities defined for the need of achieving the overall objective of the Treaty in the relevant energy sectors of the Contracting Parties.

Apart from intense and continued monitoring activities performed by the experts of the Secretariat concerning the implementation of the electricity, gas and renewables directives, preliminary reporting on the implementation of the competition and environment acquis commenced starting 1st quarter 2008. In this relation, the Secretariat submitted its preliminary reports concerning implementation of the environmental and competition acquis to the PHLG in March 2008. In this relation, the process of the implementation of the Treaty requirements by the Contracting Parties has been supported by the experts of the Secretariat throughout the months January to December 2008.

Further, continuation of discussion of the topics related to the security of supply issues and relevant procedural steps (i.e. establishment of the Security of Supply Coordination Group) based on the relevant Directive 2004/67/EC was initiated at the 8th meeting of the PHLG in March 2008. The Group was formally established by the Ministerial Council at its meeting in December 2008.

Topics of discussion related to the Generally Applicable Standards have been also on the agenda of the 8th and 10th meetings of the PHLG of March and September 2008. Intensive work in this direction continued in the first half of 2009.

Within the reporting period January – December 2008, the Ministerial Council of the Energy Community has been addressed for the first time with the concept on the development of the oil dimension within the Energy Community. The relevant decision of the Ministerial Council concerning the establishment of the Oil Dimension was taken by the Ministerial Council in December 2008 at its 5th meeting.

As regards the work area of the Energy Efficiency as defined in the Energy Community Work Program 2008, significant progress has been made via the work of the Energy Efficiency Task Force, which has been also reflected in the relevant reports to the Ministerial Council (see 5th MC meeting of December 2008).

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11 The Budget Committee has presented a separate report on the Audit 2008 to the Ministerial Council. The audit report is also presented as a separate document. However, summary information on the audit is to be found also in this report.

12 See Attachment 1: EnC Event Calendar for the period January – December 2008
In parallel to the ongoing implementation of actions and activities related to the *acquis communautaire*, the **social dimension** within the context of the Energy Community has progressed significantly in 2008. Following the Workshop on Social Dialogue organized by the Secretariat in May 2008, the first Forum on Social Dimension within the context of the Social Memorandum took place in November 2008.

The process of non-compliance by the parties to the Treaty with its obligations shall be followed in accordance with the established **Dispute Settlements Rules** approved by the Ministerial Council of the Energy Community at its 4th meeting in June 2008\(^{13}\).

As regards the development of the regional market and regional cooperation in the SEE region, regular progress reports have been submitted to the PHLG as well as to the Ministerial Council. In this context first concrete steps towards the establishment of the **Coordinated Auction Office** have been undertaken and results achieved. In 2008, a study was launched concerning the requirements for the establishment of the CAO in SEE. Exchange of views and sharing of experience took place at a workshop organized by the Secretariat on 21 October 2008. Finally, political commitment and support has been obtained from the Ministerial Council of the Energy Community – the establishment of the Coordinated Auction Office has been encouraged by the Ministers repeatedly. In 2008, **Memorandum of Understanding** on the establishment of the Coordinated Auction Office has been open for signature\(^{14}\).

Approach within the area of work related to the **renewable energy sources** has been discussed and agreed by the Ministerial Council in December 2008. Relevant next steps concerning establishment of responsible task force as well as a concrete study in the area of renewables were respectively considered by the Ministers\(^{15}\).

In 2008 the European Commission, following the provided mandate, led the negotiation sessions with candidates for accession to the Energy Community. The process will continue in 2009.

In relation to the event management, some 50 meetings have been organized in 2008, most of which - both from content and administrative side - were prepared by the Secretariat.

