

**Standard Summary Project Fiche – IPA centralised programmes**  
**(Regional / Horizontal programmes ; centralised National programmes)**

**1. Basic information**

- 1.1 CRIS Number: 2007/19322**  
**1.2 Title: Supporting the Implementation of the Energy Community Treaty**  
**1.3 ELARG Statistical code: 03.15**  
**1.4 Location: Serbia**

**Implementing arrangements:**

- 1.5 Contracting Authority (EC) EC**  
**1.6 Implementing Agency: N/A**  
**1.7 Beneficiaries (including details of project manager):**

Project activity/component	Beneficiary (institutions, target group etc)	Contact point responsible for project/activity coordination
Further Assistance to Energy Regulatory Agency (AERS)	Energy Regulatory Agency (AERS)	President of AERS
Further Assistance to the Serbian TSMO and developing cross border capacity	Serbian Transmission System and Market Operator (EMS)	General Manager, EMS
Assistance to Srbijagas	Srbijagas	General Manager, Srbijagas

**Financing:**

- 1.8 Overall cost: €6 million**  
**1.9 EU contribution: €6 million**  
**1.10 Final date for contracting: 3 years after the signature of the Financing Agreement**  
**1.11 Final date for execution of contracts: 5 years after the signature of the Financing Agreement**  
**1.12 Final date for disbursements: 6 years after the signature of the Financing Agreement**

**2. Overall Objective and Project Purpose**

**2.1 Overall Objective:**

The overall objective of the project is to ensure the implementation of commitments undertaken in the framework of the Energy Community Treaty, including the implementation of the Regional Energy Market.

**2.2 Project purpose:**

The purpose of the project is twofold: firstly to strengthen the capacity and technical skills of the Serbian institutions and energy industries to meet the legal and technical requirements deriving from the Energy Community Treaty and the Regional Energy Market, and secondly to assist in developing the investments needed in cross border electricity interconnections in order to realise the objective of creating a functioning regional energy market.

### **2.3 Link with AP/NPAA / EP/ SAA**

The Energy Community Treaty was signed in Athens on 25 October 2005. The Treaty entered into force on 1 July 2006. Serbia signed the Treaty, thereby accepting the policy of regional energy market integration, harmonization with the relevant electricity/gas single market Directives, respecting at the same time relevant EU directives concerning environmental protection and renewables, EU competition rules as well as accepting the necessity to solve and overcome possible social consequences of the Treaty implementation.

The European Partnership recognizes the following short-term priorities in the energy sector: Implementation of obligations envisaged in the Treaty establishing the Energy Community and full implementation of the Energy Law in order to enable the unhindered operation of the Energy Agency of the Republic of Serbia (AERS). In the mid-term, the priority is continuation of fulfilment of regional and international obligations in this sector, with the aim of establishing a competitive regional energy market.

The Enlargement Strategy generally envisages respecting the relevant *acquis*, while the Treaty explicitly specifies certain parts of the *acquis* that the parties to the Treaty have to implement.

Likewise, an Action Plan for implementation of the Treaty in the gas sector has been adopted. According to the stipulations of the Action Plan, apart from the Ministry of Energy and Mining and AERS, considerable responsibilities for its implementation have been entrusted on Srbijagas, as the trader supplying tariff customers, largest retailer, transporter, major distributor and owner of the underground gas storage still under construction. In order to implement those tasks, it would be necessary to restructure Srbijagas in line with the Directive EU 2003/55, and in conformance with the time schedule provided in the Treaty and its Annexes.

### **2.4 Link with MIPD**

The main priorities and objectives in the energy sector (under the heading of meeting European Standards) are:

- **Energy:** Compliance support to meet the needs of the Regional Energy Treaty, relevant Community Directives and regional market obligations; compliance of legislation with the *acquis*.

