

# ENERGY COMMUNITY OF SOUTH EAST EUROPE\*

## Athens Process Newsletter

October 2004

### WELCOME

This is the third issue of the *Athens Process Newsletter*, which we introduced to keep you up-to-date between Athens Process forums about actions by the European Commission, Donors and International Financial Institutions (IFIs), Council of European Energy Regulators (CEER), and European Transmission System Operators (ETSO), as well as keeping you abreast of developments in the region.

In this issue you will find news on:

- Upcoming Athens Process Events
- Athens Process websites
- News from Donors and IFIS
- Recent and upcoming events
- News from ECSEE Governments
- Investment News from ECSEE Countries
- Other useful sources of information

Please remember we are relying on your feedback, suggestions and contributions for this quarterly newsletter. We are particularly interested in receiving information about:

- Legislation and institution building
- Electricity market reforms;
- Workshops and other electricity market-related events;
- Study and benchmarking reports;
- Donor project developments.

## HIGHLIGHTS THIS ISSUE

### UCTE – RECONNECTION OF SEE TO MAIN UCTE SYSTEM

The resynchronisation of the two UCTE zones was successfully achieved on 10 October 2004 at 11:00. This historic step means that after 13 years of separation due to war events in ex-Yugoslavia, the European electricity grid is physically connected from Lisbon to Athens, and also to Sofia and Bucharest. The resynchronisation was the prerequisite for the progressive integration of the South European Electricity markets into the wider-than-EU market of the UCTE zone, and it will also contribute to the security of supply in the whole region. This event was made possible after the two years' effort of the UCTE "Executive Team for Reconnection", coordinating all the organisational and technical activities.

The resynchronisation of the two UCTE zones has been a matter of highest priority to UCTE for many years. However, it was not before the beginning of this decade that the proper preparation of the process could be started.

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\* The ECSEE Community countries are:

EU Member States: Austria, Greece, Hungary, Italy, Slovenia;

SEE Region: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, FYR of Macedonia, Montenegro, Romania, Serbia, Turkey and UNMIK-Kosovo

Observer Status: Moldova

Without reconstruction of the needed infrastructure, it would not have been possible to carry out the resynchronisation. Major restoration and construction works on key transmission infrastructure managed by HEP and financed by a Croatian loan were completed in 2003, while all important lines and substations were successfully commissioned in Bosnia-Herzegovina by JPCC (Joint Power Control Center) in August this year with funds from the "Power III" program financed by international financial institutions.

All TSOs of the region co-operated closely within the *UCTE Executive Team for Reconnection* (ET) and have been co-ordinating since 2002 all actions aiming at the reintegration of the whole UCTE area. The detailed *Multilateral Resynchronisation Program* was prepared by the ET and approved by its members stating that all previously agreed mandatory technical and organisational conditions were fulfilled: grid infrastructure, readiness of control blocks, measures to preserve steady-state and dynamic stability of the whole reconnected system, on-line transfer of data.

The reconnection will have a Europe-wide positive impact on the electricity sector and beyond as it physically integrates regional electricity markets in South-East Europe into the EU Internal Electricity Markets. During the operational test phase scheduled to end on 1 November 2004 exchanges across the present resynchronisation interface will not be possible for obvious security reasons. The involved TSOs and the UCTE Executive Team will closely monitor the trial operation and, after its positive evaluation a statement will be issued by 1 November 2004. It will specify the exact date for the start of exchanges over the former interface and how such exchanges may gradually be increased up to the full NTC values.

#### **Profile:**

The Union for the Co-ordination of Transmission of Electricity (UCTE) co-ordinates the interests of transmission system operators in 22 European countries. Their common objective is to guarantee the security of operation of the interconnected power system. 50 years of joint activities laid the basis for a leading position in the world, which the UCTE holds in the quality of synchronous operation of interconnected power systems. *Through the networks of the UCTE 450 million people are supplied with electric energy and annual electricity consumption totals approx. 2300 TWh. Close co-operation of member companies is imperative to make the best possible use of benefits offered by interconnected operation. For this reason, the UCTE has developed a number of rules and recommendations that constitute the basis for the smooth operation of the power system. Only the consistent maintenance of the high demands on quality will permit in the future to set standards in terms of security and reliability as in the past.*

#### **FORMAL START OF NEGOTIATIONS ON THE ECSEE TREATY ON 13 OCTOBER**

The countries of the region began formal negotiations with the European Community in Brussels on 13 October, at which version 2 of the Treaty was presented. Negotiations will continue at the next meeting provisionally fixed for November 9.

The Treaty is not yet public but its text builds on and develops a legally binding document based on European Community Directives on energy and the provisions and institutions anticipated under the political agreements of the Athens Memoranda of Understanding in 2002 and 2003.

#### **ENERGY - POVERTY STUDY**

The United Nations Development Program (UNDP) Country Office in Serbia and Montenegro has published a groundbreaking study on "Energy, Environment and Poverty in Serbia and Montenegro" that sets up relationships between energy and poverty issues, energy and Millennium Development Goals (MDGs) as well as energy and human development. The study is based on a set of original surveys and in-depth statistical and economic research. The final report titled "Stuck in the Past" is available at: [http://www.undp.org.yu/energy\\_environment/stuckinthepast/stuckinthepast.html](http://www.undp.org.yu/energy_environment/stuckinthepast/stuckinthepast.html)

## ATHENS PROCESS EVENTS

For ongoing updates on upcoming events please visit the ECSEE website at <http://www.seerecon.org/infrastructure/sectors/energy/>. This contains a list of all Athens Process meetings till the end of the year.

### **10th PHLG and Legal Seminar in Vienna on 22- 23 September**

This meeting discussed the first version of the ECSEE Treaty and its legal implications. Conclusions are available on the ECSEE website.

### **Gas Kick-off meeting in Zagreb 28 September**

This meeting was called to begin discussions on gas issues to develop a similar momentum to those of electricity in the Athens Forum. Presentations and Conclusions are provided on the ECSEE website. The Conclusions anticipate the creation of a separate Forum for gas issues, in line with the EU Madrid Forum, and Turkey has offered to host this gas Forum.

