

★ Energy Connectivity Initiative

The Vienna Summit of the Western Balkans 6 Initiative¹ (“Berlin process”) on 27 August 2015 provided a renewed impetus to the development of the regional electricity market spanning the six Contracting Parties of the Energy Community in Southeast Europe: Albania, Bosnia and Herzegovina, former Yugoslav Republic of Macedonia, Montenegro, Kosovo* and Serbia. The heads of government, foreign and economic ministers of both EU Member States and the six focus countries, in cooperation with the European Commission, decided to take steps to improve energy connectivity in the region by facilitating investments and prioritising market development. The Summit endorsed four “Projects of Energy Community Interest” for inclusion in the EU’s Instrument for Pre-Accession Assistance 2015 multi-country programme. They include power interconnectors and reinforcement of the region’s electricity transmission system.

Expectations towards the implementation of the commitments made by the WB6 countries are growing over time and output will have to be delivered by all key players in the sector.

As a complement to the infrastructure projects, the Western Balkan countries committed to implementing so-called “energy soft measures”² as key preconditions for the development of a regional electricity market. Delivering on improved cross-border balancing cooperation, regional coupling of day-ahead markets and closer cooperation in capacity allocation requires the active engagement of all the key players in the sector. Based on their technical responsibilities, the transmission system operators assume a key role in the implementation of these regional integration measures and are thus expected to find agreements governing all of these areas. The national regulatory authorities are expected to facilitate the governance, compliance, fairness and transparency of the implementation process. The legislative bodies of each Western Balkans 6 country are expected to provide

the necessary legal and institutional framework allowing the entities to successfully and timely implement the commitments made. Implementing the energy soft measures will require comprehensive reform packages for most countries. The general implementation deadline for most deliverables is the next Western Balkans 6 Summit scheduled to take place in France in July 2016.

The Summit tasked the Energy Community Secretariat to lead the development of the regional energy market and assist in the implementation of the measures. The present Monitoring Report by the Energy Community Secretariat is the second in a series of bimonthly reports on the progress made by the six Western Balkan countries. The Monitoring Report consists of six Country Reports and an Infrastructure Report. The Country Reports, broken down by the measures agreed at the Summit, do not aim to provide a comprehensive description of the status quo, but rather identify whether progress is on track or alternatively if urgent action is required in order to implement the measures by the agreed deadline.

⚡ Energy Soft Measures Implementation

Measure	Albania	Bosnia and Herzegovina	Kosovo*	FYR of Macedonia	Montenegro	Serbia
Primary Law(s)	⬆️	⬆️	⬆️	⬆️	⬆️	⬆️
Complementary Legal Acts	⬆️	⬆️	⬆️	⬆️	⬆️	⬆️
Organised Day-ahead Market	⬆️	⬆️	⬆️	⬆️	⬆️	⬆️
National Balancing Market	⬆️	⬆️	⬆️	⬆️	⬆️	⬆️
Regional Capacity Allocation	⬆️	⬆️	⬆️	⬆️	⬆️	⬆️
Price Deregulation	⬆️	⬆️	⬆️	⬆️	⬆️	⬆️
DSO Unbundling	⬆️	⬆️	⬆️	⬆️	⬆️	⬆️
TSO Unbundling	⬆️	⬆️	⬆️	⬆️	⬆️	⬆️
NRA Independence	⬆️	⬆️	⬆️	⬆️	⬆️	⬆️
Implementation of Inter-TSO Agreements	/	/	⬆️	/	/	⬆️

⬆️ Critical ⬆️ Significant delay ⬆️ Insufficient progress ⬆️ Pending
 ⬆️ Progress on track ⬆️ Significant progress ⬆️ Accomplished

* Throughout this Report, this designation is without prejudice to positions on status, and is in line with UNSCR 1244 and the ICJ Opinion on the Kosovo declaration of independence.

1 Final Declaration of the Western Balkans Summit Vienna 2015

2 Addendum to the Final Declaration of the Western Balkans Summit Vienna 2015



WB6 Infrastructure: Introduction

The present Report maps the progress to date in the realisation of the investment projects prioritized for grant co-financing from the EU pre-accession funds (IPA) at the Vienna Summit of the Western Balkans 6 Initiative. The four electricity infrastructure projects concerned have received the label "Project of Energy Community Interest (PECI)" by the 2013 Energy Community Ministerial Council for their significant positive impact on the energy markets of the Energy Community countries when built. The funding comes in addition to the already existing technical support offered for investment preparation. This approach follows the example of the European Union, where a special fund, the *Connecting Europe Facility (CEF)*, was created to support the EU energy priority infrastructure (Projects of Common Interest).



Electricity Infrastructure Projects of Energy Community Interest (PECI) – IPA 2015 Investment Projects Co-financed



— Albania – FYR of Macedonia Power Interconnection (I):
Grid Section in Albania
Investments: € 70 million
EU Grants: € 14 million (20%)

— Albania – FYR of Macedonia Power Interconnection (II):
Grid Section in the FYR of Macedonia
Investments: € 49 million
EU Grants: € 12 million (24%)

— Trans-Balkan Electricity Corridor (I):
Grid Section in Montenegro
Investments: € 127 million
EU Grants: € 25 million (20%)

— Trans-Balkan Electricity Corridor (II):
Grid Section in Serbia
Investments: € 28 million
EU Grants: € 6,6 million (24%)

••••• Co-financed IPA 2016 (expected)

••••• Co-financed IPA 2017 (expected)



1. Albania – former Yugoslav Republic of Macedonia Power Interconnection

A. Grid section in Albania

The 130 kilometres of 400 kV power lines will run from Fier in the south-western part of Albania, via Elbasan, in the central region, to the border with FYR of Macedonia, close to the city of Ohrid. The project is part of the East-West Electricity Transmission Corridor between Bulgaria, FYR of Macedonia, Albania and Montenegro. Two substations will be also upgraded as a part of this project.

