



Energy Investment Activity - EIA Project

Introduction to the BiH Gas Sector Reform Reports

September 2019

The views expressed in this report do not necessarily reflect those of the United States Agency for International Development or the United States Government.

Introduction

Natural gas comes to Bosnia and Herzegovina from Russia via a gas pipeline that is several thousand kilometers long and passes through 3 countries (Ukraine, Hungary, and Serbia). There is currently a single entry point into BiH, where the pipeline enters from Serbia. The total length of pipeline in the transportation system in BiH is 243 km, while total annual natural gas consumption in the territory of BiH is approximately 220 million m³. In line with the Energy Community requirements, gas sector reforms must be implemented equally across all countries, irrespective of their size and available resources.

Currently, Bosnia and Herzegovina does not have a state-level Law on Natural Gas as required by the Energy Community. For years, the preliminary draft Law on Electricity and Gas has been in the harmonization phase, while delays in its adoption have resulted in blocking progress in the electricity and gas sectors. Competent executive and legislative authorities were expected to adopt a state-level law on electricity and gas already in late March 2017, but this did not happen, and consequently the Energy Community Secretariat has imposed sanctions on Bosnia and Herzegovina. These sanctions block Bosnia and Herzegovina's access to donor funds for Projects of Energy Community Interest. Adopting this law would provide the framework for developing legislation sorely needed to regulate the gas sector.

In 2014, the Federation of Bosnia and Herzegovina prepared a draft Law on Gas to replace the existing Decree on the organization and regulation of the gas industry sector, which was developed pursuant to requirements of the Second Energy Package, i.e., in line with the EU Energy Directives adopted in 2003. However, FBiH has taken the position that the state-level Law on Gas should be given priority and adopted before the FBiH law is submitted for parliamentary procedure because entity laws should be aligned with the state-level law.

On February 22, 2018, the National Assembly of Republika Srpska adopted the Law on Gas of Republika Srpska that, though largely compliant with Energy Community requirements, in some areas takes on the competences of the state and is, therefore, contentious for the Federation of Bosnia and Herzegovina, as well as the Energy Community.

Against this background and in order to provide a more detailed description of the current situation in the natural gas sector in Bosnia and Herzegovina and identify and analyze potential gaps in the current legal and regulatory framework, USAID's Energy Investment Activity (EIA) has developed a set of reports that cover the following topics:

1. The Report on Primary Legislation presents USAID EIA recommendations for primary legislation at the state and entity level, i.e., recommendations on which areas at the state and entity level should be regulated by primary legislation. These recommendations are based on a detailed analysis of primary legislation from the existing preliminary draft Law on the Electricity and Gas Sector Regulator, Electricity Transmission, and Market in Bosnia and Herzegovina.
2. The Report on Unbundling in the Natural Gas Market provides an overview of legal and regulatory conditions related to unbundling in the natural gas sector, a theoretical description of the concept of unbundling, as well as relevant provisions from EU Directives and various unbundling options.

3. The Report on the Role and Structure of Licenses deals with the role and structure of licenses and a review of legal and regulatory conditions related to the licensing procedure for natural gas transport, distribution and supply. This Report examines the legal nature and role of licenses, the integration of the overall legal and regulatory environment, the classification and standard conditions of licenses.
4. The Report on Network Price Regulation is primarily concerned with the determination of allowed revenues, which includes, among other things, the type of regulatory regime adopted, regulatory provisions for determining the efficiency of capital and operative costs of the network operator, and the necessity and efficiency of network investments.
5. The Report on Gas Transportation Tariffs, which are a key element for ensuring non-discriminatory network access as a precondition to the establishment and development of a functional gas market, describes and analyzes various gas transportation tariff structures, such as the ratio of capacity and commodity charges, the ratio of network tariffs charged at entry and exit points of the gas transportation network (entry-exit system) and the possible methodologies for their calculation. It also gives an overview of the gas transportation network costs, the principles and criteria for assessing methodologies for setting network tariffs, an analysis of various tariff elements and tariff structures, a description of different capacity products and their prices, as well as an evaluation of alternative approaches to network tariffs cost allocation.
6. The Report on Gas Distribution Tariffs provides an overview of the gas distribution network costs, the principles and criteria for assessing methodologies for setting network tariffs, an analysis of various tariff elements and the structure of the network tariffs system, as well as an evaluation of alternative approaches to allocating costs to network tariffs.
7. The Report on the Gas Retail Market analyzes the rationale for introducing market competition into the gas sector and provides a detailed evaluation of key elements for the functioning of the retail market in order to point out the shortcomings of the current state of affairs.
8. The Report on Capacity Allocation and Congestion Management provides an overview of legal and regulatory, as well as some operative requirements related to capacity allocation and congestion management mechanisms. In addition to reinforcing and expanding the knowledge and capabilities of regulatory bodies and stakeholders in the natural gas sector in Bosnia and Herzegovina, this Report also provides a comprehensive concept for the capacity allocation and congestion management mechanism.
9. The Report on Recommendations for Gas Sector Reforms in Bosnia and Herzegovina summarizes the recommendations for developing and aligning the regulatory framework for the natural gas sector in Bosnia and Herzegovina. These recommendations bring together the findings from all the above reports on the natural gas sector. They are based on the descriptions and evaluations of principal conceptual options, practical international experience, and provisions of the *EU Acquis* adopted by the Energy Community for the natural gas sector.

Apart from the areas examined in this report, within each of the above reports USAID EIA has provided an overview of how legal and regulatory frameworks are applied in practice in other countries from the European Union and the region.

USAID EIA has also developed the transportation tariff application that enables transportation system operators to input their actual costs and simulate various scenarios when calculating gas transportation tariffs in the selected entry-exit system through two cost allocation models for different models of network tariffs. The purpose of this application is to give companies and decision makers a practical way of seeing what the entry-exit system of Bosnia and Herzegovina could look like in line with the relevant EU Directives.