1 BASIC INFORMATION

1.1 CRIS Number: 2011/022-585

1.2 Title: Capacity Building for the Energy Agency

1.3 ELARG Statistical code: 03.15 European Standards. Energy

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 Beneficiary (Including Details of Project Manager):

Ministry / Agency: Energy Agency of the Republic of Serbia (hereinafter:AERS)

Name: Mr. Ljubo Mačić,

Department: President of the AERS Council

Address: Terazije 5 / V, 11000 Belgrade

Tel/fax: tel. + 381 11 3033829; fax. + 381 11 3225780

Email: ljubo.macic@aers.rs

A Steering Committee will be set up to oversee the implementation of the project, comprising representatives of the EU Delegation and AERS. The function of Steering Committee will be to monitor progress of the project activities, to mobilise inputs whenever needed and provide contributions of governmental departments and to ensure timely achievement of results as set out in the Fiche. The MS is responsible for providing the Secretariat function for this Steering Committee (organising meetings, taking and preparing minutes).

Financing:

1.8 Overall Cost (Vat Excluded): EUR 1.5 million

1.9 EU Contribution: EUR 1.5 million

1.10 Final date for contracting: 2 years after signature of the Financing Agreement (FA)
1.11 Final date for execution of contracts: 4 years after signature of the FA

1.12 Final date for disbursements: 5 years after signature of the FA

2 OVERALL OBJECTIVE AND PROJECT PURPOSE

2.1 Overall Objective:

Contribute to the implementation of commitments undertaken in the framework of the Energy Community Treaty and its amendments, including the implementation of the Regional Energy Market.

2.2 Project Purpose

Build the capacity of the Energy Agency of the Republic of Serbia (AERS) so that it is capable of developing and implementing regulatory policies and strategies, and overseeing the necessary reform of the energy sector, including the promotion of measures to stimulate energy efficiency and use if renewables.

2.3 Link with the AP/ NPAA / EP/ SAA

The latest available and relevant European Partnership from February 2008 (Title: Sectoral policies, subtitle: Energy) sets out the sectoral short-term priorities such as:

- 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 and ensure smooth functioning of the independent Energy Regulatory Agency (AERS).

- 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.

European Partnership sets out the forthcoming mid-term priority:

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

The Stabilization and Association Agreement ((Title VIII, Cooperation Policies, Art. 109-Energy) envisages the following:

Cooperation shall focus on priority areas related to the EU acquis in the field of energy. It shall be based on the Treaty establishing the Energy Community, and it shall be developed with a

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1 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, relevant EU directives concerning environmental protection and renewable energy sources, EU competition rules as well as accepting the necessity to solve and overcome possible social consequences of the Treaty implementation. 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.
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.

**Action Plans for implementation of the Treaty Establishing the Energy Community** (developed by the Energy Community Secretariat and the Contracting Parties) in the electricity and gas sector have been adopted. According to the stipulations of the Action Plans for Serbia, apart from the Ministry of Energy and Mining, considerable responsibilities for their implementation have been entrusted to AERS.

The **Serbia 2010 Progress Report** outlines that Serbia is moderately advanced in the implementation of the SAA and of the European standards in the energy sector. Further efforts are needed to achieve unbundling and real market opening together with a pricing policy offering a sustainable tariff reflecting costs. The implementation of the internal market requires transparency and non-discriminatory access rules. To this end, the current Energy Law needs to be amended and put in line with the electricity and gas *acquis*, and the role and independence of the AERS needs to be strengthened. Further efforts need to be made to strengthen the nuclear regulator as well.

**2.4 Link with 2011-2013 MIPD for Serbia**

**Multi-Annual Indicative Planning Document 2011-2013**

PART II – Strategic Objectives for 2011-2013: Main Strategic Objectives (i.e. choices of sector / priority area). The MIPD also introduces sector approaches in three areas, rule of law, public administrative reform/good governance and environment/energy.

**Sector Objectives for EU support over next three years**

- Ensuring progressive approximation of EU legislation, implementing international conventions and the Kyoto Protocol relating to climate change and energy, and production of implementation plans for selected heavy investment directives;
- Strengthening further the capacity of environmental institutions at national and local levels, and raising awareness of the importance of environmental protection;
- Developing and adopting a Strategy for Water Management;
- Implementing fully the National Programme for Environmental Protection and Waste Management Strategy, including financing the multi-annual plan for infrastructure development.
- Continue working on GHG inventory. Carry out further analysis to assess GHG mitigation potential
- Prepare the next national Communication under UNFCCC
• Decide which EU *acquis* form the area of climate change needs to be transposed/implemented in the first step
• Start preparation for implementation of the climate and energy package.
• To maintain adequate pressure for the setting-up of robust regulatory and anti-monopoly frameworks, to sustain commitments related to transparency, free entrance access to networks and storage facilities.
• Reduce environmental problems in energy sector and implement a long-term strategy for an environmentally sustainable energy policy
• Increase the administrative capacity of the sector

**Planned activities and expected results**

• Further *acquis* harmonisation relating to environment, including climate change and energy directives; More effective authorities at the central, provincial and local levels for planning, issuing permits and inspection, and full implementation of EIA, SEA and IPPC instruments;
• Constructing a national facility for the treatment and safe disposal of hazardous waste;
• Constructing regional waste management centres and wastewater treatment facilities serving Serbian citizens and businesses; and
• Reducing noxious air emissions by installation of electrostatic precipitators at thermal power plants.