The activities foreseen in the MIPD to address these priorities and meet these objectives are:

- Support energy sector restructuring, investment planning, and operation of mandatory institutions to meet the Regional Community Energy treaty and relevant Community legislation, including those concerning the improvements in energy efficiency, energy savings and the use of renewable energy sources

### **2.5 Link with National Development Plan (where applicable)**

The National Strategy of Economic Development of Serbia (2006-2012) has the following objectives and measures/ activities to achieve these objectives (Section 5.4 Infrastructure, 5.4.1 Energy and Mining):

<i>Objectives</i>	<i>Measures and activities</i>
Harmonize the practice and legislation with the EU	<ul style="list-style-type: none"> <li>• Introduce energy statistics according to Eurostat methodology,</li> <li>• Adopt the program for implementation of the Agreement on SEE Energy Community</li> <li>• Implement the provisions of the Agreement on SEE Energy Community</li> <li>• Further harmonize the legal framework with EU Directives</li> </ul>
Legislative activities	<ul style="list-style-type: none"> <li>• Adopt legislation needed for incentives for rational use of energy both in production sectors and in consumption sectors, including the establishment of the relevant Fund</li> <li>• Adopt regulations and standards regarding the use of energy in the consumption sector</li> <li>• Harmonize the relevant regulations with the EU</li> <li>• Establish a legal framework and identify incentives for better use of renewable energy sources</li> <li>• Develop a legal framework for energy management in local self-governments</li> </ul>

## **2.6 Link with national/ sectoral investment plans**

The development of the energy sector in Serbia is guided by the Energy Development Strategy up to 2015, approved by the Government and Parliament in 2005, and the 'Programme for the Implementation of the Strategy for the Development of the Energy Sector 2007 – 2012 (which is the detailed plan for implementing the energy strategy), which was approved by the Government in 2006. This plan explicitly states the need to achieve harmonisation with the energy Acquis.

## **3. Description of project**

### **3.1 Background and justification:**

The purpose of the Athens Memoranda (which were voluntary agreements to create a regional energy market first for electricity and then including gas) and the Energy Community Treaty<sup>1</sup> (which, by definition, is legally binding) is to integrate the SEE region – including Serbia - into a single energy market, with the aim to improve regional security of supply, and encourage investment, in compliance with EU Directives in the energy and environmental field.

The entry into force of the Energy Community Treaty in July 2006 imposed significant obligations on Serbia to comply with the EU *acquis communautaire* in the energy and environmental field. Under the Treaty, the scope of the *acquis* which must be implemented are primarily the Electricity Single Market Directive (Directive 2003/54/EC), the Gas Single Market Directive (Directive 2003/55/EC), and Regulation 1228/2003/EC on conditions for access to the network for cross-border exchanges in electricity.

Action plans (road maps) have been prepared by each contracting party, including Serbia, which set out in detail the actions, with concrete deadlines, which have to be implemented by

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<sup>1</sup> The Energy Community Treaty was signed in October 2005 between EC and contracting parties (jurisdictions of the SEE region, including Serbia) and entered into force on 1<sup>st</sup> July 2006.

the Ministry of Mining and Energy, the Energy Regulator (AERS), the energy utilities – EPS, EMS, and Srbijagas. The most important of these obligations are:

- The requirement to implement unbundling of the transmission and distribution system operators
- Elaborate and implement wholesale market opening
- Develop cost reflective retail tariffs
- Develop cost reflective tariffs for third party access to transmission (for electricity and gas)
- Develop and adopt support schemes for the protection of vulnerable consumers

The independent Energy Regulatory Agency (AERS) enacts the secondary legislation needed to establish and operate the energy market, and ensures compliance with the primary and secondary legislation, requiring legal, economic and technical expertise.

The Energy Community Treaty requires the intervention of regulators both at the national level and the regional level. Previous CARDS funded technical assistance has concentrated on the establishment of the Regulator, and on developing and implementing the necessary secondary legislation (e.g. tariff methodologies, licences and authorisations, connection charges, dispute procedures) needed to establish the national energy market in Serbia. However under the Treaty the regional Energy Community Regulatory Board has been set up, with the goal of aiding the establishment and smooth operation of an efficient regional (and in the future pan-European) energy market. This means the development and enhancement of the regulatory functions related to price regulation and monitoring the electricity and natural gas energy markets, as well as the development of the procedures and mechanisms for their implementation at the regional, as well as at the national level which has been the focus of the regulator's work so far. The regulator needs specialised technical assistance in areas such as the analysis and evaluation of the possible effects of the proposals related to the design of the regional energy market, harmonization of Market Rules, compensation mechanisms for cross-border electricity trade, co-ordinated auctions for interconnector capacities, and harmonization of licensing regimes.