\(^{13}\) For more information, please see website under: *http://www.energy-community.org/portal/page/portal/ENC_HOME/ENERGY_COMMUNITY/Dispute_Settlement*

\(^{14}\) As of 13 March 2009, signed by 11 out of 13 TSOs/ISOs

\(^{15}\) The Study was launched in March 2009; the establishment of the RES TF has been prepared and is on the agenda of the MC in June 2009.
PART I: BUDGET 2008 IN THE CONTEXT OF THE TREATY AND RELATED LEGAL FRAMEWORK
1. RESOURCES 2008

Human Recourses

In 2008, the overall number of the staff members of the Energy Community Secretariat, which is the only permanently acting institution under the Treaty, was 16. The competences distributed in accordance with approved establishment plan (organigram) of the Energy Community Secretariat – being a part of the Procedural Act on the Adoption of the Budget 2008-2009 have been organized in accordance with the areas of work of the Secretariat (administrative and financial issues, electricity, hydrocarbons, infrastructure, legal matters and regulatory affairs) on an unit based approach.

Financial Recourses

Following the proposal of the European Commission, the Ministerial Council adopted on 18 December 2007 the biannual budget of the Energy Community for the period 2008-2009, whereas identified financial resources for the year 2008 are of EUR 2.548.420. Distribution of the overall budget funds has been allocated to four major categories of expenditures of the Energy Community (so called budget lines) and its institutions to assure theirs operational functioning.

2. MANAGEMENT AND INTERNAL CONTROL SYSTEMS OF THE ENERGY COMMUNITY

2.1 Background and characteristics of management environment

In 2008, daily operations of the Secretariat were regulated through the following major rules and procedures of relevance for budget implementation:

- Procedural Act on adoption of the Energy Community Budget 2008-8009;
- Procedural Act on the Energy Community Procedures for Establishment and Implementation of Budget, Auditing and Inspection;
- Procedural Act on the Implementation of Annex IV of the Treaty;
- Rules for Recruitment, Working Conditions and geographical equilibrium of the Secretariat’s Staff of the Energy Community;
- Procedural Rules on the Status of Secondees to the Energy Community Secretariat;
- Reimbursement Rules within the Energy Community of 1 January 2008;
- Internal Management Rules on Personnel Administration of 13 November 2007;
- Staff Regulations, including annexed Travel Rules, of 1 January 2008;
- Rules on the content and access to personal files of 4 July 2008.

16 See Procedural Act of the Ministerial Council on the adoption of the Energy Community Budget of 18 December 2007 (Ref.: 2007/05/MC-EnC)
17 Starting 2008 internal management rules and procedures are issued in regular case in a form of Procedural Act of the Secretariat adopted by its Director
18 Procedural Act of 29 June 2007 (2007/02/MC-EnC)
19 Procedural Act No. 2006-03, Ministerial Council Meeting, Skopje, November 2006
21 Procedural Act No. 2006-02, Ministerial Council Meeting, Skopje, November 2006
22 Approved on 15 May 2007 and valid till March 2009, when were replaced.
23 Issued on 2 July 2007 and amended respectively on 13 November 2007 and on 27 June 2008
24 Issued on 2 July 2007
25 Modified version of Staff Regulations was adopted by the Ministerial Council on 18 December 2007 and replaced initial version of 2 July 2007 approved by the Director of the ECS.
26 Ref.: PA No. 2008/04/ECS-EnC
- Rules on the flexible use of working hours within the normal working week and related aspects of 8 July 2008\(^{27}\);
- Procedural Act on Energy Community Property Inventories of 8 December 2008\(^{28}\).

All in all, these documents provide the basic legal framework for Energy Community, its operations and employment of staff.

As regards the **Information Technology** competences within the Secretariat, those have been outsourced since 1 July 2007, which proved to be more cost effective given the size of the Energy Community Secretariat as an institution. In this context appointed IT professional company performs a variety of duties that range from installing applications to designing computer networks and information databases. Another duty that is included into the scope of work of the IT professional is data management and computer hardware, database design, as well as the management and administration of entire systems. Contractual relationship with IT professional company has been organised in a form of a **Service Level Agreement** and have been subject to regular reviews since then.

