

ANNUAL ACTIVITY REPORT OF THE BUDGET COMMITTEE 2015

Background and Mandate

This Annual Activity Report follows the reporting requirements of the Budget Committee ["BC"] defined in the *"Internal Rules of Procedure of the Budget Committee"*, in its item III.3, of 30 January 2008. It has been prepared to be presented at the BC meeting on 20 May 2016.

Activities in 2015

As a continuation of its work, the Budget Committee met three times in 2015 to discuss budgetary and/or financial matters in the context of the implementation of the budget of the Energy Community. The agendas of all 2015 meetings are presented in annex 1 to this Report. Minutes of all the meetings were approved, distributed to the Members of the Budget Committee and are attached also to this report (annex 2).

The members of the Budget Committee were consulted, when necessary, on budget and financial related matters. Among others, the Budget Committee had several topics of strategic importance on its agenda during 2015, such as:

- Audit Report for 2014 year-end accounts;
- Budget Utilization Report under Art. 75 of the Treaty for the financial year 2014 as well as other reports as required for the Ministerial Council meeting in October 2015, incl.
- Proposal for the discharge decision of the Director for the financial year 2014;
- Discussions on the budget of the Energy Community for the biennium 2016-2107;
- Discussion of proposed approach the reimbursement of travel expenses to the eligible participants at the meetings of the Energy Community (per diems scenario)¹.
- Director's requests for preliminary agreements and then his reporting on the UK and Polish governments' donation for projects in Ukraine;
- Consideration of initial proposals for amendments of certain rules of the Energy Community with relevance for decision by Ministerial Council in 2016;
- Secretariat's plans on the required extension of its existing office (due to the growth of the Secretariat);

In 2015, Mrs. Paloma ABA-GARROTE was in charge of chairing the Budget Committee meetings.

Conclusions

In 2015 the Budget Committee received from the Secretariat all requested information of financial relevance in order to carry its tasks of supervision and advice.

At the time of this report, the Energy Community Financial Statements 2015 were audited and an unqualified audit opinion was issued. The Auditors' Report 2015 will be presented to the BC meeting on 20 May 2016.

Based on all reports related to the budget execution for 2015, the Budget Committee concluded to propose the discharge decision for year 2015 to the Ministerial Council of the Energy Community at its next meeting on 14 October 2016.

¹ As a result of analysis and discussions the approach has not been adopted;

ANNEXES: AGENDA (Annex 1) AND MINUTES OF THE BUDGET COMMITTEE MEETINGS IN 2015 (Annex 2) (in chronological order)

I. Agenda of 24th meeting of the Budget Committee of 17 March 2015

1. Audit Report 2014 / Presentation of year-end accounts by KPMG
2. Budget 2015 and Director's presentation of the Annual Work Programme
3. Energy Community Budget 2016-2017
4. Misc.

II. Agenda of 25th meeting of the Budget Committee of 23 June 2015

1. Welcome and Follow-up of last meeting of 17 March 2015
2. Financial Reporting for the year 2014: "A" points at the Ministerial Council meeting
 - 2.1. Presentation and discussion of the draft reports to be presented at the Ministerial Council
 - 2.2. Approval of all draft reports to be presented to PHLG and MC by the Budget Committee
 - 2.3. The Discharge of the Director draft Decision discussion
 - 2.4. EU representatives presented the Commission's proposal on the budget of the Energy Community for 2016-2017
 - 2.5. The initial draft budget proposal was revised from 5,2 Mio EUR to 4,7 Mio EUR
 - 2.6. Ukrainian proposal and request to consider the change in principles applied by the ECS in the reimbursement of travel expenditures (per diems scenario)
 - 2.7. Status of budget utilization 2015
4. Miscellaneous
 - 4.1. Donations of UK and Polish governments for the projects to be implemented in Ukraine;