**2.5 Link with National Development Plan**

N/A

**2.6 Link with National/ Sectoral Investment Plans**


Energy Development Strategy up to 2015 underpins taking measures for joining the Energy Community. It identifies the Energy Agency as the most important new institution related to its role, competencies and responsibilities, emphasizing the Agency’s role in monitoring the implementation of relevant institutional instruments of the Strategy (Chapter 2.3). The Strategy also explicitly states the need to achieve harmonisation with the energy Acquis.

The Programme for the Implementation of the Strategy for the Development of the Energy Sector 2007 – 2012, explicitly states the need to achieve harmonisation with the energy *acquis*.

The National Strategy of Sustainable Development (Chapter 3.3- Energy) emphasizes the commitment of the Republic of Serbia to the Treaty Establishing the Energy Community as one of the means to achieve sustainable development of the energy sector.
The National Strategy of Economic Development of Serbia 2006-2012 (Section 5.4 Infrastructure, 5.4.1 Energy and Mining) has the following objectives and measures/activities to achieve these objectives:

- Harmonize the practice and legislation with the EU (Implement the provisions of the Energy Community Treaty; Further harmonize the legal framework with EU Directives)
- Legislative activities (Harmonize the relevant regulations with the EU; Establish a legal framework and identify incentives for better use of renewable energy sources)

3 DESCRIPTION OF PROJECT

3.1 Background and Justification:

Background

Taking into consideration ten years of delay in the liberalization of the energy sector compared with other SEE countries due to wars and sanctions, Serbia achieved a remarkable advance in adjusting its legal framework (Energy Law, Energy Development Strategy, secondary legislation), institutional framework (establishment and full operation of the Energy Agency of the Republic of Serbia and Energy Efficiency Agency) and industry structure (unbundling of the electricity and natural gas incumbents) to EU standards.

In order to introduce market mechanisms and competition in energy supply, as well as to attract the necessary foreign investment in the Serbian energy sector, it is vital that a stable and transparent regulatory regime is established. To that effect, for the purpose of regulating energy markets, the Energy Law (2004) allocated wide-ranging responsibilities to AERS, with respect to price regulation, licensing, market surveillance and dispute settlement:

- setting the methodologies and tariff systems, as well as providing opinion on prices proposed by regulated companies (before approval of the Government) for:
  - use of system charges for electricity and natural gas transmission and distribution;
  - use of system charges for oil and oil derivatives transportation;
  - electricity and natural gas prices for tariff customers;
  - use of system charges for natural gas storage;
  - heat produced in CHP plants.
- specifying the criteria and methods for determining electricity and natural gas transmission and distribution system connection charges;
- monitoring implementation of the methodologies and tariff systems;
- issuing and revoking of licenses;
- monitoring of compliance with license conditions;
- keeping the register of issued and revoked licenses;
• deciding on appeals against acts of energy entities on refusing access to the electricity and gas transmission or distribution system, access to natural gas storage, as well as decision on refusing access to oil and oil derivatives transportation systems;

• Deciding on appeals against decisions of energy entities on connection of facilities of producers and customers to the transmission or distribution system for electricity and natural gas, i.e. appeals against failure to adopt a decision on a submitted application for connection;

• approving the network codes;

• approving the electricity market code;

• approving of natural gas storage system code;

• specifying the criteria for acquiring the status of eligible customer;

• specifying the eligible customer status at customer’s request;

• keeping the register of eligible customers;

• monitoring behaviour of energy entities in terms of pricing, account separation, and compliance with other prescribed conditions of carrying out energy activities, in accordance with the Energy Law and rules passed on the basis of that law;

An important part of Agency’s activities is associated with the implementation of international agreements ratified by Republic of Serbia. This is related to The Treaty Establishing the Energy Community, the European Partnership and Stabilization and Association process.

The previous technical assistance projects provided to AERS (listed in Chapter 3.7 of Project Fiche) significantly contributed to setting a robust regulatory framework related to price regulation, and building the institutional capacity of AERS in a way it is capable to discharge its duties as required by the current Energy Law, which is noted in relevant reports of the Energy Community Secretariat and EC.

Justification

It should be noted that significant workload remains on Serbian institutions related to the full transposition and implementation of the “Second Package” of Energy Acquis, which is an obligation derived both from the Stabilization and Association Process (hereinafter: SAP) and the Athens Process (i.e. the Treaty Establishing the Energy Community). Moreover, the Treaty Establishing the Energy Community has been amended with several pieces of legislation, among others the Directives on Security of Supply for electricity (2005/89/EC) and natural gas (2004/67/EC), Congestion Management Guidelines (Commission Decision 2006/770/EC), Directive on renewable energy sources (2001/77/EC) and Regulation 1775/2005. The stipulations of those Directives and Regulations, including those related to the regulatory authorities, have not been transposed in the Serbian legal framework yet. Furthermore, the recent adoption of the “3rd Package” of the Energy Acquis in EU, and the need to transpose it into the Serbian legal framework within the SAP (and, most probably, also within the Athens Process) in mid term, brought a new challenge to Serbian institutions.
In order to achieve full compliance with aforementioned obligations, the Ministry of Mining and Energy prepared amendments to the Energy Law, which contain, among others, provisions expanding the jurisdiction of AERS and imposing significant new obligations on AERS.