In 2008 accounting and booking operations continued to be managed through **accounting software** provided by Austrian company **Ramsauer & Stuermer**. Quality in accounting was a priority to assure the reliability and accuracy of accounted data. In 2008 particular attention was put on definition of required format for evaluation of the data for the purposes of internal and external reporting. Further necessary developments of the accounting software shall be in a focus of attention in the upcoming budgetary period. Payments of ongoing obligations have been performed through banking online system (ELBA) of the house bank of the Energy Community, which is **Raiffeisenlandesbank**.

### 2.2 Monitoring and Reporting Scheme

Both the Treaty establishing the Energy Community and the Energy Community rules of different nature envisage concrete and detailed scheme of reporting and monitoring in relation to the budget implementation (external versus internal reporting requirements).

The supreme institution of the Energy Community as defined in the relevant Articles 47 to 52 of the Treaty, is the Ministerial Council. Further to its other concrete competences, it provides general policy guidelines and oversees the process of implementation of the Treaty establishing the Energy Community. According to requirement of Article 75 of the Treaty, the Director reports to the Ministerial Council on the implementation of the budget of the Energy Community on an annual basis (external reporting requirement).

The overall supervision and advice on the financial management of the Energy Community to the Secretariat’s Director, is performed by the Budget Committee, established under Article 22(1) of the Procedures for the Establishment and Implementation of Budget, Auditing and Inspection. It became effectively operational in January 2008. In addition to the annual reporting requirement towards the Ministerial Council (see above), monthly and quarterly reporting requirements were defined in advance for the entire financial year 2008 and have been performed in accordance in approved deadlines for reporting by the Budget Committee on 30 January 2008.

Finally, pursuant to Article 80 of the Procedures for the Establishment and Implementation of Budget, Auditing and Inspection, a report of audit of financial statements of the Energy Community is to be submitted not later than eight months after the end of the financial year to which it relates\(^{29}\).

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\(^{27}\) Ref.: PA No. 2008/05/ECS-EnC

\(^{28}\) Ref.: ECS-2008_08-12-2008_PA Property Inventories

\(^{29}\) Article 81 of the Procedures for the Establishment and Implementation of Budget, Auditing and Inspection, Procedural Act No. 2006/02, Ministerial Council, Skopje, 17 November 2007
2.3 Financial Management

The overall responsibility for the implementation of the Energy Community budget in accordance with the relevant provisions of the Procedures for the Establishment and Implementation of Budget, Auditing and Inspection (see Title IV therein) lies with the Director of the Secretariat. In accordance with Article 31 of the above mentioned procedures, the Director performs the duties of an authorising officer. Based on provisions of the Article 37 of the same procedures, the authorising officer shall put in place organisational structure, as well as controls and procedures, which are suited to the performance of the required duties. Such principles of the operational financial management are laid down in the Internal Financial Management Rules of the Energy Community.
PART II: ENERGY COMMUNITY BUDGET EXECUTION REPORT 2008
1. ESTABLISHING THE INITIAL BUDGET

Year 2007 marked the preparations of the Energy Community draft budget proposal for the period 2008-2009 by the European Commission. Following number of internal consultation and taking into account planning of the short-term strategic activities under the work program of the Energy Community for the same period, the European Commission submitted its proposal on the budget 2008-2009 to the Ministerial Council. In its third meeting of 18 December 2007 in Belgrade, the Ministerial Council adopted the budget for the year 2008 of EUR 2,548,420 and of EUR 2,996,942 for 2009. Based on the assumed financial responsibility of the Parties to the Treaty for the operational expenditures of the Energy Community, annual contributions were paid in accordance with Annex IV of the Treaty within the first quarter of 2008. Overview of Parties Contribution Table is presented below:

<table>
<thead>
<tr>
<th>(in EUR)</th>
<th>in %</th>
<th>BUDGET 2008</th>
<th>BUDGET 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>European Community</td>
<td>98.10</td>
<td>2,500,000</td>
<td>2,940,000</td>
</tr>
<tr>
<td>Republic of Albania</td>
<td>0.10</td>
<td>2,548</td>
<td>2,997</td>
</tr>
<tr>
<td>Bosnia and Herzegovina</td>
<td>0.30</td>
<td>7,645</td>
<td>8,991</td>
</tr>
<tr>
<td>Republic of Croatia</td>
<td>0.50</td>
<td>12,742</td>
<td>14,985</td>
</tr>
<tr>
<td>former Yugoslav Republic of Macedonia</td>
<td>0.10</td>
<td>2,548</td>
<td>2,997</td>
</tr>
<tr>
<td>Republic of Montenegro</td>
<td>0.10</td>
<td>2,548</td>
<td>2,997</td>
</tr>
<tr>
<td>Republic of Serbia</td>
<td>0.70</td>
<td>17,839</td>
<td>20,979</td>
</tr>
<tr>
<td>United Nations Interim Administration Mission in Kosovo</td>
<td>0.10</td>
<td>2,548</td>
<td>2,997</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>100.00%</td>
<td><strong>2,548,420</strong></td>
<td><strong>2,996,942</strong></td>
</tr>
</tbody>
</table>

Source: Procedural Act of the Ministerial Council of the Energy Community (2007/05/MC-EnC), Table established in accordance with Annex IV of the Treaty establishing the Energy Community.

2. CARRY OVER FROM 2007

The Budget Committee gave its guidance on carry over on 10 March 2008 in the context of legal commitments made by the Energy Community in 2007, but however carried forward into 2008. Relevant presentation of this carry over amount of EUR 24,200 is shown in the Statement of the Financial Performance of 31 December 2007 as a surplus for the period. Other unused appropriations from the budget 2007 are presented as liability of the Energy Community towards the Parties to the Treaty in the

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30 See Article 2 of the Procedures for the Establishment and Implementation of Budget, Auditing and Inspection of 17 November 2006
31 See item 10 of the Minutes of the BC Meeting of 10 March 2008
amount of EUR 77,353\(^{32}\). The table below summarizes the carry over decision of Budget Committee per budget line and the implementation in 2008:

<table>
<thead>
<tr>
<th>2007 Budget Line</th>
<th>Description</th>
<th>Ground</th>
<th>Amount to be carried over (in TEUR)</th>
<th>Balance 31.12.2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>5 Other costs and services</td>
<td>costs of training for the all staff members of the Secretariat (internal seminar, retreat) (Contract of 15 October 2007)</td>
<td>Timing issue for the organization of the retreat in 2007 due to other event management related activities</td>
<td>7,5</td>
<td>0</td>
</tr>
<tr>
<td>5 Other costs and services</td>
<td>Other administrative expenditures (Contract of 21 Dec 2007)</td>
<td>Further Development of the Energy Community Website</td>
<td>9,5</td>
<td>4,2</td>
</tr>
<tr>
<td>5 Other costs and services</td>
<td>Other administrative expenditures (Contract of 21 Dec 2007)</td>
<td>Register project for the filing and records management within the Secretariat</td>
<td>7,2</td>
<td>7,5</td>
</tr>
<tr>
<td><strong>Budget Line 5 – TOTAL</strong></td>
<td></td>
<td></td>
<td><strong>24,2</strong></td>
<td><strong>11,7</strong></td>
</tr>
</tbody>
</table>

Source: ECS intern

3. LIST OF TRANSFERS 2008

In 2008, relevant internal procedure for the Energy Community Secretariat was defined for the application of the Article 18 of the Procedures for the Establishment and Implementation of Budget, Auditing and Inspection through the relevant Procedural Act\(^{33}\). In total five transfers of appropriations (T1-T5/2008) were applied upon justified and approved needs in accordance with laid in procedures. Transfers 2008 are summarized as follows:

<table>
<thead>
<tr>
<th>Budget Line (No) description</th>
<th>Transfer from</th>
<th>Transfer to</th>
<th>Description/ Adoption Date</th>
<th>Amount (in TEUR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(5) Other costs and services</td>
<td>Refunding (PI470)</td>
<td>Studies (PI420)</td>
<td>Decision of Budget Committee of 16 October 2008 (Ref.: 2008/05/BC-EnC/T2-2008) [T2-2008]</td>
<td>150</td>
</tr>
<tr>
<td>(3) Office</td>
<td>Consumables (PI330)</td>
<td>Office equipment and communications (IT) and Other Services (telephone, fax, communications)</td>
<td>Decision of the Director of 21 December 2008 (Ref.: BC-2008_21-12-2008_Decision on Budget Transfers-T3; T4-2008_21-12-2008 [T3-2008]</td>
<td>25</td>
</tr>
<tr>
<td>(4) Other Costs, Services</td>
<td>Conference Costs (PI460)</td>
<td>Costs of outsourced services (PI430)</td>
<td>Decision of the Director of 21</td>
<td>10</td>
</tr>
</tbody>
</table>


\(^{33}\) Procedural Act of the Energy Community Secretariat on transfer of appropriations within the Budget of the Energy Community dated 10 September 2008 (Ref.: 2008/06/ECS)
4. AMENDMENTS WITHIN BUDGET 2008

Amendments within Budget 2008 were necessary to reflect the decisions on the transfers of appropriations as described above.

T1-2008 concerned mobilization of funds with EUR 55,000 required for operational needs of the Secretariat (further development of the website and increased needs arising out of Information Technology). T2-2008 in the amount of EUR 155,000 was needed due to anticipated additional study required for the establishment of Coordinated Auction Office in South Eastern Europe. T3-2008 of EUR 25,000 concerned mobilisation of funds required for further establishment of the new office of the Secretariat in terms of the purchase of furniture and IT related work. T4-2008 in the amount of EUR 10,000 concerned services to be provided by third parties in the area of administration of the Secretariat (consulting related to the introduction of relevant software solutions for administrative purposes of the trips). Finally, T5-2008 of EUR 30,000 was necessary as to invest further in new conference room equipment and technical solutions.

The total impact of amending budget 2008 (from initial budget 2008 to final budget 2009) was nil and is summarised for all budget lines as follows:

<table>
<thead>
<tr>
<th>Budget Line</th>
<th>Initial budget (in TEUR)</th>
<th>Transfers 2008 (in TEUR)</th>
<th>Final Budget (in TEUR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Human Resources</td>
<td>1,053,474</td>
<td>+/-0</td>
<td>1,053,474</td>
</tr>
<tr>
<td>2. Travel Expenses</td>
<td>175,320</td>
<td>+/-0</td>
<td>175,320</td>
</tr>
<tr>
<td>3. Office</td>
<td>251,000</td>
<td>+30,000</td>
<td>281,000</td>
</tr>
<tr>
<td>4. Other costs, services</td>
<td>1,068,626</td>
<td>-30,000</td>
<td>1,038,626</td>
</tr>
<tr>
<td>TOTAL</td>
<td>2,548,420</td>
<td></td>
<td>2,548,420</td>
</tr>
</tbody>
</table>
5. BUDGET IMPLEMENTATION 2008 - OVERVIEW

Overall, the implementation of budget appropriations as 31 December 2008 amounted to EUR 2,333 Mio. equaling 92% of the available appropriations for 2008 of EUR 2,548 Mio. The table shows budget implementation as of 31 December 2008 with details in its budget lines 1 to 5.

<table>
<thead>
<tr>
<th></th>
<th>Initial Budget 2008</th>
<th>Final Budget 2008 1)</th>
<th>Expenditures Actual 01-12/2008 2)</th>
<th>Budget 2008 Utilisation in %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. HUMAN RESOURCES</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Subtotal Human Resources</td>
<td>1,053,474</td>
<td>1,053,474</td>
<td>1,022,315</td>
<td>97</td>
</tr>
<tr>
<td>2. TRAVEL EXPENSES</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Subtotal Travel Expenses</td>
<td>175,320</td>
<td>175,320</td>
<td>157,314</td>
<td>90</td>
</tr>
<tr>
<td>3. OFFICE</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Subtotal Office</td>
<td>251,000</td>
<td>281,000</td>
<td>232,459</td>
<td>83</td>
</tr>
<tr>
<td>4. OTHER COSTS, SERVICES</td>
<td>1,068,626</td>
<td>1,038,626</td>
<td>941,197</td>
<td>91</td>
</tr>
<tr>
<td>TOTAL</td>
<td>2,548,420</td>
<td>2,548,420</td>
<td>2,353,284</td>
<td>92</td>
</tr>
</tbody>
</table>

1) after Transfers 2008
2) incl. legal commitments of 2008
Source: ECS intern

The below narration note refers to the presented figure on budget utilization as of 31 December 2008:

In the year 2008, 92% of the overall budget of the year has been utilized (actual of EUR 2,385,284 vs. budget of EUR 2,548,420).

