ELECTRICITY AND GAS ROAD MAP
- BOSNIA AND HERZEGOVINA -

Background
According to Article 3a of the Treaty establishing the Energy Community (the Treaty), the activities of the Energy Community (the EnC) shall, among others, include the implementation by the Contracting Parties of the *Acquis Communautaire* on energy, environment, competition and renewables. Under the Treaty, the *Acquis Communautaire* on energy is represented by the Directive 2003/54/EC, the Directive 2003/55/EC, and the Regulation 1228/2003/EC (Article 11 of the Treaty). The timeline, as specified in the Treaty's Annex I, asked for this activity to be implemented by July 2007 (within twelve months of the entry into force of the Treaty). The Treaty also sets out the timetable to adopt the necessary measures to open the market to non-household customers by January 2008 and to all customers by January 2015.

Purpose
The implementation of the *Acquis Communautaire* on energy, and the adoption of necessary measures to open the electricity and gas markets for competition are supported by the development of tailor-made Road Maps (Action Plans), by each Contracting Party. These are based on electricity, and respectively gas templates prepared by the Energy Community Secretariat and agreed with major stakeholders in the process, including the Permanent High Level Group members.

Electricity Road Map

1. **Adoption of the acquis communautaire**
   - As both Entities, the Federation of Bosnia and Herzegovina (F BiH) and the Republika Srpska (RS), have developed their own legislation and institutions in the energy field, explore possibilities for developing a law on energy at the state level.
   - Get a comprehensive energy strategy at the state level and develop and adopt a blueprint for the period up to 2030.
   - Avoid overlapping and conduct additional harmonisation of the entities legislation in parallel to the harmonisation with the EU legislation through the TAIEX program.
   - Continue with implementation of the Action plans for restructuring and privatization of the electricity sector in Bosnia and Herzegovina which have been agreed by the Entities, in particular the Federation utilities functionally unbundling and fully unbundling their accounts. Explore possibilities for developing an action plan at the state level.
   - Adopt the General Conditions for Electricity Supply.
- Prepare the Indicative Generation Development Plan for the next 10 years (including expected future demand); and the Demand Yearly Balance. Include a section on security as a part of periodic 2-year reporting requirement.
- Develop a coherent, coordinated, transparent authorization plan for development of new projects in BiH, which is harmonized in both Entities and in accord with the EU Directives.
- Adopt technical rules for connection to the network and prepare the Third Party Access Rules as a separate document.
- Adopt the Distribution Grid Codes.
- Organise the distribution system operators.
- Remote reading of electricity meters should commence as soon as possible since it is a precondition for full implementation of the Market Rules as to make the balancing market fully functioning.
- Work on the permanent Rules for Use of Interconnectors’ Capacity.
- Develop a rulebook for confidentiality of commercial and other sensitive information.
- Continue making audits of accounts of electricity undertakings by independent auditor on a regular periodic basis and publish reports.
- Consolidate the state and the entities regulatory authorities and harmonise regulatory practices at the state and the entity levels. This includes introduction of regulatory practise in the Brcko District covering electricity generation, distribution and supply.
- Begin addressing the regulatory issues for renewables and coal.
- Continue to participate in the regional ITC mechanism. Continue to publish overall information regarding Article 5 of Regulation 1228/2003/EC. Continue to participate in the regional CA dry run and implement the CM guidelines once adopted.

(2) Market structure
- Continue with collection of data for assessing the market concentration. Conduct the first assessment of the market concentration through commonly used indicators.
- As relating to unbundling of the TransCo and ISO continue with effective operational implementation of the Grid Code and business processes (scheduling, planning, settlement of disputes, etc), and finalise the General Conditions for Connection to the Network and the Third Party Access Rules.
- As relating to unbundling of the DSOs, continue with the implementation of the Action Plans for restructuring and privatization of the electricity sector in BiH. Ensure that distribution function is unbundled into distribution network operation and supply.
- Finalize legal unbundling of the DSOs and enforce their functional and account unbundling as a prerequisite for extension of the initial licenses (valid until Dec 2007).
- Finalise the Grid Codes for Distribution.

(3) Wholesale market
- Continue with implementation of the Action Plans for restructuring and privatization of the electricity sector in BiH as relating to further development of the wholesale market based on bilateral trading.
• Elaborate a plan to make the electricity market in BiH a single market, based on free and equal access to the transmission network and upon the principles of regulated access and applicable Directives of the European Union.

• Authorise appropriate body to conduct market surveillance tasks.

• Implement the Market Rules. Draft the Rules for the competitive market.

• Implement market transparency related tasks. Publish data regularly (system load, transmission and access interconnections, generation, balancing). Publish information from the wholesale market.

