1. Basic information

1.1 CRIS number: 2009/021-765

1.2 Title: Follow up technical assistance to Srbijagas

1.3 ELARG Statistical code: 03.15

1.4 Location: Republic of Serbia

Implementing arrangements:

1.5 Contracting authority: EU Delegation to the Republic of Serbia

1.6 Implementing Agency: EU Delegation to the Republic of Serbia

1.7 Beneficiaries (Including Details of Project Manager):

The Public Enterprise «Serbiagas» (hereinafter JP «Srbijagas») is an undertaking engaging in natural gas transmission, distribution, storage and trade. JP «Srbijagas», with its headquarters in Novi Sad, (Narodnog fronta 12) was established on 1st October 2005, pursuant to the decision of the Government of the Republic of Serbia on restructuring the former integrated petroleum company NIS. In the process, NIS divisions: NIS-Gas, NIS-Energogas and parts of NIS-Jugopetrol (Plinara and Business Unit Gas, Pančevo), which had been dealing with gas operations for more than fifty years, were carved out of the petroleum company to form a separate gas entity - JP «Srbijagas».

Contact point responsible for project/activity coordination is General Manager of Srbijagas.

Financing:

1.8 Overall cost: 1.500.000 EUR

1.9 EU contribution: 1.500.000 EUR

1.10 Final date for contracting: 2 years after the signature of the financing agreement (FA)

1.11 Final date for execution of contract: 4 years after the signature of the FA

1.12 Final Date for Disbursements: 5 years after the signature of the FA
2. **Overall Objective and Project Purpose**

2.1 **Overall Objective:**

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 three fold to:

- Strengthen the capacity of Srbijagas company and gas transmission system operator;
- Implement specific requirements of the Energy Community Treaty concerning gas sector in Serbia;
- Assist in developing investments possibilities of the company with the focus on gas interconnections.

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

The European Partnership (dated from 18 February 2008) recognizes the following short-term priorities in the energy sector (section: sectoral policies, subsection: energy):

- Fulfil the obligations arising from the Energy Community Treaty as regards the full implementation of the *Acquis* on the internal gas and electricity market and on cross border exchanges in electricity.
- Continue environmental audits on energy plants, addressing the worst polluters, ensure unbundling with a view to restructuring and opening up the market and make further progress towards a regional energy market, in particular by improving interconnectivity with neighbouring countries.
- Strengthen the administrative capacity within the relevant ministries.

The middle term priority from The European Partnership (section: sectoral policies, subsection: energy) includes the following:

- Continue to implement regional and international commitments in this area with a view to establishing a competitive regional energy market.

The Stabilization and Association Agreement (Title VIII, Cooperation policies, Article 109 - Energy) states that cooperation shall focus on priority areas related to the Community *Acquis* in the field of energy. It shall be based on the Treaty establishing the Energy Community, and it shall be developed with a view to the gradual integration of Serbia into Europe's energy markets. Cooperation may include in particular:

a) the formulation and planning of energy policy, including modernisation of infrastructure, improvement and diversification of supply and improvement of access to the energy market,
including facilitation of transit, transmission and distribution and improvement of energy interconnections of regional importance with neighbouring countries;

b) the promotion of energy saving, energy efficiency, renewable energy and studying the environmental impact of energy production and consumption;

c) the formulation of framework conditions for restructuring of energy companies and cooperation between undertakings in this sector.

The National Program for EU Integration – NPI (3.15. Energy Sector referred to p.443-463) highlights the following:

- Short-term priorities (2008-2009) legislative and institutional framework in the energy sector;
- Middle-term priorities (period 2010-2012) in legislation and institutional framework, Governmental institutions' recruitment needs, financial needs and budgetary part.

2.4 Link with MIPD

In the MIPD 2009-2011 (Section 2.3.1.3 - Ability to assume obligations of membership, point 5: Support the development and implementation of strategies and policies in order to establish sector policies and a regulatory framework compatible with European standards is stated:

Energy: Support for meeting the requirements of the Energy Community Treaty, relevant Community Directives and regional market obligations; compliance of legislation with the Acquis. Attention should be also paid to energy efficiency, renewable energy, radiation protection and environmental issues in energy

2.5 Link with National Development Plan

N/A

2.6 Link with National / Sectoral Investment Plans

The National Strategy of Economic Development of Serbia (2006-2012) in its Action plan (Section 5.4 Development of efficient economic Infrastructure, subsection 5.4.1 Energy and mining) stipulates the following measures and activities in relation to gas sector: passing of bylaws on Law on Energy, adoption of new tariff system, designing new pricing and tariff policy for electricity and gas, introduction of energy statistics according to “Eurostat” methodology, adoption the program for implementation of the Agreement on SEE Energy Community, implementation of the provisions of the Agreement on SEE Energy Community and further harmonization of the legal framework with EU Directives.