Budget line “Human Resources” was utilized at a level of 97%. Some underutilization has been reported due to the fact that some of the positions were not occupied throughout the entire year 2008. Consideration of accruals of leave, in the amount of EUR 51,785 - required under accounting procedures and reported under the HR budget line, is not presented in this report, but are available upon request.

Budget Line "Travel Expenses" is reported at 90% level of annual utilization (Actual 2008 of EUR 157,314 vs. Budget 2008 of EUR 175,320).

"Office" budget has been utilized at a level of 83% (Actual 2008 of EUR 232,458 vs. budget 2008 of EUR 281,000). In general under this budget line expenditure for Office equipment and communications (IT), Consumables as well as Other services are accounted.

Budget line Other Costs and Services has been utilized at a level of 89% (Actual 2008 of EUR 941,197 vs. Budget 2008 of EUR 1,038,626); this ratio includes the commitments made for the studies of ERCB in the entire year 2008.

Details of studies, research and consulting work of the year 2008 are presented below:
<table>
<thead>
<tr>
<th>No.</th>
<th>Description</th>
<th>Consultant</th>
<th>Contract value (excl. VAT)</th>
<th>Date of Contract</th>
<th>Status as of March 23, 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Study on the Improvement of Interconnection, Interoperability, Transparency</td>
<td>ENERGY MARKETS PARTNERS LLP</td>
<td>74,200.00</td>
<td>14.8.2008</td>
<td>finalised</td>
</tr>
<tr>
<td></td>
<td>and Harmonisation of Operational Rules for Natural Gas Transportation in the</td>
<td>37 BARNARDS HILL, MARLOW</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Energy Community</td>
<td>BUCKINGHAMISHIRE, SL7 2NX UNITED KINGDOM</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>A Study on Tariff Methodologies and Impact on Prices and Energy Consumption</td>
<td>IPA ENERGT + WATER ECONOMICS</td>
<td>73,575.00</td>
<td>21.8.2008</td>
<td>upon finalisation; est. Apr</td>
</tr>
<tr>
<td></td>
<td>Patterns in the Energy Community</td>
<td>ENIGBURGH SCOTLAND</td>
<td></td>
<td></td>
<td>2009</td>
</tr>
<tr>
<td>3</td>
<td>Prototype for a Service platform for the Regional Balancing Market (&quot;BETSEE&quot;)</td>
<td>Elektroenergetski Koordinacioni Centar</td>
<td>28,900.00</td>
<td>20.10.2008</td>
<td>ongoing; est. 2009</td>
</tr>
<tr>
<td></td>
<td>including training, trial run and platform hosting</td>
<td>Vojvode Step 412</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>11040 Belgrade</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Study on the Identification of Legal Obstacles to the Establishment and</td>
<td>Kelemenis &amp; Co</td>
<td>74,870.00</td>
<td>28.11.2008</td>
<td>upon finalisation; est. May</td>
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<tr>
<td></td>
<td>Operation of and the Participation in a Coordinated Auction Office in South</td>
<td>5 Tsakalof Street</td>
<td></td>
<td></td>
<td>2009</td>
</tr>
<tr>
<td></td>
<td>Eastern Europe</td>
<td>Athens 106 73</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Study for the final development and establishment of a Coordinated</td>
<td>Consetec Consulting fuer Energiewirtschaft und -technik GmbH</td>
<td>119,625.00</td>
<td>28.11.2008</td>
<td>ongoing; est. 1st half 2009</td>
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<tr>
<td></td>
<td>Congestion Management in SEE</td>
<td>Gruener Weg 1</td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td>D-52070 Achen</td>
<td></td>
<td></td>
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</tr>
<tr>
<td></td>
<td></td>
<td>AND APCS Power Cleaning and Settlement AG</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Alserbachstrasse 14-16</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>A-1090 Wien</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

TOTAL 371,170.00

Source: ECS intern
6. AUDIT 2008

At the date of this report, the year-end accounts of the Energy Community have been audited by the external audit company, task which was performed by Ernst& Young within the month of February 2009.