It is expected that AERS will put in place all secondary legislation within its jurisdiction, required by the amendments of the Energy Law by the commencement of this project; however, limited experience of the AERS staff on these new regulatory tasks, as well as significant workload related to its “old” responsibilities may be a bottleneck for the actual implementation of the amendments. Furthermore, the development of the electricity and natural gas markets from simple to more advanced forms needs to be accompanied by adopting the existing regulatory instruments to new circumstances. Engaging an experienced twinning partner for operational support to day-to-day operation of AERS has been identified as the most convenient way to mitigate the aforementioned challenges, and secure that implementation of the EU acquis (in line with best regulatory practice) is not significantly lagging behind its transposition into the Serbian regulatory framework.

The twinning project shall contribute to mitigation of the following further needs of AERS:

- continuous improvement of regulatory practices in the areas of price regulation, quality of supply, energy market monitoring and regional regulatory cooperation in line with best EU regulatory practice and development of the energy market to more complex forms
- implement existing AERS operating procedures and further develop AERS performance and knowledge base related to security of supply and renewable energy sources
- adjust the AERS organisation to the demands arisen from expanded regulatory competencies (amendments to the Energy Law; amendments to the Treaty Establishing the Energy Community) and more mature energy markets

It should be noted that know-how required to address the identified specific needs is primarily located in the regulatory authorities of the MS, rather than in private sector.

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

The results of the capacity building activities are intended to consolidate AERS and build the regional energy market. Convergence to best regulatory practice may contribute to the change of private capital flows (which are currently not significant) and decrease the regulatory risks of private investors.

During the execution of previous EU funded projects, AERS demonstrated that it’s institutional and HR capacities are sufficiently developed to absorb effectively the proposed improvements. AERS is determined to preserve and further develop the achievements of the project, ensuring its long term impact, as was the case in the previous projects. This includes, development of high quality training material accessible to later use, avoiding excessive staff turnover, evaluation at the end of the project and other means which will be precisely identified in the Work Plan.

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

Result 1: Upgraded price regulation capacity of AERS

Measurable indicators:
- Pricing methodologies and tariffs systems approved and implemented in compliance with EU Energy acquis and best regulatory practices;
- Issued amendments on existing pricing methodologies and tariffs systems if necessary;
- Number of trained staff.

Result 2: Strengthened capacity of AERS related to national energy markets

Measurable indicators:
- Market indicators regularly monitored by AERS;
- Compliance with Amendments to the Energy Law;
- Number of trained staff.

Result 3: Strengthened capacity of AERS related to regional energy markets and cooperation at the regional level

- Contribution to the regular activities of the institutions of the Energy Community;
- Improved coordination with regional regulatory bodies;
- Number of trained staff.

Result 4: Upgraded operational practice related to the quality of supply

Measurable indicators:
- Quality of supply indicators regularly monitored by AERS;
- Increased capacity to analyse quality of supply indicators;
- Number of trained staff;

Result 5: Upgraded capacity of AERS related to renewable energy sources

Measurable indicators:
- Secondary legislation issued by AERS supporting development of renewable energy sources (hereinafter: RES);
- Proposed amendments to market rules and grid codes if necessary;
- Number of trained staff.

Result 6: Enhanced organizational and management capacity of the AERS

Measurable indicators:
- Changes in organisational structure (if necessary) and management procedures prepared, reviewed and adopted;
• Compliance with Amendments to the Energy Law;
• Compliance with obligations related to the Treaty establishing the Energy Community;
• Number of trained staff.

3.4 Activities:

Activities related to result 1 - Upgraded price regulation capacity of AERS:

1.1 Review the current methodologies, procedures, templates and practices related to price regulation in electricity, natural gas and district heating sub-sectors;

1.2 Support AERS in approval and implementation of existing, and/ or developing new pricing regulations;

1.3 Assess the feasibility of integrating quality of supply in the price regulations;

1.4 Assist AERS, through staff training, to improve capacity to develop and implement price regulation (focus on regulatory treatment of asset valuation, depreciation, WACC, losses)

Activities related to result 2 - Strengthened capacity of AERS related to national energy markets:

2.1 Review the current methodologies, procedures, templates and practices related to Serbian energy market;

2.2 Support AERS in implementation of existing, and/ or developing new regulations, procedures and practices related to market surveillance and enhancing the functioning of Serbian energy markets;

2.3 Assist AERS, through staff training, to improve its market monitoring capacity.

Activities related to result 3 - Strengthened capacity of AERS related to regional energy markets and cooperation at the regional level:

3.1 Review the current activities of AERS within the Energy Community institutions

3.2 Support AERS in its activities in the Energy Community institutions on various issues related to the SEE regional market (regional market design, coordinated auctions, ITC mechanism etc.)

3.3 Provide training and support for AERS staff for all of these activities

Activities related to result 4 - Upgraded operational practice related to the quality of supply monitoring:

4.1 Review AERS procedures and templates for data collection; if necessary prepare a plan for harmonization with the requirements of the 3rd Package of the Energy Acquis;

4.2 Assist AERS in aforementioned harmonization activities;

4.3 Provide on-the-job training and support for AERS staff for all of these activities.

Activities related to result 5 - Upgraded capacity of AERS related to renewable energy sources:
5.1 Review the current legal framework (especially license conditions, grid codes, market rules, connection pricing methodologies etc.) and operational practices with a view to identify possible barriers for investment of RES;

5.2 Support AERS in its activities on mitigation of barriers for investment in RES;

5.3 Assist AERS, through staff training, to improve its background concerning RES

Activities related to result 6 - Enhanced organizational and management capacity of the AERS:

6.1 Review the current responsibilities, organization, functions, staffing and management systems of AERS through discussions with officials at all levels;

6.2 Prepare a Management Plan for AERS identifying any recommended changes in organizational/functional structure, staff numbers, skill needs and other resource requirements. Embed procedures for the annual updating of the plan;

6.3 Undertake a Training Needs Analysis (hereinafter: TNA) for AERS to implement the Management Plan and prepare a Training Plan and Human Resource management procedures;

6.4 Support the initial implementation of key aspects of the Training Plan through seminars, workshops and study tours;

6.5 Assess the adequacy of non-staff resource necessary for the implementation of the Management Plan and prepare strategies (including outsourcing if necessary) to overcome any resource constraints identified.