Investment financing

The total estimated investment required to implement this project amounts to 70 million EUR. Being granted the status of a Project of Energy Community Interest (PECI) and deemed as a priority project for the Western Balkans electricity market integration, the project was selected for co-financing from the 2015 EU pre-accession funds (IPA) in the range of 20% of the investment costs (14 million EUR). The rest of the investment is shared by the Albanian TSO OST (5 million EUR), the German Bank for Development KfW (50 million EUR loan) and other sources (1 million EUR). The project has already received technical assistance for the investment documentation (feasibility study, environmental impact assessment, etc.) from the Western Balkans Investment Framework (WBIF) in the approximate amount of 2.5 million EUR.

Project milestones and progress to date

Feasibility study	
Environmental impact assessment study	
Detailed engineering design study to be finalised in 2016 – currently under tendering procedure by KfW with grant funds from the EU Joint Grant Fund	
Loan to be signed by OST with KfW by mid-2016; this is part of a framework loan signed already by KfW with the Albanian Government	
Permitting and land acquirement to start after the finalisation of a detailed engineering design study and be finalised in early 2017	
Construction to start in the 2 nd half of 2017 and the overhead line to be put into operation by mid-2020	

B. Grid section in FYR of Macedonia

This project is also part of the East-West Electricity Transmission Corridor and represents the continuation of the grid section in Albania. It aims to develop a 95 km long 400 kV overhead line connecting Bitola via Resen, Ohrid, Struga and the border with Albania, linking the two electricity networks. The project also includes the upgrade of the substation in Bitola and the development of a new one in Ohrid.

Investment financing

The project has received the Energy Community PECI label as well as technical support for its documentation preparation from EU WBIF in the amount of 1.8 million EUR.

The total investment costs are estimated at 49 million EUR. Due to its positive impact on the Energy Community electricity market, the project was selected for co-financing from the 2015 EU pre-accession funds (IPA) in the range of 12 million EUR, representing approximately 24% of the investment costs.

The rest of the investment is financed through a loan of 37 million EUR from the European Bank for Reconstruction and Development (EBRD) to the Macedonian Transmission System Operator (MEPSO).

Project milestones and progress to date

Feasibility study	
Environmental impact assessment study	
Detailed engineering design, funded by WBIF technical assistance, will be finalised in 2016	
Loan signed by MEPSO with EBRD in December 2015	
Permitting and land acquirement foreseen for 2016 and the first quarter of 2017; land acquirement was flagged as problematic and a possible cause of construction delays by MEPSO	
Construction to start in the first quarter of 2017 and the overhead line to be put into operation by mid-2020	

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2. Trans-Balkan Electricity Corridor (I): Grid section in Montenegro

This section is part of a broader project, namely the construction of a 400kV overhead line and associated substations in Bajina Bašta (Serbia), Pljevlja (Montenegro) and Višegrad (Bosnia and Herzegovina). The investments in Montenegro comprise the construction of a new 400kV, 165 km line from Lastva to Pljevlja and further to the Serbian border, a new substation in Lastva, and a grid connection from Lastva substation to the existing overhead line Trebinje (Bosnia and Herzegovina) - Podgorica (Montenegro). The corridor will be further linked with Italy via the submarine cable expected to be completed in 2017.

Investment financing

The total investment costs are estimated at 127 million EUR. Due to its positive impact on the Energy Community electricity market and having the Energy Community PECL label, the project was selected for co-financing from the 2015 EU pre-accession funds (IPA) in the amount of 25 million EUR, representing approximately 20% of the investment costs, and received 3.5 million EUR for project preparation costs from WBIF. The rest of the funding is provided by a KfW loan in the amount of 25 million EUR, and an EBRD loan of 60 million EUR, while the contribution of the beneficiary is estimated at 17 million EUR.

Project milestones and progress to date

Feasibility study	▲
Environmental impact assessment study	▲
Preliminary conceptual design finalised in 2015	▲
Construction works for substation Lastva and substation Pljevlja 2 ongoing	▶
For overhead line Lastva-Čevo preparatory construction works on site ongoing. For both parts of overhead line (Lastva – Čevo and Čevo –Pljevlja), the main design is under preparation; estimated finalisation in 2016	▶
The loan agreement between the Montenegro Transmission System Operator (CGES) and KfW and the loan agreement between CGES and EBRD are signed. Grant to be signed in the 2 nd quarter of 2016.	▶
Permitting and land acquisition to start after the finalisation of the detailed engineering design study; these are not seen as posing problems for CGES, and are expected to be finalised during 2017 / beginning of 2018	⏸
The construction of the line to start in the last quarter of 2017 / beginning of 2018 and will be finalised in 2019	⏸



3. Trans-Balkan Electricity Corridor (II): Grid section in Serbia

The grid section in Serbia is part of the Trans-Balkan Electricity Corridor (II). The aim of the project is to develop a 400kV overhead line between substations Kraljevo 3 and Kragujevac 2 (both in central part of Serbia). This interconnection line will be extended to Niš (Serbia) and further to substation Sofia West (Bulgaria).

Investment financing

The total investment costs are estimated at 28 million EUR. Having received the PECL label and due to its positive impact on the Energy Community electricity market, the project was selected for co-financing from the 2015 EU pre-accession funds (IPA) in the amount of 6.6 million EUR, representing approximately 24% of the investment costs, including 1 million EUR provided for project preparation costs from WBIF. KfW will provide a loan of 14.27 million EUR, while the Serbian Transmission System Operator will contribute with 7.13 million EUR to the investment costs.

Project milestones and progress to date

Feasibility study	▶
Environmental impact assessment study	▶
The Main Design – ongoing; to be finalised in 2016	▶
Loan between the Serbian Transmission System Operator (EMS) and KfW to be signed in the 3 rd quarter of 2016; in general, there is a long decision-making process for loan signature in Serbia	▶
Statutory planning and land expropriation issues should be resolved before end-2015 as well as the construction permit granting	⏸
Construction of the line to start in the first half of 2016 and be finalised by end-2019	⏸



Albania

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1 Spot Market Development

Remove major legal and contractual obstacles to establishing organised electricity markets and market coupling based on the reports of the Secretariat (March 2016)

- Most legal and contractual obstacles were removed by primary legislation based on the Third Package. Remaining obstacles will be removed through secondary legislation coordinated with the Secretariat. The regulatory authority which is in charge of developing most of the secondary legal acts has progressed in developing and updating the first deliverables; however, formal adoption is pending. Consultations with the Secretariat about each of these acts are being carried out.
- Public procurement legislation no longer impedes the establishment of a day-ahead market. The Regulation on Procurement of Losses in Electricity, Balancing Services, Ancillary Services which shall regulate the purchase procedures applicable until the establishment of the day-ahead market still need to be adapted by the regulatory authority.
- The Ministry of Energy and the Ministry of Finance should assess compatibility between the new market model and VAT legislation, and initiate amendments to the latter.