Under CARDS funding, assistance has supported the unbundling of the former vertically integrated monopoly, EPS, and the creation of an independent transmission system and market operator, EMS. Experience throughout the region and in the Member States shows that continued technical assistance is required to assist EMS in developing both the national and the regional energy markets. Developing the regional energy market requires an increase in the capacity for cross border trade: the bottlenecks caused by the limitations of cross border capacity links have been shown to be a serious technical barrier to the operation of the regional energy market, and increasing the capacity of cross border links, and hence removing these bottlenecks, is a key priority. For this reason financing feasibility studies for concrete cross border transmission investment projects, to prepare for IFI investment in the projects, is seen as a key facilitating need to build the regional energy market.

Under the CARDS programme, assistance was concentrated on the electricity sector (both physical reconstruction and capacity building work with the electricity industry) but the Energy Community Treaty includes the requirement for Serbia to transpose both the Electricity Single Market Directive, and the Gas Single Market Directive<sup>2</sup>. The Serbian gas

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<sup>2</sup> Directive 55/2003 concerning common rules for the internal market in natural gas

utility Srbijagas is at present a vertically integrated company who import gas, transport gas through the high pressure transmission network, is the largest distributor of gas, supplies tariff customers, and owns/ will operate underground gas storage (currently under construction). In order to comply with the provisions of the Energy Community Treaty/ Gas Single Market Directive it will be necessary to restructure Srbijagas, in a broadly analogous way with the restructuring which has already taken place in the electricity sector. Compliance with the Treaty requires functional and accounting unbundling, the establishment of rules for access to the transmission system and transparent access to capacity, and wholesale market opening, including transparent access to cross border capacity.

As in the electricity sector, this will require technical assistance both in the institutional (accounting, organisation) aspects of compliance, and in the technical measures needed, such as technical rules for access to the system, calculation of capacity and allocating that capacity, measuring gas flows and providing access to information to market players.

The capacity building assistance to be provided under this project will consider relevant local legislation and relevant documents/toolkits to mainstream European standards on cross cutting issues to promote equality and diversity in these beneficiary organisations.

### **3.2 Assessment of project impact, catalytic effect, sustainability and cross border impact (where applicable)**

The institutions concerned with implementing the Energy Community Treaty within the scope of this project are already established (Energy Regulatory Agency AERS, Transmission System and Market Operator EMS, and Srbijagas) but still in need of capacity strengthening. The result of the capacity building activities is intended to consolidate these institutions and build the regional energy market. It should also be noted that this activity concerns the strengthening of *existing* institutions, rather than the much more risky operation of establishing *new* institutions. This project has an important cross border impact, since the Energy Community Treaty is intended to increase cross border (regional) energy trade by creating a single market in network energy covering the Member States and South Eastern Europe.

### **3.3 Results and measurable indicators:**

#### Activity 1.1 Further Assistance to the Energy Regulatory Agency (AERS)

##### *Results:*

- a. Implementation of the requirements of the Road Maps/ Action Plans for the Energy Community Treaty
- b. Improved market monitoring and enhanced price/ tariff regulation giving proper incentives to improve efficiency of the utilities while taking account of protection of vulnerable consumers.
- c. Increased professional capacity of AERS staff and trained staff
- d. Increased regulatory cooperation at the regional level

##### *Measurable indicators:*

- a. Implemented actions set out in the Electricity and Gas road maps in line with the agreed timetable
- b. Approved tariffs
- c. Functioning Energy Community Regulatory Board (ECRB).

### Activity 1.2 Strengthening the capacity of the Transmission System and Market Operator EMS

#### *Results:*

- a. Improved performance of the transmission system operator and market operator
- b. Increased professional capacity of EMS staff on the implementation of market rules, technical codes and on participation in cross border trade.
- c. Improved operational security and transmission service quality
- d. Increased capacity for cross border trade (contributing to the regional energy market).

#### *Measurable indicators:*

- a. Benchmarking against industry standards (for (a, b, and c above).
- b. Wholesale market opening
- c. Actions of the Electricity Roadmap of the Energy Community Treaty are implemented within the agreed timetable.
- d. Financing negotiated for cross border capacity investments for which feasibility studies will be completed.