3.5 Conditionality and Sequencing:

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

3.6 Linked Activities:

Energy Regulatory Authority is already being supported by EU funding. This support has been realized through the following projects:

- ERA Blueprint and Feasibility Study (“Blueprint for the Serbian Energy Agency”, project 01/SER01/01/303, financed by the EAR in 2002), done by KPMG

- Creation and Operation of the Serbian Energy Agency (project 04SER01/06/008 financed by EAR), securing financing of establishment and the first two years of operation for AERS, as well as separate technical assistance project Establishment and Operation of the Energy Regulatory Agency in Serbia (Europe Aid 114376/D/SV/YU) done by KEMA Consulting International (finalized in June 2006) and financed by the EAR.

- Technical assistance to the Energy Agency of the Republic of Serbia (project 06SER01/07/002) implemented by KEMA Consulting International.
This project follows up previous CARDS and IPA funded assistance to the reform and restructuring of the energy sector in Serbia and the development of the Regional Energy Market. While the previous projects were focused on the establishment of AERS and development of various mechanisms, procedures and secondary legislation, this project is aimed to contribute to their practical implementation in accordance with best regulatory practices. Furthermore, due to new obligations of AERS as a consequence of the amendments to the Treaty Establishing the Energy Community and the Energy Law, the project will cover components which were not covered by the previous projects (security of supply, renewable energy sources).

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. 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.

- **Improving investment climate**: As the energy sector is highly capital intensive, it is vital that proper incentives for investments in the sector are in place, ensuring that investments have the maximum impact in realizing the objectives for the sector, and that the economic benefits from a regional, as opposed to a purely national energy market are realized. The role of AERS is, inter alia, to contribute to the improved investment climate in Serbia through the adequate licensing regime, network and market rules, price regulations and market oversight.

- **Ownership**: Experience of previous energy sector reform projects in Serbia has shown the importance of having counterpart ‘ownership’ of capacity building and reform projects.
### 4. INDICATIVE BUDGET (Amounts in EUR million)

<table>
<thead>
<tr>
<th>Title: Capacity Building for the Energy Agency</th>
<th>TOTAL EXP.RE</th>
<th>IPA EU CONTRIBUTION</th>
<th>NATIONAL CONTRIBUTION</th>
<th>PRIVATE CONTRIBUTION</th>
</tr>
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<tbody>
<tr>
<td></td>
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</tr>
<tr>
<td>ACTIVITIES</td>
<td>IB</td>
<td>INV</td>
<td>(a) = (b) + (c) + (d)</td>
<td>(b)</td>
</tr>
<tr>
<td>Twinning</td>
<td>X</td>
<td></td>
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<tr>
<td>TOTAL PROJECT</td>
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<td></td>
<td>1.5</td>
<td>1.5</td>
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</tbody>
</table>

Amount net of VAT

(1) In the Activity row use “X” to identify whether IB or INV

(2) Expressed in % of sum of each line of the Total Expenditure (column a)
5. INDICATIVE IMPLEMENTATION SCHEDULE (Periods broken down per quarter)²

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

6. CROSS - CUTTING ISSUES

6.1 Equal Opportunity

Throughout project implementation there will be no discrimination on the grounds of health status, race, sex, sexual orientation, mother tongue, religion, political or other opinion, national or social origin, birth or other status. Equal opportunities for all will be ensured during project implementation.

6.2 Environment

The Energy Community Treaty includes the requirement that the Acquis on the renewable energy sources (RES) is complied with, i.e. all parties have to comply with the obligations. Twinning assistance to be provided to the AERS will include assistance in the area of RES, and as a consequence, wider share of RES in the energy mix, which will contribute to introduction of environmentally friendly technologies in electricity generation.

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’. Support AERS in its activities in the Energy Community institutions, including protection of vulnerable customers, is identified among the activities of the Twinning project.

² Where T= the date of the signature of the FA and xQ equals the number (x) of quarters (Q) following T.
ANNEXES

I. Logframe in Standard Format

II. Indicative amounts contracted and Disbursed per Quarter over the full duration of Programme

III. Description of Institutional Framework

IV. Reference to laws, regulations and strategic documents:
   - Reference list of relevant laws and regulations
   - Reference to AP / NPAA / EP / SAA
   - Reference to MIPD
   - Reference to National Development Plan
   - Reference to national / sectoral investment plans

V. Details per EU funded contract
## LOGFRAME PLANNING MATRIX FOR Project Fiche

<table>
<thead>
<tr>
<th>Programme name and number: CAPACITY BUILDING FOR THE AERS-TWINNING PROGRAM</th>
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<tbody>
<tr>
<td>Contracting period expires x years after the signature of the Financing Agreement</td>
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<tr>
<td>Disbursement period: expires x years after the signature of the Financing Agreement</td>
</tr>
<tr>
<td>Total budget: EUR 1.5 million</td>
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<tr>
<td>IPA budget: EUR 1.5 million</td>
</tr>
</tbody>
</table>

### Overall objective
Contribute to the implementation of commitments undertaken in the framework of the Energy Community Treaty and its amendments, including the implementation of the Regional Energy Market.