### **Energy Week, October 25-27 Athens**

The Athens Forum agenda will cover the following sessions:

- ECSEE Treaty and Strategic Issues
- Institutional Compliance
- Internal Market issues
- Transition and Standard Market Design
- Report on the Regional Grid reconnection process.

## OTHER RECENT AND UPCOMING EVENTS

### **Bucharest hosts conference to explain ECSEE to civil society**

Parliamentarians, Social Partners and non-governmental organisations (NGOs) from South-Eastern Europe (SEE) met in Bucharest on 11-12 October at the invitation of the Romanian Chairmanship-in-Office of the South Eastern Europe Cooperation Process (SEEC). The Conference was organised with the support of the European Commission and the Stability Pact for South Eastern Europe.

The event provided the participants with an important opportunity to familiarise themselves with progress underway towards the establishment of the ECSEE, encompassing electricity and gas, and its integration into the Internal Energy Market. It was attended by about 100 participants from Albania, Bosnia and Herzegovina, Bulgaria, Croatia, FYROM, Romania, Serbia and Montenegro, Turkey, UNMIK Kosovo; representatives of the observers to the Athens Process and other states took part to the conference.

The conference was opened by Mr. Valentin Zoltán Puskás, Vice President of the Romanian Senate, Mr. Dan Ioan Popescu, Minister of State, Minister of Economy and Trade of Romania, Mr. Bogdan Aurescu, State Secretary of the Romanian Ministry of Foreign Affairs on behalf of the Romanian Chairmanship-in-Office of the SEEC, Mr. Bernard Snoy, director of the stability Pact and Mr. Jonathan Scheele, Head of the EU Representation in Romania.

Key issues discussed at the conference included:

- the rationale and implications of the creation of the Energy Community in South East Europe and further steps;
- the benefits and costs of the ongoing and proposed transformation and regional integration of the South East Europe energy sector and the challenges faced by the countries from the region;
- tariff reform and affordability issue;
- the impact of restructuring on employment in the energy sector; case studies and strategies;
- infrastructure necessary for the creation of a fully integrated electricity and gas market in SEE and the donors' co-ordination process.

## BRIEFING NOTES ON THE ATHENS PROCESS

Briefing Notes on the website explaining the background and past developments in the Athens Process have recently been updated to include developments over the Treaty. They can be found at

[http://www.seerecon.org/infrastructure/sectors/energy/documents/briefing\\_notes\\_on\\_ecsee.pdf](http://www.seerecon.org/infrastructure/sectors/energy/documents/briefing_notes_on_ecsee.pdf)

## USEFUL WEBSITES

### **Athens Process Secretariat (EU/World Bank) website**

[www.seerecon.org/infrastructure/sectors/energy/](http://www.seerecon.org/infrastructure/sectors/energy/)

The Athens Process Secretariat has developed a website, which contains updated information on: the texts of the Memoranda of Understanding, forthcoming and past meetings and their documents, investments, benchmarking, donors' activities and investments in the region, and newsletters

### **Czech Republic ECSEE website** [www.seenergy.org](http://www.seenergy.org)

This website was launched in July and will act as a multi-country portal for all the ECSEE countries and organizations, indicating where information exists. It points to national websites where they exist, and hosts information where they do not.

### **Stability Pact website** [www.stabilitypact.org/energy](http://www.stabilitypact.org/energy)

Further information about the energy process in SEE can be found at the webpage [www.stabilitypact.org/energy](http://www.stabilitypact.org/energy).

### **USAID website** [www.seerem.org](http://www.seerem.org)

The United States Energy Association and USAID have launched the **Southeast Europe Regional Electricity Market (SEE REM) Website** to provide information on the development of the regional power market and to report on USAID sponsored work performed jointly with the countries of Southeast Europe to expand regional electricity trade. The SEE REM website includes key documents related to the Athens Process to create the regional electricity market, publications and reports, activity reports, a calendar of events, and a set of links to other organizations working in the region. The site may also be accessed through the United States Energy Association website at [www.usea.org](http://www.usea.org)

## OTHER SOURCES OF INFORMATION

Free daily newsletters on the SEE regions are available from:

[www.seeurope.net](http://www.seeurope.net).

[www.setimes.com](http://www.setimes.com)

## NEWS SECTION

### NEWS FROM DONORS AND IFIS

#### STABILITY PACT

Under the **SEECF chairmanship of Romania**, the Stability Pact supported the conference entitled “**Towards the Energy Community in SEE**” which took place in Bucharest on October 11-12, 2004. Financed by the EU **CARDS programme**, this conference addressed South East Europe’s Members of Parliaments, Social Partners (Trade Unions and Employers organisations) and (environment) NGOs.

The Directorate General of Transport and Energy (**DG TREN**) of the European Commission in association with the international financial institutions (**World Bank, European Bank for Reconstruction and Development** and the **European Investment Bank**) briefed the participants on the developments in the past two years, on the present position of the Athens process and an on the future of regional energy cooperation based on the legally binding **ECSEE Treaty**. Moreover, some **best practice examples** from the region were given parallel to the input from the private and utility sectors. It was concluded that most likely parallel and complementing actions with Parliamentarians and social partners will follow with the aim of triggering interaction between the Athens (regulatory) process (ministries and regulators), the Parliaments as legislative bodies, the employees and the utilities themselves, as well as the environmentally-focused organisations.

For more details of the presentations see

<http://www.stabilitypact.org/pages/press/detail.asp?y=2004&p=35>

The **third High Level Political Meeting** with the **Senior Advisors** on energy, international agreements and environment to the **Prime Ministers** of the ECSEE took place in Vienna on July 23. The aim of the meeting was to underline the foreign affairs and EU accession dimension of the **legally-binding character of the ECSEE Treaty**. All participants welcomed the draft text and the new approach towards the extension of the EU internal energy market into SEE. The gratitude to the current Transport and Energy Commissioner Loyola de Palacio was clearly outspoken, together with hope that the new European Commission would put ECSEE highly on its agenda.

Dr Erhard Busek, Special Coordinator of the Stability Pact, briefed the **SEE Prime Ministers** on this issue at an informal meeting in **Salzburg** in July trying to secure regional ownership at the highest political level. For more details see

<http://www.stabilitypact.org/pages/press/detail.asp?y=2004&p=27>.

