



ANNUAL IMPLEMENTATION REPORT

ENERGY COMMUNITY SECRETARIAT

1 SEPTEMBER 2017

The cover of the IR2017 provides a collage of Kosovo*'s key energy sources - coal and emerging hydro and wind. It features an open pit coal mine, wind park, a thermal power plant substation (SS 400 220 kV TPP Kosovo B) and a powerful river symbolizing the growing importance of hydro power in the country.

The Secretariat expresses gratitude to the support of Ministry for Economic Development of Kosovo* and to KOSTT and KEK for their courtesy of providing photos for the IR2017 publication.

ANNUAL IMPLEMENTATION REPORT
2016/2017

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Preface

Clean Energy for all Europeans. All Europeans.

Taking stock of the last ten years, the Energy Community's development as regards the implementation of the European energy *acquis* can be characterized by two determining vectors: width and depth. This year's Implementation Report provides evidence for both.

Firstly, compared to the handful of directives and regulations featuring in the early reports, the 2017 edition is much wider and covers not less than nineteen directives and eight regulations. With several implementation deadlines still to expire, and a plethora of network codes pending incorporation, the Energy Community body of law is bound to become even more substantial soon. In doing so, the Contracting Parties' legal DNA aligns and catches up with the European Union's, with which they share a single energy market under the common roof of the Energy Community. While the focus was originally on the structure of electricity and gas markets (with the Third Energy Package being introduced in 2011) and complemented by the *acquis* on renewables and energy efficiency, recent years saw a reinforcement of the environmental *acquis*. In 2016, the first piece of European legislation specifically aimed at reducing greenhouse gas (GHG) emissions, the so-called Monitoring Mechanism Regulation (EU) 525/2013 was incorporated by way of a Recommendation 2016/02/MC-EnC. Paradoxically, however, the constant broadening of the *acquis communautaire* is accompanied by the widening of a legal gap on the border between Contracting Parties and European Union Member States. Why is that so? First, we witness a growing reluctance in proposing EU energy legislation for incorporation in the Energy Community under Article 25 of the Treaty. The network codes, which are being applied all over Europe for some time already, are a case in point. Another one is the Security of Gas Supply Regulation (EU) 994/2010, where the one from 2010 was simply jumped over in the Energy Community. This impairs the parallelism between the Contracting Parties and EU and thus the homogeneity between both pillars of the Energy Community. Second, the unclear legal situation as regards the "reverse" application of Energy Community rules on the interface between Contracting Parties and Member States continues to erect harmful barriers to the free flow of energy, joint infrastructure projects and cross-border cooperation and jeopardizes the completion of the single market. The Treaty changes proposed by the Secretariat and discussed for several years already in the Ministerial Council will alleviate the situation and create a true level-playing field between all countries participating in that market.

Secondly, this year's Implementation Report also testifies to the constant deepening of the penetration of European energy law and policy in the Parties' energy sectors. Last year, we reported about this development by contrasting transposition – the process of adopting national legislation incorporating European rules – with their application, both in general and in individual cases. The implementation process combines these

two elements. With its unbundling provisions, for instance, the Third Energy Package provided many illustrative case studies during the last year for how this process can be managed successfully and for the benefit of deep sector reform, but also for how this process can get stuck over vested interests of national players. Very often, the national level – in most cases national energy regulators, but also energy agencies, competition and State aid authorities *etc.* – does not have the strength and independence to act as an effective and proactive guardian of the (transposed) *acquis communautaire*. In such situations, the role of the Secretariat is crucial. This year, our enforcement and dispute resolution activities extended to issues such as State aid granted to and environmental impact assessments carried out for coal-fired power plants, destination clauses in gas supply agreements, cost-reflectivity in electricity distribution tariffs or retroactive changes to feed-in tariffs for renewables. In all of these cases, cooperation with investors and civil society has been and remains to be crucial. Enforcement has turned into the guarantee ensuring not only that the Energy Community is a community under the rule of law but is also not a community for governments and public authorities alone. Interestingly, in 2017 the Secretariat was also addressed with a complaint related to a failure of an EU Member State to comply with its obligations stemming from the Energy Community Treaty. The complaint relates to the ban imposed by Bulgaria on the export of electricity earlier this year, which incurred welfare losses of millions in the Contracting Parties and beyond.

But also beyond enforcement and the certification of transmission system unbundling, the Secretariat gets deeper and deeper involved in the energy sector reforms in the Contracting Parties. Examples include the ongoing review of the competence, performance and independence of the Ukrainian regulatory authority (the second one after last year's report on Moldova's ANRE), *acquis*-compliant support schemes and auction rules for renewable energy, the gas market model or the future of gas transit in Ukraine. The implementation of the TEN-E Regulation (EU) 347/2013 and the prioritization of individual projects under the PECE or PMI label has also intensified the Secretariat's involvement in the design and completion of a pan-European electricity, gas and oil infrastructure network. These activities are complemented and reinforced by a new wave of regional initiatives, such as the Berlin (Western Balkan 6) and the CESEC processes, or the EU4Energy Governance project. In all of these, the Secretariat assumes key tasks of providing assistance and monitoring. Their potential exceeds by far the reform of domestic energy sectors within individual Contracting Parties and predominantly lies in integrating them across borders, both in terms of hard- and software, and both between Contracting Parties and between Contracting Parties and Member States. Tasked by both the Western Balkan Summit in Trieste and the CESEC Ministerial in Bucharest this year, the Secretariat together with the European Commission currently drafts rules on licensing to be adopted under Title III of the Energy Community Treaty, the most advanced governance framework for regional cooperation in a pan-European Energy Union to date.

It is against this background that we look beyond our Contracting Parties to the developments of the *acquis* within the European Union. In November 2016, the Commission tabled a set of legislative proposals known as the “Clean Energy for all Europeans” package. This package focuses on electricity, renewables and energy efficiency where it aims to follow crucial developments in those areas, such as an unprecedented wave of technical innovation and the genesis of new market models but also the evolution of the global climate framework most notably by the entry into force of the Paris Agreement. While the impact of those proposals and the possible need for specific adaptations for the Contracting Parties will have to be carefully studied during the upcoming period, the relevance and impact of what may well be the most important element in the entire package is already evident: governance. The Commission’s proposals in this respect intend to break the silo mentality between the individual sub-sectors of energy policy, to integrate and balance the different objectives epitomized in the famous energy policy “trilemma” and thus to create a new basis for prosperous and sustainable energy sectors all over Europe. This entails a paradigm shift already anticipated by the Paris Agreement, namely an evolution from

a top-down, command-and-control type of regulation towards integrated energy and climate planning encompassing sectors as diverse as energy efficiency, security of supply and the internal market. This shift makes good sense and should be extended to the pan-European energy governance constituted by the Energy Community Treaty as soon as possible. In this case, waiting passively and potentially for many years until a proposal is presented under Article 25 of the Treaty makes little sense. Climate change is the most imminent challenge for our energy sectors to react to and calls on all European countries to start an energy transition immediately. Contracting Parties as well as Member States need to shift gear to a more holistic and effective way of addressing that challenge. And indeed the Energy Community – through a Climate Action Group – and individual Contracting Parties reacted and took the initiative to proactively prepare for moving beyond an old-school understanding of energy policy. A decade or so from now, this may well be considered the most important decision – and if not taken seriously: omission – our organization has taken. Making sure that clean energy is for all Europeans, and really all Europeans, is a new mission of the Energy Community.

Janez Kopač

Dirk Buschle



Director Janez Kopač discussing with Johannes Hahn, EU Commissioner for European Neighbourhood Policy & Enlargement Negotiations, at the Wachau informal Ministerial Council, June 2017



Deputy Director Dirk Buschle next to Connie Hedegaard, co-chair and former EU Commissioner for Climate Action, at the first Climate Action Group meeting, September 2017



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1 State of Implementation



Source: Compiled by the Energy Community Secretariat

This radar chart provides a snapshot of the Contracting Parties' performance in the implementation and transposition of the Energy Community *acquis* as well as an overview of key factors influencing their capability to do so, such as the rule of law, institutional setting and transparency. The Secretariat applies in total twenty-three indicators for monitoring *acquis* implementation. The new sustainability indicator, aiming to monitor the climate policies of the Contracting Parties, indicates the 'greening' of the Energy Community. It manifests the first steps towards inte-

grating climate issues in the context of the Energy Community by the Ministerial Council in 2016. A detailed description of the methodology used for calculating the implementation indicators is available on page 232.

The question whether a Contracting Party has transposed the Third Energy Package is the deciding factor for the 2017 state of implementation assessment. Whilst six of the eight Contracting Parties have successfully completed the task, the level of

1 Throughout this Implementation 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.

implementation achieved varies greatly. More than two and a half years after the transposition deadline set by the Ministerial Council, an ongoing and persistent failure to perform prevails in Bosnia and Herzegovina and former Yugoslav Republic of Macedonia. With the exception of Serbia and former Yugoslav Republic of Macedonia, low progress in meeting the requirements of the Oil Stocks Directive is also characteristic for all Contracting Parties. For some Contracting Parties, the national implementation radar shows negative progress, (particularly in electricity or oil) corresponding to the continuous stagnation or delays in transposition and implementation of the *acquis*.

Montenegro and Serbia continue to be the leaders in implementation of the sustainability policies comprising energy efficiency, renewables, environment and climate. Yet all Contracting Parties showed progress in this area, including improved transposition in the sphere of energy efficiency, with four Contracting Parties (Albania, Bosnia and Herzegovina, Kosovo* and Ukraine) having adopted primary legislation, which was so far missing. Transposition and implementation of the statistics *acquis* is fairly high in all Energy Community Contracting Parties.

The radar chart's indicators allow for the identification of trends. The very heterogeneous results in all dimensions of *Sustainability*, relatively low *Transparency* ratings, a pressing need for improvement in *Institutional capacity* (indicators in the North-eastern corner) across the region as well as implementation of infrastructure, climate and greenhouse gas (GHG) monitoring for all countries. The radar also shows that in some areas the implementation takes place at two speeds. We have clear frontrunners, such as Montenegro, Serbia, Albania or Kosovo*, in promoting the *Independence of NRAs*, and clear laggards, for example in the *Transposition of Electricity and Gas* laws where former Yugoslav Republic of Macedonia and Bosnia and Herzegovina are trailing behind.

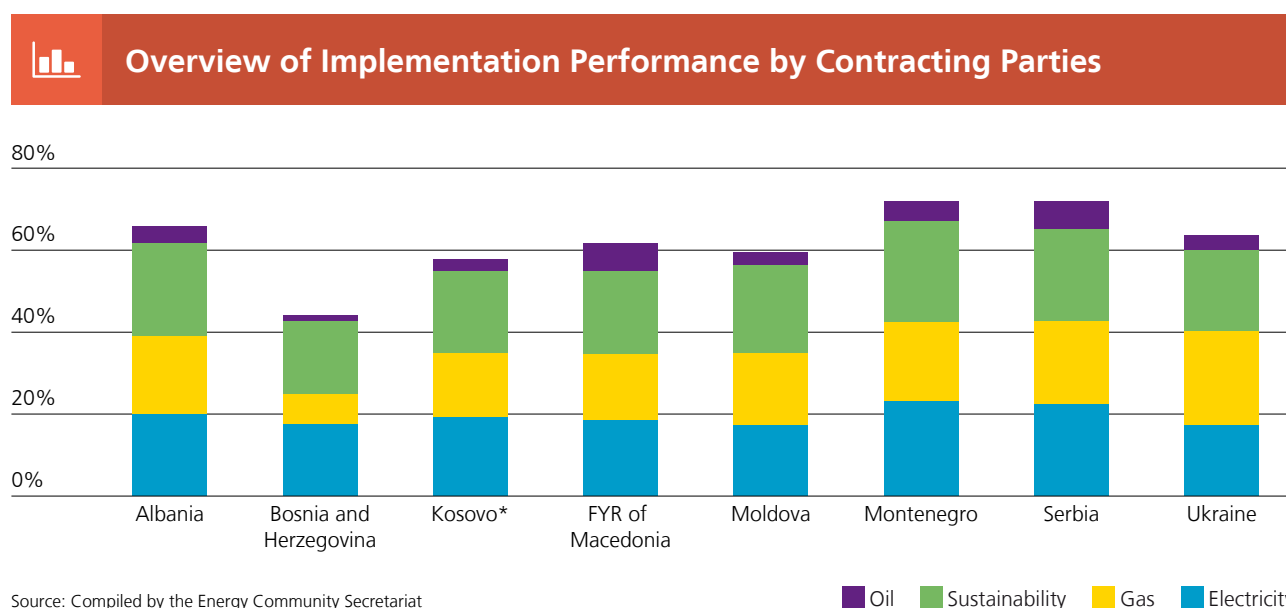
A closer look into the relative performance of countries reveals

that the newest members of the Energy Community, Ukraine and Moldova, are close to catching-up with the 'old' Contracting Parties in all implementation-related dimensions. In terms of transposition, the two do not perform worse than the Balkan members of the Energy Community. The indicators also suggest that performance is poorer in areas where implementation gets more difficult or necessitates a more integrative approach. To demonstrate the case; compare the scorings in the spheres of *Transparency* and *General Rule of Law*, where all Contracting Parties are clearly underperforming with *Statistics* that has good results in both transposition and implementation. It is important to underline that successful implementation is a direct function of compliant transposition (compare for example the *Transposition Ratios* with the *Implementation Ratios Electricity or Gas*).

The difference in the performance of the twenty-three indicators is paramount. This implies that compliance in hard or costly factors, like *Infrastructure Adequacy* or the building of oil stocks (*Implementation Ratio Oil*), is structurally not more challenging than in those that can be considered softer, like market development (*Implementation Ratios Electricity and Gas*) and overall compliance with the Energy Community laws (see the *EnC Rule of Law indicator*, or the heterogeneity in *Transposition of Energy Efficiency* measures).

The 'Overview of Implementation Performance by Contracting Parties' graphic below allows an easier identification of overall frontrunners or problems. It also shows why the winners are doing well (e.g. Montenegro and Serbia as frontrunners are performing above average in all dimensions, Albania in *Electricity*, Ukraine in *Gas*). At the same time, the chart painstakingly demonstrates the rocky road ahead in terms of implementation, even for the leaders.

More details on each Contracting Party's performance can be discovered in the national implementation radars and progress charts per specific area of work in the respective country chapters.





2 Annual Report on the Activities of the Energy Community 2016 - 2017

This Annual Report on the Activities of the Energy Community outlines key actions and achievements in the period from 1 September 2016 to 1 September 2017 following the requirements of Article 52² of the Energy Community Treaty. Over this period, the Energy Community Contracting Parties and institutions have worked intensively towards implementation of the Treaty *acquis*, as reflected in detail in the Annual Implementation Report 2017, in line with the 2016 - 2017 Work Programme.

a. This Year's Highlights

1. Paving the Way for a Sustainable Energy Future

Sustainability of the energy sectors remains a key concern for the Energy Community Contracting Parties and institutions. The latest reporting period brought this dimension of the Energy Community's work to the forefront.

The 2016 Ministerial Council adopted four decisions expanding the scope of the environmental *acquis*. The decisions serve to align the outdated provisions of the Environmental Impact Assessment and Sulphur in Fuels Directives with the latest EU versions and introduce the Strategic Environmental Assessment and the Environment Liability Directives to the extent they relate to energy. The Ministerial Council also adopted a non-binding Recommendation 2016/02/MC-EnC on the implementation of Regulation (EU) 525/2013 on a mechanism for monitoring and reporting greenhouse gas emissions. The Energy Community Environmental Task Force has stepped up supporting the Contracting Parties in preparing for the implementation of the new *acquis*.

The inaugural Sustainability Forum took place under the auspices of the Energy Community and the Balkan Green

Foundation on 9 June 2017 in Vienna. Gathering over 120 stakeholders, the forum provided a unique platform to discuss how the region can transition towards a sustainable energy pathway. The event brought together ministers responsible for energy, environment and climate change of the Energy Community Contracting Parties and Observers, high-level officials of the European Commission, central and local government officials, representatives of the private sector and international financial institutions, civil society, non-governmental organisations and academia.

Back-to-back with the forum, the first joint meeting of ministers responsible for energy and environment and climate policy took place on 9 - 10 June 2017 in the Austrian Wachau valley. The ministers discussed the best ways to contribute towards a low-carbon transition of the Energy Community region and endorsed the establishment of an Energy Community Climate Action Group at ministerial level to focus on integrated energy and climate planning in the Contracting Parties.

During this reporting period, the Energy Community Contracting Parties, supported by the Secretariat, also made progress in implementing the three main areas covered by the Sustainability Charter endorsed at the 2016 Western Balkan 6 Summit: improving the governance for energy efficiency; implementing smart support measures that improve the sustainability of energy systems; and fostering climate action and transparency of sustainable energy markets.

With respect to climate action, Albania, Serbia and Montenegro are advancing in the drafting of climate change laws and all Western Balkan six countries are generally fulfilling their reporting obligations to the UNFCCC. As regards measures to improve governance for energy efficiency, progress in transposing the



Sustainability Forum, 9 June 2017, Vienna



² Article 52: The Ministerial Council shall submit an annual report on the activities of the Energy Community to the European Parliament and to the Parliaments of the Adhering Parties and of the Participants.



Informal Ministerial Council, 9 June 2017, Dürnstein

Energy Performance of Buildings Directive was achieved by all Western Balkan six countries. On next-generation support measures for renewable energy deployment, Albania was the first Energy Community Contracting Party to have adopted a law that introduces a competition-oriented auction procedure for the allocation of future renewable energy capacities. Community energy projects and energy cooperatives for the production of renewables continue to grow.

2. On the Homestretch towards Implementing the Third Energy Package

In addition to assisting those Contracting Parties that have not transposed the Third Energy Package yet, the focus of this year's activities was the certification of transmission system operators, for which the deadlines expired in the first half of 2017.

In four of the Energy Community Contracting Parties - Albania, Kosovo*, Montenegro and Serbia, the transmission system operators applied for certification. In three cases, the Secretariat issued its opinion on the national regulatory authority's certification of the respective transmission system operator's compliance with the unbundling provisions of the Third Energy Package. In each case, the Secretariat held a stakeholder hearing. The process was already finalized successfully in Albania, where the transmission system operator was certified by the national regulatory authority and subsequently became a member of the European Network of Transmission System Operators for Electricity (ENTSO-E).

Coordination meetings of Energy Community distribution system operators for electricity (ECDSO-E) and gas (ECDSO-G) continued to act as platforms for sharing best practices in relation to unbundling and other pertinent issues.

The preparation of Third Energy Package Network Codes for adoption in the Energy Community continued to be under way.

3. Creating an Integrated Pan-European Electricity Market

Energy "soft measures", agreed under the Western Balkan 6 (WB6) initiative, continue to be one of the key drivers of electricity market reforms in the Western Balkans. At the 2017 Western



Balkan 6 Summit in Trieste, Italy, leaders highlighted the WB6 Memorandum of Understanding on Regional Electricity Market Development and the Treaty establishing the Energy Community (Title III) as the basis for continued cooperation between the WB6 and neighbouring EU Member States.

During this reporting period, the Secretariat continued to support the WB6 Contracting Parties in reforming their national energy markets and working towards improving the functioning of the regional electricity market. The regional measures specifically target the development of the electricity market in different timeframes, tackling capacity allocation and calculation, spot markets and balancing markets. In this regard, the Secretariat continued to implement the work programme for the provision of technical assistance to the WB6 Contracting Parties under the project "Technical Assistance to Connectivity in the Western Balkans - Component 2: Regional Energy Market" funded by the European Union.

The 2016 Memorandum of Understanding on regional electricity market development signed by WB6 ministries, transmission system operators, national regulatory authorities, and power exchanges has evolved into a common platform of cooperation between the WB6 and EU Member States, focussing on coupling of day-ahead and balancing markets. In 2016 and 2017, the memorandum was signed by twelve stakeholders from neighbouring EU Member States, namely the Italian Ministry of Economic Development, energy regulator and transmission system operator Terna, the Croatian Power Exchange CROPEX, the Romanian transmission system operator Transelectrica, the Greek transmission system operator IPTO and market operator Lagie, three Hungarian stakeholders, namely the Energy and Public Utility Regulatory Authority, the independent transmission operator MAVIR and the Power Exchange HUPX, and three Bulgarian stakeholders, namely the national regulatory authority EWRC, the transmission system operator ESO and the power exchange IBEX.

4. Georgia Joins Energy Community

Georgia officially became the ninth Energy Community Contracting Party on 1 July 2017, putting the country on a firm path towards closer ties with the EU internal energy market and

those of the Energy Community Contracting Parties. Georgia's accession also marks another milestone in the development of the Energy Community.



Signing of Accession Protocol, 14 October 2016, Sarajevo

The Protocol on the Accession of Georgia to the Energy Community Treaty was signed on 14 October 2016, during the fourteenth Energy Community Ministerial Council. Georgia is yet to implement the necessary reforms to align its legal framework with the Energy Community *acquis* by the deadlines stipulated in the protocol. The Secretariat has dedicated its efforts to support Georgia in the transposition and implementation of the *acquis*, including the preparation of a draft energy law aimed at transposing the Third Energy Package in the electricity and gas sectors.

5. The Regulatory Board: Supporting the Development of a Competitive, Efficient and Sustainable Regional Energy Market

In the reporting period, the Energy Community Regulatory Board (ECRB) - the independent regional body of energy regulators in the Energy Community – boosted its already well-established market monitoring activities. For the first time, the ECRB published a comprehensive report on the development of gas and electricity wholesale and retail markets in the Contracting Parties following the approach of the Agency for the Cooperation of Energy Regulators (ACER). Based on a cooperation agreement between ACER and the Secretariat, the report paved the ground for data on Contracting Parties' gas and retail markets to be reflected for the first time in ACER's annual market monitoring report for 2017.

In relation to its responsibilities stemming from the Third Energy Package, ECRB reviewed the preliminary decisions of the Contracting Parties' national regulatory authorities on transmission system operator certification. Regulatory expertise was also shared via a peer review of enforcement practises of national regulators and analysis of the auction rules applicable to the South East Europe Coordinated Auction Office (SEE CAO).