Adhere to a power exchange or, if economically justified (considering liquidity and economic viability), create an own power exchange, enabling wholesale market trade (July 2016)

- A project for the establishment of a national organised day-ahead market and a local power exchange has started in 2015 and is ongoing. One of the project's main deliverables, a Market Model, forming the basis of the market design and the subsequent Market Rules, was developed and consulted with the Secretariat. Nevertheless, adoption by the Council of Ministers is in delay.



Ensure liquidity of the domestic electricity markets by appropriate regulatory measures such as contract reviews, capacity releases, virtual power plants etc. (July 2016)

- The draft Market Model includes a strategy for promoting liquidity based on so called import/export zones for an interim period until market coupling takes place.
- A draft legal act imposing public service obligations contains means to ensure liquidity, inter alia through temporary market maker provisions. It is expected to be adopted during the next reporting period.



Coupling of organised day-ahead electricity markets with at least one neighbouring country (July 2017)

- The agreed set-up of the organised day-ahead market envisages compatibility with coupling in line with the single European algorithm.
- Market coupling with Kosovo* in one of the first possible actions after consolidation of Albania as a separate market.



2 Cross-border Balancing

Legal possibility for transmission system operators to acquire balancing services from all operators in the national and in perspective of a regional market under competitive conditions (March 2016)

- The new Power Sector Law allows the transmission system operator to procure balancing services across borders using market-based procedures.



Adoption of a market-based balancing model allowing for the non-discriminatory cross-border exchange of balancing services (March 2016)

- The former exemption from balance responsibility of the regulated companies was phased out by end-2015.
- In the context of drafting secondary legislation, the regulated balancing market needs to be replaced by a new market-based balancing model adopted by the transmission system operator and approved of the regulatory authority.



Establishment of a functioning national balancing market based on above model (July 2016)

- A functional national balancing market does not exist in Albania.
- The transmission system operator has started activities on implementing a balancing market with an imbalance settlement mechanism based on non-discriminatory balance responsibility.





3 Regional Capacity Allocation

Introduction of a coordinated capacity calculation process for the allocation of day-ahead capacities based on a regionally coordinated congestion forecast (July 2016)	
<ul style="list-style-type: none"> No activities have started. 	
The Western Balkan countries to support signing of agreements between SEE CAO and relevant EU Member States (July 2017)	
<ul style="list-style-type: none"> No activity by EU Member States. 	



4 Cross-cutting Measures

Eliminate price regulation of generation for other than small enterprises and household customers and adopt national action plans for phasing out price regulation in general (January 2016)	
<ul style="list-style-type: none"> The new Energy Law deregulated prices of generation and supply to all customers connected to 110 kV and above and for those with an annual consumption over 50 million kWh. For other customer categories, an action plan for deregulation until 31 December 2018, is defined by the Law. As of June 2016, customers connected to 35 kV will not be entitled to regulated prices. Customers connected to 0.4 kV will remain regulated (universal service). A decision on the termination of the full capacity supply contract between the two state-owned incumbents was taken end-2015 and is enshrined in the primary law. Still, the long-term contract between the incumbent supplier and producer has been prolonged until mid 2016. 	
Legal and functional unbundling of distribution system operators and supply companies (March 2016)	
<ul style="list-style-type: none"> Distribution is still legally and functionally bundled with supply. The Power Sector Law requires unbundling only by 31 January 2017 in contravention of the Third Package. 	
Ensure independence of national energy regulatory authorities based on pre-defined indicators (January 2016)	
<ul style="list-style-type: none"> Third Package compliant independence requirements have been transposed by the Power Sector Law, with the exception of sanctioning powers which need to be improved by increasing the penalty levels as soon as possible. 	
Apply for observer status in ACER based on a positive opinion of the European Commission (July 2016)	
<ul style="list-style-type: none"> As a prerequisite, regulatory independence needs to be ensured and all secondary legislation needs to be adopted. 	
Unbundle and certify transmission system operator in line with the Third Energy Package (June 2016)	
<ul style="list-style-type: none"> A new law was proposed to the Parliament by the Ministry of Energy and Industry, which is expected to provide the legal basis for the unbundling of the transmission system operator. After the approval of the law, regulatory authority is expected to proceed with the certification process. In December 2015, regulatory authority approved the rules for TSO certification. 	
Increase effectiveness of national administrative authorities, including for competition and State aid, by strengthening their independence and financial means and requiring them to notify the Secretariat of pending proceedings, and take due account of the Secretariat's opinion (July 2016)	
<ul style="list-style-type: none"> Notification of pending proceedings before administrative authorities is envisaged by the amended Energy Community Dispute Settlement Rules. Whether and how these changes require implementation in Albania needs to be clarified. However, this has never been an issue in practice as both have notified cases and cooperated closely with the Secretariat. The Albanian Competition Authority adopted a legally binding decision in a case concerning a potential cartel in the electricity industry without a finding on wrong-doing. However, in the future they shall refrain from adopting recommendations to ERE in order to avoid potential conflicts regarding the independence of institutions. 	
Timely implementation of the Trans-European Network Regulation with regard to licensing and permitting as well as one-stop shop procedures (January 2017)	
<ul style="list-style-type: none"> The TEN-E Regulation was incorporated in the Energy Community in October 2015, implementation activities in Albania have not started yet. 	



Bosnia and Herzegovina

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1 Spot Market Development

Remove major legal and contractual obstacles to establishing organized electricity markets and market coupling based on the reports of the Secretariat (March 2016)

- A compliant legal framework is missing. To develop primary legislation, a working group was established with the task to reach an agreement on the key provisions necessary for the organization of the electricity market, including the day-ahead and intraday market.
- The working group, in close cooperation with the Secretariat, prepared the draft Law on regulator, transmission and power market and submitted it for review in January 2016.
- The draft Law is expected to enter the procedure within the Council of Ministers in the first quarter 2016.
- VAT legislation has to be harmonized with the prevailing practice in the neighbouring jurisdictions. Public procurement legislation has to be revised in order to remove obstacles to the functioning of the electricity market.