Dr Busek also visited the **Cule Substation**, close to Mostar, in mid July in order to see for himself the reconstruction of this substation and the preparations for its **UCTE reconnection** this autumn. He used this opportunity to meet with the Bosnian Minister of Foreign Trade and External Relations Mr Dragan Doko. The reconstruction and reconnection of the electricity system in Bosnia and Herzegovina was the commitment of the Stability Pact through the **World Bank Power III** project. Special Coordinator Busek underlined the necessity and urgency of the implementation of the commitments of the Athens Memoranda.

He also used a visit to Ljubljana, Slovenia to meet with Mr Damjan Stanek, Director of Borzen, the Slovene Power Exchange, to inform himself on the recent proposal for a **regional power exchange**.

#### New Coordinator

The Stability Pact for South-Eastern Europe has a **new Deputy Special Coordinator (DSCSP), Mr. Michel C. Mozur** who is seconded by the US government. Mr Mozur has a track record in Central Europe and especially in the field of energy as he was the Director of North Central European Affairs at the Department of State prior to his move to Brussels in

August 2004. Moreover, he has served as Deputy Chief of Mission of the US Embassy in Warsaw.

## **NEWS FROM USAID**

### **Tariff training for ERC in FYR of Macedonia**

USAID partners Pierce Atwood and NARUC conducted tariff training for the new Energy Regulatory Commission in FYROM on October 4-7.

### **Market design concept presented in FYR of Macedonia**

USAID contractor Hunton & Williams, at the request of the Ministry of Economy, presented an initial proposal for market design concept in Macedonia to the MACO-CIGRE energy professionals conference in Ohrid on October 3. Extensive discussions with experts, the public and utility and regulatory officials were held on the concept.

### **Data provided to GIS modelling team in Ohrid**

The SECI Regional Electricity Transmission System Planning Working Task Force Group met in Ohrid on September 23 and 24 prior to this meeting and provided data to the GIS modelling team on transmission system status in 2010 and 2015. At the February meeting in Sofia the Task Force Working Group had offered to test GIS scenario results on the more detailed PSS/E regional transmission model to determine transmission constraints.

### *Upcoming Events:*

### **ERRA Tariff Committee discuss Performance Evaluation in Croatia**

The ERRA Tariff Committee, chaired by Florin Gugu from ANRE, will meet on October 25-26 in Croatia, hosted by the Croatia Energy Regulatory Commission. NARUC has arranged for Denise Parrish from the Wyoming Public Utilities Commission to attend and discuss Performance Evaluation in the US.

### **Natural gas pricing workshop in Croatia**

Prior to this meeting on October 24, a special workshop on natural gas pricing will be held in Croatia. Thomas Pearce from NARUC Gas Committee and the Ohio PUC will present on various issues.

### **Tariff training to ERC in FYR of Macedonia**

Through the partnership between the Vermont Public Service Board and Energy Regulatory Commission (ERC) of the Republic of Macedonia, NARUC will provide more tariff training to ERC on the week beginning October 25, 2004.

### **KESH staff to visit counterparts in Idaho**

USAID partners USEA has arranged a visit by KESH (Albania) staff to Idaho Power in Boise Idaho on October 23-30, 2004. The meeting agenda will cover: Metering, Billing, Collections and Customer Service.

## **NEWS FROM WORLD BANK**

### **PAL loan approved for Romania**

The World Bank's Board of Executive Directors has approved a US\$150 million PAL (Programmatic Adjustment Loan) to support the Government's structural and institutional reforms. The PAL actions are synchronized with the European accession goals and part of the money will be available to support the energy sector reforms.

### **Discussions opened on new assistance programme for Bosnia**

Discussions have begun on the Country Assistance Strategy (CAS) for Bosnia and Herzegovina, officially marking the launch of the new assistance program. Under the new program, the World Bank will pledge new projects worth between USD 100 and 180 million over the next three years. The new CAS has been prepared in consultation with the authorities and other local and international partners, and is structured along three mutually reinforcing pillars:

- Improving Public Finance and Strengthening Institutions.
- Promoting Sustainable Private-Sector-Led Growth.

- Investing in Key Social and Economic Infrastructure, where objectives and expected outcomes include: improved service quality in water and sanitation, electricity, and local roads.

## **NEWS FROM KFW**

### **Albania - Montenegro**

#### **400 kV Transmission Line Tirana – Podgorica:**

A Memorandum of Understanding (MoU) between KESH, EPCG and KfW has been signed at the beginning of September. The MoU defines the scope, financing and implementation of the project. After this major breakthrough, KfW completed the appraisal of the project and has approved a loan of up to EUR 35 million for the project.

The German Government expressed its willingness to support the project with a total of EUR 8.9 M of budgetary funds (of which EUR 3.6 million as a loan at IDA conditions and EUR 5.3 million as a grant). The German financing in total comprises up to EUR 43.9 million.

The preparation of the project is also advancing with the successful completion of the prequalification procedure for the project consultant. Three engineering companies have been invited to tender for the contract and the recruitment of the project consultant is expected to be completed within this year, allowing the final preparation of the project by the project consultant and the tendering for the general contractor for the project in 2005.

## **NEWS PROVIDED BY ECSEE GOVERNMENTS**

### **Albania**

*Not available*

### **Bosnia and Herzegovina**

#### *Legislation and Institutions*

On Friday, July 16, 2004, the House of Peoples accepted the harmonized version of the Transco and ISO Laws. Since the House of Representatives did the same previously, what remains is to publish the laws in the *Official Gazette*.

The EBRD has approved the award of a contract worth almost € 40 million to SCADA\EMS. It is hoped that the contract will be signed by mid October.

### **Bulgaria**

*Not available*

### **Croatia**

*Not available.*

### **FYR of Macedonia**

*Not available*

### **Montenegro**

*Not available*

### **Romania**

#### *Investments overview*

The Energy-directory.com newsletter reported that the Romanian government has approved Enel's 51% share in two of the countries electricity distribution companies, Electrica Banat and Electrica Dobrogea. The two companies have 1.5 million customers and account for one fifth of the country's power sales.