Sector specific ECRB activities during this reporting period focused on reviewing electricity balancing models, gas transmission tariff systems and rules for gas interoperability, regulatory treatment of network losses and customer protection. In context of the latter, the development of brochures providing an

overview of retail market entry requirements and alternative dispute settlement resolution supported national regulators' activities in raising customer awareness.

Further to this, ECRB continued cooperation with other regional regulatory bodies such as the Council of European Energy Regulators and the Mediterranean Energy Regulators by holding joint events on customer protection, regulatory independence and regional electricity market development. Knowledge sharing with ACER and European regulators on electricity day-ahead market integration granted regulatory support to the related targets of the Western Balkans 6 process.

6. First Summer School Kicks-off in Tirana



Energy Community Summer School, 26 August - 2 September 2017, Ohrid

The first Energy Community Summer School took place on 3 - 10 September 2016 in Tirana, gathering together 40 post-graduate students and young professionals representing 27 nationalities. The eight-day programme consisted of 32 expert lectures and interactive group works. Following the success of the first summer school, the 2017 edition took place on 26 August – 2 September in Ohrid.

An annual event, the Energy Community Summer School aims to promote the development of participants' competences in all topics related to energy through a dedicated multi-disciplinary programme. With the help of the school, participants are to understand the energy sectors in their full complexity. The summer

school is a platform for exchange and shaping the sectors' future.

The summer school is organized by the Energy Community Secretariat with the support of the Open Regional Fund for South-East Europe – Energy Efficiency (ORF-EE), as implemented by the German organization Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), and the Visegrad Fund in cooperation with academic institutions.

7. EU4Energy Governance: Improving the Legislative and Regulatory Environment in the Eastern Neighbourhood

The Energy Community Secretariat is one of the implementing partners of the EU4Energy Programme, covering the "EU4Energy Governance" project together with the Energy Charter Secretariat. Supported by direct grant agreements with the European Commission, the initiative covers three Energy Community members - Georgia, Moldova and Ukraine and three Eastern Partnership countries - Armenia, Azerbaijan and Belarus.

The Secretariat's Eastern Partnership Assistance Unit has kicked off technical assistance to improve the legislative and regulatory environment for the energy sector in the participating countries in line with their EU and Energy Community Treaty obligations. Concrete actions include supporting Ukraine and Moldova in electricity market reform, promoting multi-stakeholder dialogue to support the adoption of energy efficiency legislation in Ukraine; and identifying key regional energy infrastructure projects with the aim of fostering trade and improving security of supply.

8. Dispute Resolution Centre Takes Shape

In October 2016, the Secretariat established a Dispute Resolution and Negotiation Centre. The Centre focuses on negotiations and mediation of investor-state disputes and offers negotiation support to national authorities in their negotiations with private parties. The Centre also aims to facilitate the swift closure of dispute settlement cases under the Energy Community Treaty via tailor-made negotiation and mediation facilities. Since its launch, the Centre has already successfully facilitated several negotiations and disputes.

During this reporting period, Secretariat's Centre facilitated the settlement of disputes between Gas Natural Fenosa and the Government of Moldova on the recovery of electricity tariff deviations and between Albanian investor associations and Albanian authorities on investments in small hydropower installations. It also facilitated the agreement on the application of principles of mutual recognition of licenses and reciprocity with the Energy Regulatory Office in Kosovo* and conducted the first mediation as part of the Energy Community dispute settlement procedure related to the alleged non-compliance with Energy Community law of environmental permits of two thermal power plants in the Federation of Bosnia and Herzegovina.

9. EBRD and Secretariat Strengthen Partnership for Sustainable Energy Development



Signing of the Memorandum of Understanding between EBRD and Secretariat, 9 June 2017, Vienna

The European Bank for Reconstruction and Development (EBRD) and the Energy Community Secretariat signed a Memorandum of Understanding strengthening the organisations' cooperation in the field of sustainable development with a focus on sustainable energy policy in the Western Balkans, Moldova, Ukraine and Georgia. The two organisations agreed to work together to contribute to an enabling environment for sustainable investment and a smooth transition towards sustainable, low-carbon economies in Southeast Europe and the Black Sea region. The agreement, signed on 9 June 2017 in Vienna, brought new opportunities for cooperation on sustainability issues, including climate change.

b. Events



Vienna Forum on European Energy Law, 5 May 2017, Vienna

This reporting period the Secretariat hosted a record 70 official events with almost 3.000 participants, not taking into account *ad-hoc* workshops and working group meetings.

With its public events, the Energy Community Secretariat sought to highlight the most imperative issues facing the Energy Community region. This included the conference "Nord Stream 2 and its Impact on Europe Conference" and the first Sustainability Forum. The most widely attended event was the Vienna Forum on European Energy Law with over 150 experts from energy companies, regulators, governments, academia and legal firms taking part.



Ministerial Council, 14 October 2016, Sarajevo

c. Communication Tools

The Energy Community website, together with the news and latest documents subscription service, continued to act as the main communication tool with stakeholders. In addition, the Secretariat has continued to increase its social media presence, particularly with respect to Facebook and Twitter. Moreover, the Secretariat continued to be the focal point for journalists seeking pertinent information on energy developments in the Contracting Parties.

On 29 June 2017, the Secretariat re-launched the Energy Community website. The new website provides improved functionalities and a simplified structure designed to highlight the most useful information. The new website features responsive design and modern looks. The search function was also improved. It brings all legal documents into one section, which also includes a user-friendly dispute settlement case registry. When applicable, the *acquis* is displayed as a consolidated version together with the relevant cross reference documents and descriptions. Another new feature is the Energy Community Infrastructure Transparency Platform (PLIMA), featuring an interactive map, key project data and diverse statistical charts for monitoring the Projects of Energy Community Interest and Projects of Mutual Interest.

d. Studies and Publications

In May 2017, the Secretariat published the fourth edition of the Energy Community Legal Framework. The new edition spans the directives and regulations currently in force in the Energy Community and the key measures and procedural acts adopted by the Energy Community institutions.

While continuing to publish regular monitoring reports on the Western Balkan 6 regional electricity market and Central and South-Eastern European Gas Connectivity (CESEC) initiatives, the Secretariat commenced reporting on implementation of the WB6 Sustainability Charter which aims to support the transition towards low-carbon and climate-resilient energy sectors.

This year saw the publication of the first comprehensive report assessing Georgia's compliance with the *acquis communautaire*. The Energy Community Secretariat also published policy recommendations aimed at assisting Armenia, an Observer to the Energy Community Treaty, to design and implement effective reform measures in its energy sectors.



Report on Energy Governance in Georgia

In March 2017, the Secretariat launched a new publication - Energy Community Connected - News across the Energy Community Region aimed at highlighting energy issues of high relevance for both the Energy Community Contracting Parties and EU Member States.

In terms of studies, the Secretariat published two studies on extending the Energy Community Treaty to include rules on public procurement and value added tax in the Energy Community legal order.

e. Staff

During the reporting period, the Energy Community Secretariat brought together 34 professionals (20 women and 14 men), representing diverse expertise from all areas covered by the Energy Community Treaty. In addition to its permanent staff members, the Secretariat also employed 23 temporary personnel (15 women and 8 men), including interns and research fellows. The staff employed represented 25 nationalities from all over Europe.

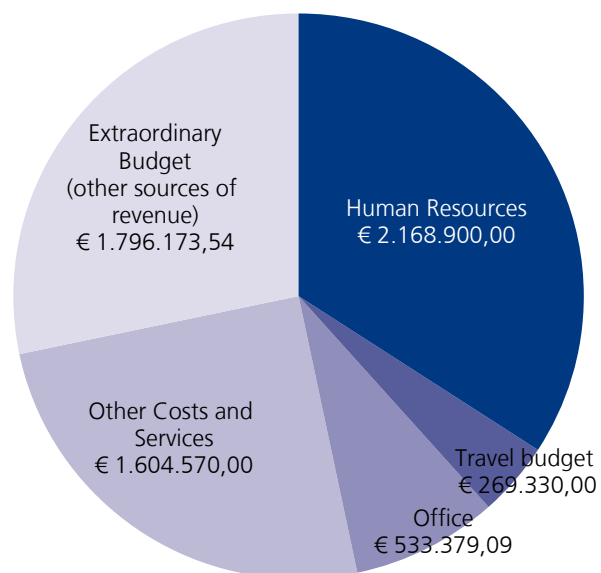
f. Energy Community Budget 2016

The Energy Community is funded by contributions from the Parties to the Energy Community Treaty. The EU remains the largest contributor, accounting for roughly 95% of the contributions.

On top of the Parties' contributions, other sources of revenue, totalling to EUR 1.796.174, were assigned to defined expenditures arising from the implementation of the following initiatives/regional projects: EU4ENERGY Programme (EUR 1.052.929); technical assistance to connectivity in the Western Balkans on creating a regional electricity market (EUR 516.650); donation for office rent expenditures from the Republic of Austria (EUR 171.953); other initiatives, including the Vienna Forum on European Energy Law and the Energy Community Advisory Committee (EUR 40.000); and the Energy Community Summer School (EUR 14.642).

The final budget for 2016 amounted to EUR 6.372.353.

Breakdown of Final Budget 2016 (6,372,352.63 EUR)



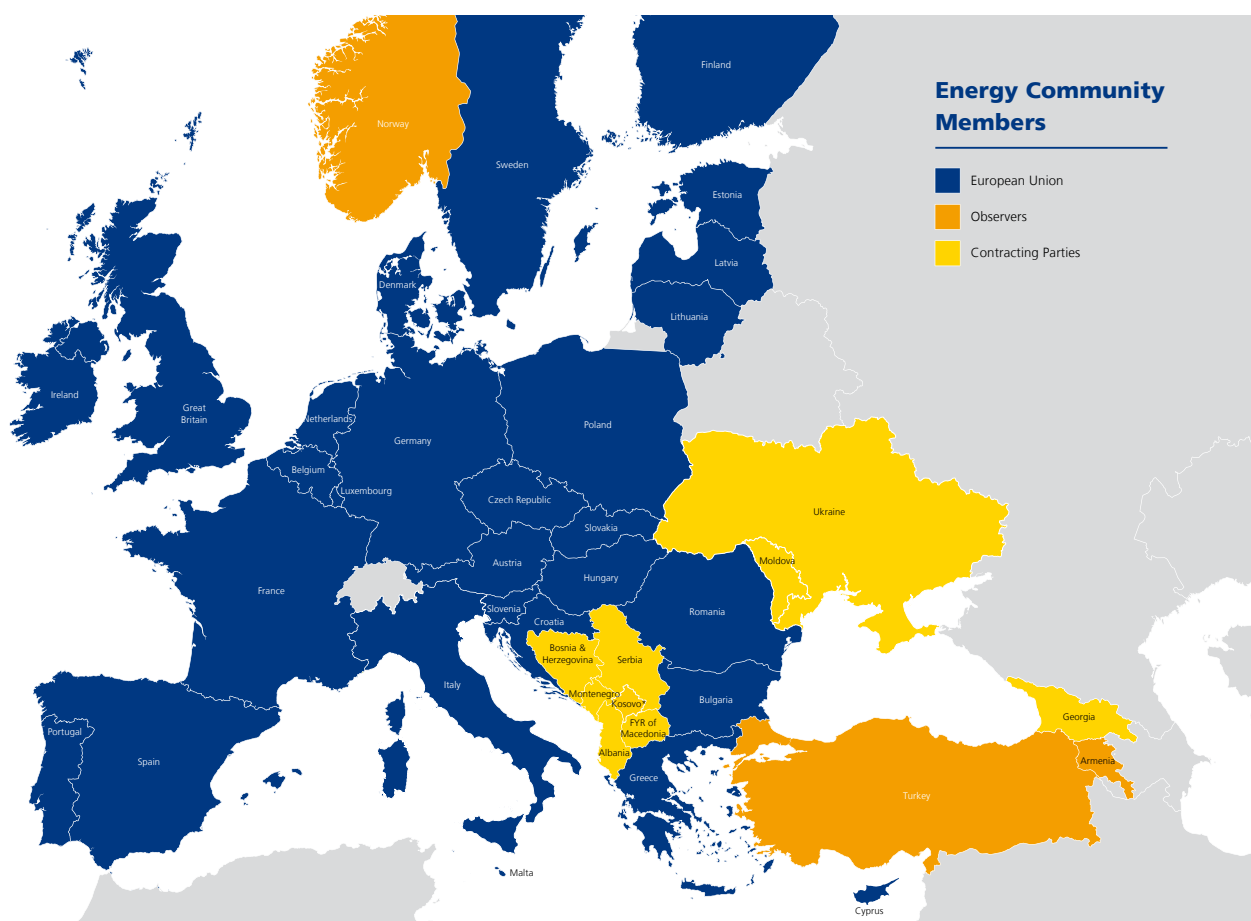


3 Introduction

a. The Energy Community

The Energy Community extends the European Union (EU) internal energy market to its neighbouring countries. The principle objectives of the Energy Community are to create a regulatory and market framework which is capable of attracting

investments for a stable and continuous energy supply. This paves the way for an integrated energy market, allowing for cross-border trade and integration with the EU market. The Energy Community strives to enhance security of supply and competition, and to improve the environmental situation in its Contracting Parties.



Source: Energy Community Secretariat

The Treaty establishing the Energy Community was signed in October 2005 in Athens. Following ratification by all Parties, the Treaty entered into force on 1 July 2006. As of 1 September 2017, the Parties to the Treaty are the European Union, and nine Contracting Parties, namely Albania, Bosnia and Herzegovina, Georgia, Kosovo*, former Yugoslav Republic of Macedonia, Moldova, Montenegro, Serbia and Ukraine. Georgia

joined the Energy Community on 1 July 2017, marking the third expansion of the Treaty.

Pursuant to Article 95 of the Energy Community Treaty, the European Union Member States can obtain the status of a Participant to the Treaty. Currently 20 of the 28 EU Member States are Participants to the Treaty, namely Austria, Bulgaria,

Croatia, Czech Republic, Cyprus, France, Finland, Germany, Greece, Hungary, Italy, Latvia, Lithuania, the Netherlands, Poland, Romania, Slovakia, Slovenia, Sweden and the United Kingdom. Armenia, Norway and Turkey are Observers under Article 96 of the Treaty.

b. The Institutions

The implementation of the *acquis* is backed up by a strong institutional setting. This includes the Ministerial Council, as the supreme decision-making body, and the Permanent High

Level Group (PHLG), which prepares the work of the Ministerial Council. The Energy Community Regulatory Board (ECRB) and the Fora for electricity, gas, and oil have an advisory role towards the decision-making bodies.

The necessity to further strengthen the role of the institutions to better support the achievements of the Energy Community Treaty's objectives was one of the key findings of the Energy Community High Level Reflection Group Report in 2014. A process is currently under way to implement some of the Group's proposals.

Energy Community Institutional Setting



Source: Energy Community Secretariat

c. Acquis

The Energy Community *acquis communautaire* under Title II of the Treaty comprises the core EU legislation in network energy, environment, competition, renewable energy, energy efficiency, oil and statistics. In the Energy Community context, network energy consists of electricity, gas and oil.

As a response to the evolution of EU energy law, the Treaty envisages the swift incorporation of new EU legislation to the Energy Community upon proposal by the European Commission. After entry into force of the Treaty, the Energy Community *acquis* has been extended several times.

The latest wave of expanding the scope of the *acquis* was at the 2016 Ministerial Council, which adopted four decisions in the area of environment. The decisions served to update the Environmental Impact Assessment and the Sulphur in Fuels Directives and introduced the Strategic Environmental Assess-

ment and the Environment Liability Directives to the extent they relate to energy.

The 2016 Ministerial Council also took the first steps towards integrating climate issues in the context of the Energy Community by adopting a Recommendation 2016/02/MC-EnC on the implementation of Regulation (EU) 525/2013 on a mechanism for monitoring and reporting greenhouse gas emissions. This report makes the first assessment of the state of play of climate action in the Contracting Parties.

The tables below display the Energy Community *acquis communautaire* presently in force. The implementation deadlines have been set by the respective Ministerial Council decisions. Due to their later accession, some of the implementation deadlines differ for Moldova and Ukraine. As this report does not yet assess Georgia's compliance, the deadlines for Georgia are not included.



Acquis on Electricity

Title of Document	General Implementation Deadline	Implementation Deadline Moldova / Ukraine
Directive 2009/72/EC concerning common rules for the internal market in electricity and repealing Directive 2003/54/EC	1 Jan 2015	1 Jan 2015
Regulation (EC) 714/2009 on conditions for access to the network for cross-border exchanges in electricity and repealing Regulation (EC) 1228/2003	1 Jan 2015	1 Jan 2015
Regulation (EU) 838/2010 on laying down guidelines relating to the inter-transmission system operator compensation mechanism and a common regulatory approach to transmission charging	1 Jan 2014	1 Jan 2014
Regulation (EU) 543/2013 on submission and publication of data in electricity markets and amending Annex I to Regulation (EC) 714/2009	24 Dec 2015	24 Dec 2015

The electricity *acquis* sets minimum requirements for the establishment of competitive electricity markets, including the development of coherent, transparent and non-discriminatory security of supply policies.

Whilst the general deadline for the Third Energy Package electricity *acquis* was 1 January 2015, Decision 2011/02/MC-EnC granted separate deadlines for Article 9 of Directive 2009/72/EC. The unbundling of transmission system operators was to take place on 1 June 2016 and 1 June 2017 at the latest for

Article 9(1) and Article 9(4) respectively.

Similarly Article 11 on certification in relation to third parties was to be implemented no later than 1 January 2017. The present report is the first report that measures the Contracting Parties' compliance against all Third Energy Package provisions.

The report also includes for the first time dedicated country sections on implementation of Transparency Regulation (EU) 543/2013.



Acquis on Gas

Title of Document	General Implementation Deadline	Implementation Deadline Moldova / Ukraine
Directive 2009/73/EC concerning common rules for the internal market in natural gas and repealing Directive 2003/55/EC	1 Jan 2015	Moldova: Article 9: 1 Jan 2020
Regulation (EC) 715/2009 on conditions for access to the natural gas transmission networks and repealing Regulation (EC) 1775/2005	1 Jan 2015	1 Jan 2015

The gas *acquis* establishes the main principles of gas market liberalisation.

Just like electricity, Decision 2011/02/MC-EnC sets separate deadlines for Article 9 of Directive 2009/73/EC on the unbundling of transmission system operators, namely of 1 June 2016 and 1 June 2017 for Article 9(1) and Article 9(4) respectively. Article 11 on certification in relation to third parties is to be implemented no later than 1 January 2017.

In view of the unique characteristics of its gas market, the Ministerial Council Decision 2012/05/MC-EnC granted Moldova an extended implementation deadline. As regards the provisions of Article 9 of Directive 2009/73/EC, the deadline of 1 January 2020 applies for Moldova. For the rest, this report assesses for the first time the Contracting Parties' compliance against the entire set of provisions of the Third Energy Package in the gas sector.



Acquis on Security of Supply

Title of Document	General Implementation Deadline	Implementation Deadline Moldova / Ukraine
Directive 2005/89/EC concerning measures to safeguard security of electricity supply and infrastructure investment	31 Dec 2009	Moldova: 31 Dec 2010 Ukraine: 1 Jan 2012
Directive 2004/67/EC concerning measures to safeguard security of natural gas supply	31 Dec 2009	Moldova: 31 Dec 2010 Ukraine: 1 Jan 2012

The Energy Community Security of Supply Directives establish measures aimed at safeguarding security of energy supply so as to ensure the proper functioning of the pan-European internal market for electricity and gas. The security of supply policies

set by the Contracting Parties must be general, transparent and non-discriminatory in order to be compatible with the requirements of a competitive single market.



Acquis on Infrastructure

Title of Document	General Implementation Deadline
Regulation (EU) 347/2013 on guidelines for trans-European energy infrastructure	1 Jan 2017

The purpose of TEN-E Regulation (EU) 347/2013 is to streamline the permitting procedure and facilitate investments in energy infrastructure in order to achieve the Energy Community's energy and environment policy objectives. The Regulation as adapted for the Energy Community establishes rules for identifying projects of Energy Community significance.

Pursuant to Regulation (EU) 347/2013, the Ministerial Council adopted the first list of Projects of Energy Community Interest (PEICs) and Projects of Mutual Interest (PMIs) in October 2016. This includes in eight in electricity and eleven in gas transmission and one in oil sector.

When part of this list, the projects benefit from streamlined

permitting procedures within Contracting Parties and where applicable from cross-border cost allocation. They may also be eligible for European Union technical and financial assistance from the Instrument for Pre-Accession Assistance (IPA) and the Neighbourhood Investment Facility (NIF).

While the general implementation deadline expired on 1 January 2017, different deadlines apply for certain provisions of the Regulation. The deadline to implement Article 8(1) on designating a single national competent authority expired on 30 June 2017, while a number of additional deadlines (e.g. for publishing the manual of procedures for the permit granting process to ensure transparency and public participation) are yet to expire.



Acquis on Environment

Title of Document	General Implementation Deadline	Implementation Deadline Moldova / Ukraine
Directive 2011/92/EU on the assessment of the effects of certain public and private projects on the environment, as amended by Directive 2014/52/EU		1 Jan 2019
Directive (EU) 2016/802 relating to a reduction in the sulphur content of certain liquid fuels		30 Jun 2018
Commission Implementing Decision (EU) 2015/253 laying down the rules concerning the sampling and reporting under Council Directive 1999/32/EC as regards the sulphur content of marine fuels		1 Jan 2018
Directive 2001/80/EC on the limitation of emissions of certain pollutants into the air from large combustion plants		31 Dec 2017
Directive 2010/75/EU of 24 November 2010 on industrial emissions (integrated pollution prevention and control)	new plants: 1 Jan 2018 existing plants: 1 Jan 2028	existing plants/ Ukraine: SO ₂ and dust:: 1 Jan 2029 NO _x : 1 Jan 2034
Article 4(2) of Directive 79/409/EEC on the conservation of wild birds	1 Jul 2006	Moldova: 31 Dec 2010 Ukraine: 1 Jan 2015
Directive 2004/35/EC on environmental liability with regard to the prevention and remedying of environmental damage, as amended by Directive 2006/21/EC, Directive 2003/31/EC and Directive 2013/30/EU		1 Jan 2021
Directive 2001/42/EC on the assessment of the effects of certain plans and programmes on the environment		31 Mar 2018

The 2016 Ministerial Council adopted four decisions expanding the current scope of the environmental *acquis*. The decisions update the Environmental Impact Assessment Directive and the Sulphur in Fuels Directive to ensure their application in the Energy Community in their latest versions and introduce two new directives, namely the Strategic Environmental Assessment Directive 2001/42/EC and the Environment Liability Directive 2004/35/EC. Given that their implementation deadlines have not expired yet, no detailed compliance assessment is provided for these directives in the present report.