### Activity 1.3 Technical Assistance to Srbijagas

#### *Results:*

- a. Unbundling, as foreseen under the Energy Community Treaty
- b. Wholesale market opening
- c. Increased professional capacity of staff.

#### *Measurable indicators:*

- a. Functionally unbundled entities for transmission, distribution and storage with both management and accounting separation.
- b. Trading at the wholesale level
- c. Technical codes prepared, and approved by the Regulatory Agency (AERS).

## **3.4 Activities:**

Assistance will cover the following mutually reinforcing areas:

### Activity 1.1: Further Assistance to Energy Regulatory Agency (AERS)

The project will provide technical assistance and advice to the AERS across a number of areas, indicatively:

- Implementation of Road Maps for Electricity and Gas approved at the Ministerial Council Meeting of the Energy Community Treaty.
- Further work on the implementation of improved tariff methodologies (efficiency incentive based)
- Monitoring the implementation of market rules and market opening.
- Developing and enhancing regulations at the regional level (through the work of the Energy Community Regulatory Board).

### Activity 1.2: Strengthening the capacity of EMS (Serbian Electricity Transmission System and Market Operator)

Further technical assistance and capacity building will be provided for the Serbian Transmission System and Market Operator (EMS). The project is expected to cover the following areas:

- Further development of the necessary operational business processes and training of staff on implementation of the new processes to improve performance of the transmission system operator and market operator,

- Support on implementation of cross-border trade mechanism and issues related to interconnection capacity allocations as required by the Energy Community Treaty,
- Improve market transparency
- Feasibility study of priority cross border capacity strengthening projects:
  - Construction of new 400kV link between Serbia and Romania
  - Construction of new substation and overhead lines in Bistrica to reduce congestion on the interconnections with Bosnia and Herzegovina, and Montenegro.

### Activity 1.3 Technical Assistance to Srbijagas

Technical assistance will be provided to Srbijagas in both the technical and institutional/organisational restructuring tasks needed to achieve compliance with the provisions of the Gas Directive/ Energy Community Treaty. The assistance will cover the following areas:

- The further development of market model and market rules.
- Develop unbundling and restructuring (including providing assistance with unbundling of accounts and legal issues).
- Develop technical codes and rules for transmission, distribution, and underground storage) to enable transparent access and market development.
- Gasification and gas development planning (since Serbia is a developing gas market).

The project will be implemented through four service contracts.

### **3.5 Conditionality and sequencing:**

This project (all three activities) is conditional on the continued commitment of the Government to implement the requirements of the energy Acquis (as set out in the Energy Community Treaty) and to establish the regional energy market.

All three activities can be implemented in parallel, however, technical codes and market rules are developed by the industry, to be submitted to, considered by, and then approved by the Regulator. This is the most direct point of linkage between these three projects (though all three activities have the same overall objective – the implementation of the Energy Community Treaty).

### **3.6 Linked activities**

This project follows up previous CARDS funded assistance to the reform and restructuring of the energy sector in Serbia and the development of the Regional Energy Market:

<b>Programme</b>	<b>Projects</b>	<b>Start</b>	<b>End</b>	<b>Budget</b>
CARDS 2002	Blueprint for the Serbian Energy Agency	April 02	April 03	€0.5 m
CARDS 2003	Study of pollution from thermal power stations in Serbia and on pollution mitigation measures and their costs	Sept 03	Sept 04	€0.75 m
CARDS 2004	Establishment and Operation of Serbian Energy Regulatory Agency	Aug 05	Aug 07	€1.7 m

	Technical assistance to help set up and work with the Serbian Energy Regulatory Agency (AERS).	July 04	July 06	€1.6 m
	Capacity building (twinning) for the Ministry of Mining and Energy	Mar 05	Dec 06	€1.2 m
	Legal assistance (secondary legislation) for the Ministry of Mining and Energy	Apr 05	Nov 06	€0.2 m
	Technical assistance to help establish the separate electricity transmission, system and market operator, EMS	July 04	July 06	€2.7 m
	Hardware and software for electricity market management, and cross border capacity allocation systems.	Aug 06	Feb 08	€3.3 m
	Environmental clean up measures (based on the study undertaken under the 2003 programme) (Electrostatic precipitators at Kostolac A and ash transport and storage at Nikola Tesla B power plant).	Mar 06	Sept 08	€5 m
CARDS 2006	Follow on technical assistance to help consolidate the Serbian Energy Regulatory Agency (AERS)	Feb 07	Sept 08	€1.5 m
	Follow on technical assistance to the Energy Transmission System and Market Operator..	Mar 07	Oct 08	€1.5 m
	Interconnection (High Voltage electricity transmission line) Serbia – FYRoM.	Oct 07	Mar 09	€21.5 m