III. Agenda of the 26th meeting of the Budget Committee of 16 December 2015

1. Welcome and follow up of the last BC meeting (Secretariat's presentation of the DSA scenario)
2. Budget 2015
 - 2.1. Current budget utilization report
 - 2.2. Budget contributions 2015 – payments and repayments
 - 2.3. Collection of 2016 contributions
 - 2.4. Outlook for the budgets 2016-2017
 - 2.5. Takeover of INOGATE project
 - 2.6. Increase of the rent costs and new premises
3. Budget Committee work in 2016
4. Misc.
 - 4.1. Financial reporting deadlines for 2016
 - 4.2. Preliminary considerations on amendments of the Recruitment Rules and of the Staff Regulations in 2016

24th meeting of the Budget Committee

Location: Energy Community Secretariat, Vienna
Date and time: 17 March 2015, 11:00 – 13:00

1. Opening of the meeting: Welcome and agenda approval

- 1.1. Chair of the Budget Committee, Mrs. Paloma Aba-Garotte, welcomed participants to the meeting and introduced new representatives from the European Commission. As no comments were received agenda of the meeting was approved.

2. Audit 2014

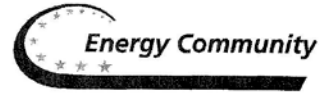
- 2.1. Mr. Paloma Aba-Garotte welcomed the representatives from the external audit company, Mr. Andreas Bauer and Mrs. Edith Oberbeck (KPMG) at the meeting.
- 2.2. Following few introductory words, Dr. Andreas Bauer presented the year-end results of the Energy Community for the year ending 31 December 2014. In particular, a statement of comparison of budget and actual was noted, the legal commitments of the year as well as the details of the repayment of not used budget appropriations 2014 to the Parties.
- 2.3. As regards the issue of not used appropriations the auditors explained in details the presentation of unused appropriations in 2014 accounts and required adjustments in the presentation of the last year figures (see *Statement of Financial Position as of 31 December 2014*, footnote 1)). It was agreed that details of reconciliation of annual leave will be provided in separate to understand better the impact of accruals on the presentation in the year-end accounts.
- 2.4. In conclusion, Dr. Bauer referred to noted Management Recommendations as stated in the distributed Management Letter 2014. In conclusion and following the discussion on the suggestions, Mrs. Aba-Garotte thanked the representatives from KPMG for their presentation.

3. Budget 2015

- 3.1. In reference with the next agenda point, Chair invited Secretariat to present the current status quo of 2015 budget utilisation in terms of financial results as well as in the context of planned activities for 2015.
- 3.2. Following short financial presentation of the results, the Director referred in brief to the activities of the Energy Community Work Program and in particular to the activities relevant for the implementation of the 3rd package (drafting laws), planned studies in the area of the energy policy and major events for the rest of the year.

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4. Energy Community Budget 2016-2017

- 4.1. Chair informed about existing draft document on the Energy Community budget 2016-2017 that is currently under internal consultations within the Commission. Next steps and deadlines for finalization of the document were presented in the context of the preparation of the upcoming Budget Committee in June 2015.

5. Misc.

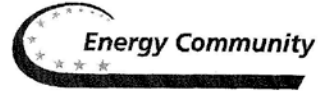
- 5.1. Secretariat informed about the date of the next Budget Committee and provided preliminary information on the agenda. It was stressed that due to the importance of the meeting the presence all of representatives from the Contracting Parties is imperative. The meeting is planned for 23 June 2015 in Vienna.

Chair of the Budget Committee


Signature and date 17/04/2015

Minutes of the meeting

24th Budget Committee



List of participants:

1. Mrs. Paloma Aba-Garrote – Chair, European Commission
2. Mr. Didier Hannot – representative of European Commission
3. Mr. Bartłomiej Gurba – representative of European Commission
4. Mr. Admir Softić - Bosnia & Herzegovina, Ministry of Foreign Trade and Economic Relations
5. Mrs. Vesna Ostojic-Bracanovic – Montenegro, Ministry of Economy
6. Mrs. Natalia Lukovic – Serbia, Ministry of Energy, Development and Environment Protection
7. Mr. Janez Kopac – ECS, Director
8. Mrs. Božena Mazur – ECS, Head of Financial and Administrative Unit