The objective of Directive 2004/35/EC is to establish a framework for environmental liability based on the 'polluter-pays' principle in order to prevent and remedy environmental damage. The Ministerial Council adapted the scope of the Directive in order to limit the liability of operators to the extent they relate to the energy sector.

Directive 2001/42/EC aims to provide for a high level of protection of the environment and to contribute to the integration of environmental considerations into the preparation and adoption of plans and programmes with a view to promoting sustainable development, by ensuring that an environmental assessment is carried out of certain plans and programmes

which are likely to have significant effects on the environment.

The overall aim of the Large Combustion Plants Directive 2001/80/EC is to reduce emissions of acidifying pollutants, particles, and ozone precursors. By Decision 2013/05/MC-EnC, Article 4(6) of Directive 2001/80/EC was adapted for the specific purposes of the Energy Community, including the period for using National Emission Reduction Plans which will expire on 31 December 2027.

Based on Ministerial Council Decision 2013/06/MC-EnC, the provisions of Chapter III, Annex V, and Article 72(3) - (4) of the Industrial Emission Directive 2010/75/EU are applicable to new plants as from 2018 onwards. According to Ministerial Council Decision 2015/06/MC-EnC, Contracting Parties shall implement those provisions in the case of existing plants by 1 January 2028 at the latest. Prior to that date, they shall endeavour to implement the provisions of Chapter III and Annex V within the shortest possible timeframe, in particular in the case of retrofitting existing plants. For Ukraine, the implementation deadlines for existing plants are set at 1 January 2029 for SO₂ and dust and 1 January 2034 for NO_x by Ministerial Council Decision 2015/07/MC-EnC.

Acquis on Competition

The *acquis* on competition (Articles 18 and 19 of the Treaty) rests on three pillars:

1. The prohibition of anticompetitive agreements established by Article 101 of the Treaty on the Functioning of the European Union (TFEU);
2. The prohibition of abuse of a dominant position provided for in Article 102 of the TFEU; and
3. The prohibition of State aid granted in violation of Article 107 of the TFEU.

With reference to Article 106 of the TFEU, public undertakings,

including undertakings providing services of general economic interest, must also comply with the above rules.

The Contracting Parties are under an obligation to introduce, to the extent the trade of network energy between the Contracting Parties may be affected, rules prohibiting cartels (agreements between undertakings, decisions by associations of undertakings and concerted practices), abuses of a dominant position, and rules prohibiting State aid. Moldova and Ukraine are under the same obligation from May 2010 and February 2011 respectively. The respective prohibitions are to be applied to public undertakings and undertakings to which special or exclusive rights have been granted by virtue of Article 19 of the Treaty.



Acquis on Renewable Energy

Title of Document	General Implementation Deadline	Implementation Deadline Moldova / Ukraine
Directive 2009/28/EC on the promotion of the use of energy from renewable sources	1 Jan 2014	1 Jan 2014

By Decision 2012/03/MC-EnC, the Ministerial Council adopted Directive 2009/28/EC and determined the Contracting Parties' binding national targets to be achieved through the use of renewable energy in the electricity, heating and cooling, and transport sectors by 2020. For determining the targets, a similar methodology as for the EU Member States was applied.

The present report contains detailed renewables trajectory charts for each Contracting Party. These take stock of the Contracting Parties' uptake of renewable energy so far and forecast their share of renewable energy in gross final energy consumption based on current and planned policy initiatives until 2020.



Acquis on Energy Efficiency


Title of Document	General Implementation Deadline
Directive 2012/27/EU on energy efficiency, amending Directives 2009/125/EC and 2010/30/EU and repealing Directives 2004/8/EC and 2006/32/EC	15 Oct 2017
Directive 2006/32/EC on energy end-use efficiency and energy services and repealing Council Directive 93/76/EEC	31 Dec 2011
Directive 2010/30/EU on the indication by labelling and standard product information of the consumption of energy and other resources by energy-related products	31 Dec 2011
Directive 2010/31/EU on the energy performance of buildings	30 Sep 2012

Directive 2010/31/EU provides the legal framework for setting minimum energy performance requirements for new and existing buildings. Directive 2010/30/EU and the corresponding implementing regulations establish the legal framework for labelling and consumer information regarding energy consumption for energy-related products.

The Energy Services Directive will be repealed from 15 October 2017 when the Energy Efficiency Directive, which set for the first time an energy efficiency target at the Energy Community level, shall take effect in Contracting Parties. The only exception remains Article 4(1) to (4) relating to the adoption of Energy Efficiency Action Plans (EEAP), and in particular the deadline for 3rd EEAP adoption, which was 30 June 2016. This Article shall continue to apply until 1 January 2020.


In the present Implementation Report, the Secretariat assesses the Parties' compliance with both directives. Regarding the Energy Efficiency Directive, the focus is in particular on the provisions for which the deadlines have already expired in 2017, notably Article 4 on establishing a long-term strategy for mobilising investment in the renovation of the national stock (30

March 2017); Article 5 on establishing and publishing an inventory of heated and/or cooled central government buildings with a total useful floor area of over 500 m² (1 January 2017); and Article 7(2) on carrying out the calculation on saving targets under the energy efficiency obligation scheme (15 March 2017).

 Acquis on Oil	
Title of Document	General Implementation Deadline
Council Directive 2009/119/EC imposing an obligation on Member States to maintain minimum stocks of crude oil and/or petroleum products	1 Jan 2023

Council Directive 2009/119/EC (Decision 2012/03/MC-EnC) introduced an obligation to maintain minimum stocks of crude oil and/or petroleum products by 1 January 2023. By this deadline, the Contracting Parties are to maintain at least a minimum level of emergency stocks of crude oil and/or petroleum products and to put in place the necessary procedural means to deal with a serious shortage of oil supply.

The 2016 Ministerial Council adopted a General Policy Guideline concerning a Roadmap on Implementation of Certain Deadlines of Directive 2009/119/EC in the Energy Community in order to assist the Contracting Parties by setting out intermediate deadlines for progressing towards the Directive's full implantation. All Contracting Parties were invited to follow the guidelines and a stepwise approach to bringing into force the laws, regulations and administrative provisions necessary to comply with the Directive by 31 December 2017.

 Acquis on Statistics	
Title of Document	General Implementation Deadline
Directive 2008/92/EC concerning a Community procedure to improve the transparency of gas and electricity prices charged to industrial end-users	31 Dec 2013
Regulation (EU) 431/2014 amending Regulation (EC) 1099/2008 on energy statistics, as regards the implementation of annual statistics on energy consumption in households	31 Dec 2016
Regulation (EU) 147/2013 amending Regulation (EC) 1099/2008 on energy statistics, as regards the implementation of updates for the monthly and annual energy statistics	31 Dec 2013
Regulation (EC) 1099/2008 on energy statistics	31 Dec 2013

The Ministerial Council's 2013 Decision 2013/02/MC-EnC to include statistical *acquis* aims to ensure the collection, compilation and dissemination of consistent, accurate and coherent energy related data. A year later, the Ministerial Council adopted Regulation (EU) 147/2013 in order to keep pace with developments in the European Union. By Decision 2015/02/MC-EnC, the Ministerial Council adopted Regulation (EU) 431/2014, amending Regulation (EC) 1099/2008 as regards the implementation of annual statistics on energy consumption in households.

The Contracting Parties' annual and monthly statistics are to follow the harmonized methodology developed by the Statistical Office of the European Union (EUROSTAT) and the International Energy Agency (IEA). Price statistics shall follow EUROSTAT rules and methodology. With the amendments in Regulation (EU) 431/2014, the Parties are additionally required to generate detailed statistics on final energy consumption and ensure their gradual integration into the statistical scope.

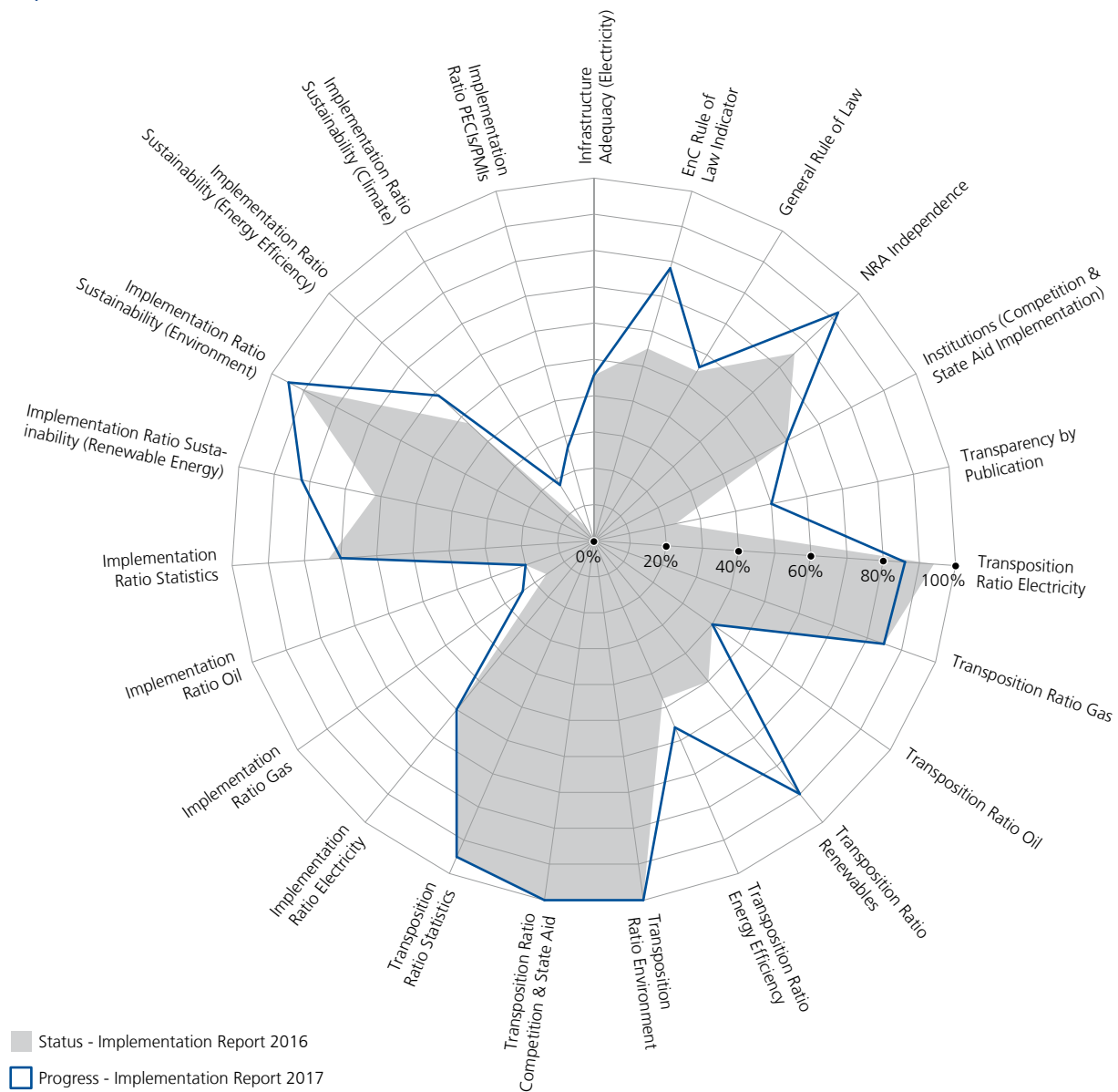


04 | Albania

4

Albania

Implementation Indicators Radar of Albania



Source: Compiled by the Energy Community Secretariat

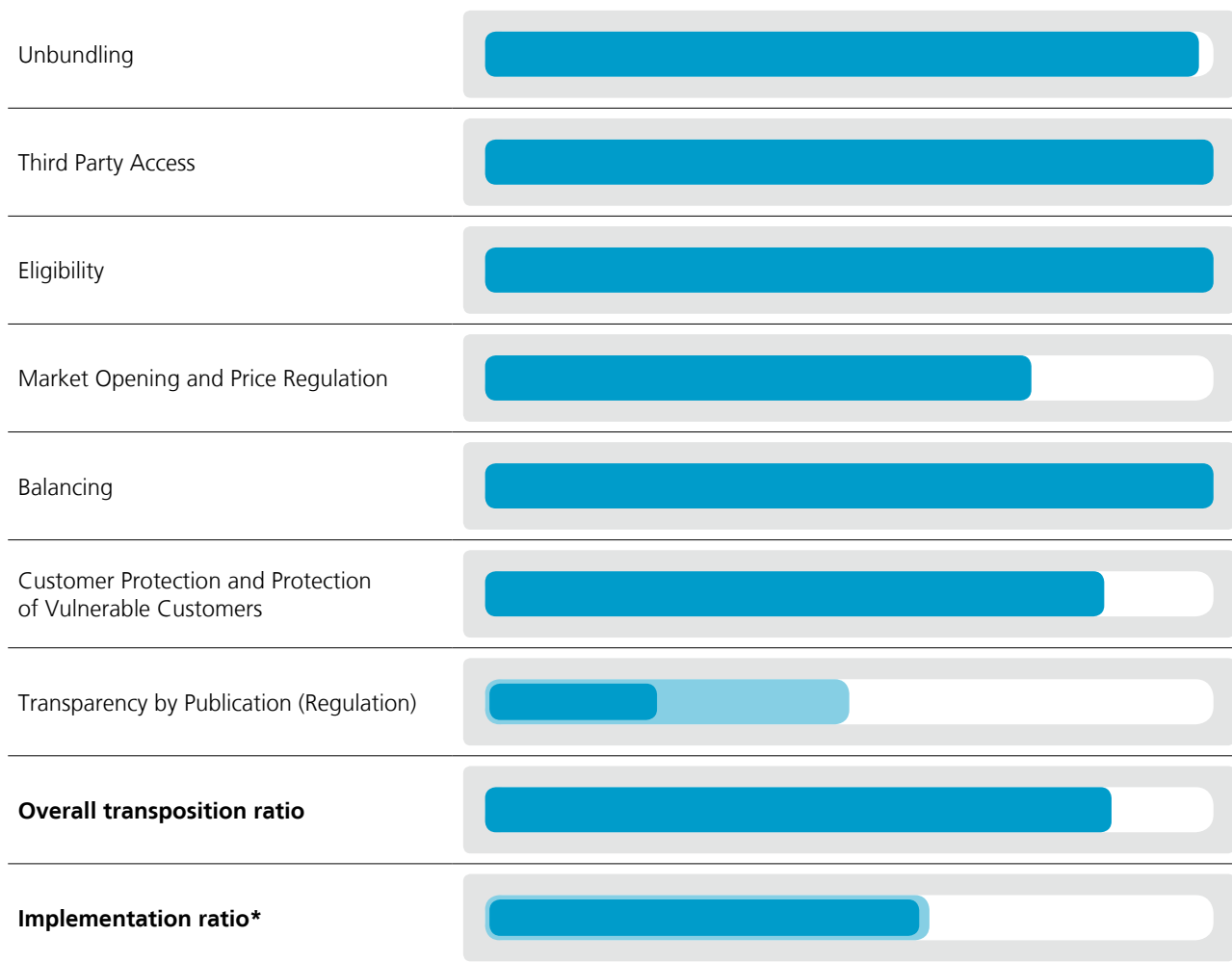
Albania was the first among the Energy Community Contracting Parties to have a transmission system operator, TAP AG, certified under Third Energy Package procedures. During the reporting period, it has continued its good performance in this respect with the certification of the electricity system operator OST. At the same time, the urgently needed further reform

steps for the electricity sector have been delayed. The deadlines for further liberalization and establishment of a power exchange will be missed. Progress was achieved in the sustainability dimension, with adoption of legislation in the field of renewable energy and energy efficiency, and the establishment of the Energy Efficiency Agency.



Albania

4.1 Electricity



Status - Implementation Report 2016 Progress - Implementation Report 2017

* actual implementation: unbundling, third party access rules etc.

Source: Compiled by the Energy Community Secretariat

a. Sector Overview

Albania's electricity generation relies exclusively on hydro resources. Its wholesale market is dominated by the state-owned generation company Korporata Elektroenergjitike Shqiptare (KESH), which operates three large hydro facilities and one, currently non-functional thermal power plant. KESH provides electricity for supply to the majority of customers under public service obligations, for covering transmission and distribution network losses and for balancing and ancillary services. A number of independent hydropower plants produce electricity under power purchase agreements (PPA) with the state-owned company OSHEE.

The transmission system is operated by Operatori i Sistemit te Transmetimit (OST). In 2017, OST was certified by the Energy Regulatory Entity (ERE) as the transmission system operator of Albania and subsequently became a member in ENTSO-E.

The electricity market model adopted by the government in July 2016 defines a roadmap for electricity market reforms in the electricity sector of Albania. At its heart lies the project for establishment of an Albanian Power Exchange (APEX), which has been, however, delayed as a consequence of the political situation in the country. The initial deadline for the decision on the legal and corporate structure of APEX expired on 31 March 2017. The Market Model empowers the minister to decide on the new deadline before the end of 2017.

Electricity Facts and Figures

Description of data [unit]		2015	2016
Electricity production [GWh]		5.865	7.136
Net imports [GWh]		2.355	1.827
Net exports [GWh]		956	1.869
Gross electricity consumption [GWh]		7.264	7.094
Losses in transmission [%]		2,0%	2,25%
Losses in distribution [%]		31,3%	28,04%
Consumption of energy sector [GWh]		24	23
Final consumption of electricity [GWh]		5.069	5.084
Consumption structure [GWh]	Industrial, transport, services and other non-residential sectors	2.547	2.497
	Households (residential customers)	2.522	2.587
Net maximum electrical capacity of power plants [MW]		1.895	1.936
of which:	oil-fired	98	98
	hydro, total	1797	1838
Horizontal transmission network [km]	Length of transmission power lines [km]	3.026	3.298
	Substation capacity [MVA]	4.026	4.026
	Number of interconnectors	5	6
Electricity customers	Total number of customers	1.244.716	1.189.478
	out of which: non-households	164.653	160.484
	Eligible customers under national legislation	1.244.716	1.189.478
	Active eligible customers	7	10
Internal market	Electricity supplied to active eligible customers [MWh]	610.207	502.895
	Share of final consumption [%]	12,0%	9,8%

Source: Ministry of Energy and Industry of Albania

Albania is working with Kosovo* on developing a legal framework for market integration including coverage by the Albanian power exchange for both territories. However, a declaration for creating a common electricity market signed in March 2016 has not been followed up by concrete activities. There is general consent for the transmission system operator of Kosovo* to participate as a shareholder in APEX, yet the final agreement between the competent ministers is pending. The 400 kV interconnection line with Kosovo* commissioned in June 2016 is still not utilized for commercial transactions as a consequence of the electricity disputes between Kosovo* and Serbia.

b. State of Compliance

The Power Sector Law of 2015 transposes Directive 2009/72/EC and Regulation (EC) 714/2009. However, the secondary legislation still needs to be adjusted to ensure actual implementation of the Third Energy Package.

1. Unbundling

As required by the Power Sector Law, the transmission system operator OST was unbundled following the ownership unbundling model. The Ministry of Economy is the public body representing the Albanian state as the shareholder in OST, while the Ministry of Energy and Industry represents the state as the shareholder in KESH and in the supply and distribution company OSHEE. Following the Secretariat's Opinion 01/17, the

regulatory authority ERE certified OST as the transmission system operator of Albania on 15 March 2017. Several conditions requested by the Secretariat and specified in the Certification Decision still need to be fulfilled by OST, however.

The distribution system operator (DSO) OSHEE is still legally and functionally bundled with supply activities, with not even unbundled accounts in line with Article 31 of Directive 2009/72/EC. The provisions on the adoption of a compliance programme and appointment of a compliance officer according to Article 26 of Directive 2009/72/EC are transposed by the law, but still not implemented. Albania is in breach of Directive 2009/72/EC in this respect for more than two years already.

2. Third Party Access

Third party access to the transmission and distribution systems as required by Article 32 of Directive 2009/72/EC, as well as provisions on congestion management as required by Regulation (EC) 714/2009 and its Annex are transposed by the Power Sector Law.

However, the transmission and distribution tariff methodologies were not updated after the adoption of the Power Sector Law and the existing transmission and distribution tariffs from 2014 have just been extended until the end of 2017. The network operators OST and OSHEE still do not publish their tariffs, which is in contravention of the obligations from Directive 2009/72/EC.

OST allocates interconnection capacities on the borders with Montenegro and Greece through SEE CAO, whereas split auctions are still applied with the transmission system operator of Serbia for the 220 kV lines on the Albania's border with Kosovo*.

3. Eligibility

The Power Sector Law grants a right to choose their supplier to all customers as required by Article 33 of Directive 2009/72/EC. In line with the law, switching rules were adopted and published by ERE in 2016. In practice, however, only 10 large customers have switched their supplier so far.

4. Market Opening and Price Regulation

The wholesale market is dominated by the state-owned generation company KESH, which sells to the public supplier OSHEE the electricity needed for the majority of final customers at regulated prices in accordance with the Council of Ministers' decision imposing public service obligation. That decision is not in compliance with Directive 2009/72/EC. Moreover, a full supply contract between KESH and OSHEE keeps foreclosing the wholesale market.

The Power Sector Law deregulated prices of generation and supply to all customers connected to high voltage lines (110 kV and above), and for those with an annual consumption over 50 million kWh. The Law also set a deadline for deregulation of prices of supply to 35 kV customers by 1 July 2016 and for 20 kV by 1 January 2017. These deadlines were not respected. Price regulation for supply for customers connected to 10 kV and 0.6 kV are to be phased-out by the end of 2017 according to the Law. An action plan for phasing out price regulation for low voltage (0.4 kV) customers until 2019 is defined by the market model.