### 3.7 Lessons learned

- *Coordination:* Close consultation among the many stakeholders in the energy sector and a collaborative approach are essential to ensure that all these stakeholders are fully informed, and are supportive of the reforms to be carried out.
- *Prioritising investment needs:* As the energy sector is highly capital intensive it is vital that investments in the sector are properly prioritised, ensuring that investments have the maximum impact in realising the objectives for the sector, and that the economic benefits from a regional, as opposed to a purely national energy market are realised.
- *Ownership:* Experience of previous energy sector reform projects in Serbia has shown the importance of having counterpart ‘ownership’ of capacity building and reform projects. This project helps institutions on implementing sector reforms and builds further the capacity for a sustainable development of the sector and its integration in the Energy Community.

One of the principal lessons learned from past energy sector projects is the need for close consultation with multiple stakeholders to ensure that they develop ‘ownership’ of capacity building and reform projects.

Consensus amongst these stakeholders is particularly vital given the high capital intensity of investments required in the sector, and thus difficulties involved in ensuring that such



investments are properly prioritised and the corresponding economic and social benefits are realised.

#### 4. Indicative Budget (amounts in €)

Activities	TOTAL COST	SOURCES OF FUNDING										
		EU CONTRIBUTION				NATIONAL PUBLIC CONTRIBUTION					PRIVATE	
		Total	% *	IB	INV	Total	% *	Central	Regional	IFIs	Total	% *
Activity 1												
contract 1.1	€1.5 m	€1.5 m	100	1.5		0					0	
Activity 2												
contract 2.1	€1.5 m	€1.5 m	100	1.5		0					0	
Contract 2.2	€1.0 m	€1.0	100	1.0		0					0	
Activity 3												
Contract 3.1	€2.0 m	€2.0 m	100	2.0		0					0	
<b>TOTAL</b>	<b>€6.0 m</b>	<b>€6.0 m</b>	<b>100</b>	<b>6.0</b>		<b>0</b>					<b>0</b>	

\* expressed in % of the Total Cost

#### 5. Indicative Implementation Schedule (periods broken down per quarter)<sup>3</sup>

Contracts	Start of Tendering	Signature of contract	Project Completion
Contract 1.1	T+1Q	T+3Q	T+9Q
Contract 2.1	T+1Q	T+3Q	T+9Q
Contract 3.1	T+1Q	T+3Q	T+9Q

All projects should in principle be ready for tendering in the 1<sup>st</sup> Quarter following the signature of the FA

#### 6. Cross cutting issues

Development Policy Joint Statement by the Council and the European Commission of 10 November 2000 establishes that a number of Cross-cutting Issues shall be mainstreamed into EC development co-operation and assistance.

Cross-cutting issues will be addressed in the project so as to comply with the best EU standards and practice in that area and in a way which demonstrates how they will be dealt with within the project's framework, its activities and outputs.

Cross-cutting issues will be addressed in a proactive manner, and will present a specific component of projects (at all levels of projects' development, starting from the project identification stage). Synergies between the projects and the objectives of will be identified and developed. Also, the projects' objectives and activities need to be screened in order to

<sup>3</sup> [where T=the date of the signature of the FA and xQ equals the number (x) of quarters (Q) following T].

ensure they won't impact negatively on gender equality, minorities' inclusion and environment.

Finally, the beneficiary will make sure its objectives, policies and interventions have a positive impact on and are in line with the main principles of gender equality, minorities' inclusion and environment.

### **6.1 Equal Opportunity**

The project will take account of the need to for gender mainstreaming to be properly embedded in implementing energy policies and strategies.

Human resources policy accompanying the restructuring/privatisation process will ensure equal opportunities for women. Special attention will be paid to increase women's participation in the energy sector.