Adhere to a power exchange or, if economically justified (considering liquidity and economic viability), create an own power exchange, enabling wholesale market trade (July 2016)

- No progress has been made. The activities related to the designation of nominated electricity market operator are expected by key stakeholders in the sequence defined in the draft Law.



Ensure liquidity of the domestic electricity markets by appropriate regulatory measures such as contract reviews, capacity releases, virtual power plants etc. (July 2016)

- There are three utilities in the country. If they competed among each other, liquidity could be ensured much easier than in other countries with monopolistic structures.
- No measures have been taken. The investigation of the competition authority should identify whether there is a need to take regulatory or any other measures to open the power market for competition and to identify these measures.



Coupling of organised day-ahead electricity markets with at least one neighbouring country (July 2017)

- No steps have been taken in that direction.



2 Cross-border Balancing

Legal possibility for transmission system operators to acquire balancing services from all operators in the national and in perspective of a regional market under competitive conditions (March 2016)

- The legislation does not prevent the transmission system operator from acquiring balancing services in a market-based manner and across borders. Provisions for market-based and cross-border procurement of balancing services are included in the draft Law on regulator, transmission and power market.
- Barriers to cross-border access to balancing services in the VAT legislation should be removed by amendments in line with the Secretariat's Guidelines.



Adoption of a market-based balancing model allowing for the non-discriminatory cross-border exchange of balancing services (March 2016)

- A market-based and non-discriminatory balancing model is defined in the market rules adopted by the transmission system operator in May 2015.



Establishment of a functioning national balancing market based on above model (July 2016)

- The transmission system operator is implementing the new balancing model as from 1 January 2016.



3 Regional Capacity Allocation

<p>Introduction of a coordinated capacity calculation process for the allocation of day-ahead capacities based on a regionally coordinated congestion forecast (July 2016)</p> <ul style="list-style-type: none"> The independent (transmission) system operator, together with the transmission system operators of Montenegro and Serbia, established a Security Coordination Centre (SCC) in August 2015. The SCC pilot project for daily capacity calculation has started. 	▶
<p>The Western Balkan countries to support signing of agreements between SEE CAO and relevant EU Member States (July 2017)</p> <ul style="list-style-type: none"> No activity by EU Member States. 	◻

4 Cross-cutting Measures

<p>Eliminate price regulation of generation and end user prices for other than small enterprises and household customers and adopt national action plans for phasing out price regulation in general (January 2016)</p> <ul style="list-style-type: none"> The generation price is still regulated in Republika Srpska. The entity law should be changed without delay to remove the setting of prices for transactions in the wholesale market. Regulated end-user prices are still available to all customers. Since entities are responsible for the regulation of the retail market, entity laws have to be fully harmonized with the provisions of the (draft) Law on regulator, transmission and power market. 	◀
<p>Legal and functional unbundling of distribution system operators and supply companies (March 2016)</p> <ul style="list-style-type: none"> The deadline for legal and functional unbundling is missed. Distribution is still legally and functionally bundled with supply throughout Bosnia and Herzegovina and with generation in two utilities. Legislation on entity level which defines the requirements for functional unbundling needs to be amended immediately. Preparatory activities for unbundling have started in the utilities but so far no actual progress can be reported. 	◀
<p>Ensure independence of national energy regulatory authorities based on pre-defined indicators (January 2016)</p> <ul style="list-style-type: none"> The prepared draft Law strengthens competences of the regulatory authority including the power to impose penalties. Achieving independence requires legislative changes on State and entity levels in line with the Third Package. Efforts in this respect are not sufficient. 	◻
<p>Apply for observer status in ACER based on a positive opinion of the European Commission (July 2016)</p> <ul style="list-style-type: none"> As a prerequisite, the Third Package needs to be transposed, regulatory independence needs to be ensured and all secondary legislation needs to be adopted. Transposition of the Third Package is in progress. 	◻
<p>Unbundle and certify transmission system operator in line with the Third Energy Package (June 2016)</p> <ul style="list-style-type: none"> Following the adoption of the Law drafted by the working group, a new Law on establishment of TSOs which envisages ownership unbundling has to be adopted. The working group for drafting this Law is to be established by the Ministry of Foreign Trade and Economic Relations of Bosnia and Herzegovina and entity ministries. 	◻
<p>Increase effectiveness of national administrative authorities, including for competition and State aid, by strengthening their independence and financial means and requiring them to notify the Secretariat of pending proceedings, and take due account of the Secretariat's opinion (July 2016)</p> <ul style="list-style-type: none"> Effectiveness of national competition and State aid authorities is not satisfactory and is subject to an infringement procedure. The independence of the State Aid Council is questionable. Notification of pending proceedings before administrative authorities is envisaged by the amended Energy Community Dispute Settlement Rules. No progress reported. 	◻
<p>Timely implementation of the Trans-European Network Regulation with regard to licensing and permitting as well as one-stop shop procedures (January 2017)</p> <ul style="list-style-type: none"> No progress reported so far. 	▶







Kosovo*




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1 Spot Market Development

<p>Remove major legal and contractual obstacles to establishing organised electricity markets and market coupling based on the reports of the Secretariat (March 2016)</p> <ul style="list-style-type: none"> • A compliant legal and contractual framework is missing. The Government passed draft primary laws to the Assembly for adoption. The adoption procedure could be prolonged due to political uncertainty. • Amendments to the laws on public procurement have been adopted. The law allows state-owned companies to conduct simplified tendering procedures in procuring electricity. • The VAT legislation in place does not impede the establishment of a day-ahead market. 	
<p>Adhere to a power exchange or, if economically justified (considering liquidity and economic viability), create an own power exchange, enabling wholesale market trade (July 2016)</p> <ul style="list-style-type: none"> • No progress has been made. Further actions await a decision on establishing a power exchange in Albania. 	
<p>Ensure liquidity of the domestic electricity markets by appropriate regulatory measures such as contract reviews, capacity releases, virtual power plants etc. (July 2016)</p> <ul style="list-style-type: none"> • Liquidity is not likely to be ensured unless immediate market coupling with at least one neighbouring market takes place. 	
<p>Coupling of organised day-ahead electricity markets with at least one neighbouring country (July 2017)</p> <ul style="list-style-type: none"> • The proposal for establishing a common electricity market with Albania has been drafted by a consultant. The proposed roadmap for full market integration is still to be discussed by the relevant institutions of both countries. 	