The procurement of electricity to cover losses by the transmission and distribution system operators also violates the Power Sector Law and Directive 2009/72/EC.

5. Balancing

The transmission system operator should procure balancing services using market-based, non-discriminatory and transparent procedures, including through cross-border cooperation, in accordance with the Power Sector Law and the market model adopted in 2016. However, the (provisional) electricity market rules currently applied are not in compliance with Articles 15(7) and 37(6)(b) of Directive 2009/72/EC. Instead of a functional balancing market, the procurement of balancing services by OST is based on a regulated annual contract with KESH. The imbalance settlement mechanism is implemented in a discriminatory manner following the decision of ERE to exempt KESH from balance responsibility. This is in breach of the Energy Community requirements. Activities to adopt new balancing rules and establish a market-based balancing mechanism in

Albania are ongoing.

6. Customer Protection and Protection of Vulnerable Customers

The Power Sector Law transposes the basic requirements for contractual obligations with customers and their rights as provided in Article 3 of Directive 2009/72/EC.

The Power Sector Law also addresses vulnerable customers in general terms and imposes an obligation on the government to adopt a definition as required by Directive 2009/72/EC. Currently the identification of vulnerable customers is a competence of the Ministry for Social Affairs. The vulnerable customers are partially supported through a mechanism financed from the state budget.

7. Transparency

The Power Sector Law defines the obligation for data publication, however, without transposing Regulation (EU) 543/2013 completely. A secondary act on data publication, drafted by the regulator with a view to transpose the regulation fully, still needs to be adopted.

Data on load forecasts, transmission infrastructure, installed generation capacity and imbalance prices and volumes are published on the OST website. However, most of the data required by the Regulation are still missing. Data on unavailability of transmission capacity are submitted directly to ENTSO-E, while the remaining capacity allocation data are submitted to ENTSO-E by SEE CAO. No data on market performance as required by the Regulation are published.

c. Conclusions and Priorities

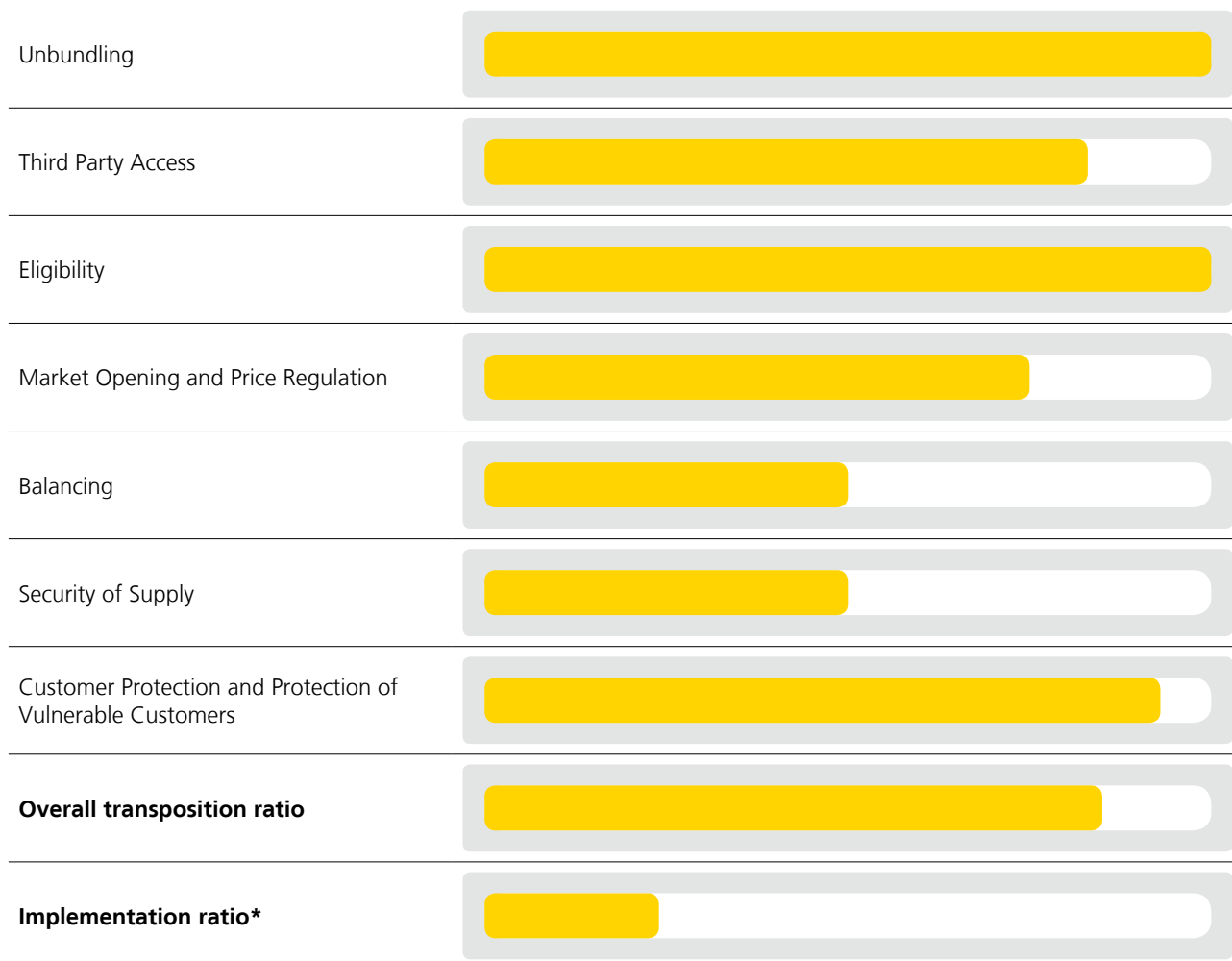
As a priority of 2016, the implementation of the Power Sector Law and adoption of the secondary legislation is behind schedule. The OST certification procedure is completed but a compliance mechanism is still required. New rules for switching, balancing and congestion management were adopted by ERE to partially bridge the regulatory gap, however, compliant market rules, balancing rules and network codes are not yet in place. The unbundling of OSHEE, deregulation of prices for generation and supply and the establishment of the Albanian power exchange are also in delay.

The development of a complete and compliant set of rules for the organized wholesale market and competitive forms of supply, access and operation of the networks, balancing and protection of customer rights is a priority. The same goes for the implementation of the market model and establishment of the power exchange APEX. Unbundling of OSHEE and the revision of the non-compliant public service obligations as well as abandoning generation price regulation is a priority. Balance responsibility needs to be established in a compliant manner along with the mechanism of a competitive balancing market.



Albania

4.2 Gas



Status - Implementation Report 2016 Progress - Implementation Report 2017

* actual unbundling, tariffs, network codes, market prices supply ratio, SoS secondary acts etc.

Source: Compiled by the Energy Community Secretariat

a. Sector Overview

Albania currently has no gas market. Its gas sector is characterised by marginal domestic production of gas (up to 34 mcm in 2015), the majority of which is consumed for own use in oil production and refining industry, and by the outdated and underdeveloped pipeline network of 498 km, which is mostly not operational. The country is not connected to international gas networks.

During the reporting period, Albania focused on the finalisation of the Gas Master Plan for Albania, as well as on the development of *acquis*-compliant gas market secondary legislation pursuant to the Law on Natural Gas Sector adopted in September 2015.

The Trans Adriatic Pipeline (TAP) is currently under construction. TAP will open the route for gas supplies from the Shah Deniz II field in Azerbaijan and link the country with European gas markets through connections with Greece and Italy. The pipeline is planned to be operational in 2020.

Further gas infrastructure and market developments in Albania will also be closely linked with the actual implementation of other projects envisaged by the Gas Master Plan, including Ionian Adriatic Pipeline (IAP), potential liquefied natural gas (LNG) and gas storage facilities and the refurbishment of the internal gas pipeline network.

b. State of Compliance

Albania's gas sector is governed by the 2015 Law on Natural Gas Sector, which is widely compliant with the *acquis*. The most significant development during this reporting period is the continued elaboration of secondary legislation. The Ministry of Energy and Industry and the national regulatory authority ERE, in cooperation with the Secretariat, developed and adopted a number of legal acts regulating the organisation of the gas market. The entire package is expected to be in force in the first quarter of 2018.

1. Unbundling

The operator of TAP, TAP AG, was unbundled as an independent transmission operator (ITO) certified by ERE on 31 March 2016.

On 7 December 2016, the Council of Ministers adopted a decision spinning off the gas unit of the previously vertically integrated undertaking Albpetrol and establishing a new company, Albgaz. The existing gas infrastructure, including the gas pipeline network, previously owned by Albpetrol is planned to be transferred to the ownership of Albgaz, which is designed as a combined operator performing transmission and distribution of gas. The state is the sole shareholder of Albgaz and its shareholding rights are exercised by the Ministry of Economic Development, Tourism, Trade and Entrepreneurship. Following the company's application, ERE adopted a preliminary certification decision on 26 May 2017 and submitted it to the Secretariat for its opinion. Albgaz is planned to be certified by the end of 2017.

2. Third Party Access

The requirements for non-discriminatory access to the transmission and distribution networks as well as to LNG and storage facilities are established by the Law on Natural Gas Sector in compliance with the Third Energy Package.

Domestic and cross-border gas transmission are treated at equal conditions, provisions to establish a separate tariff for each entry and exit point to/from the transmission grid are in place, the principles for capacity allocation and congestion management are established, and ERE is empowered with adequate tariff-setting competences. However, secondary legislation is still missing and tariff systems are yet to be adopted. ERE started drafting the Transmission Grid Code and transmission tariff methodology. The development of the Distribution Grid Code is also pending.

3. Eligibility

Under the Law on Natural Gas Sector, all customers are eligible and therefore allowed to freely choose and switch their gas supplier.

4. Market Opening and Price Regulation

The Law on Natural Gas Sector provides for an open gas market operating under market-based principles. Household customers and small enterprises are entitled to regulated gas supplies under public service obligations. Supply of last resort is foreseen for all customers. Operational rules regulating the supply of gas under public service obligations are yet to be developed through secondary legislation and the supplier (or suppliers) in charge have to be designated.

5. Balancing

The Law on Natural Gas Sector, in compliance with Regulation (EC) 715/2009, requires the adoption of market-based balancing rules designed in a fair, non-discriminatory and transparent manner and applied in line with objective criteria. Balancing rules have to be adopted by the transmission system operator subject to ERE's approval and may be an integral part of the Transmission Grid Code.

6. Security of Supply

The Law on Natural Gas Sector transposes the general provisions of Directive 2004/67/EC and Directive 2009/73/EC on security of gas supply, including on national monitoring competences, reporting obligations and safeguard measures. Furthermore, it requires that the Council of Ministers adopts an emergency plan which shall specify adequate minimum security of supply standards and regulate provisions for securing reliable and efficient gas supplies. The government approved the emergency plan.

7. Customer Protection and Protection of Vulnerable Customers

The Law on Natural Gas Sector transposed the majority of requirements under Directive 2009/73/EC with regard to customer protection. Missing provisions, such as establishment of single points of contact, are yet to be elaborated through secondary legislation.

The Law on Natural Gas Sector defines vulnerable customers and sets the general principles for their protection. However, the criteria and procedures for determining who qualifies as a vulnerable customer are yet to be adopted by the Council of Ministers.

c. Conclusions and Priorities

Albania achieved progress as regards the priorities set out in the previous Implementation Report by continuing with the development of *acquis*-compliant gas market secondary legislation. In particular, Albania progressed significantly by unbundling Albpetrol and establishing an ownership unbundled transmission system operator, Albgaz.

It is now important to ensure that the remaining secondary legal acts are developed and adopted so as to ensure the legal certainty in the gas market needed for its further development. Capacity building of the authorities in charge of decision-making in the gas sector, foremost ERE, also remains one of the key priorities for the country. Full implementation of owner-

ship unbundling rules and certification of Albgaz should be completed without delay. Supporting and cooperation on the implementation of the TAP project will continue to be a priority for the gas sector in Albania as well as the adoption and implementation of the Gas Master Plan for Albania.



Albania

4.3 Regulatory Authority

The Energy Regulatory Entity (ERE) has been set up in line with the *acquis* with the exception of a rotation scheme for board members that is not defined by law but is, nevertheless, applied in practice. The authority is headed by a board of five commissioners. The term of board members is limited to five years, renewable once. Management has autonomy in relation to the organisation of the regulatory authority's internal structure including staff appointment and setting of salaries, defining the authority's annual work programme as well as setting up and managing the annual budget. ERE is held accountable for its activities by having to present its annual report to parliament.

ERE is equipped with all gas and electricity sector related competences required by the Third Energy Package, except for a few exceptions that have not been transposed explicitly, namely the obligations of ERE to comply with legally binding Energy Community Regulatory Board decisions, publish recommendations in relation to compliance of supply prices with public service obligation limits, impose measures to promote competition and, most importantly, require transmission and distribution system operators to change their terms and conditions. A serious concern is the failure of the Albanian gas and electricity

sector legislation to comply with the penalty level defined by the Third Energy Package. The maximum penalty level at ERE's disposal is below the required threshold which weakens the effectiveness of regulatory enforcement.

On the performance side, ERE failed to enforce unbundling of OSHEE and upheld non-market-based electricity balancing rules that have been subject to revision only recently on the Secretariat's initiative. Similarly, clarity on the applicable fees for access to the electricity distribution system required intervention by the Secretariat. This shows that ERE must still prove its ability to fully live up to its powers granted by law, which certainly is also a result of lack of human resources. The latter has been constantly challenged over the last years due to salary restrictions.

On the other hand, it has to be acknowledged that with the limited resources available the regulator made considerable efforts to develop secondary legislation. ERE was the first regulator of the Contracting Parties to certify its national transmission system operators - albeit not yet fully in line with the Secretariat's Opinion (Secretariat's Opinion 04/2017, 01/17, 01/16).



Albania

4.4 Oil

a. Sector Overview

Albania is the largest exporter of crude oil in the Energy Community. In 2016, exports decreased by 9.9% compared to 2015 (872 mt compared to 968 mt), whereas crude oil production decreased by 17,5% (1,06 mt compared to 1,28 mt).

As regards the production of refined petroleum products, the volume of 174,6 kt processed in 2016 constitutes a decrease by 31,8% compared to 2015. The volume of exported petroleum products also decreased by 51,6% to 99,6 kt. The same goes for the import of petroleum products which decreased by 9% to a level of around 1,14 mt in 2016. The overall consumption of petroleum products in 2016 is estimated at 1,05 mt.

The state-owned Albpetrol is active in the development, production and trade of crude oil. The government plans to privatize Albpetrol in 2016 failed. ARMO Oil Refinery in Ballsh declared bankruptcy in 2016. Following eight months of closure, the refinery is now in operation due to an agreement reached with the largest oil producer in Albania, Bankers Petroleum, by selling up to 65% of its crude oil to the refinery.

In June 2016, Shell commenced drilling an appraisal well at Shpiragu-3 oilfield with a total budgeted investment of USD 72 million.

b. State of Compliance

Albania's emergency oil stockholding system is governed by the Law on Processing, Transportation and Marketing of Oil, Gas and their Products, as amended, and government decrees from 2004 and 2007. However, the current system is not compliant with Directive 2009/119/EC.

Albania prepared a draft Law on Emergency Oil Stockholding in 2015, which had foreseen the creation of a central stockholding entity (CSE) fully responsible for Albania's stockholding obligation as required under the Directive as of 1 January 2023. This draft was reviewed again in 2016 by the Ministry of Energy and Industry. At that time, the main open issue concerned the shared obligations between the administration and the oil industry. The intention of the Ministry of Energy and Industry is to finalize the draft law by the end of 2017.

c. Conclusions and Priorities

For the second year in a row, no real progress has been achieved with regard to priorities identified in the Implementation Report. None of the suggested actions have been followed up. Albania's main priority should be to take a decision on the oil stock holding model.

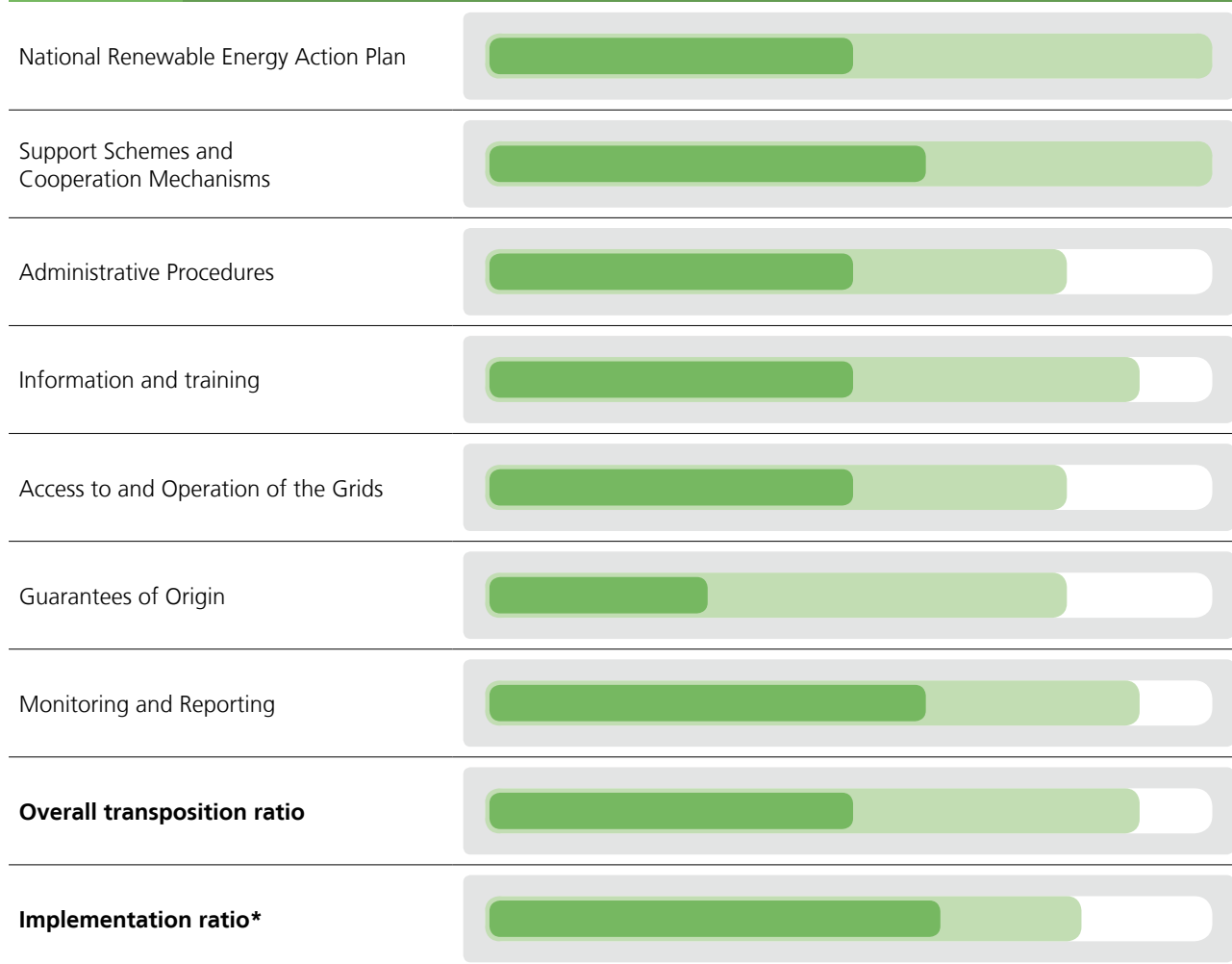
In particular, the following actions should be taken:

- Approving the final Law on Emergency Oil Stockholding;
- Approving the action plan for building up emergency oil stocks to 90/61 days;
- Drafting of relevant secondary legislation; and
- Establishing and starting operation of a monthly data collection process necessary for operating the emergency oil stockholding system and meeting reporting requirements under Directive 2009/119/EC.



Albania

4.5 Renewable Energy



Status - Implementation Report 2016 Progress - Implementation Report 2017

* actual implementation of NREAP and progress towards 2020 RES target

Source: Compiled by the Energy Community Secretariat

a. Sector Overview

Albania has committed to a binding 38% target of energy from renewable sources in gross final energy consumption in 2020, starting with 31,2% in 2009. In 2015, according to the energy balance published by EUROSTAT, Albania achieved a 34,9% share of energy from renewable sources, above the third indicative trajectory of 34,3%.

In February 2017, a new Law on Promotion of the Use of Energy from Renewable Sources that partially transposes Directive 2009/28/EC was adopted. The Law introduces the granting of support to renewable energy producers through a tendering procedure based on contracts for difference on top of the market price of electricity. It also incorporates an auction

scheme for renewable capacities greater than 2 MW and a net metering scheme for photovoltaic (PV) panels on rooftops with a capacity of up to 500 kW.

A draft Law on Renewables in Transport, which would transpose the requirements of Directive 2009/28/EC with respect to sustainability criteria and certification of biofuels, was developed a few years ago. Its adoption has been pending ever since.

b. State of Compliance

With the adoption of the 2017 Law on Promotion of the Use of Energy from Renewable Sources, Albania increased its compliance with the renewable energy *acquis*. However, the implementation of the new approach for granting support for

Renewable Energy Facts and Figures

	2014	2015	2016
Total capacities (MW)	1726	1797	1838
Hydropower, out of which:	1726	1797	1838
- small hydropower (<10 MW)	134	177	231
Total consumption of energy from renewable sources* (ktoe)	681,9	713,6	
- out of which biomass (ktoe)	205,6	216,7	
Gross final energy consumption (ktoe)	2129,9	2044,8	
RES share (%)	32,0%	34,9%	
RES electricity (ktoe)	475,5	496,9	
Total Electricity generated (ktoe)	669,9	627,2	
RES share in electricity (%)	71,0%	79,2%	
RES in heating and cooling (ktoe)	205,6	216,7	
Total energy consumed for heating and cooling (ktoe)	663,7	627,1	
RES share in heating and cooling (%)	31,0%	34,6%	
RES in transport (ktoe)	0	0	
Total energy consumed in transport (ktoe)	801,1	791,8	
RES share in transport (%)	0,0%	0,0%	

Source: Energy and Industry of Albania

new projects in compliance with Guidelines on State Aid for Environmental Protection and Energy 2014 - 2020 was postponed until 2021.