3. Description of Project

3.1 Background and Justification:

The Energy policy in Republic of Serbia is defined in three documents: Energy Law, the Strategy of Energy Sector Development, and the Strategy Implementation Program. The Serbian Energy Law, which was adopted in 2004, initiated both the energy sector reform
process, with an aim to secure the preconditions for the development and more efficient work of all the entities performing energy activities and the harmonization of this law with the European Union regulations. (“The Official Gazette RS”, No. 84/2004), Article 4 of the Energy Law (“The Official Gazette RS”, No. 84/2004) states that the “Energy Policy of Republic of Serbia is enforced through the Energy Sector Development Strategy up to 2015 approved by the Government and Parliament in 2005. Measures and activities to reach goals of the Strategy are elaborated in more details in the Programme for Implementation of Energy Sector Development Strategy 2007-2012 approved by the Government in 2006. This plan explicitly states the need to achieve harmonisation with the energy Acquis.

In legislative framework, based on the Energy Law, a great number of by-laws were adopted. Some of them relevant to the project are as following:

- The Decision on the Establishment of the Joint Stock Enterprise for Oil and Oil Derivatives Exploration, Processing, Distribution and Trade and Natural Gas Exploration and Production (“The Official Gazette RS”, No. 60/2005)

The following law is also significant for oil and natural gas field:

- The Law on Pipeline Transport of Gas and Liquid Hydrocarbons (“The Official Gazette FRY”, No. 29/1997) regulating the conditions for safe and unhindered pipeline transport of gas and liquid hydrocarbons;

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 (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 Treaty entered into force on 1 July 2006 imposing significant obligations on Serbia to comply with the EU Acquis in the energy and environmental field. 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. 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 Srbijagas in gas sector. 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 and distribution systems
- Develop and adopt support schemes for the protection of vulnerable consumers

As mentioned, an Action Plan for implementation of the Energy Community 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 to 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.

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 natural gas and electricity 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.

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. It includes the following: 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.

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.

Srbijagas obtained funds through IPA 2007 for the project Technical assistance to Srbijagas. The technical assistance objectives were to assist Serbia in the restructuring and prepare it for integration into a single energy market.

The present project fiche represents the follow-up technical assistance to previous technical assistance project under IPA 2007, Technical Assistance to SRBIJAGAS EuropeAid/127787/C/SER/RS. The project is in tendering procedure we expect beginning of implementation in September 2009. Budget of the project is 2.0 M€.
Experience throughout the region and in the Member States shows that continued technical assistance is required to assist Srbijagas in developing both the national and the regional energy markets. Similar technical assistance projects were provided to Serbian Electricity System Operator with excellent results. Also, 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.

3.2 Assessment of Project Impact, Catalytic Effect, Sustainability and Cross Border Impact

The institutions concerned with implementing the Energy Community Treaty within the scope of this project are already established (Energy Regulatory Agency AERS and Srbijagas) but still in need of capacity strengthening. The result of the capacity building activities is intended to consolidate Srbijagas and build the regional and national natural gas market. 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. This project will help address the inefficiencies of isolated national gas markets and benefits from the economies of scale offered by the regional market. This will encourage a more international approach by regional gas companies which will result in more choice and lower tariffs for consumers.

3.3 Results and measurable indicators:

**Result 1:** Improved ability to apply market rules and transparent tariff regulation.

Indicators for Result 1:

- Implemented actions set out in the Natural Gas road maps;
- Functional gas market and transparent regulatory regime;
- Cross border trading volumes increased;
- All Technical and Market codes prepared.

**Result 2:** Improved performance of the gas transmission system service quality and market operations

Indicators for Result 2:

- Increased consumption of gas;
- Increased number of operations tests;
- Number of operation performance tests by company;
- Increased market coverage;
- Reduce number of suppliers breaks.