### **6.2 Environment**

The Energy Community Treaty includes the requirement that the Acquis on the Environment is complied with, all parties have to comply with the obligations. Technical assistance to be provided to the sector will include assistance in the area of developing plans for the implementation of the Environment Acquis based on the timetable set out in Annex II of the Treaty. Compliance with the EIA directive (85/337/EEC) and its amendments and the Conservation of Wild Birds Directive (79/409/EEC) is compulsory.

### **6.3 Minorities**

Access to electricity for some minority groups, especially the Roma people and IDPs, can sometimes be problematic. Under the Energy Community Treaty there is a commitment to develop and adopt a support system for the protection of vulnerable consumers (set out in the alongside the introduction of cost reflective tariffs. Actions in this area should be based on the Social Action Plan prepared under the provisions of the 'Memorandum on Social Issues of the Energy Community'.

## ANNEX I: Logical framework matrix in standard format

LOGFRAME PLANNING MATRIX FOR Project Fiche		Programme name and number: <b>Supporting the Implementation of the Energy Community Treaty</b>	
		Contracting period expires 5 years after the signature of the Financing Agreement	Disbursement period: expires 6 years after the signature of the Financing Agreement
		Total budget : €6 million	IPA budget €6 million:
<b>Overall objective</b>	<b>Objectively verifiable indicators</b>	<b>Sources of Verification</b>	
Ensure the implementation of the commitments undertaken by Serbia in the framework of the Energy Community Treaty (including the implementation of the regional energy market).	Specific requirements of the Energy Community Treaty and the EU Energy Acquis (with deadlines included in the Treaty).	Monitoring reports prepared by the Energy Community Secretariat (for the European Commission).	
<b>Project purpose</b>	<b>Objectively verifiable indicators</b>	<b>Sources of Verification</b>	<b>Assumptions</b>
(a) Strengthen the capacity and technical skills of the Serbian institutions and electricity and gas industries to meet the legal and technical requirements from the Energy Community Treaty (b) Develop investments needed in cross border electricity interconnections	(a) Actions and deadlines as set out in the 'roadmaps and action plans' for the implementation/ compliance with the Treaty Obligations adopted by the Energy Community Ministerial meeting of November 2006. (b) Improved operational security and transmission service quality; increased capacity for cross border trade.	(a) Detailed monitoring reports on the roadmaps and action plans prepared by the Energy Community Secretariat for the European Commission. (b) Technical service quality data published by the Energy Regulator and cross border flows recorded (by UCTE/ ETSO)	Continued Government commitment to the implementation of the provisions of the Energy Community Treaty
<b>Results</b>	<b>Objectively verifiable indicators</b>	<b>Sources of Verification</b>	<b>Assumptions</b>
Activity 1: Harmonised licensing regimes Improved market monitoring and enhanced tariff regulation Improved transparency in cross border capacity allocation Activity 2: Improved performance of the TSMO Improved operational security and transmission service quality Increased capacity for cross border trade Activity 3 Unbundling, as foreseen under the Energy Community Treaty Wholesale market opening Increased professional capacity of staff	Activity 1 Implemented actions set out in the Electricity and Gas road maps Approved incentive based tariffs Functioning ECRB Activity 2 Benchmarking of EMS performance against industry technical and operational standards Wholesale market opening Cross border trade volumes Activity 3 Functionally unbundled entities for transmission, distribution and storage Trading at the wholesale level Technical codes prepared	Monitoring of the specific outputs and deliverables of the project and the monitoring reports to be prepared by the Energy Community Secretariat, as noted above.  Consultant's reports and reports/ data submitted to the Energy Regulatory Agency ETSO/ UCTE data  Monitoring of the specific outputs and deliverables of the project and the monitoring reports to be prepared by the Energy Community Secretariat, as noted above.	Continued independence of the regulator .  Transmission tariffs set at a level that provides cost recovery for the TSMO  Political will and the cooperation of the management of Srbijagas to proceed with the unbundling and restructuring required by the provisions of the Energy Community Treaty.
<b>Activities</b>	<b>Means</b>	<b>Costs</b>	<b>Assumptions</b>
Activity 1 Implementing road maps for Electricity and Gas Tariff implementation Monitoring market rules and market opening Developing and enhancing regulations at the regional level Activity 2 Business efficiency development Supporting cross border trading mechanisms (capacity allocation auctions) Feasibility studies for priority cross border capacity investments Activity 3 Further development of market model/ market rules Developing unbundling and restructuring Developing technical codes and rules Gasification and gas development planning	One service contract, restricted procedure  Two service contracts, restricted procedure (service contract 2.1 for TA, and service contract 2.2 for feasibility study).  One service contract, restricted procedure	€1.5 million  €2.5 million (Service contract 2.1 €1.5 million, service contract 2.2 €1 million).  €2.0 million	As above  As above.  Gas Transmission and storage will not be privatised during the period of execution of this contract.