2 Cross-border Balancing

<p>Legal possibility for transmission system operators to acquire balancing services from all operators in the national and in perspective of a regional market under competitive conditions (March 2016)</p> <ul style="list-style-type: none"> • Legislation allows the transmission system operator to procure balancing services across borders using market-based procedures. The amended public procurement law does not prevent the transmission system operator from procuring balancing services via a market-based procedure. 	
<p>Adoption of a market-based balancing model allowing for the non-discriminatory cross-border exchange of balancing services (March 2016)</p> <ul style="list-style-type: none"> • A market-based balancing model defined by the transmission system operator exists. • Rules for imbalance settlement pricing are being developed by the transmission system operator and forwarded for regulatory approval. A contract and conditions related to balance responsibility are still to be developed. 	
<p>Establishment of a functioning national balancing market based on above model (July 2016)</p> <ul style="list-style-type: none"> • The transmission system operator shall start a dry-run of the envisaged model for balancing and imbalance settlement. • The balancing reserve needed for tertiary regulation shall be ensured in addition to the contract signed with the Albanian system operator on the procurement of a reserve for secondary regulation. This requires cross-border balancing cooperation of the transmission system operator. 	

* Throughout this Report, this designation is without prejudice to positions on status, and is in line with UNSCR 1244 and the ICJ Opinion on the Kosovo declaration of independence.



3 Regional Capacity Allocation

<p>EMS (Serbia) and KOSTT (Kosovo*) to implement the Framework and Inter-TSO Agreement (September 2015)</p> <ul style="list-style-type: none"> The entry into force of the Connection Agreement between ENTSO-E and the transmission system operator of Kosovo* has been further delayed. The latter was conditioned on a supply license to be issued to a potential Serbian supplier in Kosovo*. Parties did not succeed to reach an agreement on the company statute of a potential supplier and no request for such a license was made. The transmission system operator is included in the Multiyear ITC Agreement as of 1 January 2016. The transmission system operator submitted an offer for compensation of overall income from congestion management and ITC mechanism, as it was agreed with the transmission system operator of Serbia. 	◀
<p>Introduction of a coordinated capacity calculation process for the allocation of day-ahead capacities based on a regionally coordinated congestion forecast (July 2016)</p> <ul style="list-style-type: none"> No activities have started. 	◻
<p>The Western Balkan countries to support signing of agreements between SEE CAO and relevant EU Member States (July 2017)</p> <ul style="list-style-type: none"> No activity by EU Member States. 	◻



4 Cross-cutting Measures

<p>Eliminate price regulation of generation and end user prices for other than small enterprises and household customers and adopt national action plans for phasing out price regulation in general (January 2016)</p> <ul style="list-style-type: none"> No actions have been taken to phase-out regulation of prices that are still available to all customers. The newly appointed regulatory board shall take immediate decisions to ensure deregulation of the generation price and market opening under the current legal framework, including issuance of licenses to alternative suppliers. 	◻
<p>Legal and functional unbundling of distribution system operators and supply companies (March 2016)</p> <ul style="list-style-type: none"> The process of legal and functional unbundling has been completed by separating the distribution system operator from supply activities, including the adoption of a compliance programme and the appointment of a compliance officer. 	⬆
<p>Ensure independence of national energy regulatory authorities based on pre-defined indicators (January 2016)</p> <ul style="list-style-type: none"> The appointment procedure for the members of the regulatory authority, the absence of a rotation scheme and lack of full budgetary autonomy jeopardize the authority's independence. Achieving full independence depends on legislative changes in line with the Third Package. Efforts in this respect are not sufficient. 	▶
<p>Apply for observer status in ACER based on a positive opinion of the European Commission (July 2016)</p> <ul style="list-style-type: none"> As a prerequisite, the Third Package needs to be transposed; regulatory independence needs to be ensured and all secondary legislation needs to be adopted. Efforts in this respect are not sufficient. 	◻
<p>Unbundle and certify transmission system operator in line with the Third Energy Package (June 2016)</p> <ul style="list-style-type: none"> This requires transposition of the Third Package as a minimum. Efforts in this respect are not sufficient. No concrete actions have been taken to prepare the transmission system operator for unbundling. 	◻
<p>Increase effectiveness of national administrative authorities, including for competition and State aid, by strengthening their independence and financial means and requiring them to notify the Secretariat of pending proceedings, and take due account of the Secretariat's opinion (July 2016)</p> <ul style="list-style-type: none"> At the moment, neither of the two institutions, the state aid authority and the competition authority in Kosovo*, is functional due to lacking appointments of the commissioners, lacking staff, and no effective taking up of work. Notification of pending proceedings before administrative authorities is envisaged by the amended Energy Community Dispute Settlement Rules. 	◻
<p>Timely implementation of the Trans-European Network Regulation with regard to licensing and permitting as well as one-stop shop procedures (January 2017)</p> <ul style="list-style-type: none"> The TEN-E Regulation was incorporated in the Energy Community in October 2015, implementation activities in Kosovo* have not started yet. 	▶