**Result 3:** Unbundled regulated activities as foreseen under the Energy Community Treaty.
Indicator for Result 3:

- Functionally unbundled regulated entities for transmission, distribution, trading and storage.

**Result 4:** Increased number of gas market consumers.

Indicators for Result 4:

- Trading at the wholesale and retail level with the increased number of eligible consumers;
- Number of private gas consumers increased;
- Number of business/industrial consumer increased.

**Result 5:** Improved professional capacity of staff in transmission, distribution and trading and gas storage.

Indicators for Result 5:

- Number of training models delivered and staff trained;
- Number of workshops delivered.

3.4 Activities:

**Activities related to result 1:**

- Further development and implementation market rules and tariff systems and cross border capacity allocation mechanisms;
- Update/amend rules of procedure;
- Gasification and gas development planning (since Serbia is a developing gas market).

**Activities related to result 2:**

- Further development and implementation of the gas transmission system and market operations;
- Further development of technical codes and market rules for transmission, distribution and underground storage to enable transparent access and market development;
- Drafting Corporate Action Plan for Management Information Systems.

**Activities related to result 3:**

- Further unbundling of regulated activities as foreseen under the Energy Community Treaty;
- Unbundling and corporate restructuring of the company.
Activities related to result 4:

- Development of Market Operation & Customer Relationships;
- Preparation of documentation for procurement of hardware and software.

Activities related to result 5:

- Training and capacity building of professional staff;
- Organization and implementation of different workshops.

This project will be implemented through 1 service contract.

3.5 Conditionality and sequencing:

The overall condition is continued commitment of the Government of Serbia to implement the requirements from the energy Acquis (as set out in the Energy Community Treaty) and to establish the regional and national natural gas market. Specific precondition for this project is the realisation of activities from project TA to Srbijagas IPA 2007.

3.6 Linked activities

This project follows up previous CARDS and IPA funded assistance and to the reform and restructuring of the energy sector in Serbia and the development of the Regional Energy Market. Previous CARDS funded technical assistance has concentrated on the establishment of the Regulator, 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. CARDS projects include as follows: CARDS 2002 “Blueprint for the Serbian Energy Agency”, CARDS 2004 “Establishment and Operation of Serbian Energy Regulatory Agency”, “Technical assistance to help set up and work with the Serbian Energy Regulatory Agency (AERS)”, “Capacity Building (Twinning) for the Ministry of Mining and Energy “, “Legal Assistance (secondary legislation) for the Ministry of Mining and Energy”, CARDS 2006 “Follow on Technical Assistance to Help Consolidate the Serbian Energy Regulatory Agency (AERS)” and IPA 2007 “Technical Assistance to Srbijagas”. The project purpose of IPA 2007 “Technical Assistance to Srbijagas”(Budget:1,5 million EUR) has been 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.

3.7 Lessons Learned

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 supportive of the reforms to be carried out. As the energy sector is highly capital intensive, it is vital that investments in the sector are properly prioritised, to ensure maximum impact of investments in realising the objectives and economic benefits from a regional, as opposed to a purely national energy market are realised. Consensus amongst these stakeholders is particularly
vital given the high capital intensity of investments required in the sector. 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 to implement sector reforms and builds further the capacity for a sustainable development of the sector and its integration in the Energy Community.
### 4. Indicative budget (Amounts In EUR)

<table>
<thead>
<tr>
<th>ACTIVITIES</th>
<th>IB (1)</th>
<th>INV (1)</th>
<th>TOTAL EXP. RE</th>
<th>SOURCES OF FUNDING</th>
<th>TOTAL IB</th>
<th>TOTAL INV</th>
<th>TOTAL PROJECT</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>EUR (a)=(b)+(c)+(d)</td>
<td>EUR (b)</td>
<td>% (2)</td>
<td>EUR (c)=(x)+(y)+(z)</td>
<td>% (2)</td>
<td>EUR (x)</td>
<td>EUR (y)</td>
</tr>
<tr>
<td><strong>SOURCE OF FUNDING</strong></td>
<td></td>
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<td></td>
<td>IPA COMMUNITY CONTRIBUTION</td>
<td>NATIONAL CONTRIBUTION</td>
<td>PRIVATE CONTRIBUTION</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td>EUR (a)</td>
<td>EUR (b)</td>
<td>Total EUR</td>
<td>Central EUR</td>
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<tr>
<td>Contract 1 (Service)</td>
<td>X</td>
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<td>1.500.000</td>
<td>1.500.000</td>
<td>100</td>
<td>-</td>
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<tr>
<td>TOTAL IB</td>
<td>1.500.000</td>
<td>1.500.000</td>
<td>100</td>
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<td>TOTAL INV</td>
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<tr>
<td>TOTAL PROJECT</td>
<td>1,500.000</td>
<td>1,500.000</td>
<td>100%</td>
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<td>0%</td>
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</tbody>
</table>
5. **Indicative Implementation Schedule (Periods Broken Down Per Quarter)**