### **Serbia**

#### *Legislation and Institutions*

#### **Energy Law adopted**

The Parliament of Serbia adopted the Energy Law on 23 July 2004. The new Energy Law will be the basis to reorganise Serbia's energy sector and integrate it into the European Community. One of the most important activities arising from this law is Serbia's full participation in the Energy Community of South East Europe (ECSEE). The Energy Law of Serbia can be downloaded at Ministry of Mining and Energy web-site [www.mem.sr.gov.yu](http://www.mem.sr.gov.yu).

The Energy Law stipulates market opening, EPS (Power Industry of Serbia) unbundling and creation of the TSO. There is a clear timetable to create the institutional framework and adopt practices for market operation.

The Regulatory Energy Agency is due to be formed in November 2004.

#### *Investments*

#### **Djerdap HPP revitalization plans**

Representatives of the Serbian Electric Power Company (EPS) and the Energomashexport company of Russia signed in Belgrade 105M\$ agreement on the revitalization of the Djerdap hydro-electric power plant on the Danube River. Revitalization of Djerdap HPP should start on January 15, 2005.

This should increase the plant's capacities by more than 60 mega-Watts and secure the additional production of 100 million kilo-Watt hours of electricity each year. Revitalization should be completed by 2010.

#### **EPS - Power Industry of Serbia reconnected to Europe**

The resynchronisation of the two UCTE zones that were split in 1991 as a result of the war events in former Yugoslavia has start on 10 October 2004. The reconnection will have a Europe-wide positive impact on the electricity sector and beyond (not only in the countries presently operating in the 2nd UCTE synchronous zone – Albania, Bulgaria, FYR of Macedonia, Greece, Romania, Serbia & Montenegro) as it will physically integrate regional electricity markets in South-East Europe into the EU Internal Electricity Markets.

#### **EAR donation**

The European Agency for Reconstruction has awarded EPS with 452.466 Euro for a purchase of equipment and spare parts that would be used in revitalization of unit A5 in Kolubara TPP. This donation will help completion of Kolubara's A5 unit refurbishment.

#### **UNMIK Kosovo**

*Not available.*

## **INVESTMENT NEWS FROM ECSEE COUNTRIES**

This material is compiled by the Athens Process Secretariat from press materials.

### **ALBANIA**

**Progress on Vlore-B TPP:** The proposed thermal power plant in Albania's Adriatic port of Vlore has come one step nearer to implementation, with a pre-qualification tender for Engineering, Procurement and Construction (EPC) work on the plant held by the national power company Korporata Elektroenergjetike Shqiptare (KESh). Expressions of interest were requested starting on July 1<sup>st</sup>, with a deadline of August 12<sup>th</sup> and those short-listed due to receive invitations to bid in the following month. According to KESh CEO Andis Harasani, cited by Platts *Energy in East Europe*, the response was very enthusiastic indeed: 30 companies (mostly European, but including four US and three Asian firms) bought the tender documentation, with 17 firms or consortia actually submitting pre-qualification bids. Whether invitations have been issued yet is not clear, but Platts reported at the start of October that KESh was seeking approval of an evaluation report on the tender from the three donors involved in the project—the World Bank, the European Investment Bank, and the EBRD. The proposed combined-cycle TPP had been expected to be somewhere between 85MW and 135MW in installed capacity, depending on offers received, but Harasani talked optimistically to Platts about the possibility of higher capacity. He cited a total project budget of \$137m, including \$25m from the World Bank, Euro40m from the EBRD, Euro40m from the EIB, and Euro10.5m from KESh's own resources. The unit will initially run on oil distillate—supplied through a specially built offshore tanker terminal—but will be so designed as to allow an

eventual switch to gas. According to Harasani, investors may eventually be given the chance to develop two further 130 MW units at Vlore, which would operate as IPPs.

**Icelandic investment in Albanian hydro?** Platts has also reported that Iceland's power utility Landsvirkjun is mulling the possibility of building a HPP at Bratille in central Albania. A BOT (build-operate-transfer) concession for the site, on the Devoli River, is being offered by the country's industry ministry. The Icelandic firm's decision will depend on a feasibility study currently underway, though any investment would be made in consortium with other companies, Platts reported.

Even if the Icelanders decide against Bratille, it would seem that there is a good deal of interest in Albanian hydroelectric possibilities. Studies have identified 140 potential sites, KESh CEO Andis Harasani told Platts, and talks are being held with "a number of major European utilities including [Italy's] Enel and [Spain's] Iberdrola." Development by outsiders would be welcome, noted Harasani, though KESh itself will not invest in new hydroelectric capacity, being over-dependent on hydro already.

**Disco concessions to be offered next year?** Harasani also told Platts of plans to offer concessions to operate Albania's four regional power distribution companies. These are: Middle Albania, accounting for 57% of sales and including the capital Tirana and the major industrial centre Elbasan; Fieri in the southeast (19.9%); Burreli in the north (19.2%); and the Bisabu region in the extreme south (3.9%). These were consolidated from 22 smaller entities, with Bisabu the exception to the "critical mass" principle because of stipulations in a loan agreement with Germany's KfW development bank. According to Harasani, interviewed in mid-July, KESh is hoping to offer operating concessions in the first half of 2005, having submitted proposals to the government "in the most optimistic scenario" in September or October.

The state of the distribution sector makes it unlikely that major European investors would yet be interested in outright privatisation, explained Harasani, but concession to domestic and/or foreign investors was a logical step after KESh's ongoing restructuring. Aside from the disco consolidation mentioned, the utility announced in July the formal creation of an independent TSO, with responsibility for managing, upgrading and developing the grid. Other units established within the KESh holding structure include companies for the Drin, Mat, and Burreli river HPP cascades and a firm for HPP maintenance. Once built, Vlore-B TPP will be operated by its own company too.