### Project purpose
Build the capacity of the Energy Agency of the Republic of Serbia so that it is capable of developing and implementing regulatory policies and strategies, and overseeing the necessary reform of the energy sector.

### Results
1. Upgraded price regulation capacity of AERS

<table>
<thead>
<tr>
<th>Measurable indicators</th>
<th>Means of Verification</th>
<th>Assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compliance to the commitments of the Energy Community Treaty</td>
<td>Annual reports of the ECRB</td>
<td>Continued commitment of the Government of the Republic of Serbia to the energy sector reforms;</td>
</tr>
<tr>
<td>Secondary legislation in compliance with EU Energy Acquis</td>
<td>Official Journal of the Republic of Serbia</td>
<td>Political stakeholders committed to the fulfilment of the EU integration process agenda</td>
</tr>
<tr>
<td>Acquis entered into force and implemented in practice</td>
<td>Annual reports of the ECRB</td>
<td></td>
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<tr>
<td></td>
<td>National Report of Serbia</td>
<td></td>
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<tr>
<td>1. Pricing methodologies and tariff systems approved and implemented in compliance with EU Energy Acquis and</td>
<td>Official Journal of the Republic of Serbia;</td>
<td>Continued commitment of the Government of the Republic of Serbia to the</td>
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</tbody>
</table>
| 2. | Strengthened capacity of AERS related to national energy markets | best regulatory practices;  
2. Issued amendments on existing pricing methodologies and tariffs; systems if necessary;  
3. Number of staff trained  
4. Market indicators regularly monitored by AERS;  
5. Compliance with amendments to the Energy Law;  
6. Number of staff trained;  
7. Contribution to the regular activities of the institutions of the Energy Community;  
8. Improved coordination with regional regulatory bodies;  
9. Number of staff trained;  
10. Quality of supply indicators regularly monitored by AERS;  
11. Increased capacity to analyse quality of supply indicators;  
12. Number of staff trained;  
13. Annual reports of ECRB and AERS  
14. Regular reports of the Energy Community Secretariat  
15. Annual reports of AERS  
16. Approved Amendments to the Energy Law by the National Assembly  
17. Energy sector reforms |   |
6. Enhanced organizational and management capacity of the AERS

<table>
<thead>
<tr>
<th>Activities</th>
<th>Inputs &amp; Costs</th>
<th>Assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Activities related to result 1:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.1 Review the current methodologies, procedures, templates and practices related to price regulation;</td>
<td>INPUTS Twinning Project Leader</td>
<td>Availability of EU experts in the field of national and regional energy markets</td>
</tr>
<tr>
<td>1.2 Support AERS in approval and implementation of existing, and/ or developing new pricing regulations;</td>
<td>Resident Twinning Advisor</td>
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</tr>
<tr>
<td>1.3 Assess the feasibility to integrate quality of supply in the price regulations;</td>
<td>Experts from relevant member state institution (short and medium term)</td>
<td></td>
</tr>
<tr>
<td>1.4 Assist AERS, through staff training, to improve capacity to develop and implement price regulation (focus on regulatory treatment of asset valuation, depreciation and WACC)</td>
<td>Language/ Project assistant for the RTA</td>
<td></td>
</tr>
</tbody>
</table>

**Activities related to result 2:**

<table>
<thead>
<tr>
<th>Activities</th>
<th>Inputs &amp; Costs</th>
<th>Assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.1 Review the current methodologies, procedures, templates and practices related to Serbian energy market;</td>
<td>On-the-job training Workshops, Seminars, Internships and Study tours</td>
<td></td>
</tr>
</tbody>
</table>
2.2 Support AERS in implementation of existing, and/or developing new regulations, procedures and practices related to market surveillance and enhancing the functioning of Serbian energy markets.

2.3 Assist AERS, through staff training, to improve its market monitoring capacity

**Activities related to result 3:**

3.1 Review the current activities of AERS within the Energy Community institutions

3.2 Support AERS in its activities in the Energy Community institutions on various issues related to the SEE regional market (regional market design, coordinated auctions, ITC mechanism etc.)

3.3 Provide training and support for AERS staff for all of these activities

**Activities related to result 4:**

4.1 Review AERS procedures and templates for data collection; if necessary prepare a plan for harmonization with the requirements of the 3rd Package of the Energy Acquis.

4.2 Assist AERS in aforementioned harmonization activities

4.3 Provide on-the-job training and support for AERS staff for all of these activities

**Activities related to result 5:**

5.1 Review the current legal framework (especially license conditions, grid codes, market rules, connection pricing methodologies etc.) and operational practices with a view to identify possible barriers for investment of RES

5.2 Support AERS in its activities on mitigation of barriers for investment in RES

5.3 Assist AERS, through staff training, to improve its background concerning RES

**Activities related to result 6:**

6.1 Review the current responsibilities, organization, functions, staffing and management systems of AERS through discussions with officials at all levels

6.2 Prepare a Management Plan for AERS identifying any recommended changes in organizational/functional structure, staff numbers, skill needs and other

### COSTS

- Twinning EUR 1,500,000

Approved amendments to the Energy law
resource requirements. Embed procedures for the annual updating of the plan.

6.3 Undertake a Training Needs Analysis (TNA) for AERS to implement the Management Plan and prepare a Training Plan and Human Resource management procedures.