<table>
<thead>
<tr>
<th>Contracts</th>
<th>Start of Tendering</th>
<th>Signature of contract</th>
<th>Project Completion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contract 1</td>
<td>N+1Q</td>
<td>N+3Q</td>
<td>N+10Q</td>
</tr>
</tbody>
</table>

All projects should in principle be ready for tendering in the 1st Quarter following the signature of the FA.

6. **Cross cutting issues**

   6.1 **Equal opportunity**

   No gender discrimination exists in Serbia. There are no difference between gender beneficiaries regarding the implementation and the results of this project. The project will take into account the need for gender mainstreaming to be properly embedded in implementing the project.

   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.

   6.3 **Minorities**

   Access to natural gas 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

<table>
<thead>
<tr>
<th>LOGFRAME PLANNING MATRIX FOR Project Fiche</th>
<th>Programme name and number:</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>FOLOW UP TECHNICAL ASSISTANCE TO SRBIJAGAS</strong></td>
<td></td>
</tr>
<tr>
<td>Contracting period expires 2 years after the signature of the Financing Agreement</td>
<td>Disbursement period: expires 5 years after the signature of the Financing Agreement</td>
</tr>
<tr>
<td>Total budget: €1.5 million</td>
<td>IPA budget €1.5 million:</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Overall objective</th>
<th>Objectively verifiable indicators</th>
<th>Sources of Verification</th>
</tr>
</thead>
<tbody>
<tr>
<td>To ensure the implementation of commitments undertaken in the framework of the Energy Community Treaty, including the implementation of the Regional Energy Market.</td>
<td>Specific requirements of the Energy Community Treaty and the EU <em>Energy Acquis</em> (with deadlines included in the Treaty).</td>
<td>Monitoring reports prepared by the Energy Community Secretariat (for the European Commission).</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Project purpose</th>
<th>Objectively verifiable indicators</th>
<th>Sources of Verification</th>
<th>Assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Strengthen the capacity of Srbijagas company and gas transmission system operator:</td>
<td>(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.</td>
<td>(a) Detailed monitoring reports on the roadmaps and action plans prepared by the Energy Community Secretariat for the European Commission.</td>
<td>Continued Government commitment to the implementation of the provisions of the Energy Community Treaty.</td>
</tr>
<tr>
<td>2. Implement of specific requirements of the Energy Community Treaty concerning gas sector in Serbia:</td>
<td>(b) Improved operational security and transmission service quality, increased capacity for cross border trade.</td>
<td>(b) Technical service quality data published by the Serbian Energy Regulator and cross border flows recorded.</td>
<td></td>
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<tr>
<td>3. Assist in developing investments possibilities of the company with the focus on gas interconnections.</td>
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<tr>
<td>Results</td>
<td>Objectively verifiable indicators</td>
<td>Sources of Verification</td>
<td>Assumptions</td>
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</tbody>
</table>
| 1. Improved ability to apply market rules and transparent tariff regulation. | **Indicators related to result 1:**  
Implemented actions set out in the Natural Gas road maps;  
Functional gas market and transparent regulatory regime;  
Cross border trading volumes increased;  
All technical and market codes prepared. | Reports and deliverables of the consultant.  
The monitoring reports to be prepared by the Energy Community Secretariat, as noted above. | Continued independence of the Serbian Energy Regulatory Agency.  
Transmission and distribution tariffs and final gas prices set at a level that provides cost recovery for the companies.  
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.  
All necessary data provided to the consultant. |
| 2. Improved performance of the gas transmission system service quality and market operations | **Indicators related to result 2:**  
Increased consumption of gas;  
Increased number of operations tests;  
Number of operation performance tests by company;  
Increased market coverage;  
Reduce number of suppliers breaks. | The monitoring reports to be prepared by the Serbian Energy Regulatory Agency. |                                                                                                                                               |
| 3. Unbundled regulated activities as foreseen under the Energy Community Treaty | **Indicators related to result 3:**  
Functionally unbundled regulated entities for transmission, distribution, trading and storage. |                                                                                       |                                                                                                                                               |
| 4. Increased number of gas market consumers.                            | **Indicators related to result 4:**  
Trading at the wholesale and retail level with the increased number of eligible consumers;  
Number of private gas consumers increased;  
Number of business/industrial consumer increased. |                                                                                       |                                                                                                                                               |
| 5. Improved professional capacity of staff in transmission, distribution, trading and gas storage | **Indicators related to result 5:**  
Number of training models delivered and staff trained;  
Number of workshops delivered. |                                                                                       |                                                                                                                                               |
<table>
<thead>
<tr>
<th>Activities</th>
<th>Means &amp; Costs</th>
<th>Assumptions</th>
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</thead>
<tbody>
<tr>
<td><strong>Activities related to result 1:</strong></td>
<td></td>
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<tr>
<td>• Further development and implementation of market rules and tariff systems and cross border capacity allocation mechanisms;</td>
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<td>• Update/amend Rules of procedure</td>
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<td>• Gasification and gas development planning</td>
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<td><strong>Activities related to result 2</strong></td>
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<tr>
<td>• Further development and implementation of the gas transmission system and market operations.</td>
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<td>• Further development of technical codes and market rules for transmission, distribution and underground storage to enable transparent access and market development.</td>
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<tr>
<td>• Drafting corporate action plan for Management Information Systems</td>
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<td><strong>Activities related to result 3:</strong></td>
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<tr>
<td>• Further unbundling of regulated activities as foreseen under the Energy Community Treaty;</td>
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<tr>
<td>• Unbundling and corporate restructuring of the company.</td>
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<td><strong>Activities related to result 4:</strong></td>
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<tr>
<td>• Development of Market Operation &amp; Customer Relationships;</td>
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<td>• Preparation of documentation for procurement of hardware and software.</td>
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<td><strong>Activities related to result 5:</strong></td>
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<tr>
<td>• Training and capacity building of professional staff;</td>
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<td>• Organization and implementation of different workshops.</td>
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</table>