## **BOSNIA & HERZEGOVINA**

**Austrians mull power projects in RS:** In mid-May, a consortium of two Austrian-based firms—Alstom Power Austria and Siemens Austria—held high-level talks with Republika Srpska (RS) officials with a view to four power generation projects. These include one TPP near Doboj in the Banja Luka region and three HPPs on the River Vrbas—Novoselija, Krupa, and Banja Luka Lower. No details were made available about the Doboj plant, but studies by the local utility EPRS indicate that the Novoselija HPP would have installed capacity of 16.4MW and would take three years and Euro27m investments to construct. The Krupa and Banja Luka Lower HPPs, which would be developed as a pair, would take five years and an estimated Euro126m between them, though no capacity figure has been published. All four plants are on a list of potential projects identified by EPRS, in which—subject to government approval—concessions would be awarded. The meeting, attended by the RS premier and energy minister, agreed to produce a cooperation protocol on the projects. Platts *Energy in East Europe* cited an Austrian commercial official contacted a week later as saying that negotiations had "reached a critical point" and that the projects would be developed "on a BOT basis together with local partners". As of early October, Platts has carried no further news on developments.

**Bugojino municipality approves Gračanica TPP plans:** A step was taken in early June towards the construction of a proposed giant coal-fired power plant at Gračanica in the Muslim-Croat Federation of Bosnia & Herzegovina (FBiH), with a vote in favour of the project by the municipal council of nearby Bugojino. The council chairman, who also heads the

project coordination team, was quoted as saying that three bids had already been received from firms interested in financing and construction. The TPP would work on lignite from the local Bugojino coalfield, which is reckoned to have reserves of at least 700m tonnes. A restructuring of the existing mines, which will not be complete before May 2006 at the earliest, will be needed to ensure the annual supply of 1.2m tonnes required to operate the proposed first unit, whose capacity would be around 1,000 MW. Possible second and third units would need to be served by new mines producing 5-5.5m tpy.

**HPP progress and frustration for Intrade Energija:** Further headway has been made with four mini-hydropower plants in FBiH by investor Intrade Energija, a local firm 51% owned by Slovenia's Istrabenz Energetski Sistemi since mid-2003. Of the four, Botun HPP (2.5MW) and Majdan (2.8MW) are on the Kozica river, while Jezernica-1 (1.2MW) and Mujakovici (1.7MW) are on the river Jezernica. In June, Intrade announced contracts with two Sarajevo-based civil engineering firms, Hidrogradnja and Orman, and the contracting process was completed in July when agreements were signed with five equipment suppliers—including Turkey's Subor Boru Sanayi ve Ticaret, Slovenia's Gopla Maribor, and three local firms. Work on the HPPs is expected to be finished before year-end. Intrade has been developing the plants under a 20-year BOT concession awarded by the local canton of Fojnica in 2000 to Austria's Small Power Plants Tyrol, which remains its partner in the project. A 20-year PPA has been concluded with local utility EPBiH for the expected 28GWh annual production of the HPPs.

Intrade Energija is also expecting to finish two other projects in spring 2005, the Pozarna and Luke HPPs (respectively 700kW and 1.8MW). Intrade's total investment in the six HPPs is estimated at BM15m, or a little less than Euro 8m.

Intrade seems to be having less luck with two larger schemes, however. These are the Ustikolina and Vranduk HPPs, whose planned capacities are 60MW and 40MW respectively, with combined project cost expected to run to BM600m. Intrade Energija applied in April to the Federation government for concessions to build, operate and exploit the two HPPs and received a favourable opinion from the energy, industry, and mines ministry. Intrade officials also told the local press that the projects had the support of prime minister Ahmet Hadzipasic and UN High Representative Paddy Ashdown, Platts *Energy in East Europe* reports. Yet as of early September parliament had done nothing to set up the commission needed to make a decision on the concessions.

## **BULGARIA**

**Disco deals approach closure:** After halting preliminaries, sale of 67% stakes in Bulgaria's seven regional power distribution companies has proceeded with remarkable smoothness and success. Deadlines for binding offers were put back from May 25<sup>th</sup> to June 25<sup>th</sup>, and then again to July 9<sup>th</sup> and July 15<sup>th</sup>, in response to bidders' requests for more time to perform due diligences. In the end, offers were received for the Western Bulgaria package from all five pre-qualified bidders, namely CEZ (Czech Republic), Enel (Italy), E.On Energie (Germany), EVN (Austria), and PPC (Greece). All but E.On bid for Southeastern Bulgaria, and all but EVN for the Northeastern Bulgaria package. EVN bid highest for both the Western and Southeastern packages (Euro302m and Euro271m respectively), but the rules of the competition meant that it could only win one of them: the choice was decided, not by EVN's own preference, but by the extent of the difference between first and second bids, EVN being Euro70m ahead of Enel for Southeastern Bulgaria but only Euro20.5m in front of CEZ for the Western package.

The upshot was that CEZ emerged as winner for Western Bulgaria with a Euro281.5m offer and EVN for Southeastern Bulgaria with Euro271m, while E.On was frontrunner for Northeastern Bulgaria with Euro140.7m. Negotiations to finalise the bids ensued, with draft contracts agreed in all three cases by late September, in each case at the price originally bid. As of October 10<sup>th</sup>, the contracts with E.On and EVN have been approved by the Privatisation Agency's Supervisory Board and await government approval, while that of CEZ still needs approval by both. These (and the competition watchdog's go-ahead) are thought to be formalities.

The Western Bulgaria package, won by CEZ, is generally thought to be the most desirable of the three, including the capital Sofia as well as the Sofia Region and Pleven discos, with just under 1.9m customers and 7.5 TWh sales in 2002. Northeastern Bulgaria includes the Varna and Gorna Oryahovitsa discos, with 1.14m clients and 4.8 TWh sales. Southeastern Bulgaria, including the Stara Zagora and Plovdiv discos, occupies an intermediate place with 1.5m customers and 6.3m TWh.

Bulgaria is generally reckoned to have achieved a good deal in terms of price—considerably higher than Romania's first two sales—with almost Euro 700m brought in by the three sales combined.