6.4 Support the initial implementation of key aspects of the Training Plan through seminars, workshops and study tours.

6.5 Assess the adequacy of non-staff resource necessary for the implementation of the Management Plan and prepare strategies (including outsourcing if necessary) to overcome any resource constraints identified.

ANNEX II:  INDICATIVE AMOUNTS (in EUR million) CONTRACTED AND DISBURSED PER QUARTER FOR THE PROJECT

<table>
<thead>
<tr>
<th>Contracted</th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
<th>Q5</th>
<th>Q6</th>
<th>Q7</th>
<th>Q8</th>
<th>Q9</th>
<th>Q10</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contract 1.</td>
<td></td>
<td></td>
<td>1.5</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1.5</td>
</tr>
<tr>
<td>Cumulated</td>
<td></td>
<td></td>
<td>1.5</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1.5</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Disbursement</th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
<th>Q5</th>
<th>Q6</th>
<th>Q7</th>
<th>Q8</th>
<th>Q9</th>
<th>Q10</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contract 1.</td>
<td>0.8</td>
<td>0.09</td>
<td>0.09</td>
<td>0.09</td>
<td>0.09</td>
<td>0.09</td>
<td>0.1</td>
<td>0.15</td>
<td></td>
<td></td>
<td>1.5</td>
</tr>
<tr>
<td>Cumulated</td>
<td>0.8</td>
<td>0.89</td>
<td>0.98</td>
<td>1.07</td>
<td>1.16</td>
<td>1.25</td>
<td>1.35</td>
<td>1.5</td>
<td></td>
<td></td>
<td>1.5</td>
</tr>
</tbody>
</table>
ANNEX III- DESCRIPTION OF INSTITUTIONAL FRAMEWORK

1. Structure and organization

The Beneficiary in implementation of the project will be the Energy Agency of the Republic of Serbia (AERS).

AERS was founded by the Energy Law, which entered into force in 2004 (The Official Gazette of the Republic of Serbia No.84/2004). It has been legally established in June 2005, and became fully operational as of 01st January 2006. As per the Energy Law, AERS is an autonomous legal person and functionally independent from any other government body, energy entities and users of their products and services, as well as other energy market participants.

Establishment of the Agency and its operations during the first two years of its operation (2005-2007) has been enabled through a grant of EAR. Nowadays the Regulatory Agency is financed from revenues obtained from carrying out the activities within its competency. Funds are provided from license fees and from a part of use- of - system tariffs.

The most relevant rules and regulations within which AERS must work are the Energy Law and AERS Statute. A number of internal rules governing functioning of AERS have been developed, some of them within the previous projects. AERS has jurisdiction in electricity, gas, oil and district heating sub- sectors (only CHP). The main statutory objectives of the AERS include enhancing and directing the energy market development on the principles of non-discrimination and effective competition, monitoring the implementation of regulations and energy systems operation codes, harmonizing activities of energy entities on providing regular supply of energy and services to customers and their protection and equal position.

Main groups of activities currently performed by AERS are shown in the following figure:

<table>
<thead>
<tr>
<th>Price Regulation</th>
<th>Licensing</th>
<th>Market Monitoring</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pricing methodologies</td>
<td>Issuing of licenses</td>
<td>Approving Market Rules</td>
</tr>
<tr>
<td>Tariff systems (Gvt. approves)</td>
<td>Suspending and revoking of licenses</td>
<td>Approving Grid Codes</td>
</tr>
<tr>
<td>Methodologies for connection charges</td>
<td>Keeping the license register</td>
<td>Setting eligibility threshold and approving status of eligible customers</td>
</tr>
<tr>
<td>Opinion on the energy prices (Gvt. Approves)</td>
<td>Monitoring compliance with license conditions</td>
<td>Keeping the register of eligible customers</td>
</tr>
<tr>
<td>Price monitoring</td>
<td></td>
<td>Monitoring implementation of the Grid Codes</td>
</tr>
<tr>
<td>Monitoring unbundling of accounts</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Dispute Settlement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disputes on TPA</td>
</tr>
<tr>
<td>Disputes on connection to networks</td>
</tr>
</tbody>
</table>

| Regional market |
The managing body of the AERS is the Agency Council, which consists of the President and four members appointed by the National Assembly, with staggered terms of office. They are elected normally for five years and can be re-elected once.

The AERS has the following organisation:

- Technical Sector
- Economics and Finance Sector
- Legal Sector
- Organizational and Common Affairs Sector

Since regulation requires multidisciplinary approach, and in order to increase the efficiency of the organization, horizontal inter-sectoral teams for economic regulation, networks and market issues and international affairs have been established.

Current staff is 33 (including the Council members). The organization chart of AERS is presented on the following picture:

2. **Steering committee and working group details**

The project will work with all sectors of the AERS, under the direct responsibility of the Council President. The Secretary General will be responsible for the overall implementation of the project, including planning and identification of tasks, partner selection, AERS input to preparation of Twinning Agreement and reporting.

**Steering Committee**

A Steering Committee will be set up to oversee the implementation of the project, and comprising representatives of the EU Delegation in Serbia and AERS. The function of this
Committee will be to monitor progress of the project activities, to mobilise whenever needed the inputs and contributions of governmental departments, and to ensure timely achievement of results as set out in these Fiche. The MS is responsible for providing the Secretariat function for this Steering Committee (organising meetings, taking and preparing minutes).