## Preconditions

### ANNEX II: amounts (in €) Contracted and disbursed by quarter for the project

<b>Contracted</b>	<b>Q2 2008</b>	<b>Q3 2008</b>	<b>Q4 2008</b>	<b>Q1 2009</b>	<b>Q2 2009</b>	<b>Q3 2009</b>	<b>Q4 2009</b>	<b>Q1 2010</b>	<b>Q2 2010</b>	<b>Q3 2010</b>	<b>Q4 2010</b>
Contract 1.1		0.00	1.50	1.50	1.50	1.50	1.50				
Contract 2.1		0.00	1.50	1.50	1.50	1.50	1.50	1.50			
Contract 2.2		1.00	1.00	1.00							
Contract 3.1		2.00	2.00	2.00	2.00	2.00	2.00				
<b>Cumulated</b>	<b>0.00</b>	<b>3.00</b>	<b>6.00</b>	<b>6.00</b>	<b>6.00</b>	<b>6.00</b>	<b>6.00</b>	<b>6.00</b>			
<b>Disbursed</b>											
Contract 1.1		0.00	0.45	0.00	0.45	0.00	0.45	0.15			
Contract 2.1			0.45		0.45		0.45		0.15		
Contract 2.2		0.60	0.00	0.40							
Contract 3.1		0.60	0.00	0.60	0.00	0.60	0.00	0.20			
<b>Cumulated</b>	<b>0.00</b>	<b>1.20</b>	<b>2.10</b>	<b>3.10</b>	<b>4.00</b>	<b>4.60</b>	<b>5.50</b>	<b>5.85</b>	<b>6.00</b>		

## **ANNEX III**

### **Description of Institutional Framework**

The Ministry of Mining and Energy is in charge of implementation and monitoring of this project. The work, mandate and authorisations of the Ministry are regulated by the Law on Ministries (adopted on May 15, 2007 (Official Gazette of Republic of Serbia no. 48/07)) – i.e. Article 11.

The Ministry of Mining and Energy is comprised of the following sectors:

- Electrical Engineering Sector
- Oil and Gas Sector
- General Energy Sector
- Mining and Geology Sector
- Public Enterprises Sector

## **ANNEX IV**

### **Reference to laws, regulations and strategic documents:**

#### **Reference list of relevant laws and regulations**

- Energy Community Treaty
- Energy Law

#### **Reference to AP /NPAA / EP / SAA**

The Energy Community Treaty was signed in Athens on 25 October 2005. The Treaty entered into force on 1 July 2006. Serbia signed the Treaty, thereby accepting the policy of regional energy market integration, harmonization with the relevant electricity/gas single market Directives, respecting at the same time relevant EU directives concerning environmental protection and renewables, EU competition rules as well as accepting the necessity to solve and overcome possible social consequences of the Treaty implementation.

The European Partnership recognizes the following short-term priorities in the energy sector: Implementation of obligations envisaged in the Treaty establishing the Energy Community and full implementation of the Energy Law in order to enable the unhindered operation of the Energy Agency of the Republic of Serbia (AERS). In the mid-term, the priority is continuation of fulfilment of regional and international obligations in this sector, with the aim of establishing a competitive regional energy market.

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Likewise, an Action Plan for implementation of the Treaty in the gas sector has been adopted. According to the stipulations of the Action Plan, apart from the Ministry of Energy and Mining and AERS, considerable responsibilities for its implementation have been entrusted on Srbijagas, as the trader supplying tariff customers, largest retailer, transporter, major distributor and owner of the underground gas storage still under construction. In order to implement those tasks, it would be necessary to restructure Srbijagas in line with the

Directive EU 2003/55, and in conformance with the time schedule provided in the Treaty and its Annexes.