**Consultant chosen for Ruse, Varna, and Bobov Dol TPP sales:** Bulgaria has taken the first steps towards privatisation of three of its largest thermal power plants. These are the Varna TPP (1260MW), the Bobov Dol TPP (630MW), and Toplofikatsiya Ruse, the district heating company of the Danube port of Ruse, which has 400MW of electricity generating capacity. Sales are expected in the first half of 2005, and the country's Privatisation Agency (PA) tendered in late May for a privatisation consultant. Credit Suisse First Boston Europe (UK) emerged as winner in July and was confirmed as such in August, edging out consortia headed by Lazard Freres (Paris), ABN Amro (Netherlands), Citigroup Global Markets (London), and Dresdner Kleinwort Wasserstein (London). Doubts about the validity of the tender were raised by two of the unsuccessful contenders, but the objections appear to have been carried no further. Among questions that must be addressed by CSFB are the stake to be offered in the three plants and the privatisation method to be used.

The three plants run primarily on coal—local in the case of Bobov Dol, imported in the other two cases—though some turbines at Varna are capable of running on natural gas, while conversion to natural gas will be needed sooner or later at Bobov Dol, given that the local coalfield is approaching exhaustion. All three will need significant environmental upgrades to bring them into line with EU standards. Companies that have indicated interest in the plants recently include Russia's Gazprom and the Czech Republic's CEZ. Enel is also reported to have inspected Bobov Dol TPP.

Unit 3 of Ruse Iztok (Ruse East) TPP is about to undergo a two-year modernisation worth almost Euro 19m by Skoda Praha, the original supplier of its turbines, which will lengthen its operational life by 15 years, enhance efficiency, and meet environmental requirements. A tender for an upgrade of Unit 4 is scheduled for November. As to Varna TPP, this has recently received a fillip in the form of a Ba3 rating, with a stable outlook, from Moody's—just one notch below Bulgaria's sovereign rating. Grounds included its prominent place in a regionally competitive national power sector, its good financials, and good prospects in the context of future liberalisation. Varna TPP is the second Bulgarian power plant to achieve a rating, after Maritsa Iztok 2 TPP.

**Maritsa Iztok 2 TPP upgrade starts:** A five-year project to upgrade units 1-4 of the eight-unit, 1450MW Maritsa Iztok 2 TPP was launched in early October. The Euro 226.2m reconstruction is to be a largely Japanese affair, with 85% of the project cost covered by a loan from the Japan Bank for International Cooperation (JBIC), Mitsui acting as the main contractor, and compatriots Toshiba and IHI acting as subcontractors. The project will extend the units' operating life by 20 years, increase capacity, and raise the TPP's share in national power output from 15% to 29% (according to energy minister Milko Kovachev). It will also improve the plant's environmental indicators: CO<sub>2</sub> emissions will be cut by 90% as a result of measures under this project and of installation of FDGs at units 5 and 6 under a separate Euro70m scheme likely to be approved soon by the EBRD and the EU's ISPA.

The start of work at Maritsa Iztok 2 follows a flurry of measures clearing the way for the project in the last few months: objections to the size of the state guarantee from the country's competition watchdog were overruled by the Supreme Administrative Court in June; an agreement on state guarantees for the JBIC loan was signed and then ratified in July; an MoU between the TPP and Mitsui was signed, and a letter of political support for the EBRD-ISPA project approved, in the same month; and, finally, Bulgaria's energy regulator approved both

the required five-year PPA between Maritsa Iztok 2 and NEC and a loan from the Italian-owned Bulbank to supply the 15% of project cost not covered by the JBIC export credit.

**Lively interest in district heating sales:** Investor interest in Bulgaria's district heating companies (DHCs) seems to be warming up. Three relatively small DHCs were successfully sold at auction in August and early September—two of them (Pravets and Loznitsa) having been the subject of recent failed attempts at sale. And early October saw an impressive turnout of indicative offers for five larger DHCs, those of Lovech (two bids), Burgas (11), Pleven (12), Gabrovo (5), and Veliko Turnovo (5). The list of bidders was quite a roll-call—mostly consisting of firms not primarily specialising in district heating. Foreign firms (or their local units) included hydro-specialists Energo Pro (Czech Republic), BWSC (Denmark), EVN (Austria), Dalkia (France), Italy's Udine-based gas and water firm AMGA Azienda Multiservizi, and Access International (USA). "Local heroes" included Overgas Holding (partly owned by Russia's Gazprom), Energoremont Holding, LM Impex, the AKB financial-industrial holding, Risk Engineering, and the Sofia-registered Sigma Capital Energy. All five of the DHCs have been the subject of energy ministry feasibility studies defining ambitious upgrading schemes including the introduction or enhancement of co-gen capacity—and, in the case of Veliko Turnovo, Pleven, and Gabrovo, conversion of capacity to natural gas.

**Petrohan hydro-cascade to be auctioned:** In the latest of a series of auctions of small hydro-power plants hitherto belonging to the national power utility NEK, the PA has set a date of November 2<sup>nd</sup> for the sale of the Petrohan HPP cascade. This comprises three HPPs—Petrohan (7.56MW), Klisura (5.60MW) and Burziya (3.50MW)—and thus has an aggregate installed capacity of 16.66MW, with the latest available annual output figure at around 34GWh. Turbines are of Hungarian and Italian origin, and of 1953-56 vintage. The starting price is set at Lv9m.

**Belene NPP project makes (controversial) progress:** The project to re-start construction of Bulgaria's second NPP at Belene on the Danube has been coming closer to realisation in recent months. In May, prime minister Simeon Saxe-Coburg had announced that a tender would be launched shortly and that it was hoped to start construction by year-end. A more detailed timetable was approved by the government in late June: by end-July, a tender for the financial consultant was to be launched and bids were to be invited from the three project consortia in running—with submission of bids within three to four months and a decision between them by year-end. One of the contenders is a consortium led by the Czech Skoda Nuclear Systems, the original equipment supplier, proposing to finish the project on the basis of upgrading the VVER-1000 model 320 already delivered to the project before its suspension in 1991. Another, led by Russia's Atomstroyexport and France's Framatome, envisages use of newer VVER-1000 technology while still making use of existing plant. The third, involving Canada's AECL, Ansaldo, Bechtel, Hitachi and Itochu, advocates use of a different technology—AECL's CANDU-6—which would entail buying a new plant. It is generally assumed that a VVER-1000 solution will be chosen, on grounds of economy, technological familiarity, and compatibility with Bulgarian standards, and AECL has recently declared that it intends to withdraw from the contest, alleging lack of transparency.