1. National Renewable Energy Action Plan

The second progress report on the promotion of renewable energy for the years 2014 - 2015 was submitted to the Secretariat in January 2017. The modelling results and forecasts to 2020 revealed that Albania would not reach the 2020 target. Adequate measures to increase investments in renewable energy projects other than hydropower have to continue and investor confidence in the Albanian renewable energy market needs to be restored.

2. Support Schemes

Currently, there is no support scheme for the promotion of energy from renewable sources, with the exception of hydropower. To ensure compliance with the Guidelines on State Aid for Environmental Protection and Energy 2014 - 2020, the new Law on Promotion of the Use of Energy from Renewable Sources introduced a support scheme based on contracts for difference, which are equivalent to a sliding feed-in premium system. The total support available will be determined by auctions for producers above 2 MW of installed capacity. The renewable energy producers will sell the electricity in the market and receive the variable premium as the difference between the auction price and the electricity market price. Implementing rules for the net metering scheme for PV-panels on rooftops with a capacity of up to 500 kW introduced by the new Law

were being drafted at the time of publication of this report.

3. Cooperation Mechanisms

The provisions related to possible cooperation mechanisms between Albania and other Contracting Parties or EU Member States to reach the 2020 targets have been transposed in the new Law on Promotion of the Use of Energy from Renewable Sources.

4. Administrative Procedures

The timeframe for handling applications and the coordination between different institutions was improved by the designation of the National Centre for Energy Applications as a one-stop shop for renewable energy projects. Albania still has to ensure compliance with the requirements of Article 13 of the Renewable Energy Directive for streamlined and simplified procedures.

5. Access to and Operation of the Grids

The Law on Power Sector provides for priority and guaranteed access of renewables to the network and priority dispatch of electricity from renewable sources. However, secondary legislation is incomplete. In practical terms, transmission and distribution system operators have to improve the methodology determining the costs of connection to the grid or grid reinforcements and transparency towards investors. Standard balance responsibility is required for all renewable energy producers larger than 2 MW. However, this is not happening in practice. Currently, Albania fails to implement the requirements

related to access to and operation of the grids detailed in Article 16 of Directive 2009/28/EC.

6. Guarantees of Origin

The regulation on the issue, transfer and cancellation of guarantees of origin remains to be adopted by the regulatory authority as the designated body. Currently, Albania is not in compliance with this requirement.

7. Renewable Energy in Heating and Cooling

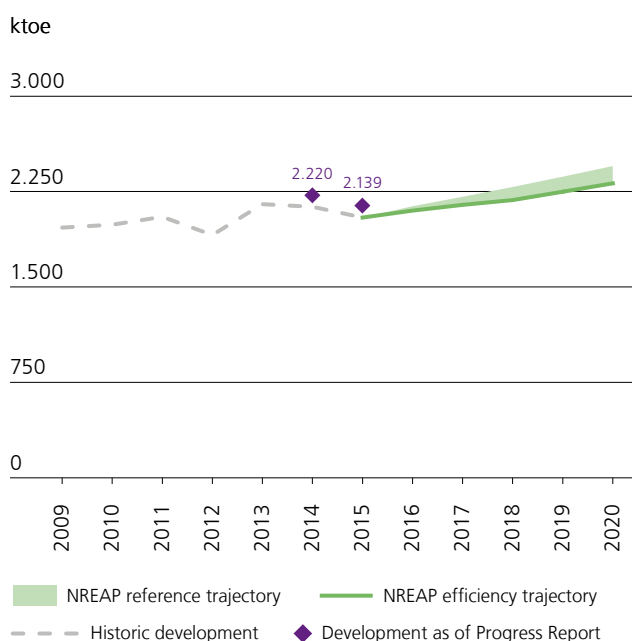
Compliance with respect to policy measures to promote the use of energy from renewable sources in the heating and cooling sector remains at a low level, since it is only marginally addressed in the recently adopted Law on Promotion of the Use of Energy from Renewable Sources. More progress in this area is expected due to the adoption of the new Law on Energy Performance of Buildings in November 2016. The Law includes provisions for incorporating renewable energy technologies in newly built or renovated buildings to transform them into nearly zero-energy buildings. The establishment of an energy


efficiency fund would also contribute to financing renewable energy projects in the heating and cooling sector.

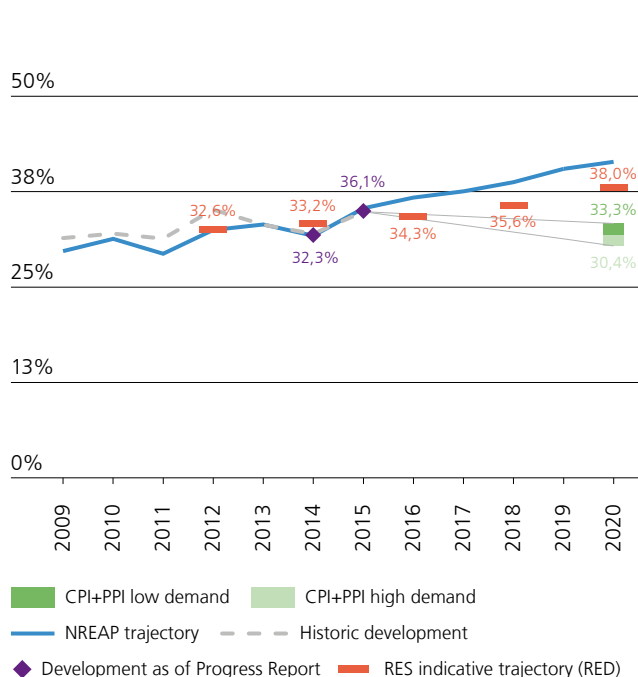
8. Renewable Energy in Transport

Given the lack of progress during this reporting period, the compliance status of renewable energy in the transport sector remains the same as in the previous Implementation Report. The 2017 Law on Promotion of the Use of Energy from Renewable Sources only briefly mentions the transport sector, and the 10% renewables target by 2020 in the transport sector from Directive 2009/28/EC is only imposed by the country's NREAP. The existing Law on the Production, Transport and Trade of Biofuels and other Renewable Fuels in Transport of 2008 is not compliant with Directive 2009/28/EC and was actually never enforced. Either this Law has to be amended or a new Law on Promotion of the Use of Energy from Renewable Sources is developed in order to transpose the requirements for the sustainability regime and to establish a certification scheme and the relevant verification body as required by Article 18 of Directive 2009/28/EC, and as announced by the NREAP.

 Evolution and Forecast of Gross Final Energy Consumption in Albania (2009-2020)



 Evolution and Forecast of Renewable Energy Share in Gross Final Energy Consumption of Albania (2009-2020)



Source: Technical University Vienna, Assessment of the Progress in the Promotion and Use of Renewable Energy in the Energy Community, July 2017

c. Conclusions and Priorities

In this reporting period, the adoption of the Law on Promotion of the Use of Energy from Renewable Sources was the main step towards ensuring compliance with the Renewable Energy Directive and formulating the policy measures needed to reach the 2020 targets. Furthermore, it ensures compliance with the

Guidelines on State Aid for Environmental Protection and Energy 2014 - 2020, though only from 2021.

The methodology for the calculation of the support scheme applicable to existing producers shall be finalised and agreed to regain investor interest in the domestic renewable energy market.

Network operators have to adapt their grid development plans to accommodate more renewable energy and increase transparency towards potential investors regarding connection and access to the grids. Implementation of the net-metering scheme that allows self-consumption of electricity produced on-site would boost citizen participation in the energy transition and enable a reduction of distribution grid losses. The national regulatory authority is still to review the regulation on the implementation of the system for certifying energy produced from renewable sources based on guarantees of origin, thus re-

moving the confusion between guarantees of origin certificates and “green tradable certificates” existing in the regulation.

Without a sustainability certification scheme in place, even the small existing biofuel consumption cannot be counted towards the renewable energy target. Adoption of a law transposing requirements of Directive 2009/28/EC in the transport sector is of utmost priority to boost the very low share of biofuels on the oil fuel market.





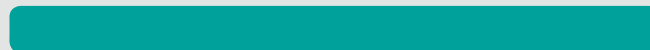
Albania

4.6 Energy Efficiency

Energy Services Directive 2006/32/EC and Energy Efficiency Directive 2012/27/EU (Roadmap)



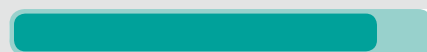
Energy Labelling Directive 2010/30/EU



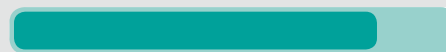
Energy Performance of Buildings Directive 2010/31/EU



Overall transposition ratio



Implementation ratio*



● Status - Implementation Report 2016 ● Progress - Implementation Report 2017

* achievement of energy efficiency target and implementation of EEAPs (institutions and coordination, funding, ESCO market, exemplary role of public sector, ongoing programmes)

Source: Compiled by the Energy Community Secretariat

a. Sector Overview

The final energy consumption of Albania increased in the period 2012 – 2014, and then slightly decreased in 2015 while the gross domestic product (GDP) continued to grow. Transport and residential sectors constitute the highest share of total final energy consumption (41% and 26% respectively). This indicates the need to improve energy efficiency policy and implement energy efficiency measures to utilize the high energy efficiency potential available in the country.

During this reporting period, concrete progress was achieved with the adoption of the Law on the Energy Performance of Buildings and establishment of the Energy Efficiency Agency (as the key implementing body). On the other hand, Albania is in a serious delay as regards the adoption of secondary legislation to implement the legislation in force.

b. State of Compliance

Despite the important progress in strengthening of the legal and institutional framework for energy efficiency, Albania is lagging behind in implementation and remains non-compliant in many areas.

1. Energy Services Directive 2006/32/EC and Energy Efficiency Directive 2012/27/EU

Albania adopted the Law on Energy Efficiency in November

2015, which transposed the provisions of Directive 2006/32/EC and some key provisions of Directive 2012/27/EU. This includes the requirement to set the 2020 indicative energy savings target, adopt an EEAP and its monitoring, the exemplary role of the public sector, energy audits, obligation schemes and promotion of the market for energy services. It also envisages the establishment of an energy efficiency agency and an energy efficiency fund. The Energy Efficiency Agency was formally established by the government in December 2016, while the process of establishing the fund is ongoing.

Albania has not adopted the 2nd and the 3rd EEAP and the set of secondary legislation to implement the Law on Energy Efficiency. The country thus fails to comply fully with Directive



Non-transposition of the Energy Services Directive

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On 19 May 2017, the Secretariat submitted a Reasoned Request to the Ministerial Council for Albania's failure to transpose the Energy Services Directive 2006/32/EC in Case ECS-10/13 initiated on 25 November 2013. The Secretariat challenged in particular the lack of compliance with provisions related to energy audits, the exemplary role of the public sector and model contracts for financial instruments, as well as the lack of adoption of the second Energy Efficiency Action Plan.

Energy Efficiency Facts and Figures

Energy Efficiency Action Plan (EEAP)*					
Period covered by EEAP		2010 - 2018 (1 st EEAP) 2010 - 2020 (draft 2 nd EEAP)			
Overall energy savings target - Directive 2006/32/EC (ktoe / % / year)		168 / 9 / 2018			
EEAP status		Last draft of 2 nd and 3 rd EEAP submitted in March 2016 (still not finalised and adopted)			
Achieved energy savings (ktoe / % / year)		Under preparation (to be reported as part of the 2 nd EEAP)			
Key institution(s) in charge		Ministry of Energy and Industry (MEI), Energy Efficiency Agency (EEA)			
Main data and energy efficiency indicators**		2012	2013	2014	2015 ***
Total primary energy supply (TPES)	ktoe	1.995	2.320	2.336	2.228
Energy Intensity (TPES/GDP)	toe / 1000 USD	0,16	0,18	0,18	0,17
TPES/Population	toe/capita	0,69	0,80	0,81	0,77
Total final energy consumption (TFEC)	ktoe	1.820	2.098	2.131	2.076
Share of TFEC by sector	Residential	28%	28%	26%	26%
	Services	9%	10%	8%	9%
	Industry	15%	13%	17%	14%
	Transport	40%	38%	39%	41%
	Others	6%	4%	6%	6%
	Non-energy use	2%	7%	4%	4%

* Source: draft 2nd / 3rd EEAP

** Source: International Energy Agency (June 2017)

*** Indicators calculated by the Energy Community Secretariat based on EUROSTAT energy balances for 2015

2006/32/EC and Directive 2012/27/EU. The case of non-compliance with Directive 2006/32/EC is currently subject to an infringement procedure.

With respect to the Energy Efficiency Directive, Albania missed the first reporting deadlines foreseen in the Energy Efficiency Directive, as follows: 30 March 2017 for Article 4, 1 January 2017 for Article 5, 15 March 2017 for Article 7, and 30 June 2017 for Article 24(1).

2. Energy Labelling Directive 2010/30/EU

The Law on Information of the Consumption of Energy and Other Resources by Energy-Related Products of June 2012 transposed the framework Energy Labelling Directive 2010/30/EU. However, the development of secondary legislation for energy labelling of certain products is still pending, including those transposing the EU regulations adopted by the Ministerial Council in September 2014. Albania is still not in compliance with the labelling delegated acts.

3. Energy Performance of Buildings Directive 2010/31/EU

With regard to energy efficiency in buildings, the Law on Energy Performance of Buildings was adopted in November 2016, which brought to an end the dispute settlement case initiated by the Secretariat. However, Albania still needs to adopt the necessary secondary legislation in order to achieve full compliance with Directive 2010/31/EU.



Rectification of Failure to Transpose Directive on Energy Performance of Buildings

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In November 2016, Albania adopted legislation transposing Directive 2010/31/EU on the Energy Performance of Buildings and notified it to the Secretariat. Hence, the breach established by Ministerial Council Decision 2016/09/MC-EnC of 14 October 2016 in Case ECS-10/16 has been rectified.

c. Conclusions and Priorities

Albania achieved progress in the reporting period with the adoption of the Law on Energy Performance of Buildings and establishment of the Energy Efficiency Agency.

However, the speedy adoption of the 2nd and the 3rd EEAP and the set of by-laws to implement the new legislation are essential for Albania's compliance with the energy efficiency *acquis*. As was the case with the establishment of the agency, the Secretariat will continue to support the setting up of a dedicated energy efficiency fund, which will enable the effective financing of measures and projects in the field of energy efficiency in Albania.

Albania should also prioritize the work on full transposition of the Energy Efficiency Directive and adoption of technical regulations dealing with labelling of energy-related products.



Albania

4.7 Environment

Environmental Impact Assessment Directive



Sulphur in Fuels Directive



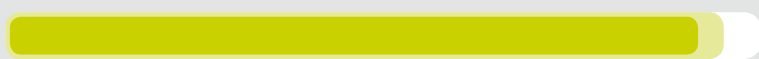
Large Combustion Plants Directive and other Acquis on Environment

Deadline not yet expired

Overall transposition ratio



Implementation ratio*



■ Status - Implementation Report 2016 ■ Progress - Implementation Report 2017

* Environmental Performance Indicators (EPI) on air quality, climate and energy; LCPD implementation preparedness

Source: Compiled by the Energy Community Secretariat

a. Sector Overview

With regard to environmental impact assessment, the Law on Environmental Protection of 2011 lays down the basic principles of the procedure. It is complemented by the Laws on Environmental Impact Assessment and on Environmental Permits of 2013, with the Law on Environmental Impact Assessment amended in 2015. In terms of secondary legislation, environmental impact assessment is regulated by a Decision Establishing Rules, Procedures and Deadlines for Environmental Impact Assessment of 2013 (amended in 2015) and a Decision Establishing Rules, Requirements and Procedures for Informing and Involving the Public in Environmental Decision-Making of 2014. Furthermore, a Decision on establishing the Rules and Procedures for the Assessment of Transboundary Environmental Impact was adopted in 2015. Environmental impact assessments have to be submitted to the Ministry of Environment as the competent authority.

Between September 2016 and May 2017, 104 environmental impact assessments were carried out.

With regard to the Sulphur in Fuels Directive, it is to be noted that Albania has two refineries, located in the municipalities of Ballsh and Fier. The refinery in Ballsh went bankrupt in 2016 and was closed for eight months. After a new operator took over, the refinery is back in operation. Both refineries produce heavy fuel oil and gas oil. The Decision on the Quality of Some Liquid Fuels for Civil and Industrial Thermal Usage and for the Use in Marine Transport (seas, rivers and lakes) transposes the

requirements of the Directive into national law. The General Directorate for Standardization has aligned the applicable Albanian standards to the Directive's requirements for the sampling and analysis of fuels.

With regard to emissions from larger combustion plants, it is to be recalled that Albania has only one thermal power plant in Vlora which is currently not in operation. The legal framework governing the emissions of large combustion plants consists of the Law on Environmental Permits.

Several protected area systems exist within Albania, which can be divided between Emerald Sites and Ramsar Sites, which are both related to international networks. Furthermore, the national systems include national parks, managed reserves (with various levels of protection) and nature monuments. With regard to special protective areas for wild birds, four sites have been identified as very important and two as important.

b. State of Compliance

Albania has reached a high level of transposition of the Energy Community environmental *acquis*.

1. Environmental Impact Assessment Directive

With the current legislative framework in place, Albania has transposed the provisions of the Environmental Impact Assessment Directive.

2. Sulphur in Fuels Directive

The former breach of Article 3(1) and 6(2) of the Sulphur in Fuels Directive was rectified by the Decision on the Quality of some Liquid Fuels for Civil and Industrial Thermal Usage and for the Use in Marine Transport (seas, rivers and lakes) and the decisions of the General Directorate for Standardization. With those amendments in place, Albania has transposed the Sulphur in Fuels Directive.

Albania still must transpose the provisions of the Directive relating to marine fuels by the deadline of 30 June 2018.

3. Large Combustion Plants Directive

The Law on Environmental Permits adopted in 2011 transposes the requirements of the Large Combustion Plants Directive into national law and the emission limit values are fully aligned with those of the Directive. The Law requires continuous monitoring for plants with a rated thermal input of 100 MW or more, which is also in line with the Directive's requirements. It establishes a three-level environmental permitting system (type A, B and C) based on the size of the installation, its activity and its potential to cause environmental pollution and to threaten human health. All activities referred to in Annex I to the Industrial Emissions Directive, including large combustion plants, belong to type A activities (with the highest potential to cause harm to human health or the environment).

The currently non-operational thermal power plant (TTP) Vlora is capable of meeting the requirements of the Industrial Emissions Directive.

4. Wild Birds Directive

In May 2017, a new Law on Protected Areas was adopted, defining special protective areas in accordance with the requirements of the Wild Birds Directive and mandating the National Agency for Protected Areas for their designation. Therefore, Albania is in the position to properly implement the Directive.

c. Conclusions and Priorities

In last year's Implementation Report, the Secretariat concluded that efforts should be focused on the practical implementation of the provisions of the environmental directives as well as on capacity building of the authorities responsible for their implementation. This conclusion remains still valid. In particular, the Ministry of Environment and the National Environmental Agency should be adequately staffed to handle environmental impact assessments and strategic environmental assessments. Similarly, the authorities responsible for the testing and sampling of liquid fuels should be equipped with the necessary human and technical resources to carry out inspections verifying that the limits of the sulphur content of heavy fuel oil and gas oil are met in practice.

Furthermore, Albania, as a coastal state, should proceed with the adoption of legislation bringing the legal requirements for the sulphur content of marine fuels in compliance with Energy Community law.





Albania

4.8 Climate

a. Sector Overview

Albania is a non-Annex-I party to the United Nations Framework Convention on Climate Change (UNFCCC) and ratified the Paris Agreement in November 2016.

Albania submitted its Third National Communication on climate change to the UNFCCC in October 2016. So far, no Biennial Update Report was submitted by Albania to the UNFCCC Secretariat. Within its Nationally Determined Contribution (NDC), Albania committed to reduce CO₂ emissions by 11,5% compared to a baseline scenario in the period 2016 - 2030 (708 kt CO₂ reduction in 2030). Its NDC is currently under revision in order to include data on land use, land-use change and forestry (LULUCF).

The Ministry of Environment, Forests and Water Administration of Albania is the governmental agency responsible for the implementation of climate commitments. The government is currently working on the finalization of the National Climate Change Strategy and its two annexes, the National Action Plan on Mitigation (NAPM) and the National Adaptation Plan (NAP). Once adopted, these documents will contribute to the concrete implementation of the climate change legislation.

b. State of Compliance

Albania has prepared a draft Law on Climate Change and a draft Decision on a Mechanism for Monitoring and Reporting of Greenhouse Gas Emissions. Both drafts were subject to a public consultation in March 2017. Adoption of the drafts is foreseen by December 2017.

1. National Inventory System

The draft Law and the draft Decision on a mechanism for monitoring and reporting of greenhouse gas emissions would transpose provisions of the Monitoring Mechanism Regula-

tion related to the greenhouse gas inventory. They set up the institutional framework and arrange the rules for monitoring, reporting and verification of greenhouse gas emissions at the level of sectors/resources and at the national level in line with Monitoring Mechanism Regulation (EU) 525/2013.

2. Low Carbon-development Strategies

The draft Law envisages the development of a National Climate Change Strategy and its two annexes (NAPM and NAP) to be adopted upon proposal of the Minister of Environment and revised every six years. The NAPM will focus on six priority mitigation strategies, while the NAP will be accompanied by a financing strategy. Preparatory work, which is led by the Ministry of Environment in consultation with an inter-Ministerial Working Group on Climate Change, is already well advanced. Its adoption is foreseen during the third quarter of 2017.

3. Policies, Measures, Projections

The draft Law on Climate Change includes provisions on establishing a national climate change policy, however, there is no specific reference to setting up a system on projections. This is not fully compliant with Monitoring Mechanism Regulation (EU) 525/2013.

c. Conclusions and Priorities

Preparation of legislation on climate change is progressing in Albania. However, clear institutional arrangements and a proper legal basis are necessary to define competences and responsibilities in this area. A remaining barrier to further progress in Albania is the limited human capacity as well as the lack of mainstreaming of climate policy across sectors.