Auditors conducted audit in accordance with the approved by the Budget Committee terms of reference on 24 September 2008. During the audit process, accounting records and procedures have been inspected for the purposes of verifying the accuracy and completeness of the records as required under the relevant Articles of the Procedures for the Establishment and Implementation of Budget, Auditing and Inspection (see Art. 81).

The key statements of the auditors in this relation are the following:

- Internal Control Systems of the Energy Community Secretariat proved to be adequate to the size of the organisation;
- Established internal control systems seem also to be adequate to assure effectiveness of internal controls;
- During the audit period no facts has come to the attention of external audit company which caused material doubt on the fair presentation of financial statements or adequate use of financial means;
- Auditors stated that the rules and regulations set by the Ministerial Council and by the Director have been observed in principle throughout the financial year of budget implementation.

As a final result, statement of assurance has been issued by the audit company, which can be sound basis for consideration by the Ministerial Council for discharge of the Director from his management and administrative responsibility for the financial year 2008.

The Audit Company provided the Director with few recommendations for further improved implementation of the budget related procedures, which shall be followed up together with the Budget Committee within the year 2009.
CONCLUSION

Year 2008 is considered as first year of regular operations of the Energy Community from the budgetary perspective. Optimization of the internal control system followed the successful development of the Energy Community as an international organization mid 2007. Despite the positive assessment of the external auditor on the internal control system, it is a principle understanding that the latter has to be continuously monitored and strengthened where necessary as to keep the effectiveness of utilization of the Energy Community budget and thus to create financial conditions for achieving the Energy Community objectives.

The budget execution for year 2008 indicated that the envisaged funds were sufficient for effective work of the Energy Community.

However, it is Secretariat’s opinion that in the future the Energy Community shall continue to pay particular attention to the process of execution of the budget via the competent institutions and employees by using all available respectively adopted mechanisms. This will allow taking pro-active measures in due time.

Thus, on the ground of the rule of law and concrete planning, it is expected that the implementation of the Energy Community budget shall be efficient tool to achieve the Energy Community objectives.
Attachment 1: Energy Community Events 2008 - Overview