The organisational form the project is to take has also been a matter of debate. The assumption is that the state will have a stake of between 50% and 80% of the new company, and energy minister Milko Kovachev has been advocating an arrangement involving a state contribution in kind involving the existing assets of Belene and units 5 and 6 of the Kozlodui NPP, which will be the only reactors functioning after end-2006, if EU-stipulated plans to close units 3 and 4 are implemented. This will have the advantages of minimising the financial burden on the state while at the same time making the company more attractive to those who might provide loan finance for it. Kovachev's ideas do not seem to have been universally accepted yet, however.

Once fully built, the new NPP at Belene could have capacity of up to 2,000MW and cost up to \$2bn in addition to the considerable sum invested before 1991. The immediate focus, however, is on commissioning a first unit with (assuming VVER-1000 technology) around half this capacity, which would come on stream around 2010. The two criteria involved in choosing between proposals, according to government officials, will be electricity price and safety.

## **CROATIA**

*No items.*

## **FYR of MACEDONIA**

**Skopje TPP tender expected this autumn:** In July, the FYR of Macedonia's ministry of economy announced that the long-awaited international tender for construction of the planned 200MW gas-fired co-generation plant in Skopje should be expected in autumn of this year, with an investor likely to be chosen by end-2004. The heat and power plant is expected to cost between Euro 130m and Euro 160m and will be privately owned. By the time a tender is called, according to the ministry, the government should have solved outstanding problems regarding gas pipeline ownership and come up with a new electricity tariff model. No further indication of a tender date has emerged since July.

**Tender for Matka 2 HPP completion:** The national power company Elektrostopanstvo na Makedonija (ESM) announced an international pre-qualification tender for the completion of the 36.4MW Matka 2 HPP on the River Treska near the capital Skopje, with applications due by September 20<sup>th</sup>. Also known as Sv. Petka ("St Petka"), the HPP will form the middle element in a cascade also including the Matka 1 HPP (8.1MW) and the recently finished 82MW Kozjak HPP. Aside from providing hydroelectric power, the trio will serve flood control, irrigation and industrial water supply functions. ESM originally intended to finish the project itself, and got as far as building construction roads and a drainage system, but concluded recently that it lacked the funds to proceed further. The successful applicant will need to arrange finance as well as building the plant on a turnkey basis, handling everything from design to commissioning. The schedule announced in June envisages a decision on the outcome of the pre-qualification tender on October 20<sup>th</sup>, a request for bids on November 1<sup>st</sup>, a bid deadline on January 17<sup>th</sup> 2005, and a signed contract by April 1<sup>st</sup>. Completion of the plant, which the ministry says will cost around Euro 50m, is hoped for in 2008.

There had been no hints at the response achieved by early October, but there have been at least two public expressions of interest. In early June, a representative of Slovenia's Litostroji said that his company was willing to invest—adding that it would apply for a concession. And, in early September, a visiting Chinese deputy minister predicted that an (unnamed) company from his country would be bidding, encouraged by "successful" Chinese participation in the construction of Kozjak. (The Kozjak HPP was commissioned in June this year after a decade in the building—and more than one interruption for political reasons—with turbines supplied by a Chinese unit of Alstom, China International Water and Electric Corporation acting as the main project equipment contractor in the project's latter phases, and the Bank of China providing some of the finance.)

## **ROMANIA**

**Banat and Dobrogea discos sold to Enel:** Romania has successfully concluded contracts for the sale of stakes in the first two of its eight regional power distribution companies, Electrica Banat and Electrica Dobrogea. On July 19<sup>th</sup> the Italian firm Enel agreed to pay Euro 35.1m for the 24.62% stakes on offer (Euro 21.7m for Banat, Euro 13.4m for Dobrogea), along with another Euro 76.7m (Euro 47.4m and Euro 29.3m respectively) for the capital increases required to bring Enel's stake up to the prescribed 51%. In addition, the buyer will take responsibility for Euro 98m of debts owed by the two discos, which have around Lei5trn of receivables. The deal gives Enel the right to sell 5% in the two discos to the EBRD and the IFC, also stipulating that employees have the right to buy up to a 10% stake at the same price as paid by Enel. The state obtained a regulation risk guarantee from the World Bank which allowed a reduction of average return on capital to 12% in the first three years and to 10% thereafter.

The deal ends a long sale process, in which Enel had been the only one of four short-listed companies to submit a non-binding bid in mid-2003. Wrangling over tariffs and network pricing delayed a binding bid till March 2004, with final agreement taking more than four months to reach thereafter. Banat and Dobrogea are among Romania's smaller discos, with

2003 sales of 3.7TWh and 3.6TWh respectively and customer numbers of 850,000 and 590,000.

**Moldova and Oltenia disco sales underway:** Meanwhile, progress has been made towards selling a second pair of regional power discos, Electrica Moldova in the north-east of the country and Electrica Oltenia in the south-west. In 2003, Electrica Moldova had 1.29m customers and sold 4.1 TWh of power, worth Lei8trn. The corresponding figures for Electrica Oltenia, especially as far as consumption was concerned, were rather higher, at 1.34m customers, 6.8 TWh, and Lei12.7trn respectively. Five expressions of interest had been submitted by end-May, from AES (USA), Greece's Public Power Corporation (PPC), CEZ (Czech Republic), E.On (Germany) and Spain's Union Fenosa. All five were short-listed by the Romanian authorities, as meeting prequalification requirements, but only CEZ, E.On and Union Fenosa submitted "documents of position" (including business plans and proposals for privatisation contracts for the two companies), with the withdrawal of AES and PPC announced in early October. The deadline for final offers was extended from October 6<sup>th</sup> to October 18<sup>th</sup> at the request of participants, to allow more time for due diligences, while only CEZ had announced definite intentions to make a final offer by October 8<sup>th</sup>. As with the Banat and Dobrogea discos, a stake of 24.62% in each of the two discos is on offer, with the successful investor expected to raise this to 51% via capital increase.