Continued independence of the Serbian Energy Regulatory Agency.

Transmission and distribution tariffs and final gas prices set at a level that provides cost recovery for the companies.

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.

All necessary data provided to the consultant.

Preconditions: realisation of activities from project: TA to Srbijagas IPA 2007
ANNEX II: Amounts (in M€) contracted and disbursed by quarter over the full duration of programme

<table>
<thead>
<tr>
<th></th>
<th>N+3Q</th>
<th>N+4Q</th>
<th>N+5Q</th>
<th>N+6Q</th>
<th>N+7Q</th>
<th>N+8Q</th>
<th>N+9Q</th>
<th>N+10Q</th>
<th>Total</th>
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<td><strong>CONTRACTED</strong></td>
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<td>Contract 1.1 1.</td>
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<td>1.50</td>
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<td><strong>CUMULATED</strong></td>
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<td><strong>DISBURSED</strong></td>
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<td>Contract 1.1 1.</td>
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<td>0.60</td>
<td>1.50</td>
</tr>
<tr>
<td><strong>CUMULATED</strong></td>
<td>0.90</td>
<td>0.90</td>
<td>0.90</td>
<td>0.90</td>
<td>0.90</td>
<td>0.90</td>
<td>0.90</td>
<td>1.50</td>
<td>1.50</td>
</tr>
</tbody>
</table>
ANNEX III Description of Institutional Framework

Srbijagas is the leading company in the Serbian gas market, with extensive human and asset resources, expertise and resolution to further develop and modernize Serbian gas infrastructure and interconnect it to the gas infrastructures of other countries of the region. The Serbian gas utility Srbijagas is at present a vertically integrated company which imports gas, transports 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) PE Srbijagas was founded by a Decision on foundation of public enterprise for natural gas transmission, storage, distribution and trade (Official Gazette RS 60/2005). The activities of PE Srbijagas are:

- natural gas transmission;
- management of natural gas transmission system;
- natural gas storage;
- management of natural gas storage;
- natural gas distribution;
- management of natural gas distribution system;
- natural gas trade for supply of tariff customers.