Facilities to be provided by the Beneficiary

The Beneficiary will ensure adequate support and basic equipment for the work of the RTA experts. This includes office space, phone and fax, and provision of other necessary conditions. The contribution should also include logistical support for the various training activities, including selection of trainees (in consultation with the EU experts), as well as providing the MS experts with legislation and any other documents necessary for the implementation of the project.

The Beneficiary will ensure that staff works alongside the EU twinning partner(s).

Main counterpart in the BC

Main counterpart in the BC is the Energy Agency of the Republic of Serbia (AERS).

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ANNEX IV- REFERENCE TO LAWS, REGULATION AND STRATEGIC FRAMEWORK

- The Treaty Establishing the Energy Community

- Energy Law

The European Partnership (Council Decision 2008/213/EC) recognizes the following short-term priorities in the energy sector: Fulfil the obligations arising from the Treaty establishing the Energy Community \(^3\) Treaty as regards the full implementation of the acquis on the internal gas and electricity market and on cross border exchanges in electricity and ensure smooth functioning of the independent energy regulatory agency (AERS). In the mid-term, the priority is to continue to implement regional and international commitments with a view to establishing a competitive regional energy market.

The Stabilization and Association Agreement envisages that the cooperation shall focus on priority areas related to the EU acquis in the field of energy (Title VIII, Cooperation Policies, Art. 109). 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. The promotion of renewable energy is particularly highlighted.

Action Plans for implementation of the Treaty Establishing the Energy Community (developed by the Energy Community Secretariat and the Contracting Parties) in the electricity and gas sector have been adopted. According to the stipulations of the Action Plans for Serbia, apart from the Ministry of Energy and Mining, considerable responsibilities for their implementation have been entrusted to AERS.

Multi-Annual Indicative Planning Document 2011-2013

PART II – Strategic Objectives for 2011-2013: Main Strategic Objectives (i.e. choices of sector / priority area). The MIPD also introduces sector approaches in three areas, rule of law, public administrative reform/good governance and environment/energy.

Sector Objectives for EU support over next three years

- Ensuring progressive approximation of EU legislation, implementing international conventions and the Kyoto Protocol relating to climate change and energy, and production of implementation plans for selected heavy investment directives;
- Strengthening further the capacity of environmental institutions at national and local levels, and raising awareness of the importance of environmental protection;
- Developing and adopting a Strategy for Water Management;
- Implementing fully the National Programme for Environmental Protection and Waste Management Strategy, including financing the multi-annual plan for infrastructure development.

\(^{3}\) 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, relevant EU directives concerning environmental protection and renewable energy sources, EU competition rules as well as accepting the necessity to solve and overcome possible social consequences of the Treaty implementation. 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.
• Continue working on GHG inventory. Carry out further analysis to assess GHG mitigation potential
• Prepare the next national Communication under UNFCCC
• Decide which EU acquis form the area of climate change needs to be transposed/implemented in the first step
• Start preparation for implementation of the climate and energy package.
• To maintain adequate pressure for the setting-up of robust regulatory and anti-monopoly frameworks, to sustain commitments related to transparency, free entrance access to networks and storage facilities.
• Reduce environmental problems in energy sector and implement a long-term strategy for an environmentally sustainable energy policy
• Increase the administrative capacity of the sector

Planned activities and expected results

• Further acquis harmonisation relating to environment, including climate change and energy directives; More effective authorities at the central, provincial and local levels for planning, issuing permits and inspection, and full implementation of EIA, SEA and IPPC instruments;
• Constructing a national facility for the treatment and safe disposal of hazardous waste;
• Constructing regional waste management centres and wastewater treatment facilities serving Serbian citizens and businesses; and
• Reducing noxious air emissions by installation of electrostatic precipitators at thermal power plants.
• Reference list of National Strategic documents:


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):

• Harmonize the practice and legislation with the EU (Implement the provisions of the Energy Community Treaty; Further harmonize the legal framework with EU Directives)
• Legislative activities (Harmonize the relevant regulations with the EU; Establish a legal framework and identify incentives for better use of renewable energy sources)
National Strategy of Sustainable Development (Chapter 3.3- Energy) emphasizes the commitment of the Republic of Serbia to the Treaty Establishing the Energy Community as one of the means to achieve sustainable development of the energy sector.

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. The Strategy underpins taking measures for joining the Energy Community. It identifies the Energy Agency as the most important new institution related to its role, competencies and responsibilities, emphasizing the Agency’s role in monitoring the implementation of relevant institutional instruments of the Strategy (Chapter 2.3). The Strategy also explicitly states the need to achieve harmonisation with the energy Acquis.

ANNEX V – DETAILS PER EU FUNDED CONTRACT

One twinning contract, with a duration: 18 months

1. Modalities of project implementation

<table>
<thead>
<tr>
<th>Results:</th>
<th>Type of Contract</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Upgraded price regulation capacity of AERS.</td>
<td></td>
</tr>
<tr>
<td>2. Strengthened capacity of AERS related to national energy markets</td>
<td></td>
</tr>
<tr>
<td>3. Strengthened capacity of AERS related to regional energy markets and cooperation at the regional level</td>
<td></td>
</tr>
<tr>
<td>4. Upgraded operational practice related to the quality of supply</td>
<td></td>
</tr>
<tr>
<td>5. Upgraded capacity of AERS related to renewable energy sources</td>
<td></td>
</tr>
<tr>
<td>6. Enhanced organizational and management capacity of the AERS.</td>
<td></td>
</tr>
</tbody>
</table>

The project will be implemented through one Twinning contract: EUR 1,500,000, the essential criteria for the award of twinning contracts are laid down in the Twinning Manual and its annex.