The adoption of the Law on Climate Change and the National Climate Change Strategy is the key priority for the upcoming period.



Albania

4.9 Competition

a. Sector Overview

The body in charge of enforcing competition law is the Albanian Competition Authority (ACA), which consists of a commission and a secretariat. In the reporting period, the ACA approved a regulation on commitments. The regulation allows for the undertaking(s) concerned offering voluntary commitments to address the authority's competition concerns as an alternative to closing a case by a formal infringement decision.

The ACA extended until the end of 2016 and again until the end of 2017 the exemption of an agreement between the distribution system operator OSHEE and the state-owned electricity production company KESH. Under the agreement, OSHEE buys energy for covering losses in the distribution system primarily from KESH without conducting a tendering procedure.

Furthermore, the ACA is preparing opinions on all draft secondary legislation submitted by ERE related to the completion of the legal framework under the Law on Electricity.

The State aid authority in Albania consists of the State Aid Commission (SAC), responsible for decision-making, and the State Aid Control Unit (SACU), which provides technical and administrative support to the SAC. No decision in the energy sectors has been rendered in the reporting period.

b. State of Compliance

1. Competition Law

The Law on Competition Protection contains provisions corresponding to Articles 101, 102 and 106 of the Treaty on the Functioning of the European Union.

The ACA's exemption decisions regarding the agreement between OSHEE and KESH resulted in OSHEE buying (at least partially) the electricity for covering losses in the distribution network from KESH without any tendering procedure. The Secretariat was approached by a complaint alleging that this agreement leads to the competitive foreclosure of the market for the supply of electricity for covering distribution system losses.

The ACA's cooperation with the Secretariat and other national competition authorities in the framework of the Energy Community Competition Network is rather limited.

Although the competition *acquis* is fully transposed into national legislation, full compliance with the Treaty's obligation on enforcement of the competition *acquis* requires more rigorous enforcement activity by the ACA.

2. State Aid Law

The Law on State Aid transposes the State aid *acquis* into Albanian legislation.

The institutional structure and the enforcement mechanism, however, continue to be a cause of concern. The independence of the SAC and the SACU is questionable as they are both strongly connected to the Ministry of Economy. The SAC is chaired by the ministry, which is the largest grantor of State aid. The rest of the members of the SAC are appointed by a decision of the government. The SACU is established within the ministry and is not adequately equipped with staff as it has only two employees. In addition, the fact that the decisions of the State aid authority are not publicly available aggravates its partiality and renders close scrutiny by stakeholders and the general public impossible.

The State aid authority actively cooperates with the Secretariat and other national State aid authorities in the framework of the Energy Community State Aid Network.

Although the State aid *acquis* is fully transposed into national legislation, full compliance with the Treaty's obligations in the area of State aid require an independent State aid authority which actively enforces the *acquis*.

c. Conclusions and Priorities

The ACA is an active competition authority which has investigated competition concerns in the structure of the energy markets in the country. However, it has so far not rendered any binding decision on violations of competition law. The adoption of a regulation on commitments should not inhibit the ACA to render formal infringement decisions in order to establish a consistent enforcement practice. Reforming the institutional setting of the State aid authority should be a priority in the near future. Since the ACA is well established in Albania and enjoys credibility as an independent institution, it is recommended, as in last year's Implementation Report, that the competence in the area of State aid enforcement should be transferred to it.



Albania

4.10 Infrastructure

a. Sector Overview

In Albania, one electricity and one gas project has received the Project of Energy Community Interest (PECI) label, namely the 400 kV overhead electricity line Bitola (MK) - Elbasan (AL) (EL_13) and the Albania - Kosovo* interconnector (Gas_13). Furthermore, the Ionian Adriatic Pipeline (Gas_16) has been designated as Project of Mutual Interest (PMI). The country is yet to start activities on transposing Regulation (EU) 347/2013.

b. State of Compliance

Albania did not transpose Regulation (EU) 347/2013 by the required deadline of 31 December 2016. The country also failed to appoint a national competent authority as required under Article 8(1) of the TEN-E Regulation by 30 June 2017. It thus breaches the Energy Community infrastructure *acquis*.

1. Designation of National Competent Authority

The Territory Development Agency is the national competent authority for facilitation and coordination of permit granting in Albania. On a project basis, the Ministry of Energy and Industry is in charge of permitting the Trans Adriatic Pipeline (for construction permits). However, the powers of the two competent authorities are not fully in line with Regulation (EU) 347/2013.

2. Status of Highest National Significance for Energy Community Priority Projects

The Law on Planning and Development defines the conditions for the “status of the highest national significance” and grants the National Territory Councils competences to approve such a status for energy infrastructure.

3. Manual of Procedures

The procedures for permit granting are determined by the government’s Territorial Development Regulation and the Law on Planning and Development. In Albania, there are different pro-

cedures for permit granting depending on the type of energy infrastructure investment (refinery, gas infrastructure, power plants and electricity networks).

4. Transparency and Public Participation

Public participation is defined by the government’s 2015 Spatial Development Regulation and the Law on Information and Public Consultation. The national competent authority is responsible for informing the public on the spatial planning process. On a project basis, an order of the Minister of Energy and Industry sets the time limits for granting each permit. However, the process is not fully in line with Regulation (EU) 347/2013.

5. Project Visibility and Dedicated Websites

A general website on strategic infrastructure exists (<http://plani-fikimi.gov.al/>), but a dedicated web page for each PECI/PMI has not been made available by the project promoter/s.

c. Conclusions and Priorities

Albania should immediately adopt a law or by-law which will ensure implementation of Regulation (EU) 347/2013 into national legislation.

The national competent authority should be designated and become operational as soon as possible. It should publish a manual of procedures for the permit granting process applicable for PECIs, following the minimum structure presented in Annex X of the Regulation, by 31 December 2017.

The national regulatory authority should publish the methodology and criteria to be used to evaluate investment in electricity and gas projects and the higher risks incurred by them by 31 December 2017. The regulatory authority ERE should also establish and make publicly available a set of indicators and corresponding reference values for the comparison of unit investment costs by 30 June 2018.



Albania

4.11 Statistics

a. Sector Overview

According to the Law on Statistics of 2004, the Institute of Statistics (INSTAT) is responsible for the publication of statistical data and for the collection of price data.

A national programme of official statistics is adopted by the parliament every five years, currently covering the period 2017-2021. The programme assigns to INSTAT the tasks of collecting and publishing annual energy data, electricity balances and monthly statistics. INSTAT also publishes its annual report on the implementation of the programme. Annual release calendars are also published.

By way of a 2007 governmental decision, the National Agency of Natural Resources (AKBN) is authorized to collect information about the use of natural resources, including annual and monthly data on energy products. In addition, the Ministry of Energy and Industry is mandated by several sector laws to monitor security of supply (including collection of short-term data), emissions of pollutants, energy efficiency and other indicators, and to provide inputs for projections and modelling of energy supply and demand. According to the Law on Refining, Transportation and Trading of Oil, Gas and their By-products, importers of oil products are obliged to report to the Ministry of Energy and Industry.

b. State of Compliance

Albania has made significant progress in recent years in improving the completeness and quality of its overall statistics, primarily in annual statistics, but also in compiling the most important sets of monthly statistics. However, the compilation of monthly energy statistics and price statistics is still not compliant and requires additional efforts and resources.

1. Regulation (EC) 1099/2008 on Energy Statistics

As regards annual energy statistics, AKBN compiles an annual energy balance and questionnaires as defined by Regulation (EC) 1099/2008. Since 2015, Albania has been submitting annual questionnaires to EUROSTAT. AKBN is still working on improving its methodologies and procedures, primarily on surveying consumption and renewable energy.

AKBN has compiled and disseminated the information on energy consumption in households broken down per type of use (heating, cooking, water heating, appliances, etc). This makes Albania the first Energy Community Contracting Party to meet the obligations of Regulation (EU) 431/2014.

The obligations related to the preparation and dissemination of monthly statistics are also assigned to AKBN. Implementation started in 2014 with monthly electricity data. Albania has not started submitting any of its monthly collection of data to EUROSTAT yet.

Questionnaires and methodologies for collection of oil statistics have been developed and are submitted to and published in the global JODI database in compliance with in the Ministerial Council's General Policy Guideline on Implementation of Certain Deadlines of the Oil Stocks Directive in the Energy Community.

The fact that Albania does not comply with the *acquis* on monthly energy statistics is largely due to the lack of human and financial resources.

2. Directive 2008/92/EC on Community Procedure to Improve Transparency of Natural Gas and Electricity Prices Charged to Industrial End-users

Price statistics fall in principle under the responsibility of INSTAT. In the absence of a clear separation of duties between AKBN and INSTAT, the former began collecting data in cooperation with the regulatory authority ERE.

AKBN is collecting and disseminating data on electricity prices charged to households. However, prices charged to industrial end-users are not available yet. In addition, reporting of price systems and breakdown of electricity prices into main components are still missing. Albania thus fails to comply with Directive 2008/92/EC.

c. Conclusions and Priorities

With the exception of annual price statistics, little was done during the reporting period to improve the level of compliance with the *acquis* on statistics. The current administrative and legislative framework fails to clearly assign responsibilities for the collection of short-term statistics and price statistics. An agreement between AKBN and INSTAT is required to establish a formal procedure for cooperation and to clearly assign the tasks and responsibilities related to energy data collection. It is highly recommended that Albania develops secondary legislation which would provide the necessary resources for the designated institutions to fulfil their tasks.

More efforts will also be required to establish an adequate reporting system for price statistics capable of capturing the data stemming from a dynamic and competitive energy market and new reporting requirements.

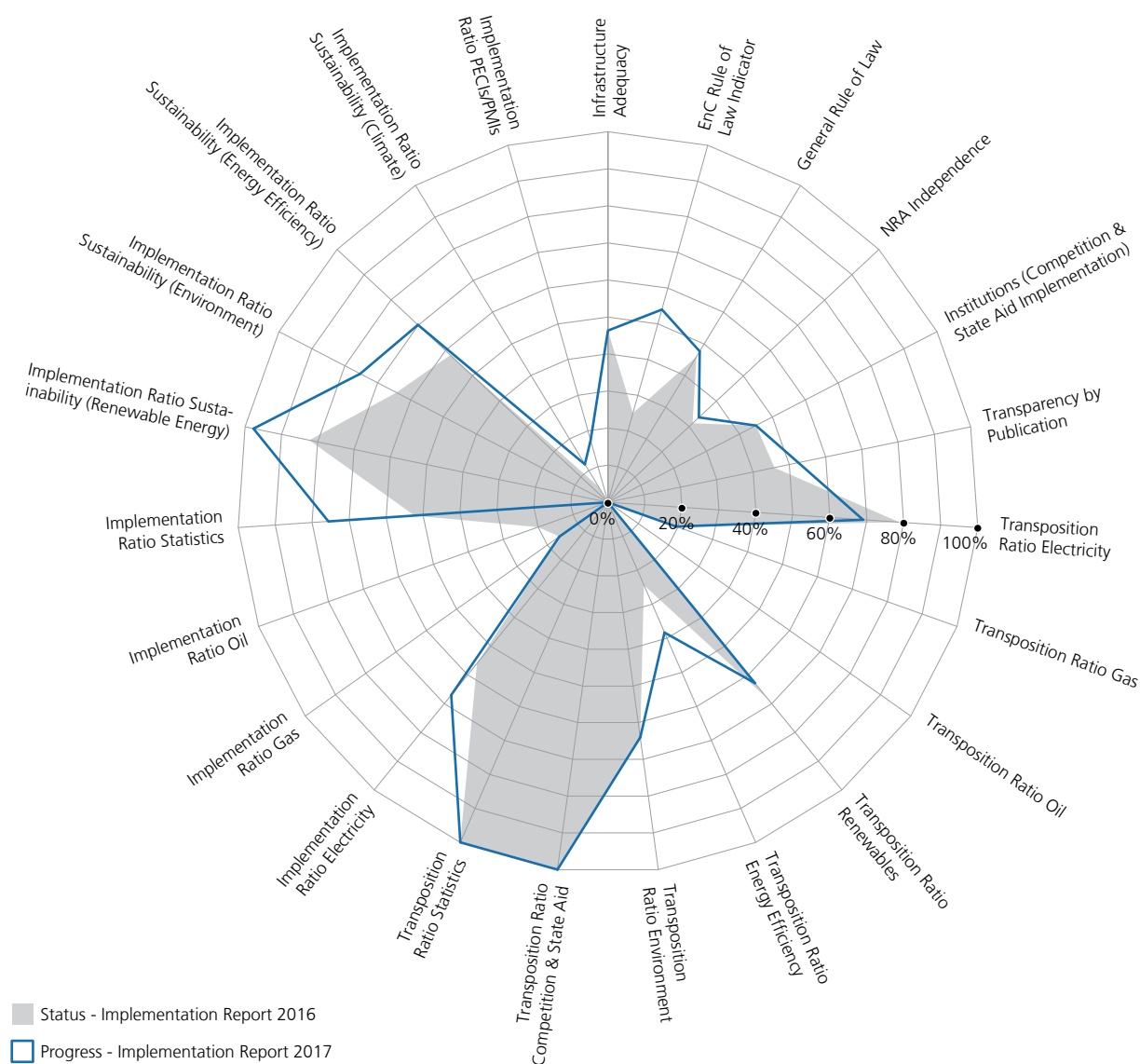


05 | Bosnia and Herzegovina

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Bosnia and Herzegovina

Implementation Indicators Radar of Bosnia and Herzegovina



Source: Compiled by the Energy Community Secretariat

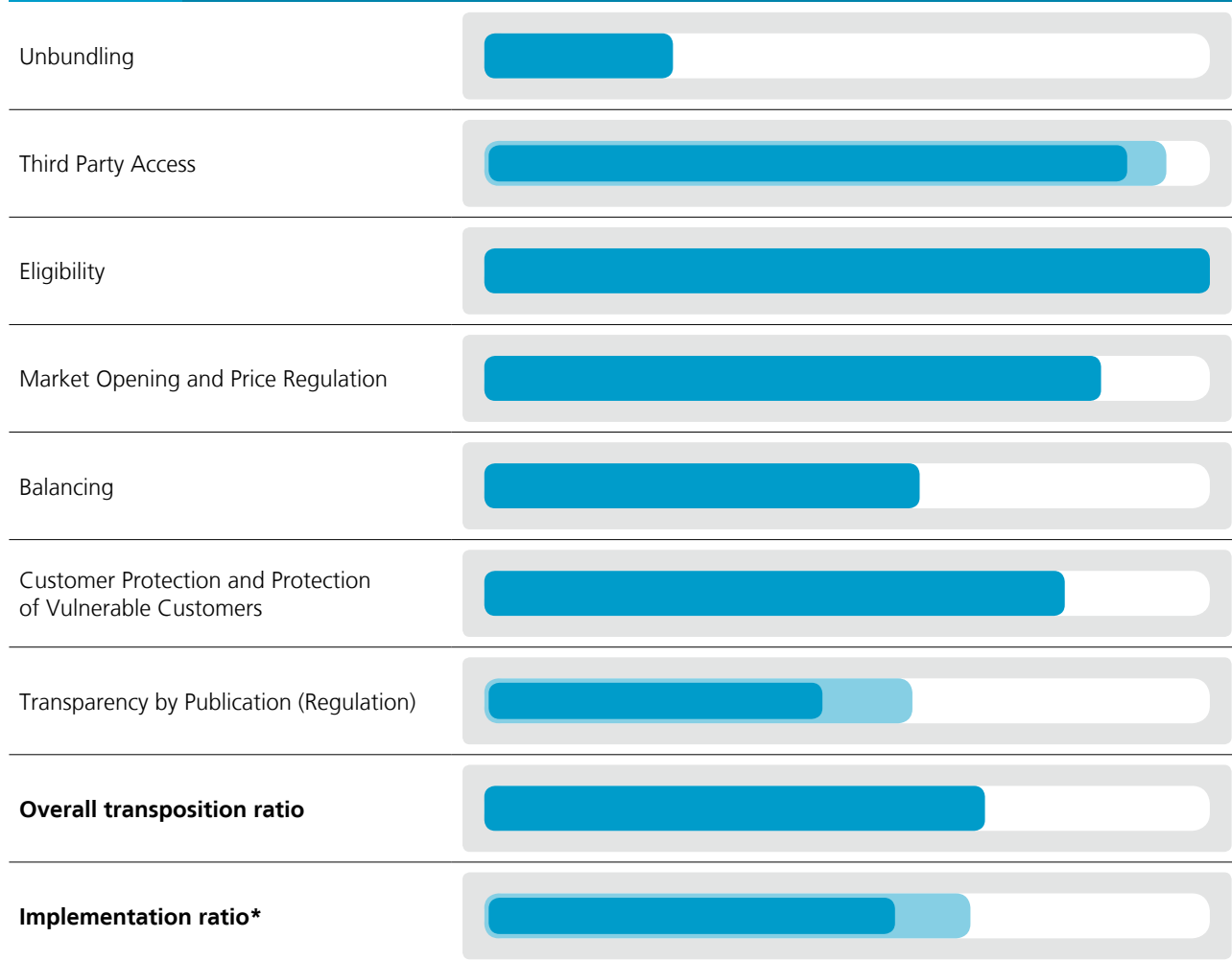
Despite the sanctions adopted against the country by the 2015 Ministerial Council and the Secretariat's repeated efforts, energy sector reform in Bosnia and Herzegovina remains deadlocked. Despite certain progress in the sustainability area (en-

ergy efficiency in Federation of Bosnia and Herzegovina), there is no doubt that Bosnia and Herzegovina is a victim of its own constitutional framework and the lack of political will which prevents progress from taking off the ground.



Bosnia and Herzegovina

5.1 Electricity



■ Status - Implementation Report 2016 ■ Progress - Implementation Report 2017

* actual implementation: unbundling, third party access rules etc.

Source: Compiled by the Energy Community Secretariat

a. Sector Overview

The organisation of the energy sector suffers from the complexity of the country's constitutional structure and general political impasse. Electricity transmission system operation, and cross-border trade and wholesale are regulated on state level for the whole territory of Bosnia and Herzegovina. The two entities - Republika Srpska and Federation of Bosnia and Herzegovina - as well as Brcko District are responsible for generation, distribution, retail and supply of electricity to end-customers in their respective jurisdictions. The entities are majority owners of the three incumbent utilities, which, together with the municipal utility of Brcko District, partition the electricity market along territorial lines. 97% of the electricity supplied to final customers is supplied by the three incumbent utilities. Yet as

many as 16 market participants were active in 2016 following increased volumes and decreased prices. The newly commissioned TPP Stanari contributes to the liquidity.

There is no organized electricity wholesale market in Bosnia and Herzegovina. In March 2017, the utility of Republika Srpska acquired membership in South East European Power Exchange (SEPEX) which provided access to trading and clearing services of the Serbian power exchange.

With the assistance of the Secretariat, a state law aiming to transpose the Third Energy Package was drafted but not adopted. A new Law on Establishment of the Transmission System Operator in Bosnia and Herzegovina, which is also required for Third Energy Package compliance, is still being drafted.

Electricity Facts and Figures

Description of data [unit]		2015	2016
Electricity production [GWh]		14.408	16.509
Net imports [GWh]		3.965	3.145
Net exports [GWh]		5.768	6.788
Gross electricity consumption [GWh]		12.606	12.865
Losses in transmission [%]		2,0%	1,7%
Losses in distribution [%]		10,5%	10,3%
Consumption of energy sector [GWh]		27,86	75,13
Final consumption of electricity [GWh]		11.183	11.432
Consumption structure [GWh]	Industrial, transport, services and other non-residential sectors	6.457	6.699
	Households (residential customers)	4.726	4.733
Net maximum electrical capacity of power plants [MW]		4.009	4.352
of which:	coal-fired	1.856	2.156
	hydro, total	2150,44	2180,24
	Other renewables	9,46	15,41
Horizontal transmission network [km]	Length of transmission power lines [km]	6.333	6.321
	Substation capacity [MVA]	12.857	12.759
	Number of interconnectors	37	37
Electricity customers	Total number of customers	1.517.161	1.531.501
	out of which: non-households	124.327	126.303
	Eligible customers under national legislation	1.517.161	1.531.501
	Active eligible customers	2	58
Internal market	Electricity supplied to active eligible customers [MWh]	861.860	321.770
	Share of final consumption [%]	7,71%	2,81%

Source: Ministry of Foreign Trade and Economic Relations of Bosnia and Herzegovina

b. State of Compliance

The currently applicable State Law on Electricity Transmission, Regulator and System Operator of 2002 as well as the laws of 2004 on establishment of a transmission company (Elektroprenos) and independent system operator (NOS BIH) are not in line with the country's obligations stemming from the Energy Community. The entity laws on electricity are also non-compliant. In 2016, the Ministerial Council decided that the country breached Energy Community law by not having transposed the Third Energy Package.

1. Unbundling

The two companies responsible for electricity transmission system operation, NOS BIH and Elektroprenos, are legally and functionally unbundled but still controlled by the same entity authorities who control the respective incumbent generation and supply companies.

Also distribution system operators have not been legally and functionally unbundled. Only accounts are unbundled with the exception of Komunalno Brcko in Brcko District. In the Federation of Bosnia and Herzegovina, the Law on Electricity fails to transpose the obligation for establishment and monitoring

of compliance programmes as required by Article 26(2)(d) of Directive 2009/72/EC. Distribution is legally and functionally bundled with generation in both incumbent utilities. In Republika Srpska, all five distribution system operators are still legally and functionally bundled with supply. Compliance programmes are not applied anywhere in the country.

2. Third Party Access

The rules on third party access to transmission have been transposed by the state-level law and the secondary legislation developed by the transmission system operator NOS BIH and approved by SERC, save for the provisions related to refusal of access and appeal procedures as required by Article 32 of Directive 2009/72/EC. The primary legislation also fails to transpose Annex 1 of Regulation (EC) 714/2009 on management and allocation of transfer capacity on the interconnectors.