FYR of Macedonia

Energy Community Secretariat's WB6 Country Report

01/2016

1 Spot Market Development

<p>Remove major legal and contractual obstacles to establishing organised electricity markets and market coupling based on the reports of the Secretariat (March 2016)</p> <ul style="list-style-type: none"> • A compliant legal and contractual framework is missing. The agreed timeline to adopt the Law by end January was missed. Most likely the deadline of March 2016 will be missed. • Taxation of services related to cross-border electricity trade is not harmonized with the neighbouring jurisdictions. The Ministry of Economy proposed to the Ministry of Finance possible solutions for amending the VAT law in line with the Secretariat's Guidelines. • Public procurement legislation does not impede the establishment of a day-ahead market. 	◀
<p>Adhere to a power exchange or, if economically justified (considering liquidity and economic viability), create an own power exchange, enabling wholesale market trade (July 2016)</p> <ul style="list-style-type: none"> • No progress has been made. No plan was presented or discussed. 	◻
<p>Ensure liquidity of the domestic electricity markets by appropriate regulatory measures such as contract reviews, capacity releases, virtual power plants etc. (July 2016 target)</p> <ul style="list-style-type: none"> • No measures to ensure liquidity have been taken so far. A government study foresees a model on how to pool liquidity on a day-ahead basis. Regulatory intervention to promote liquidity will be needed before market coupling with neighbouring markets due to the size of the market and the structure of generation portfolios. The competences for the regulatory authority to impose such a measure are envisaged by the draft Energy Law. 	◻
<p>Coupling of organised day-ahead electricity markets with at least one neighbouring country (July 2017)</p> <ul style="list-style-type: none"> • No steps have been taken in that direction. Market coupling with neighbouring markets should be part of the envisaged design for the day-ahead market. The design of the organised day-ahead market must be fully compatible through the application of the single European algorithm. 	◻

2 Cross-border Balancing

<p>Legal possibility for transmission system operators to acquire balancing services from all operators in the national and in perspective of a regional market under competitive conditions (March 2016)</p> <ul style="list-style-type: none"> • Prices of the balancing service provided by the state-owned generator are subject to regulation until 30 June 2020. Deregulation requires the adoption of a new Energy Law. Delays to adopt the new acquis compliant Law impede any further progress. • The transmission system operator cannot participate in the balancing energy market due to a regulatory exemption for regulated companies from balance responsibility until 30 June 2016. This regime must be immediately terminated by the regulatory authority. No progress reported. 	◀
<p>Adoption of a market-based balancing model allowing for the non-discriminatory cross-border exchange of balancing services (March 2016)</p> <ul style="list-style-type: none"> • There is no market-based balancing model in place. • Under the existing legislation, the transmission system operator is not equipped with the competence to adopt balancing market rules, which is under the responsibility of the regulatory authority. • The balancing market rules developed by a working group should have been submitted to the Secretariat for review in November 2015 before their adoption by the regulatory authority, but no activity in this direction took place. 	◻
<p>Establishment of a functioning national balancing market based on above model (July 2016)</p> <ul style="list-style-type: none"> • The establishment of a balancing market hinges on the adoption of the balancing rules by the regulatory authority. 	◻



3 Regional Capacity Allocation

<p>Binding agreement between the TSO from the former Yugoslav Republic of Macedonia with SEE CAO on coordinated allocation (November 2015)</p> <ul style="list-style-type: none"> The transmission system operator failed to sign such an agreement so far. The deadline was missed. In support, the Ministry of Economy has initiated amendments to the VAT law to remove obstacles related to taxation, in accordance with the Secretariat's Guidelines. 	◀
<p>Introduction of a coordinated capacity calculation process for the allocation of day-ahead capacities based on a regionally coordinated congestion forecast (July 2016)</p> <ul style="list-style-type: none"> No activities have started. 	◻
<p>The Western Balkan countries to support signing of agreements between SEE CAO and relevant EU Member States (July 2017)</p> <ul style="list-style-type: none"> No activities by EU Member States. 	◻



4 Cross-cutting Measures

<p>The former Yugoslav Republic of Macedonia to comply with the obligation to grant eligibility to all electricity customers (October 2015)</p> <ul style="list-style-type: none"> The deadline has been missed as the non-compliant Energy Law has not been amended. The Government shows no willingness to rectify this breach of the Energy Community Treaty. 	◀
<p>Eliminate price regulation of generation and end user price for other than small enterprises and household customers and adopt national action plans for phasing out price regulation in general (January 2016)</p> <ul style="list-style-type: none"> Regulated prices apply to generation. No activities to phase-out price regulation have been reported. The regulatory authority and/or the Government should urgently remove the provisions and practice of excessive regulation. Retail prices except for small customers and households are not regulated. 	◻
<p>Legal and functional unbundling of distribution system operators and supply companies (March 2016)</p> <ul style="list-style-type: none"> Distribution is still legally and functionally bundled with supply activities both in EVN and ELEM. The effective legislation requires legal and functional unbundling. EVN prepared the unbundling plan and compliance program for approval of ERC. Primary legislation also must be improved, and these requirements must be enforced by adequate secondary legislation. Non-adoption of the new law will result in missing the deadlines. 	◻
<p>Ensure independence of national energy regulatory authorities based on pre-defined indicators (January 2016)</p> <ul style="list-style-type: none"> The regulatory authority's competences need to be expanded and its independence ensured by implementation of the Third Package. A neutral committee for selecting board members should be introduced and the requirement for applicants to pass a psychological and integrity test abolished. 	▶
<p>Apply for observer status in ACER based on a positive opinion of the European Commission (July 2016)</p> <ul style="list-style-type: none"> As a prerequisite, the Third Package needs to be transposed, regulatory independence needs to be ensured and all secondary legislation needs to be adopted. Efforts in this respect are not sufficient. 	◻
<p>Unbundle and certify transmission system operator in line with the Third Energy Package (June 2016)</p> <ul style="list-style-type: none"> This requires transposition of the Third Package as a minimum. Efforts in this respect are not sufficient. No further actions have been taken to prepare for unbundling. 	◻
<p>Increase effectiveness of national administrative authorities, including for competition and State aid, by strengthening their independence and financial means and requiring them to notify the Secretariat of pending proceedings, and take due account of the Secretariat's opinion (July 2016)</p> <ul style="list-style-type: none"> Effectiveness of the national State aid authority is not satisfactory as it does not intervene in State aid granted to the energy sectors. Notification of pending proceedings before administrative authorities is envisaged by the amended Energy Community Dispute Settlement Rules. Whether and how these changes require implementation in FYR of Macedonia needs to be clarified. 	◻
<p>Timely implementation of the Trans-European Network Regulation with regard to licensing and permitting as well as one-stop shop procedures (January 2017)</p> <ul style="list-style-type: none"> The TEN-E Regulation was incorporated in the Energy Community in October 2015, implementation activities in FYR of Macedonia have not started yet. 	▶