25th meeting of the Budget Committee

Location: Energy Community Secretariat, Vienna
Date and time: 23 June 2015, 14:00 – 10:00

1. Opening of the meeting: Welcome and agenda approval

- 1.1. Chair of the Budget Committee, Mrs. Paloma Aba-Garrote, welcomed representatives of the Contracting Parties to the meeting and asked for comments on the draft agenda. One new agenda point under Misc. was proposed by the Secretariat and added into the draft agenda. Agenda was approved.
- 1.2. As a follow-up of the Budget Committee discussions in March 2015, Secretariat informed about the presentation of the accruals for the annual leave in the financial statements of the Energy Community. Supportive reconciliation statement, received from the external audit company, was circulated to the members.

2. Financial Reporting for the year 2014: 'A' points at the Ministerial Council meeting

- 2.1. As a requirement for the upcoming Ministerial Council, Chair referred to all reports to be presented at the Ministerial Council in October 2015. One by one, the reports were presented by the Director. Representatives of the Parties represented, including the European Commission, provided their comments to the draft reports. After short discussion, it was agreed to include the comments into the reports and update the drafts for the purpose of presentation at the meeting of the PHLG on 24 June 2015 (next day).
- 2.2. Regarding the report from the Director to the Ministerial Council on the execution of the budget 2014, Chair recommends to explain under table 4 of point 6 which studies have been finalised in 2014 as well as the ones launched in 2014.
- 2.3. Regarding the report of the Budget Committee to the Ministerial Council on the audit 2014, Chair recommends to add the minor recommendations of the auditor as a new point under point "III Key findings".
- 2.4. Regarding the Budget Committee's Annual Activity Report - required under item III.3 of the Internal Rules of Procedure, Chair proposed that the report refers in future solely to the activities of the financial year in question disregarding if any related events occurred in the following financial year.
- 2.5. Following the discussions on the above, Budget Committee approved all reports as presented by the Secretariat (Annex 1 to 3) for further submission to the PHLG and MC respectively.
- 2.6. As the last point, the draft Decision on the Discharge of the Director from his administrative and management responsibility for the year 2014 was mentioned. This draft document presented for information purposes shall be endorsed, the same as the other documents, at the meeting of the PHLG on 24 June 2015.

3. Budget 2016 – 2017

- 3.1. Under this agenda point, EU representatives presented the Commission's proposal on the budget of the Energy Community for the biennium 2016-2017.
- 3.2. The initial draft budget proposal prepared early spring by the Secretariat was revised from EUR 5,2 Mio to EUR 4,7 Mio as the Commission's proposal at the end of the inter-service consultations. In principle the increase in resources (human from 23 to 29 and financial – see above) remained. The revision affected the operational costs required for the enlarged scenario of the Secretariat's set-up in Vienna (larger office). Representative of the Commission explained that such a reduction is reasoned through the donation received since the foundation of the Secretariat in Vienna from the Republic of Austria for the purpose of the financing of the office premises. In the draft budget proposal, the continuation of the contributions by the Republic of Austria in the years to come was assumed. In case that the donation would not come, the Energy Community budget would need an amendment – upon Commission's proposal, to allocate the additional budget required for the move and the rent of other premises, as estimated in the remarks of the proposed budget 2016-2017..
- 3.3. In the context of the discussion, representatives of the Contracting Parties asked about the Parties contributions to the increased Energy Community budget in 2016 -2017. Some of them expressed their concerns regarding the levels of contributions required in the next 2 years.
- 3.4. Representative of Ukraine asked for the reconciliation of the outstanding payments of Ukraine into the budget of the Energy Community. Secretariat was asked to submit such a document in writing as soon as possible.
- 3.5. Ukraine proposed and requested consideration of the change in principles applied by the Energy Community Secretariat in the reimbursement of travel expenses to the delegates of the Contracting Parties, namely including also per diems. As currently applied regulation may be changed by the decision of the Director. Secretariat was tasked with an analysis to be presented at the next meeting of the Budget Committee. This study should explain if such a request is implementable or not, and under which conditions. The financial analysis shall consider all the facts of relevance, like increased areas of work and increased number of events as well increased number of delegates coming to the meetings within the proposed budget for refunding in the years 2016-2017.
- 3.6. In conclusion of the discussion on the draft budget, Commission informed that the revised document shall be presented also for endorsement at the PHLG meeting on 24 June 2015.