• Finish the project aimed to create a web-portal of the ISO and start uploading information successively. Implement the SCADA project and realise its on-line connection to the web-portal having in mind publication of information in real time.

• Plan realisation of the market monitoring tasks. Continue to monitor license holders.

• Continue with conduct of national licensing practices and procedures that are already put in place.

(4) Retail market

• As the eligibility status to customers will be granted according to the EnC Treaty timetable, put in place all necessary technical measures and business procedures for eventual customer switching.

• Continue with improvement of the payment system, decrease of distribution losses applying the planning measures, and upgrading of measurement and control system according to the terms and conditions to issuance of the initial licenses.

• Work out correct load profiles for different customer groups in order to further develop tariff methodologies.

• Adopt the General Conditions for Electricity Supply and the Rule on network connection as to support customer protection in F BiH. Create the Quality and continuity of the supply standard for the same purpose in RS.

(5) Tariff reform and affordability

• Continue applying the tariff methodologies that are put in place at the level of entity regulators on the basis of cost-reflectivity.

• Draft the ancillary services tariffs, based on generation prices issued by the entity regulators and determined by the Market Rules.

• Develop state wide policy for the protection of vulnerable customers.

Gas Road Map

(1) Adoption of the acquis communautaire

• Designate a competent body with the function of regulatory authority to develop the restructured Market Model and to support the elaboration and implementation of the gas law.
- Develop the Transitory Market Model and the Market Rules in order to make them fully compatible with the EnC Treaty requirements.
- Provide authorisation and tendering rules for the elaboration and construction of additional distribution systems needed for the gasification of additional cities based on the results of the ongoing gasification study.
- Continue with the elaboration and subsequent implementation of the so far developed gas law, which is based on the Directive 2003/55/EC, taking the experience gained within the EU into consideration.
  - Commence in due time the institutional building and restructuring of the TSO as foreseen in the first draft of the discussion paper *Gas Sector Reform, Restructuring and the Gas Law* considering the regarding experience gained within the EU.
- Prepare and implement the legal provisions for the organisation for access to New Infrastructure in accordance with Article 22 of the Directive 2003/55/EC (exemption from TPA-provisions)
- Prepare and implement the legal basis for the eligibility status (according to the EnC Treaty – Annex I, Para 2).
- Elaborate and implement the legal basis for the establishment of a single mechanism for the cross-border transmission, in particular for the allocation of capacity, for the inter-connection agreements as well as for the operational balancing agreements.

(2) Market structure
- Develop a concept for further gasification of the country, taking the results of the gasification study (under the lead and auspices of World Bank/KfW) into account.
- Elaborate a concept for the structural development of the TSO and DSOs, based on the results of the above mentioned concept for the gasification of the country.
- Establish transmission and distribution system operators, and provide the legal basis for the unbundling requirements and accomplish unbundling

(3) Wholesale market
- Develop a concept for import-, storage- and the balancing market and an ancillary services market taking the results of the above mentioned gasification study into account. Define a final model from its present status to a full market design.
- Prepare transparency provisions for activities, involving data, services offered, conditions of access, capacity allocation procedure, etc. to be made available (published) to the market participants.
- Develop a non-discriminatory, broadly cost neutral balancing regime which avoids cross subsidisation between system users.
- Elaborate compatible provisions concerning licence- and authorization conditions.

(4) Retail market
- Develop a concept for further extension of the retail market taking the results of the above mentioned gasification study into account.
- Ensure that all non-household customers may become the eligible customers from 1 January 2008 as given by the timetable set out in the Annex I of the EnC Treaty. Bring out appropriate decision concerning the market opening and granting eligibility status to customers according to the EnC Treaty.

- Elaborate and implement—taking the results of the gasification study into account—a customer switching procedure.

- Prepare a concept and the regarding provisions concerning transport capacity usage, considering the customer switching process and taking into account the results of the gasification study.

- Develop customer protection provisions.

(5) Tariff reform and affordability

- Prepare a concept for cost determination of system operators and deviation of tariffs, taking the above mentioned gasification study into account and a concept for determination (calculation) of tariffs. Tariffs shall be cost reflective, based on reasonably incurred costs. Cross subsidies between categories of customers shall be avoided as far as possible.

- Develop and implement investment incentives for further gasification of the country, taking the results of the gasification study into account. The risk perception when adapting the rate of return on the regulatory asset base and when setting incentives for investments shall be considered. The regulatory framework shall suit in the above mentioned sense the region.

- Draft a concept for all inclusive tariffs, taking the above mentioned principles (costs reflectivity etc.) as a basis.

- Develop a concept regarding support scheme for the benefit of vulnerable customers, including incentives for economic energy use, based on the results of the gasification study.