

Remarks by Principal Deputy HR Donald Hays At Workshop on Energy Reform

Ladies and Gentlemen,

Restructuring a country's power sector – as I need hardly point out to most people in this room – is like renewing the foundations of a building, without disturbing the building's stability or disrupting the activities in the building. It's a mammoth task and it has to be undertaken with continuous reference to shifting political and economic realities.

We are currently helping to create

- a new legal framework for the BiH electricity sector
- a new regulatory framework
- separate generation, distribution and transmission facilities, which are now integrated in three monopolies.

This root-and-branch reform has not been undertaken for arbitrary reasons – the logic of the reform follows the logic of the market – the restructuring of the BiH electricity sector will create conditions for competition and improvements in efficiency.

This reorganization will also fulfill BiH's commitments under the the MoUs signed in Athens in 2002 and 2003 *on the Regional Electricity market in Southeast Europe and its Integration into the EU International Electricity Market*. These MoUs envisage a regional electricity market integrated in the EU Internal Electricity Market.

The reorganization of the BiH electricity sectort will allow BiH to integrate in the regional electricity market – and in

due course it will be able – with the rest of the region – to integrate in the EU electricity market. This is a matter of much more than practical or technical significance. Participation in the EU electricity market will in effect be BiH's first practical step into the EU.

The Power III reforms follow the EU Electricity Directive and ensure that the requirements for participation in the Southeast Europe electricity market are met.

This restructuring means:

- unbundling the three existing utilities companies and creating separate generation, distribution and transmission companies;
- setting up independent regulators, to regulate pricing and to regulate the relationships among all the market participants;
- creating a Single Transmission company and an Independent System Operator, both at the State level, to ensure the proper functioning of the transmission system.

It's a mammoth task and until now it has been subject to mammoth delays. Power III at one point fell 12 months behind schedule.

We should be careful about attributing blame for this – since the technical requirements of this project are huge and would challenge the political and administrative machinery of countries with less extensively devolved government structures than BiH. Nonetheless, I believe we must acknowledge that this has been an issue where – consistent with a debilitating pattern seen across the BiH reform spectrum – a conspicuous failure of political will resulted in a conspicuous failure to deliver reform. We failed to impress upon the BiH authorities the absolute necessity of their commitment to this project – or perhaps they understood and chose not to respond. Whatever

the reasons, the message has now been communicated more effectively. The political leadership of this country understands the need for Power III.

The message has not yet been communicated however to the general public. That must now be a priority. This is a reform that will deliver tangible benefits to the public. By introducing competition we can look forward to greater price efficiency, with savings passed on to consumers. By improving the efficiency of the energy sector we will eliminate one of the principal disincentives to inward investment and will thus improve the chances of attracting capital to create new jobs.

Progress is now being made at a more satisfactory rate – not satisfactory enough, but more satisfactory than before. However, although we are now beginning to see progress, problems are arising once again. The danger is that this could take us back to the beginning.

In addition to adoption of the State and Entity Electricity Laws in 2002, in the last several months there have been key steps forward:

- Appointment of Regulators:
 - State Electricity Regulatory Commission appointed
 - FBiH and RS Regulator Commissioners appointed.
- Adoption of harmonized RS and FBiH Restructuring Action Plans completed. These documents identify tasks and deadlines for the successful completion of the reform.
- Signed Agreement for Establishment of the Transmission Company and Independent System Operator by the Entity PMs.
- Transmission Company and Independent System Operator Laws adopted by the CoM (next step is adoption by BiH Parliament).

Those are the steps forward. Here are steps that have not been taken and must now be taken as a matter of the utmost urgency:

- Adoption of Transco and ISO laws in the (BiH?) parliament
- Formation of these two institutions
- Establishing regulatory authorities enabling regulators to take over their functions

Unbundling and separating generation and distribution facilities and implementing reorganization according to the agreed Action Plans.

Recently, there have been some worrying events. For example, the Transco and ISO Laws have been drafted with the active participation of financial, legal and technical experts from all three electric power companies as well as technical experts provided by the International Community. However, amendments have been proposed to these laws which would reduce their technical value and thus undermine their capacity to improve the electricity system as intended.

These are technical laws and during the drafting procedure necessary expertise has been provided. This kind of technical expertise does not exist in the Parliament, which has no capacity to improve these laws on a technical level. Though I would point out that the experts who have been working on these laws are ready and willing to provide any relevant information. I would encourage parliamentarians to consult with them on any questions which may arise.

There is also an issue concerning the constitutionality of the FBiH Electricity Law, one article of which has been ruled against by the Constitutional Court. This could create a problem with regard to implementing the restructuring Action Plans, and I urge you to ensure that this doesn't happen.

If we are indeed over the worst in terms of obstruction, incomprehension and administrative and political tardiness – and I hope we are – we have very good prospects of taking the reform process forward in a satisfactory way. Donors have

become impatient, and will turn a deaf ear to any further excuses. The citizens of BiH will be disenchanted if their political leaders fail to deliver the kinds of reforms that promise cheaper electricity bills and more jobs. We have a clear path ahead of us. I trust that we will now move along that path at a steadyt pace.

Thank you