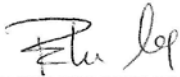
4. Energy Community Budget 2015

- 4.1. Secretariat presented in brief the current status of budget utilization for the year 2015. Major types of expenditures were explained.
- 4.2. In particular, Commission noted a low execution for the studies. The Secretariat responded to the questions related to the legal commitments and presentation of the ongoing expenditures for the studies budget.

5. Misc.

- 5.1. Director informed about the donation proposal received from the UK authorities to finance the activities related to drafting of secondary electricity legislation to be complaint with the Third Energy Package in Ukraine. The donation amounts to 150,000 British pounds. The Director

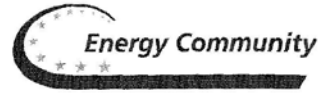
- explained in details the framework under which the receipt of the monies would be possible (draft of Grant Contract was distributed in the meeting) as well as the background and justification required. Following discussion on the presented concept, Budget Committee provided its preliminary agreement as required for the acceptance of donation under the Energy Community Budgetary Procedures.
- 5.2. In reference with the organisation of the Budget Committee meetings in future, Chair proposed that the time lead between the June's Budget Committee and PHLG meetings shall be longer. This would allow the inclusion of all comments of the Budget Committee into the draft documents to be submitted to the PHLG that have relevance for the Ministerial Council meetings (i.e. documents under MC Agenda "A points"). Secretariat will consider accordingly in future.

Chair of the Budget CommitteeA handwritten signature in black ink, appearing to read "F. Lep".

Signature and date 23/07/2015

Minutes of the meeting

25th Budget Committee



List of participants:

1. Mrs. Paloma Aba-Garrote – Chair, European Commission
2. Mr. Didier Hannot – European Commission
3. Mr. Bartek Gurba – European Commission
4. Mrs. Aferdita Daja-Bareti – Albania, Ministry of Energy and Industry
5. Mr. Admir Softic - Bosnia & Herzegovina, Ministry of Foreign Trade and Economic Relations
6. Mrs. Natalia Lukovic – Serbia, Ministry of Energy, Development and Environment Protection
7. Mr. Mykhailo Bno-Airiian – Ministry of Fuel and Energy, Ukraine
8. Mr. Janez Kopac – ECS, Director
9. Mrs. Bozena Mazur – ECS, Head of Financial and Administrative Unit

26th meeting of the Budget Committee

Location: Energy Community Secretariat, Vienna
Date and time: 16 December 2015, 14:00 – 16:00

1. Opening of the meeting: Welcome and agenda approval

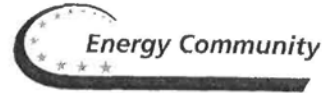
- 1.1. Chair of the Budget Committee, Mrs. Paloma Aba-Garrote, welcomed representatives of the Contracting Parties to the meeting and asked for comments on the draft agenda. Agenda was approved.
- 1.2. As a follow-up of the Budget Committee discussions in June 2015, Secretariat presented results of the analysis regarding introduction of a DSA approach in the context of the reimbursements of travel expenditures to the delegates participating in the meetings of the Energy Community. As a result of its analysis, Secretariat informed that REFUNDING budget available is not enough for the reimbursement of delegates' expenditures. Consequently Secretariat will further reimburse in accordance with the established practice and rules.