Period January to December 2008

1. ECRB Gas Working Group, Vienna, 14 Jan
2. 1st Budget Committee Meeting, 30 Jan, Brussels
3. ECRB Electricity Working Group 6 Feb
4. Energy Community Regulatory Board, 7 Feb, Athens
5. ECRB Customer Working Group, 20 Feb, Vienna
6. Electricity Tariffs Workshop, 20 - 21 Feb, Vienna
7. 1st Energy Efficiency Task Force meeting, 21 Feb, Vienna
8. Residential Energy Efficiency and Affordability Workshop, 22 Feb, Vienna
9. 2nd Budget Committee meeting, 10 March, Vienna
10. 8th Permanent High Level Group Meeting, 11 March, Vienna
11. Workshop on the Environmental Dimension of the Energy Community, 12 March, Vienna,
12. 6th Joint Working Group on Gas Infrastructure and Regulation, 03 Apr, Belgrade
13. Technical Workshop: Electricity Investments in the Energy Community, 09 April, Vienna
14. Workshop on the Implementation of the Treaty, 10 - 11 April, Vienna
15. ECRB Gas Working Group, 15 April, Maribor
16. Gas Forum, 16 April, Maribor
17. ECRB Electricity Working Group, 17 Apr, Sarajevo
18. Implementation Group for Coordinated Auction Office Meeting, 18 Apr, Sarajevo
19. ECRB Electricity Working Group 14 May, Athens
20. Implementation Group for Coordinated Auction Office Meeting, 14 May, Athens
21. 12th Athens Forum 15 - 16 May, Athens
22. Energy Community Regulatory Board, 15 May, Athens
23. ECRB Customer Working Group, 26 May, Vienna
24. Workshop - Energy Community and Social Dialogue, 27 May, Vienna
25. 2nd Energy Efficiency Task Force, 26 June, Brussels
26. 9th Permanent High Level Group 26 June, Brussels
27. 4th Ministerial Council, 27 June, Brussels
28. ECRB Gas Working Group, 10 Sep, Belgrade
29. 7th Joint Working Group on Gas Infrastructure and Regulation, 11 Sep, Belgrade
30. ECRB Electricity Working Group, 16 Sep, Vienna
31. Implementation Group for Coordinated Auction Office Meeting, 17 Sep, Vienna
32. ECRB Customer Working Group, 18 Sep, Vienna
33. 3rd Energy Efficiency Task Force, 23 Sep, Zagreb
34. 3rd Budget Committee meeting, 24 Sep, Zagreb
35. 10th Permanent High Level Group, 24 Sep, Zagreb
36. Gas Distribution Conference, 25 Sep, Zagreb
37. Energy Community Regulatory Board, 30 Sep, Athens
38. Investment Conference, 7 October 2008, Pristine
39. 3rd Gas Forum, 16 October 2008, Maribor
40. Interregional Workshop on Cross Border Capacity 21 October, 2008, Vienna
41. 4th Energy Efficiency Task Force, 3 November 2008, Vienna
42. ECRB Gas Working Group, 7 November 2008
43. ECRB Electricity Working Group, 12 November 2008
44. Social Forum, 18-19 November 2008, Tirana
45. ECRB Customer Working Group, 20 November 2008
46. 13th Athens Forum Electricity, 2-3 December 2008
47. Energy Community Regulatory Board, 2 December 2008, Athens
48. 11th Permanent High Level Group, 10 December 2008, Tirana
49. 5th Ministerial Council, 11 December 2008, Tirana
50. ECRB Gas Working Group, 18 December 2008, Athens
## Attachment 2: Energy Community Contracting Parties Missions 2008 – Overview

<table>
<thead>
<tr>
<th>Country</th>
<th>QR1-2008</th>
<th>QR2-2008</th>
<th>QR3-2008</th>
<th>QR4-2008</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Gas</td>
<td>Electricity</td>
<td>Gas</td>
<td>Electricity</td>
</tr>
<tr>
<td>Albania</td>
<td>11-12 Feb</td>
<td>11-12 Feb</td>
<td>29-30 July</td>
<td></td>
</tr>
<tr>
<td>Bosnia &amp; Herzegovina</td>
<td>16-18 Jan</td>
<td>17-18 Jan</td>
<td>24-26 Aug</td>
<td>3-6 June</td>
</tr>
<tr>
<td>Croatia</td>
<td>5-7 Feb</td>
<td>4-5 Feb</td>
<td>4-6 May</td>
<td></td>
</tr>
<tr>
<td>Montenegro</td>
<td>11-12 Feb</td>
<td>11-12 Feb</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Serbia</td>
<td>1 Feb</td>
<td>23-24 Jan</td>
<td></td>
<td></td>
</tr>
<tr>
<td>UNMIK</td>
<td></td>
<td></td>
<td></td>
<td>29-30 Apr</td>
</tr>
</tbody>
</table>

|                                | Gas        | Electricity| Gas        | Electricity|
|                                |            |            | 3-4 Nov    | 8-9 Oct, 3-7 Nov|
|                                |            |            | 4-5 Nov    | 3-5 Nov    |
|                                |            |            | 22-24 Sep  |            |
|                                |            |            |            | 13-14 Oct  |
|                                |            |            |            | 28-30 Oct  |
|                                |            |            | 30-9-2 Oct | 30-9-2 Oct |
|                                |            |            | 7-8 Oct    |            |