### Reference to MIPD

The main priorities and objectives in the energy sector (under the heading of meeting European Standards) are:

- **Energy:** Compliance support to meet the needs of the Regional Energy Treaty, relevant Community Directives and regional market obligations; compliance of legislation with the *acquis*.

The activities foreseen in the MIPD to address these priorities and meet these objectives are:

- Support energy sector restructuring, investment planning, and operation of mandatory institutions to meet the Regional Community Energy treaty and relevant Community legislation, including those concerning the improvements in energy efficiency, energy savings and the use of renewable energy sources

### Reference to National Development Plan

The National Strategy of Economic Development of Serbia (2006-2012) has the following objectives and measures/ activities to achieve these objectives (Section 5.4 Infrastructure, 5.4.1 Energy and Mining):

<i>Objectives</i>	<i>Measures and activities</i>
Harmonize the practice and legislation with the EU	<ul style="list-style-type: none"> <li>• Introduce energy statistics according to Eurostat methodology,</li> <li>• Adopt the program for implementation of the Agreement on SEE Energy Community</li> <li>• Implement the provisions of the Agreement on SEE Energy Community</li> <li>• Further harmonize the legal framework with EU Directives</li> </ul>
Legislative activities	<ul style="list-style-type: none"> <li>• Adopt legislation needed for incentives for rational use of energy both in production sectors and in consumption sectors, including the establishment of the relevant Fund</li> <li>• Adopt regulations and standards regarding the use of energy in the consumption sector</li> <li>• Harmonize the relevant regulations with the EU</li> <li>• Establish a legal framework and identify incentives for better use of renewable energy sources</li> <li>• Develop a legal framework for energy management in local self-governments</li> </ul>

### Reference to national / sectoral investment plans

The development of the energy sector in Serbia is guided by the Energy Development Strategy up to 2015, approved by the Government and Parliament in 2005, and the 'Programme for the Implementation of the Strategy for the Development of the Energy Sector 2007 – 2012 (which is the detailed plan for implementing the energy strategy), which was

approved by the Government in 2006. This plan explicitly states the need to achieve harmonisation with the energy Acquis.

#### **ANNEX V Details per EU funded contract (\*) where applicable:**

Assistance will cover the following mutually reinforcing areas:

##### Activity 1.1: Further Assistance to Energy Regulatory Agency (AERS)

The project will provide technical assistance and advice to the AERS across a number of areas, indicatively:

- Implementation of Road Maps for Electricity and Gas approved at the Ministerial Council Meeting of the Energy Community Treaty.
- Further work on the implementation of improved tariff methodologies (efficiency incentive based)
- Monitoring the implementation of market rules and market opening.
- Developing and enhancing regulations at the regional level (through the work of the Energy Community Regulatory Board).

##### Activity 1.2: Strengthening the capacity of EMS (Serbian Electricity Transmission System and Market Operator)

Further technical assistance and capacity building will be provided for the Serbian Transmission System and Market Operator (EMS). The project is expected to cover the following areas:

- Further development of the necessary operational business processes and training of staff on implementation of the new processes to improve performance of the transmission system operator and market operator,
- Support on implementation of cross-border trade mechanism and issues related to interconnection capacity allocations as required by the Energy Community Treaty,
- Improve market transparency
- Feasibility study of priority cross border capacity strengthening projects:
  - Construction of new 400kV link between Serbia and Romania
  - Construction of new substation and overhead lines in Bistrica to reduce congestion on the interconnections with Bosnia and Herzegovina, and Montenegro.

##### Activity 1.3 Technical Assistance to Srbijagas

Technical assistance will be provided to Srbijagas in both the technical and institutional/organisational restructuring tasks needed to achieve compliance with the provisions of the Gas Directive/ Energy Community Treaty. The assistance will cover the following areas:

- The further development of market model and market rules.
- Develop unbundling and restructuring (including providing assistance with unbundling of accounts and legal issues).
- Develop technical codes and rules for transmission, distribution, and underground storage) to enable transparent access and market development.
- Gasification and gas development planning (since Serbia is a developing gas market).