2. Energy Community Budget

- 2.1. Actual utilisation of 2015 budget was presented by the Secretariat. Major budget lines and positions were referred to and forecast of activities until the end of the year outlined. In particular, plans regarding the expenditure on studies and consultancy were presented in details.
- 2.2. Secretariat informed about initiated process of collecting budget contributions from the Parties for the budget 2016; reconciliation statement - Party per Party – was presented; any pending repayments from the previous years of not used budget appropriations shall be settled through the offsetting, as agreed on individual level with the Parties.
- 2.3. Secretariat informed about the donations received from UK authorities and Polish government in the course of 2015 and its utilisation.
- 2.4. In conclusion, outlook of budgets for 2016 and 2017 has been presented; the increase of budget in 2016 by 30% in comparison with the budget of 2015, explained in the context of the budget lines' increases. Secretariat informed about the forecast of activities planned in the area of consulting in 2016, which will - with the biggest amount - refer to the area of work in the Public Procurement Law, VAT and Evaluation of National Emission Reduction Plans on the limitation of emissions of certain pollutants into the air from Large Combustions Plans. Further plans regarding the needed consultancy in the area of energy policy in the next 2 years will be reported on regular basis in the course of the financial reporting obligations.
- 2.5. Secretariat has informed about ongoing discussion with the Commission to take over part of the technical assistance under the currently so called Inogate project, energy area to Eastern Partnership countries, which will be based on a separate contract.
- 2.6. In particular, Secretariat presented information on the increased rent costs starting 2017 as a result of the extension of the existing (=750.24m²) office premises by another 575.7m². The Director informed that currently there is no agreement with Austrian authorities regarding further donation to the office rent costs of the Secretariat after the expiration of current rent

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agreement. A statement of Austrian authorities related to the new sum of donation is expected early 2016.

3. Budget Committee Work in 2016

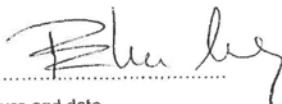
- 3.1. Under this agenda point, activities and main deliverables expected from the work of the Budget Committee in 2016 have been presented. Secretariat has presented proposals for the consideration of meetings' dates for 2016. Upon discussion, Chair suggested to merge the agenda, of two meetings, those planned for March 2016 and June 2016. All present members agreed with this proposal. The meeting should then take place in May.

4. Miscellaneous

- 4.1. Secretariat has informed about the financial reporting deadlines for the year 2016 established in similarity with the previous years.
- 4.2. In conclusion of the meeting, Director informed about preliminary considerations by the Secretariat on amendments of the Energy Community *Recruitment Rules and of the Staff Regulations*. Both set of Rules, as approved by the Ministerial Council ["MC"] in 2006/2008, would need previous consideration by the Budget Committee/PHLG before submitting for approval to the Ministerial Council in 2016. Secretariat presented its initial proposals of amendments with short justification on each of its proposal. Budget Committee asked Secretariat to elaborate in details on the proposed amendments at the next meeting of the Budget Committee in 2016.

Chair of the Budget Committee

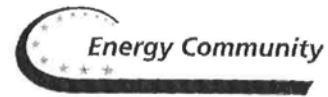
Mrs. Paloma ABA-GARROTE



Signature and date

Minutes of the meeting

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List of participants:

1. Mrs. Paloma ABA-GARROTE – Chair, European Commission, Brussels
2. Mr. Didier HANNOT – European Commission
3. Mr. Bartłomiej GURBA – European Commission
4. Mrs. Aferdita DAJA-BARETI – Albania
5. Mr. Luan MORINA – Kosovo*
6. Mrs. Razmena CEKIC DUROVIC – former Yugoslav Republic of Macedonia
7. Mrs. Vesna OSTOJIC BRACANOVIC – Montenegro
8. Mrs. Natalia LUKOVIC – Serbia
9. Mr. Mykhailo BNO-AIRIIAN – Ukraine
10. Mr. Janez KOPAČ – ECS Vienna
11. Mrs. Bozena MAZUR – ECS Vienna

Encl.: Presentation at the Budget Committee meeting;