Yearly, monthly and daily auctions on the borders with Montenegro and Croatia are carried out by SEE CAO. In November 2016, SERC approved the bilateral rules for allocation of cross-border capacity for 2017 for yearly, monthly and daily auctions on the border with Serbia (auctions performed by EMS), for intraday auctions on the borders with Serbia and Montenegro (auctions performed by NOSBIH), and for intraday

auctions on the borders with Croatia (auctions performed by HOPS).

Both entities and Brcko District laws transposed third party access to distribution grids, including in the respective Distribution Codes and General Conditions for Electricity Supply.

3. Eligibility

All customers of Bosnia and Herzegovina are eligible to choose their electricity supplier. The regulatory authorities have adopted rules for supply of electricity and procedures for switching of the supplier for eligible customers. Apart from two large consumers connected to the transmission network and supplied on the open market, 56 customers connected to the distribution network switched to one of the three independent suppliers active in 2016.

4. Market Opening and Price Regulation

No organized market structure exists on the domestic wholesale market in Bosnia and Herzegovina. The power utility of Republika Srpska can trade on SEEPEX. However most of the wholesale still takes place through bilateral contracts.

The retail markets in Bosnia and Herzegovina still largely operate within the boundaries of the three dominant utilities and Brcko District. Supplier switching rate is at only 2.8%. But more than a thousand customers renegotiated their contracts with the respective incumbent public supplier thus departing from universal service. Consequently close to 43% of the consumed electricity in the country was delivered based on non-regulated prices.

The electricity prices charged by the incumbent generation companies to the public suppliers in Republika Srpska, including electricity sold to Komunalno Brcko, are regulated. This violates Articles 3 and 33 of Directive 2009/72/EC and effectively prevents supplier switching. Regulation of the generation prices is supposed to be abolished by a new Energy Law of Republika Srpska. Otherwise end-user price regulation is limited to households and small customers. In Federation of Bosnia and Herzegovina, all prices are formally deregulated since 1 January 2015 except for households and small customers. There is no schedule in place for phasing out the remaining price regulation.

5. Balancing

The primary legal framework does not rule out the provision of balancing services through a market-based mechanism and across borders even though the required legal provisions exist only in the form of the draft Law on Regulator, Transmission and Electricity Market. The Market Rules approved by the regulatory authority SERC in May 2015 provide for market-based and non-discriminatory procurement of balancing services compliant with Article 15 of Directive 2009/72/EC. The system

operator NOS BiH has established a competitive market for balancing reserve capacity and balancing energy, operational since 1 January 2016.

It is also necessary to amend the Law on VAT in order to harmonize the taxation of cross-border exchange of balancing services. A revision of the Law on VAT has been initiated by the tax authority.

6. Customer Protection and Protection of Vulnerable Customers

The electricity laws continue to fail to fully transpose customer protection provisions from Article 3 and Annex 1 of Directive 2009/72/EC. Protection of vulnerable customers as required by the Third Energy Package is also missing in the existing energy laws.

There is no national definition of vulnerable customers. In Federation of Bosnia and Herzegovina, vulnerable customers are low income pensioners and beneficiaries of permanent social support. The subsidized monthly consumption is 268 kWh if supplied by Elektroprivreda BiH Sarajevo and 348 kWh if supplied by Elektroprivreda HZHB Mostar. The subsidies are provided from the profit of the two utilities owned by the entity government. Republika Srpska has not defined vulnerable customers and provides no support.

7. Transparency

The existing legislation on state level imposes an obligation on NOS BiH to timely publish data on transmission capacity and ancillary services and empowers NOS BiH to request information from the entity stakeholders. The entity laws oblige utilities to report on the demand forecast, the use of distribution networks and contracted supply. Obligations to publish specific data exist in the applied rules for allocation of cross-border capacity, market rules and balancing rules. However, Regulation (EU) 543/2013 is not transposed and there is no corresponding secondary act.

In practice, some data are published locally or provided upon request, such as aggregated and installed generation capacity per unit, contracted balancing and reserve capacity and prices and accepted volumes. Since 2016, NOS BiH started to directly submit data to the ENTSO-E Transparency Platform. In addition, data on capacity allocation on interconnections with Croatia and Montenegro is submitted by SEE CAO and on the interconnection with Serbia together with the transmission system operator of Serbia. No relevant data on market performance are provided.

c. Conclusions and Priorities

The adoption of the draft Third Energy Package compliant laws and corresponding unbundling of transmission and distribution network operators in Bosnia and Herzegovina is delayed. The establishment of a national electricity market operator company

is in advanced stage of planning, however, the existing legal framework does not comply with the operation of organized trading platforms. The required deregulation of generation and supply prices with subsequent non-tariff measures for protection of the socially vulnerable customers did not take place, as it was recommended in the 2016 Implementation Report.

The main priority remains the adoption of the state-level Law on Regulator, Transmission and Electricity Market in Bosnia and Herzegovina and the complementary law on establishment of a transmission system operator in Bosnia and Herzegovina. The new legal and regulatory framework should support functional day-ahead and intraday trading platforms.

At the same time, Federation of Bosnia and Herzegovina, Republika Srpska and Brcko District need to bring their laws on electricity in compliance with the Third Energy Package. A comprehensive update of the secondary legislation on all administrative levels should be initiated as well.

The entities and Brcko District need to urgently implement unbundling of the distribution system operators from supply and/or electricity generation. Electricity generation prices in Republika Srpska should be deregulated.



Non-transposition of Third Energy Package

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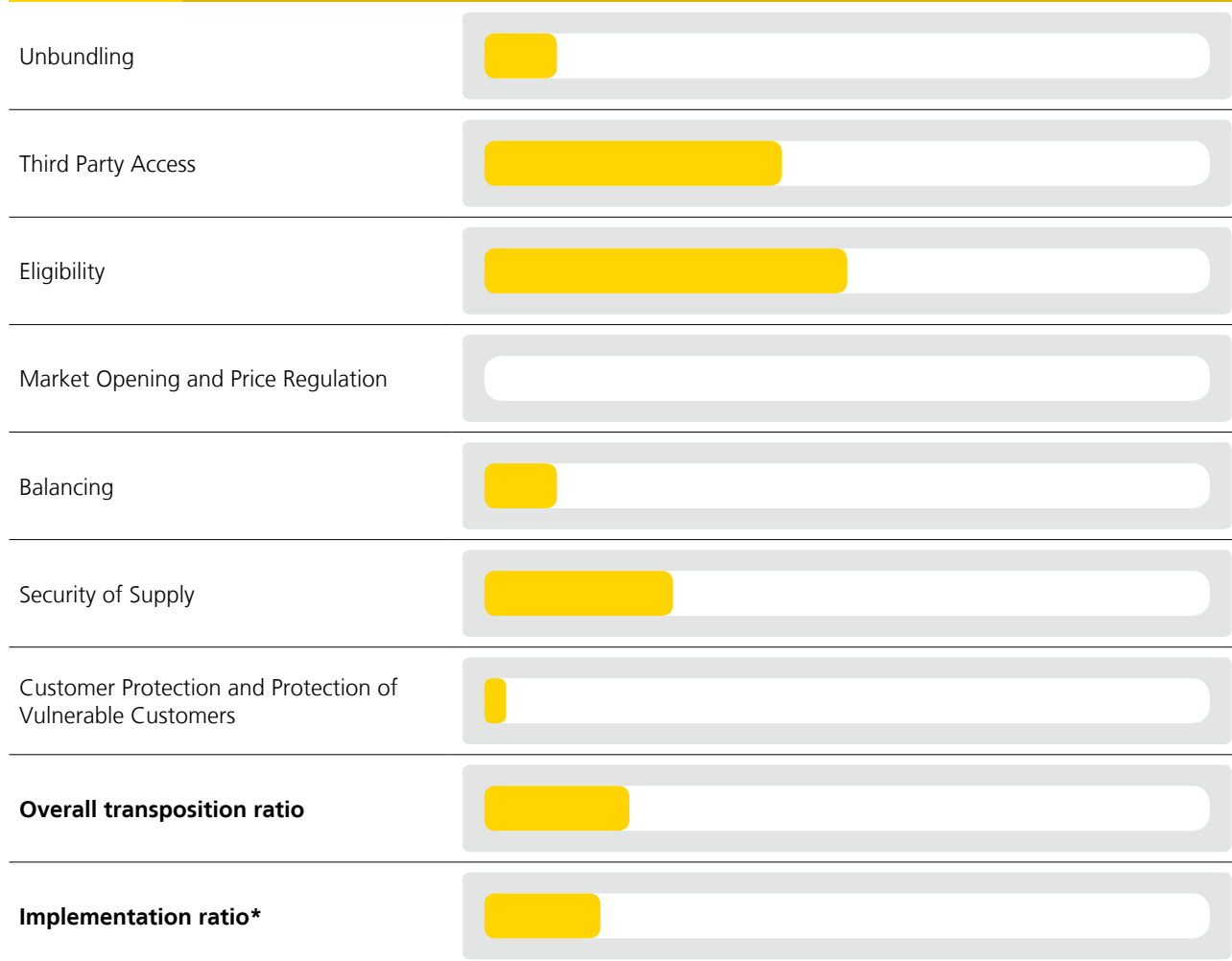
On 14 October 2016, the Ministerial Council adopted Decision 2016/07/MC-EnC in Case ECS-6/16 on the failure by Bosnia and Herzegovina to comply with its obligation to transpose the Third Energy Package. Since the breach has not been rectified to date, the Secretariat – as invited by the Ministerial Council - will request a decision under Article 92 of the Treaty at the Ministerial Council meeting in 2017.





Bosnia and Herzegovina

5.2 Gas



Status - Implementation Report 2016 Progress - Implementation Report 2017

* actual unbundling, tariffs, network codes, market prices supply ratio, SoS secondary acts etc.

Source: Compiled by the Energy Community Secretariat

a. Sector Overview

Bosnia and Herzegovina has no domestic sources of natural gas and its entire supply is based on imports from a single source (Russia) passing through Ukraine, Hungary and Serbia.

The domestic incumbents BH Gas and Energoinvest are parties to an import contract with Gazprom, which is renewed annually, and a transit contract via Hungary (until 2018). Transit via Serbia is subject to a contract between BH Gas and Srbijagas until the end of 2017.

The existing transmission pipeline connects the only cross-border entry point in Zvornik with the cities of Sarajevo and Zenica.

The transmission system, which is 234 km in length, is operated by three transmission system operators: BH Gas in the territory of the Federation and Gas Promet and Sarajevogas Istocno Sarajevo in the territory of Republika Srpska. This complex situation leads to underperformance and inefficient use of the system.

The transmission pipeline has been extended over the territory of both entities during the last few years, however, the new sections are still not in operation. The Zenica - Travnik pipeline, although completed in 2013, is not used due to a dispute with a construction contractor. The network in Republika Srpska has been extended by the pipeline Sepak – Bjeljina, but its operation is blocked by a dispute between transmission and distribution system operators.

b. State of Compliance

The natural gas sector in Bosnia and Herzegovina is regulated at the level of the entities. In Federation of Bosnia and Herzegovina, a 2007 government decree fails to transpose any key principle of the gas *acquis*. The adoption of a new draft gas law has been stuck in parliament for more than three years. The draft in its present form is also not compliant with the *acquis*. In Republika Srpska, the natural gas sector is regulated by the Law on Gas adopted in 2007 and amended in 2012. This Law, however, also fails to comply with the Third Energy Package.

Since October 2015, Bosnia and Herzegovina is subject to punitive measures for its failure to comply with the gas *acquis* (Second Energy Package). The measures were temporarily halted in October 2016, following an agreement of the national and entity ministers responsible for energy on an action plan on the transposition of the *acquis* in the gas sector. The agreed plan foresaw the adoption of a state law transposing minimum requirements related to the regulatory authority and transmission system operators complemented by comprehensive entity gas laws. However, due to a failure to implement the plan within the deadlines, the measures were reactivated in March 2017. The state law has not been adopted but was in public consultation at the time of publication of this report. In the first quarter of 2017, the government of Republika Srpska prepared a draft gas law, which fails to make any links to a single state regulatory authority.

1. Unbundling

Bosnia and Herzegovina is not compliant with the Third Energy Package's unbundling and certification requirements. Two out of the three natural gas undertakings engaged in transmission system operation are fully bundled with supply or trade activities, thus not even fulfilling unbundling requirements of the Second Energy Package. This includes BH Gas, the transmission system operator in Federation of Bosnia and Herzegovina and import trader for the entire Federation of Bosnia and Herzegovina, and Sarajevogas Istocno Sarajevo, licensed for the trans-

mission, distribution and supply of natural gas in Republika Srpska. Gas Promet is responsible only for transmission system operation. However, it is not unbundled according to the Third Energy Package.

In both entities, distribution activities are performed by the same companies engaged in the supply of and trade in natural gas. Republika Srpska allows an exemption for the unbundling of distribution system operators with less than 100.000 customers connected to the grid. The Federation's legal system is silent on this and thus the distribution sector is non-compliant. Additional requirements for unbundling of the distribution system operators will have to be introduced in line with Directive 2009/73/EC.

2. Third Party Access

Bosnia and Herzegovina is not compliant with the third party access provisions of the gas *acquis* on many accounts.

Legislation of Federation of Bosnia and Herzegovina envisages negotiated access based on decisions of the ministry in charge of energy. Gas transmission and distribution tariffs in the Federation were never adopted, published or applied.

Regulated access exists in Republika Srpska. In spite of the developed methodologies for calculation of grid tariffs, so far only a distribution tariff has been adopted, whereas a transmission tariff applies only for a spur of the transmission pipeline Karakaj – Zvornik. A separate tariff for each entry/exit point to/from the transmission grid is not implemented.

Neither entity defined third party access services of their transmission system operators. The exemption procedures are also not compliant with the Third Energy Package. The Federation allows for a third party access exemption decision to be issued by the responsible ministry without involving the regulatory authority or the Energy Community. While the law in Republika Srpska involves the regulator in the procedure, it fails to involve the Energy Community Secretariat.



Non-implementation of Gas *Acquis*

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Bosnia and Herzegovina continues to seriously and persistently breach Energy Community law by its failure to comply with the provisions of the gas *acquis* from the Second Energy Package. After its first decision in Case ECS-8/11 adopted on 1 October 2013 under Article 91 of the Treaty, the Ministerial Council has adopted three more decisions under Article 92 as from 2014, including imposing measures in 2015. After a brief suspension of the measures by the Ministerial Council on 14 October 2016, the measures were resumed again on 1 April 2017, as the country did not honour its commitment

to adopt a State law transposing the *acquis* in the gas sector. The Secretariat – as invited by the Ministerial Council - will request a decision from the Ministerial Council at its next meeting in 2017 on maintaining these measures further.

The 2015 and 2016 Ministerial Council decisions also invited the European Union, in line with Article 6 of the Treaty, to take the appropriate measures for the suspension of financial support granted to Bosnia and Herzegovina in the sectors covered by the Treaty.

Gas Facts and Figures

Description of data [unit]		2015	2016
Natural Gas Production [Bcm]		0	0
Import [Bcm]		0,213	0,221
Stock changes [Bcm]		0	0
Total supply [Bcm]		0,213	0,221
Consumption in Energy Sector [Bcm]		0,082	0,067
Available for final consumption of natural gas [Bcm]		0,221	0,221
Interconnectors' capacity [Bcm]	Total	0,750	0,750
	out of which bidirectional	0	0
Storage working capacity [Bcm]		0	0
Length of transmission network [km]		234,2	234,2
Length of distribution network [km]		1.618	1.654
Natural gas customers	Total	68.301	75.971
	out of which: Non-households	4.673	3.639
	Eligible customers under national legislation	4.915	4.807
	Active eligible customers	387	-
	Households	63.628	72.332
Internal market	Gas supplied to active eligible customers [Bcm]	0,043	0
	Share of total consumption [%]	19%	0%
Final consumption of natural gas per sector [Bcm]		0,221	0,230
Consumption structure [Bcm]	Industry and commercial customers	0,092	0,094
	Households	0,130	0,136

Source: Ministry of Foreign Trade and Economic Relations of Bosnia and Herzegovina

3. Eligibility

Bosnia and Herzegovina breaches the Treaty as all customers should have been eligible by 1 January 2015, regardless of their status. Customers in Federation of Bosnia and Herzegovina are still captive, which is a serious breach of the Treaty. The eligibility provisions, stipulated by a government decree, define the eligibility status on the basis of consumption levels or limit it to customers that use gas for generation of electricity.

Republika Srpska, on the other hand, correctly transposed the eligibility criteria of the Directive 2009/73/EC.

4. Market Opening and Price Regulation

All natural gas consumers in Federation of Bosnia and Herzegovina are supplied by their respective incumbent at regulated prices. In Republika Srpska, there are different suppliers, and regulated prices remain only for household customers. The biggest customer in Republika Srpska started to buy gas under its own supply license issued in 2014. Yet the markets in the country must be considered highly foreclosed.

5. Balancing

Bosnia and Herzegovina is not compliant with the gas *acquis* on balancing. Federation of Bosnia and Herzegovina did not transpose any balancing provisions of Regulation (EC) 715/2009. In Republika Srpska, Gas Promet performs balancing under a

Rulebook on the Operation of Natural Gas Transmission, but the balancing rules stipulated therein are not market based and thus not compliant.

6. Security of Supply

Bosnia and Herzegovina is not compliant with Directive 2004/67/EC. Republika Srpska transposed key elements of Directive 2004/67/EC by the Decree on Security of Supply and Delivery of Natural Gas adopted in 2011. However, supply standards are not defined.

Federation of Bosnia and Herzegovina transposed only a few elements of Directive 2004/67/EC. A list of measures and responsibilities in case of emergency, the scope of reporting and cooperation with neighbouring countries and definitions of supply standards and a major supply disruption are missing.

7. Customer Protection and Protection of Vulnerable Customers

Bosnia and Herzegovina has not transposed provisions related to customer protection and vulnerable customers as required by Directive 2009/73/EC.

Republika Srpska's Gas Law only refers to protection of customers as defined by the "Energy Sector Development Strategy". The existing legislation of Federation of Bosnia and Herzegovina introduces certain elements of the socially vulnerable status of customers by defining protected customers. It imposes ob-

ligations for the supplier of tariff customers as a manner of customer protection, which is not compliant with the *acquis*.

c. Conclusions and Priorities

The Secretariat made great efforts to find a solution for Bosnia and Herzegovina's non-compliant gas sector by bringing together all relevant parties and presenting a number of proposals, but to no avail. The commitments and assurances given by the country's representatives to resolve the deadlock in the gas sector were once again not kept.

Due to the continued impasse, the priorities remain the same as in previous reporting years. Reaching agreement on im-

plementing the Third Energy Package provisions in the whole territory of Bosnia and Herzegovina is the utmost priority. As pointed out in previous Implementation Reports, this can be done in several variants, with a state law transposing minimum requirements needed for a state regulatory body and state institutions, complemented by harmonised entity laws in line with the Third Energy Package. It is of great concern that the recent solutions proposed at the entity level actually widen the gap and reinforce the deadlock at the state level.

The Secretariat is concerned that the Bosnian and Herzegovinian customers continue to be held hostage by the deadlock in the country, which endangers infrastructure development and security of gas supplies.



Bosnia and Herzegovina

5.3 Regulatory Authority

The State Electricity Regulatory Commission (SERC) is the only regulatory authority of the Contracting Parties whose legal set-up does not comply with the requirements of Article 35(1) of Directive 2009/72/EC and Article 39(1) of Directive 2009/73/EC for a single regulatory authority for electricity and gas at national level. SERC is exclusively in charge of only electricity transmission on state level but does not have any jurisdiction over the gas sector. The legislator has so far not taken measures to introduce gas market regulatory competences at state level as tasked by the Ministerial Council Decisions of 2013, 2014 and 2015, following an infringement action of the Secretariat.

Besides the lack of nationwide competences for gas and the entire electricity sector, SERC's independence as stipulated by Directives 2009/72/EC and 2009/73/EC would be better addressed by introducing an independent selection committee instead of the currently strong political involvement in the selection procedure. Effectiveness of SERC is further undermined by the need for unanimous decision-making of the three commissioners which is able to effectively block the execution of its duties.

SERC is headed by three commissioners. Their term is limited to a period of five years, renewable once, and a rotation scheme is in place as required by the Third Energy Package. The management has autonomy in defining its annual work programme as well as in setting up and managing its annual budget. SERC's management is also autonomous in relation to staff appointment and organisation of its internal structure. The rules in place are flexible enough to ensure that salary levels are comparable with the public sector for SERC commissioners and with salary levels of the regulated sector for SERC staff. SERC is held accountable for its activities by having to present its annual report to the parliament and the ministry.

SERC has been proactive in performing its duties. This has to be particularly acknowledged given the serious lack of competence. The establishment of a front-running electricity balancing model is a case in point. In addition, the regulator showed flexibility to allow for participation of the electricity system operator NOSBiH in regionally coordinated capacity allocation by SEE CAO by addressing VAT related constraints in the network fee.



Bosnia and Herzegovina

5.4 Oil

a. Sector Overview

Bosnia and Herzegovina does not produce crude oil. Crude oil is imported mainly from Russia. Imports in 2016 were estimated at around 911 kt, the same as in 2015. In 2016, Bosnia and Herzegovina processed around 814,4 kt of oil, a decrease by around 8,24% compared to 2015. The export of petroleum products was estimated to be the same as in 2015 at 239,8 kt. The import of petroleum products has increased by around 20,4% to a level of around 1.071 kt in 2016. The overall consumption of petroleum products has also increased by 7,1% compared to a level of 1.646kt.

Bosnia and Herzegovina has one refinery in Brod and one lubricants plant in Modrica. Both were bought by Zarubezhneft, a Russian state-owned company. Since 2011, the processing capacity of the Brod refinery has increased from 1,2 mt to 3,0 mt per year. The refinery produces diesel Euro-4/Euro-5 and unleaded gasoline A-95/A-98.