Ownership Structure

The company’s assets are state-owned reflecting capital value of the company, which is adjusted for the amounts of the realized net profit and loss (the principle of preservation of financial capital). The company’s Managing Board (8 members), the Supervisory Board (5 members) and General Manager are appointed by the Government of Serbia. The Managing Board ensures the realization of all targets defined in the Company’s Statutes. All together, they are responsible for the achievement of technical, technological and economic unity of the electricity system. The Supervisory Board exercises supervision over the Company’s operations and work, reviews annual reports, calculations and proposals for profit distribution. The General Manager represents and acts in the name of the Company, organizes and manages the work process, coordinates the business activities and is responsible for the regulatory compliance, proposes the basis for the business policies, operation programs and development plans to the Managing Board and executes the decisions enacted by the Managing Board. The Company’s headquarters are located in Novi Sad and it has 6 Divisions.

- Number of Employees: 1047 (on 31 December 2008),
- Transmission Control Centres: 2
- Total number of metering regulation stations 162
- Total installed pipeline length = 2,150 km

PE Srbijagas financial statements for 2008 are as following:

<table>
<thead>
<tr>
<th></th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total income</td>
<td>805 mil €</td>
</tr>
<tr>
<td>Total cost</td>
<td>801 mil €</td>
</tr>
<tr>
<td>Profit before taxes</td>
<td>4 mil €</td>
</tr>
<tr>
<td>Net profit</td>
<td>3.4 mil €</td>
</tr>
</tbody>
</table>

Balance sheet Data (31 December 2007)

<table>
<thead>
<tr>
<th></th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non current assets</td>
<td>314 mil €</td>
</tr>
<tr>
<td>Current assets</td>
<td>152 mil €</td>
</tr>
<tr>
<td>Equity</td>
<td>114 mil €</td>
</tr>
<tr>
<td>Liabilities</td>
<td>352 mil €</td>
</tr>
</tbody>
</table>
ANNEX IV - Reference to laws, regulations and strategic documents:


The European Partnership identifies short-term priorities in the energy sector (section: sectoral policies, subsection: energy): such as: fulfilment of obligations arising from the Energy Community Treaty as regards the full implementation of the Acquis on the internal gas and electricity market and on cross border exchanges in electricity, ensuring unbundling with a view to restructuring and opening up the market, make further progress towards a regional energy market in particular by improving interconnectivity with neighbouring countries and strengthening the administrative capacity within the relevant ministries.

Concerning middle term priorities from European Partnership, (section: sectoral policies, subsection: energy) the requirement to continue to implement regional and international commitments in this area with a view to establishing a competitive regional energy market can be singled out.

The Stabilization and Association Agreement (Title VIII, Cooperation policies, Article 109 - Energy) states that cooperation shall focus on priority areas related to the Community Acquis in the field of energy. Moreover, cooperation shall be based on the Treaty establishing the Energy Community and be developed with a view to the gradual integration of Serbia into Europe's energy markets. Cooperation in the field of energy may include in particular:

a) the formulation and planning of energy policy, including modernisation of infrastructure, improvement and diversification of supply and improvement of access to the energy market, including facilitation of transit, transmission and distribution and improvement of energy interconnections of regional importance with neighbouring countries;

b the formulation of framework conditions for restructuring of energy companies and cooperation between undertakings in this sector.

In the MIPD 2009-2011 for the Energy sector is stated following: support for meeting the requirements of the Energy Community Treaty, relevant Community Directives and regional market obligations; compliance of legislation with the Acquis. Attention should be also paid to energy efficiency, renewable energy, radiation protection and environmental issues in energy.
ANNEX V – Details per EU funded contract

The project will be implemented through one service contract.

<table>
<thead>
<tr>
<th>Results</th>
<th>Type of Contract</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Improved ability to apply market rules and transparent tariff regulation.</td>
<td>Global price service contract 1,500,000 EUR</td>
</tr>
<tr>
<td>2. Improved performance of the gas transmission system service quality and market operations</td>
<td></td>
</tr>
<tr>
<td>3. Unbundled regulated activities as foreseen under the Energy Community Treaty</td>
<td></td>
</tr>
<tr>
<td>4. Increased number of gas market consumers.</td>
<td></td>
</tr>
<tr>
<td>5. Improved professional capacity of staff in transmission, distribution, trading and gas storage</td>
<td></td>
</tr>
</tbody>
</table>