Montenegro




Energy Community Secretariat's WB6 Country Report

01/2016

1 Spot Market Development

<p>Remove major legal and contractual obstacles to establishing organised electricity markets and market coupling based on the reports of the Secretariat (March 2016)</p> <ul style="list-style-type: none"> The new Energy Law was adopted by the Parliament on 29 December 2016. The law promotes market integration and defines the needed regulatory and contractual framework for establishing organised markets. An amendment to the VAT Law, defining the place of taxable transactions for providing access to the transmission system in compliance with the Secretariat's Guidelines, was adopted by the Government and forwarded to the Parliament. Public procurement legislation does not impede the establishment of a day-ahead market. 	
<p>Adhere to a power exchange or, if economically justified (considering liquidity and economic viability), create an own power exchange, enabling wholesale market trade (July 2016)</p> <ul style="list-style-type: none"> The designation of a nominated electricity market operator will be enabled through the Law on transmission systems for cross-border exchanges of electricity and natural gas. The Law is in parliamentary procedure and is expected to be adopted in the first half of 2016. 	
<p>Ensure liquidity of the domestic electricity markets by appropriate regulatory measures such as contract reviews, capacity releases, virtual power plants etc. (July 2016)</p> <ul style="list-style-type: none"> A model for the spot market that will ensure liquidity is expected to be developed by a consultant. 	
<p>Coupling of organised day-ahead electricity markets with at least one neighbouring country (July 2017)</p> <ul style="list-style-type: none"> The results of an analysis of potential solutions for the Montenegrin market are expected to show the way forward. Concrete plans are not formalised yet. 	

2 Cross-border Balancing

<p>Legal possibility for transmission system operators to acquire balancing services from all operators in the national and in perspective of a regional market under competitive conditions (March 2016)</p> <ul style="list-style-type: none"> The new Energy Law defines a substantial legal and contractual framework for the procurement of balancing services in line with the Third Package requirements. 	
<p>Adoption of a market-based balancing model allowing for the non-discriminatory cross-border exchange of balancing services (March 2016)</p> <ul style="list-style-type: none"> The balancing model in place allows for cross-border balancing in a market-based and non-discriminatory way. The balancing rules shall be aligned with the requirements of the new Energy Law within six months following the date the law entered into force. 	
<p>Establishment of a functioning national balancing market based on above model (July 2016)</p> <ul style="list-style-type: none"> A balancing energy market exists, however with only one balancing service provider. The balancing reserve is still procured at regulated prices. This is to be eliminated through implementation of the new primary and secondary legislation. 	

3 Regional Capacity Allocation

<p>Introduction of a coordinated capacity calculation process for the allocation of day-ahead capacities based on a regionally coordinated congestion forecast (July 2016)</p> <ul style="list-style-type: none"> The transmission system operator, together with those of Bosnia and Herzegovina and Serbia, established a Security Coordination Centre (SCC) in August 2015. The SCC pilot project for daily capacity calculation has started. 	▶
<p>The Western Balkan countries to support signing of agreements between SEE CAO and relevant EU Member States (July 2017)</p> <ul style="list-style-type: none"> No activity by EU Member States. 	◻

4 Cross-cutting Measures

<p>Eliminate price regulation of generation for other than small enterprises and household customers and adopt national action plans for phasing out price regulation in general (January 2016)</p> <ul style="list-style-type: none"> Generation prices are not regulated. According to the new Energy Law, regulated end-user prices continue to be available to all customers connected to the distribution network until 1 January 2017. 	▶
<p>Legal and functional unbundling of distribution system operators and supply companies (March 2016)</p> <ul style="list-style-type: none"> Distribution is still legally and functionally bundled with supply and generation activities. The new Law requires completion of legal and functional unbundling of distribution from generation and supply activities at latest within 3 months after the entry into force of the Law and introduces penalties for undertakings not complying with the unbundling obligation. 	◀
<p>Ensure independence of national energy regulatory authorities based on pre-defined indicators (January 2016)</p> <ul style="list-style-type: none"> With the adoption of the new Energy Law, important improvements have been made in terms of regulatory independence. Still, the regulator does not have full autonomy over its budget and internal organisation. Also the regulator's competences do not cover the full set of Third Package duties among which the central task of issuing penalties. 	▶
<p>Apply for observer status in ACER based on a positive opinion of the European Commission (July 2016)</p> <ul style="list-style-type: none"> As a prerequisite regulatory independence needs to be ensured and all secondary legislation needs to be adopted. 	▶
<p>Unbundle and certify transmission system operator in line with the Third Energy Package (June 2016)</p> <ul style="list-style-type: none"> The new Energy Law defines a procedure for TSO unbundling. According to the Law, certification rules shall be adopted by the regulator within 12 months as of the date the law entered into force. This is likely to delay the certification process, which is to be finalized within the deadlines set by the Third Package. 	▶
<p>Increase effectiveness of national administrative authorities, including for competition and State aid, by strengthening their independence and financial means and requiring them to notify the Secretariat of pending proceedings, and take due account of the Secretariat's opinion (July 2016)</p> <ul style="list-style-type: none"> Effectiveness of the national competition and State aid authorities in the energy sector is not yet satisfactory. The independence of the State Aid Control Commission is questionable and should be improved. Notification of pending proceedings before administrative authorities is envisaged by the amended Energy Community Dispute Settlement Rules. Whether and how these changes require implementation in Montenegro needs to be clarified. 	▶
<p>Timely implementation of the Trans-European Network Regulation with regard to licensing and permitting as well as one-stop shop procedures (January 2017)</p> <ul style="list-style-type: none"> The TEN-E Regulation was incorporated in the Energy Community in October 2015, implementation activities in Montenegro have not started yet. 	▶





Serbia

Energy Community Secretariat's WB6 Country Report


01/2016

1 Spot Market Development


Remove major legal and contractual obstacles to establishing organised electricity markets and market coupling based on the reports of the Secretariat (March 2016)

- Legal and contractual obstacles to establish a day-ahead market were removed by adopting primary legislation based on the Third Package, amending VAT legislation and adopting new licensing rules allowing foreign companies to obtain a license for wholesale electricity supply. 
- A preferential status, granted to domestic bidders and goods by the public procurement law, needs to be removed to the extent applicable to the energy sectors. 