2. Account of tasks expected from the team leader, resident twinning advisor and short term experts

2.1 Profile and tasks of the Project Leader

MS Project Leader continues to work in his/her MS administration but devotes a portion of his/her time to conceiving, supervising and coordinating the overall thrust of the project. The MS Project Leader directs the implementation of the project, in cooperation with the BC Project Leader and the RTAs.

The MS Project Leader should be a high-ranking official commensurate with the requirement for an operational dialogue and backing at political level.

3.6.2 Profile and tasks of the Resident Twinning Advisors (RTA)

Two (2) Resident Twinning Advisors with an input of 18 months each are envisaged for this project.

Tasks of the RTA 1:

- Advise the AERS management in the issues related to price regulation.
- Review the current methodologies, procedures, templates and operational practices related to price regulation
• Support AERS in implementation of existing, and/ or developing new pricing regulations

• Review current practice of AERS concerning integration of quality of supply in the price regulations; propose improvements of the treatment of quality of supply in regulatory practice of AERS

• Provide on- the- job training and support for AERS staff for all of these activities

• Support the Member State and AERS project leaders to co-ordinate short-term expert inputs, undertake required reporting and oversee the achievement of benchmarks and mandatory results (working in close cooperation with the RTA 2).

Qualifications of the RTA 1:

• Required: Advanced university degree in economics, business administration, or related discipline.

General experience:

• Minimum 8 years experience in the energy sector, with a minimum 3 years experience in price regulation gained in an energy regulatory authority.

• Good project management, reporting, presentation and communication skills.

• Experience in project management.

• Experience in developing, coordinating, and conducting training programmes

• Advanced knowledge of English language

Specific experience:

Profound and up-to-date knowledge of the evolution of the price regulation and specific experience in its development and implementation. Knowledge of relevant EU Acquis.

Tasks of the RTA 2:

• Advise the AERS management in the issues related to the establishment of national and regional energy markets.

• Review the current methodologies, procedures, templates and practices related to Serbian energy market

• Support AERS in implementation of existing, and/ or developing new regulations, procedures and practices related to market surveillance and enhancing the functioning of Serbian energy markets.

• Assist AERS, through staff training, to improve its market monitoring capacity

• Review AERS procedures and templates for data collection; if necessary prepare a plan for harmonization with the requirements of the SoS Directives.

• Assist AERS in aforementioned harmonization activities
• Review the current activities of AERS within the Energy Community institutions
• Support AERS in its activities in the Energy Community institutions on various issues related to the SEE regional market
• Provide on-the-job training and support for AERS staff for all of these activities

Qualifications of the RTA 2:
• Required: Advanced university degree in economics, business administration, engineering or related discipline.

General experience:
• Minimum 8 years experience in the energy sector, with a minimum 3 years experience in natural gas market issues gained in an energy regulatory authority.
• Good project management, reporting, presentation and communication skills.
• Experience in project management.
• Experience in developing, coordinating, and conducting training programmes
• Advanced knowledge of English language

Specific experience:
• Profound and up-to-date knowledge of the evolution of the EU internal energy market, relevant EU Acquis and specific experience in the development and/or implementation of electricity and/or natural gas markets.

2.2 Profile and tasks of the short-term experts
• The exact input, duration and number of short-term experts will be defined during the drafting of the Work Plan.

The experts should have the following knowledge and experience gained within a regulatory authority or related institution of an EU Member State or accession country:

a) Organisational planning
b) Training Needs Analysis and delivery of training programmes;
c) Price regulation and regulatory accounting in electricity and natural gas
d) Quality of supply in electricity and natural gas
e) Establishment of energy markets (gas and electricity), regional energy markets, market monitoring
f) Renewable energy sources
g) Security of supply

In addition, short-/medium-term experts should have:
a) Excellent communication and presentation skills;

b) A good command of English or Serbian.

2.3 Project Management

The scope of the Twinning Project and linkages between the components will require clear project management to ensure that the Twinning achieves the mandatory results and in particular that the activities under the separate components are co-ordinated.

Within their proposals Member States should detail the project management systems they would implement, as well as the previous project management experience of the proposed Project Leader and Resident Twinning Advisors, which will be taken into consideration during the evaluation and selection process.

2.4 Language/project assistant for the RTA

The RTA should have a full time project assistant for the purposes of translation, interpretation on a daily basis and general project duties at his/her disposal. The costs for hiring an assistant have to be included in the project budget.

2.5 Translation

The justified need for translation should be foreseen. Provision should be made in the project budget for translation work.

2.6 Interpretation

Justified provision should also be made for the need for interpretation for seminars, key meetings or other project activities. It is recommended that local resources should be used for cost reasons. The RTA assistant may also be called upon for these tasks.

2.7 Seminars, Training, Internships, Workshops

Classical training activities are a necessary part of the Twinning project. These may take the form of seminars in Serbia or elsewhere, if justified. They may also take the form of trainee/internships, i.e. giving AERS officials the opportunity to spend time and work in MS administrations. There may also be other types of training courses (e.g. intensive highly specialised courses delivered by dedicated training institutions, provided that such training is embedded in the overall reform strategy) or workshops on particular specialist subjects. Normally traineeships in MS will be reserved for a small number of BC specialists and limited in time (3-5 months). Seminars will normally be held in BC where they can reach a larger number of participants at lower cost. Like other project components, training activities (including study visits) must be fully justified by directly contributing to the achievement of the mandatory results.