**Bateman and friends to build two new TPPs:** Plans have been unveiled for the construction of two large gas-fired greenfield TPPs in Romania, under a memorandum of understanding signed in June between state-owned power firm Electrocentrale Bucuresti (ELCEN) and a consortium comprising Domberger-Somogin, Electrowatt-Ekono (both Switzerland), and the Bateman Group (Israel). The new units are both to be on the sites of existing ELCEN plants: a Euro180m, 400MW combined-cycle condensation plant will be built at Iernut-Ludus, while Bucuresti Sud will be host to a Euro120m, 223MW co-gen plant. They are to function as independent power producers (IPPs) and, according to economy minister Dan Ioan Popescu, no state guarantees or long-term PPAs will be involved. Each unit will take the form of a JV between the consortium and ELCEN, with the former raising all the necessary finance and ELCEN making in-kind contributions of land and utilities. Precise shares will depend on the respective value of these contributions. Speaking in June, Popescu expressed the hope that work on the investments could start before end-2004, with feasibility studies, JV negotiations, registrations and licensing got out of the way meanwhile.

**New co-gen plant proposed for Galati:** After three unsuccessful attempts at straightforward sale of its facilities in Galati this year, Romania's Termoelectrica is trying a different approach. In an announcement published in mid-August, it offered investors the option of cooperating in construction of a new 90-100MW combined cycle co-gen facility on the site of the existing elderly TPP, Electrocentrale Galati. The resultant plant would function as an IPP and would take the form of a JV majority-owned by the outside investor, with Termoelectrica as a minority partner. As with the Iernut and Bucuresti Sud JV, the Romanian contribution would be in kind, with precise shares depending on its valuation in relation to the investor's financial contribution to capital. The investor would also be responsible for raising loan finance. Apart from this new option, Termoelectrica also offered the previous option of purchasing Electrocentrale Galati and the town's service company Termoserv Galati. A 20-day deadline for expressions of interest was set, but to date there has been no word of either response or extension.

**Consultants line up for Craiova and Rovinari complexes:** There has been an enthusiastic response to the authorities' call for advisers for the process attracting investors for the recently formed Craiova and Rovinari energy complexes. Five final offers were received by the August 20<sup>th</sup> deadline for **Craiova**, the consortia in question being: CAIB Romania and CAIB Corporate Finance Beraterngs (Austria); Deloitte & Touche Central Europe (Cyprus) and the local Romanian-American Enterprise Fund; Fieldstone Private Capital Group and Catalyst Partners (both UK); the Romanian and Polish units of KPMG Poland in alliance with the local Romcapital Invest; and Raiffeisen Investment (Austria) and with Bostina & Associates (Romania). Seven hopefuls made the pre-qualification shortlist for **Rovinari** published in mid-July, with Alpha Finance (Greece) and its Romanian subsidiary partnering Ernst & Young Southeast Europe (Cyprus) and BNP Paribas (France) in consortium with the Central Europe

Trust (UK). Otherwise, the CAIB, D&T-RoAEF, KPMG-Romcapital consortia were identical with those which had bid for Craiova, the Fieldstone-Catalyst team was by Bostina, and Raiffeisen Investment was partnered by its Bucharest-based affiliate Raiffeisen Capital Investment and Austria's Verbundplan. There have as yet been no further developments on either project, nor on Turceni, the third coalmining-and-power complex created earlier this year.

**Wanted: investors for Cernavoda-3:** In late August, Romania formally invited expressions of interest from would-be investors in the planned third unit of its NPP at Cernavoda on the Danube. The project is expected to cost around \$1bn and will involve a 707MW AECL-manufactured CANDU reactor, like those used in Units One and Two (respectively commissioned 1996 and due to be connected to the grid in early 2007). Financial closure for Cernavoda-3 is hoped for by April 2006, with September 2011 as the target date for commercial operations. The novelty about the project is that the authorities intend that it should be implemented on a public-private partnership (PPP) basis, with the new unit built, owned and operated by a project JV for a concession period of 40 years. According to the Platts fortnightly *Energy in East Europe*, the "public" side of the partnership would in name be the relevant line ministry—currently the Ministry of Economy and Commerce—but could in practice be a combination of state-owned entities. Cernavoda-3 assets now held by the national nuclear company Societatea Nationala Nuclearelectrica (SNN) would form part of the public contribution, though other in-kind contributions (e.g. heavy water) and cash might also be included. The "private" side would be a firm or consortium of firms, local or foreign. Debt is expected to account for around 70% of finance for the project, secured against assets and future cash-flows, Platts reports. While no state guarantee is to be given, it is recognised that the comfort of a long-term take-or-pay PPA will be required, one option under consideration being a supply contract with the public partner in the JV. It is also expected that the state will assume any risk for waste disposal and decommissioning over and above the project company's statutory fund-formation and waste/spent-fuel management.

## **SERBIA & MONTENEGRO**

*No items*

## **UNMIK-KOSOVO**

**ESBI wins KEK management contract:** In early June, a consortium led by ESB International, the international arm of Ireland's leading power company ESB, signed a Euro8.8m contract to manage KEK (Korporata Elektroenergjetike e Kosoves), the power utility of the UN-controlled province of Kosovo. KEK being an integrated utility, the two-year management contract gives ESBI control over the entire power sector in the province, including lignite-mining as well as generation, transmission, dispatching, and distribution. Aside from day-to-day management, the Irish company will be responsible for managing investments being made by KEK and for preparing local staff to take over once the contract has expired. ESBI emerged victorious from a tender held in April, edging out Germany's RWE Power Development. The US firm PA Consulting had withdrawn from the running without submitting a final bid. ESBI's team-mates in the consortium are TSI/ESKOM (South Africa) and Vattenfall Europe (Germany).

**Tender for Obilic TPP study:** In September, the Kosovo authorities announced a tender for a six-month pre-feasibility study for a proposed new power plant at Obilic. The plant is to run on lignite from the nearby Sibovic mine, which opened recently. It must use appropriate and proven clean coal technologies, must conform to EU environmental requirements, and must be able to compete on the expected SEE regional energy market. Would-be consultants for Obilic were also required to bid for a pre-feasibility study for anti-pollution measures at the existing Kosovo B TPP, also coal-fired. The deadline for bids was October 11<sup>th</sup>.