Adhere to a power exchange or, if economically justified (considering liquidity and economic viability), create an own power exchange, enabling wholesale market trade (July 2016)

- The joint stock company SEEPEX was established and licensed for the operation of an organised electricity market (power exchange). The market rules were published and readiness to start operation as of 17 February 2016 was officially announced. 

Ensure liquidity of the domestic electricity markets by appropriate regulatory measures such as contract reviews, capacity releases, virtual power plants etc. (July 2016)


- The launching of SEEPEX hinges on readiness of traders to participate in the power exchange. AERS has started issuing licenses to the foreign companies interested to participate in SEEPEX, resulting in seven licenses issued so far. 

Coupling of organised day-ahead electricity markets with at least one neighbouring country (July 2017)


- SEEPEX, in coordination with the regulatory authority and the transmission system operator, is in the process of preparing a letter of intent for market coupling with the markets of Hungary, Czech Republic, Slovakia and Romania (known as 4MMC). 

2 Cross-border Balancing


Legal possibility for transmission system operators to acquire balancing services from all operators in the national and in perspective of a regional market under competitive conditions (March 2016)

- Legislation allows the transmission system operator to procure balancing services across borders using market-based procedures. 

Adoption of a market-based balancing model allowing for the non-discriminatory cross-border exchange of balancing services (March 2016)

- The balancing model in place allows for market-based and non-discriminatory balancing with an inter-transmission system operator model for cross-border cooperation. 

Establishment of a functioning national balancing market based on above model (July 2016)

- A functional national balancing energy market exists, however with only one balancing service provider for the time being. The balancing reserve is still procured at regulated prices. Price deregulation depends on an assessment made by the regulatory authority before 1 May 2017 under the Energy Law. 

3 Regional Capacity Allocation

<p>EMS (Serbia) and KOSTT (Kosovo*) to implement the Framework and Inter-TSO Agreement (September 2015)</p> <ul style="list-style-type: none"> The entry into force of the Connection Agreement between ENTSO-E and the transmission system operator of Kosovo* has been further delayed. It was conditioned by a supply license to be issued to a potential Serbian supplier in Kosovo*. Parties did not succeed to reach an agreement on the company statute of a potential supplier and no request for such a license was made. The transmission system operator is included in the Multiyear ITC Agreement as of 1 January 2016. The transmission system operator has not submitted a renewed offer for compensation of overall income from congestion management and ITC mechanism, as it was agreed with the transmission system operator of Kosovo*. 	◀
<p>Binding agreement between TSO from Serbia with SEE CAO on coordinated allocation (November 2015)</p> <ul style="list-style-type: none"> The transmission system operator failed to sign such an agreement. The negotiation process is further delayed due to the failure of the parties to reach an agreement on the terms and conditions of a service agreement. The agreed deadline was missed and prospects for finalising the agreement are not certain. 	◀
<p>Introduction of a coordinated capacity calculation process for the allocation of day-ahead capacities based on a regionally coordinated congestion forecast (July 2016)</p> <ul style="list-style-type: none"> The transmission system operator, together with those of Montenegro and Bosnia and Herzegovina, established a Security Coordination Centre (SCC) in August 2015. The SCC pilot project for daily capacity calculation has started. 	▶
<p>The Western Balkan countries to support signing of agreements between SEE CAO and relevant EU Member States (July 2017)</p> <ul style="list-style-type: none"> No activity by EU Member States. 	◻

4 Cross-cutting Measures

<p>Eliminate price regulation of generation for other than small enterprises and household customers and adopt national action plans for phasing out price regulation in general (January 2016)</p> <ul style="list-style-type: none"> Prices of generation and supply to all customers were deregulated by the new Energy Law, except the price of universal supply to households and small customers. AERS and the Ministry of Mining and Energy initiated preparation of the action plan for phasing-out remaining price regulation based on the Energy Law and WB6 requirements. The procedure and criteria for deregulation will be developed by a consultant under the IPA 2014 programme. 	▶
<p>Legal and functional unbundling of distribution system operators and supply companies (March 2016)</p> <ul style="list-style-type: none"> The process of legal unbundling has been completed by separating the distribution system operator from supply activities. Functional unbundling is required by the Energy Law. However, the deadline for adoption of a compliance programme and the appointment of a compliance officer defined by the Energy Law was missed. The distribution system operator and the regulatory authority further delayed the finalization of these tasks. 	◻
<p>Ensure independence of national energy regulatory authorities based on pre-defined indicators (January 2016)</p> <ul style="list-style-type: none"> Insufficient autonomy and certainty over its budget and internal organisation due to limitations stemming from the Law on Maximum Number of Employees in the Public Sector are jeopardizing the authority's independence. In practice, the regulatory authority failed to ensure participation by the transmission system operator in a coordinated capacity allocation process. 	▶
<p>Apply for observer status in ACER based on a positive opinion of the European Commission (July 2016)</p> <ul style="list-style-type: none"> As a prerequisite, regulatory independence needs to be ensured and all secondary legislation needs to be adopted. 	▶
<p>Unbundle and certify transmission system operator in line with the Third Energy Package (June 2016)</p> <ul style="list-style-type: none"> The unbundling of the transmission system operator depends on the adoption of amendments to the laws governing the control over public enterprises. In the Secretariat's opinion, the current draft law on public enterprises fails to ensure application of unbundling in a compliant manner. The Ministry of Mining and Energy adopted rules for certification. 	◻
<p>Increase effectiveness of national administrative authorities, including for competition and State aid, by strengthening their independence and financial means and requiring them to notify the Secretariat of pending proceedings, and take due account of the Secretariat's opinion (July 2016)</p> <ul style="list-style-type: none"> Effectiveness of the national competition and State aid authorities in the energy sector is not yet satisfactory. The independence of the Commission for State Aid Control should be improved by separating it from the Ministry of Finance. Notification of pending proceedings before administrative authorities is envisaged by the amended Energy Community Dispute Settlement Rules. Whether and how these changes require implementation in Serbia needs to be clarified. 	◻
<p>Timely implementation of the Trans-European Network Regulation with regard to licensing and permitting as well as one-stop shop procedures (January 2017)</p> <ul style="list-style-type: none"> The TEN-E Regulation was incorporated in the Energy Community in October 2015, implementation activities in Serbia have not started yet. Serbia asked for assistance with this respect in the PHLG meeting. 	▶