A public call for expression of interest in oil and gas exploration to be issued by the end of November 2016 was postponed. The Memorandum of Understanding signed with Shell was not extended. After the company's withdrawal, other oil companies have expressed initial interest to invest in oil exploration in the country.

b. State of Compliance

Bosnia and Herzegovina does not have legislation on compulsory stocks of oil and petroleum products on the state level and there is no national policy to meet the obligations of Directive 2009/119/EC. Both entities have adopted laws which are not in compliance with the Directive. A working group with representatives from both entities and the Ministry of Foreign Trade and Economic Relations has been established in order to develop a national policy for meeting the Directive's requirements. Given the particular interests of the two entities, it will be important to explore various options, including industry based models.

The technical assistance on the oil stocks model for an emer-

gency stockholding system provided by the Secretariat in 2016 has not been followed up by concrete proposals/actions from the working group and the Ministry of Foreign Trade and Economic Relations. It is thus not possible for the Secretariat to move on with the necessary steps for further elaboration of the emergency stockholding policy and the relevant legislation (primary and secondary) necessary for transposition of Directive 2009/119/EC.

The Agency for Statistics of Bosnia and Herzegovina, responsible for compiling national statistics and fulfilling international reporting requirements, does not collect any data directly from industry sources and relies entirely on the data provided by the entities. The statistics collection system must be improved to allow for the proper implementation of the Oil Stocks Directive.

c. Conclusions and Priorities

For the second year in a row, there has been no progress with regard to priorities identified in the Implementation Report and none of the suggested actions have been taken up.

The Secretariat considers the transposition of Directive 2009/119/EC on the state level as top priority.

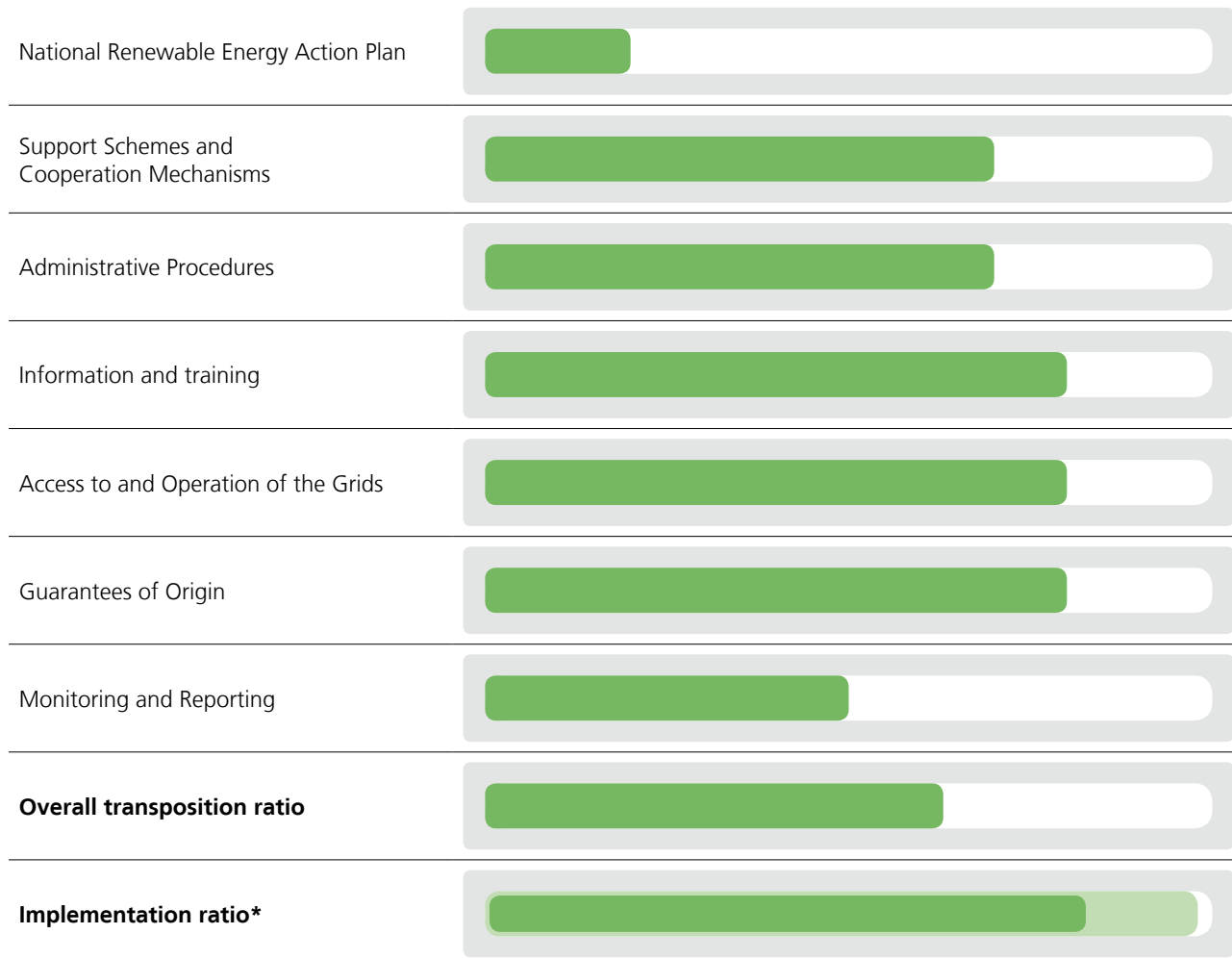
The main priorities for Bosnia and Herzegovina remain almost the same:

- Working group agreement on further elaboration of the emergency stockholding scheme;
- Development of the role of each stakeholder and relationship among stakeholders in greater detail;
- Drafting an action plan for building up emergency oil stocks to 90/61 days;
- Drafting an emergency oil stockholding law and relevant secondary legislation; and
- Establishing a monthly oil data reporting system.



Bosnia and Herzegovina

5.5 Renewable Energy



Status - Implementation Report 2016 Progress - Implementation Report 2017

* actual implementation of NREAP and progress towards 2020 RES target

Source: Compiled by the Energy Community Secretariat

a. Sector Overview

Bosnia and Herzegovina committed to a binding target of 40% renewable energy in gross final energy consumption in 2020. In 2015, according to the energy balance published by EUROSTAT, Bosnia and Herzegovina achieved a 41,5% share of energy from renewable sources, thus overachieving the 40% target for 2020. This "achievement" is due to revision of biomass data.

b. State of Compliance

The existing framework for the promotion of energy from renewable sources remains non-compliant to a large extent.

1. National Renewable Energy Action Plan

With the adoption of the National Renewable Energy Action Plan (NREAP), Bosnia and Herzegovina has increased its compliance with the requirements of Directive 2009/28/EC. The report on the progress in promotion of renewable energy for the years 2014 - 2015, which was expected to provide more accurate information on consumption of renewable energy in the country, has not been submitted so far.

2. Support Schemes

Support schemes for various renewable energy technologies were adopted by both entities. The transition to a market-based approach for granting the support has not started in both entities. A mechanism to transfer the costs of incentivising renewable energy to all customers in a fully liberalised market

Renewable Energy Facts and Figures

	2014	2015	2016
Total capacities (MW)	2128,3	2159,5	2195,3
Hydropower, out of which:	2128	2150	2180
- small hydropower (<10 MW)	79,0	95,5	97,0
- pumped storage	420	420	420
Wind	0,3	0,3	0,3
Solar	0,0	8,2	14,0
Biogas	0,0	1,0	1,0
Total consumption of energy from renewable sources* (ktoe)	1905,4	2066,3	
- out of which biomass (ktoe)	1393,5	1587	
Gross final energy consumption (ktoe)	4635,8	4974,2	
RES share (%)	41,1%	41,5%	
RES electricity (ktoe)	510,3	477,3	
Total Electricity generated (ktoe)	1145,7	1160,3	
RES share in electricity (%)	44,5%	41,1%	
RES in heating and cooling (ktoe)	1393,5	1587	
Total energy consumed for heating and cooling (ktoe)	2543,4	2824,2	
RES share in heating and cooling (%)	54,8%	56,2%	
RES in transport (ktoe)	4	5	
Total energy consumed in transport (ktoe)	949	990,6	
RES share in transport (%)	0,4%	0,5%	

Source: Foreign Trade and Economic Relations of Bosnia and Herzegovina

is missing. Compliance with the *acquis* is not achieved yet.

3. Cooperation Mechanisms

No legislation regarding cooperation mechanisms exists. Currently, the country does not comply with Directive 2009/28/EC in this respect.

4. Administrative Procedures

Several renewable energy projects were licensed in the last reporting period, but the coordination among the institutions in the authorisation process for small, decentralised renewable energy producers should be improved in the two entities. Increased clarity and simplification of procedures are needed to continue in both entities to ensure a transparent and conducive investment framework to applicants. Currently, Bosnia and Herzegovina does not comply with Article 13 of Directive 2009/28/EC.

5. Access to and Operation of the Grids

A state-level law that imposes priority or guaranteed access for energy from renewable sources to the transmission network and priority dispatch is not in place. Moreover, requirements at the state level for the development of the transmission network to take into account the integration of renewable energy are not transposed. The entity-level renewable energy laws fail to

include priority or guaranteed access to the grids but do include priority dispatch and guaranteed priority of connection. However, they are often not respected in practice, particularly in case the plant is not close to the existing network in Federation of Bosnia and Herzegovina. Sometimes the connection procedure can take up to one and a half years.

Bosnia and Herzegovina fails to comply with provisions of Article 16 of Directive 2009/28/EC.

6. Guarantees of Origin

Legislation for guarantees of origin exists in both entities and the bodies in charge of issuing, transferring and cancelling guarantees of origin for energy from renewable sources have been appointed. However, the two registries at entity level and a reliable, accurate and fraud-resistant system of issuing, transferring and cancelling guarantees of origin have yet to be made operational in both entities.

Currently, Bosnia and Herzegovina does not comply with Article 15 of Directive 2009/28/EC at state level.

7. Renewable Energy in Heating and Cooling

There is no compliance with the requirements of Article 13 of Directive 2009/28/EC in Federation of Bosnia and Herzegovina or in Republika Srpska. There are no requirements for

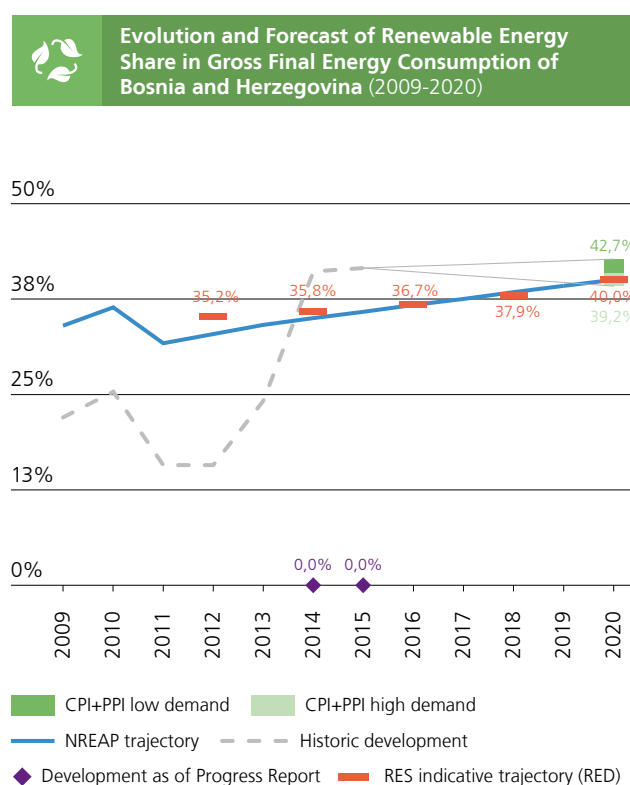
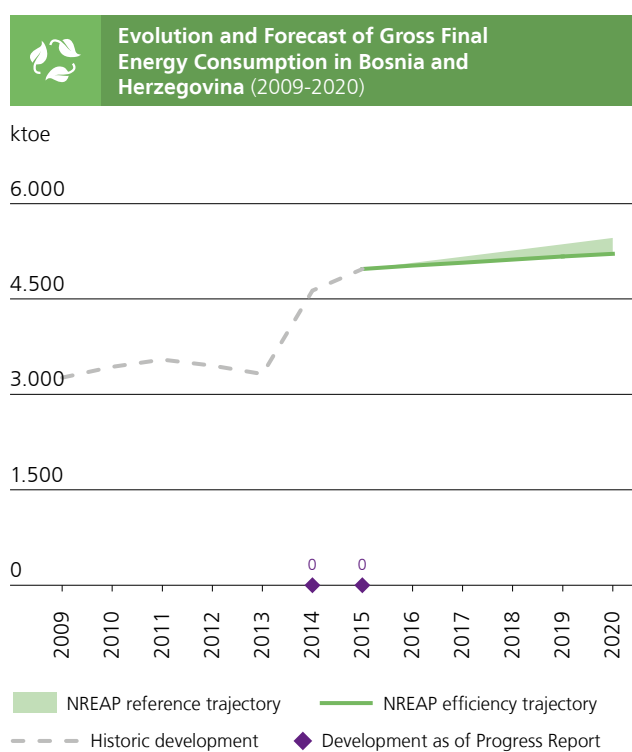
the use of minimum levels of energy from renewable sources in new buildings and in existing buildings that are subject to major renovation. Obligations on the exemplary role of public buildings, promotion of heating and cooling systems and other requirements regarding biomass, heat pumps and solar thermal energy are missing despite the existing potential.

8. Renewable Energy in Transport

Republika Srpska has committed to a yearly increase of 0,5% in the use of renewable energy in the transport sector until reaching the share of 10% by 2020, while Federation of Bosnia and Herzegovina still refers to the now outdated target of 5,75% set by the former Directive 2003/30/EC. Both entities

adopted secondary legislation defining the types, contents and quality of biofuels in motor vehicle fuels, introduced blending obligations on traders in line with Directive 2003/30/EC. The NREAP reported a renewables share in transport in the range of 0,6% to 1%.

During this reporting period, as in all reporting periods so far, there were no activities to introduce incentives, promotional campaigns or the relevant certification scheme for biofuels at state or entity level. Articles 17 - 21 of Directive 2009/28/EC related to sustainability criteria for biofuels and bioliquids have not been transposed at all. Bosnia and Herzegovina is non-compliant with Directive 2009/28/EC with respect to renewable energy in the transport sector.



Source: Technical University Vienna, Assessment of the Progress in the Promotion and Use of Renewable Energy in the Energy Community, July 2017

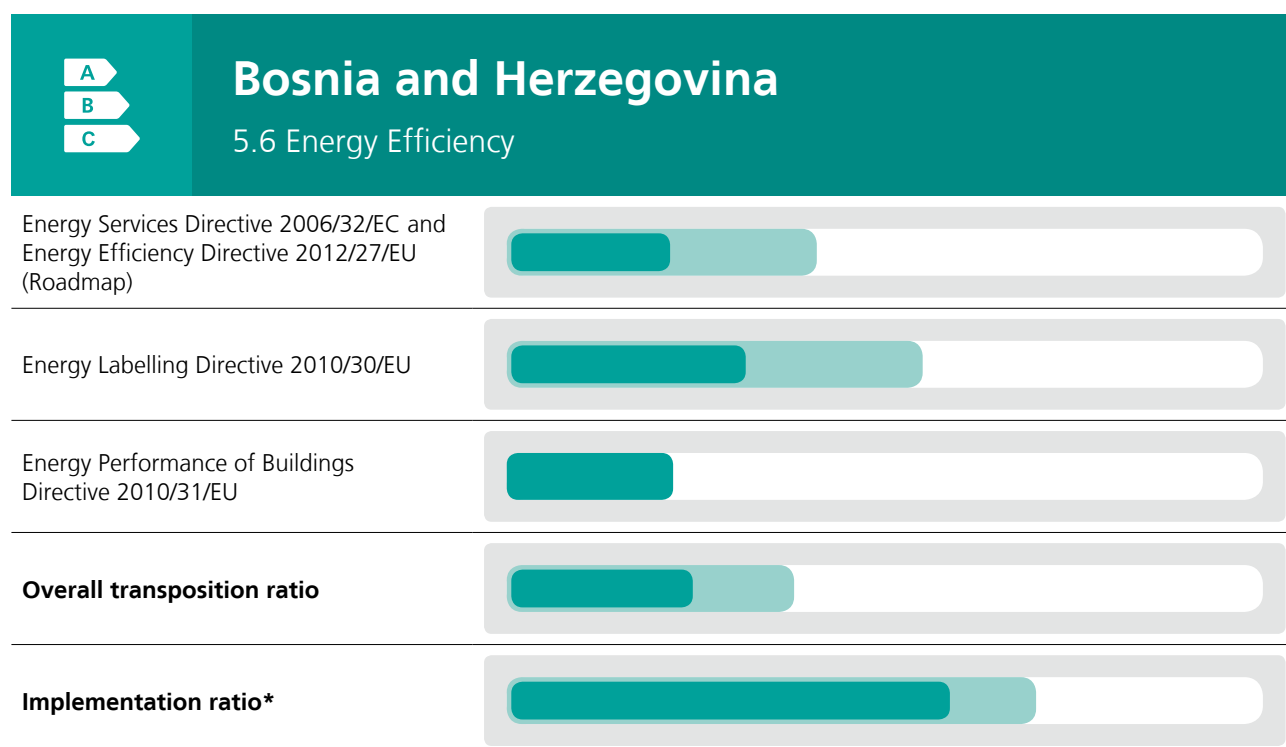
c. Conclusions and Priorities

Bosnia and Herzegovina is the only Contracting Party which did not submit either the second progress report 2014 - 2015 or the first one for the years 2012 - 2013. Nevertheless, the integration of biomass data in the 2014 and 2015 energy balances revealed that the country has overachieved the 2020 renewable energy target. Due to an expected increase of energy consumption in the upcoming period, Bosnia and Herzegovina may risk not reaching the 40% renewable energy target in 2020 if the policy measures are not reviewed.

However, the legal and regulatory framework needs further revision. A state-level framework for the promotion of renewable energy needs to supplement the existing entity laws. For example, the role and tasks of the transmission system operator in connecting new renewable energy producers to the network and the principles of operation of the transmission network for electricity from renewable sources have to be established via state-level legislation. Moreover, attracting investments in renewable energy will require simplification of the existing procedures, reduction of the number of regional and local/cantonal institutions and improving transparency.

The review of the legislation to introduce the support based on feed-in premium should be a priority for both entities in the next reporting period. The measures should facilitate the integration of renewable energy into the electricity market in the most cost-effective way by introducing an auction procedure for granting support to producers.

A compliant legal framework for biofuels and bioliquids continues to be an urgent priority. Without it, a number of producers closed their production and even the small present share of biofuels on the market cannot be calculated towards the achievement of the 10% target as outlined in the 2016 NREAP.



■ Status - Implementation Report 2016 ■ Progress - Implementation Report 2017

* achievement of energy efficiency target and implementation of EEAPs (institutions and coordination, funding, ESCO market, exemplary role of public sector, ongoing programmes)

Source: Compiled by the Energy Community Secretariat

a. Sector Overview

The energy intensity of Bosnia and Herzegovina decreased between 2012 and 2015. However, the values of these indicators remain high compared to the Energy Community average, suggesting that stronger energy efficiency measures must be implemented in all sectors. This is especially relevant for the residential sector, which is responsible for the highest share of total final energy consumption (50% in 2015).

In Bosnia and Herzegovina, the entity ministries are in charge of developing energy efficiency legislation, while the Ministry of Foreign Trade and Economic Relations (MoFTER) participates, coordinates and reports about activities related to the Energy Community at state level. Each entity established an energy efficiency and environmental fund.

b. State of Compliance

Transposition of the energy efficiency *acquis* in Bosnia and

Herzegovina is still not sufficient, in spite of the recent progress made by the adoption of the Law on Energy Efficiency and the first Energy Efficiency Action Plan (EEAP) in Federation of Bosnia and Herzegovina. Republika Srpska is still comparatively more advanced in transposition and implementation of the *acquis*, especially with regards to adoption and implementation of secondary legislation and plans based on the Law on Energy Efficiency.

1. Energy Services Directive 2006/32/EC and Energy Efficiency Directive 2012/27/EU

Republika Srpska adopted a Law on Energy Efficiency in 2013, the Federation of Bosnia and Herzegovina only in February 2017, while Brcko District failed to do so. In the absence of a full package of primary and secondary legislation transposing Directive 2006/32/EC and of a state-level EEAP, Bosnia and Herzegovina continues to be in breach of Energy Services Directive. The Secretariat initiated an infringement action against Bosnia and Herzegovina in March 2014, which was followed by

Energy Efficiency Facts and Figures

Energy Efficiency Action Plan (EEAP)*					
Period covered by EEAP		2010 – 2018			
Overall energy savings target - Directive 2006/32/EC (ktoe / % / year)		298 / 9 / 2018			
EEAP status		- draft 2 nd EEAP finalized, adoption pending - 1 st EEAP adopted in the Federation BiH in July 2017			
Achieved energy savings (ktoe / % / year)		127 / 3,8 / 2018 (reported as part of draft 2 nd EEAP)			
Key institution(s) in charge		Ministry of Foreign Trade and Economic Relations, entity ministries in charge of energy and buildings and energy efficiency funds			
Main data and energy efficiency indicators**		2012	2013	2014	2015***
Total primary energy supply (TPES) ktoe		8.518	7.900	7.794	7.938
Energy Intensity (TPES/GDP) toe / 1000 USD		0,50	0,45	0,44	0,43
TPES/Population toe/capita		2,22	2,06	2,03	2,06
Total final energy consumption (TFEC) ktoe		4.906	4.420	4.554	4.433
Share of TFEC by sector	Residential	58%	53%	47%	50%
	Services	8%	9%	9%	9%
	Industry	14%	15%	20%	16%
	Transport	19%	21%	22%	23%
	Others	0%	1%	1%	0%
	Non-energy use	1%	1%	1%	2%

* Source: draft 2nd EEAP of Bosnia and Herzegovina

** Main data provided by national statistics; indicators calculated by the Energy Community Secretariat

*** Preliminary data

a Reasoned Opinion on 15 March 2017, in which the Secretariat concluded that Bosnia and Herzegovina failed to fully comply with several provisions of Directive 2006/32/EC.

In March 2017, the Secretariat received a draft energy efficiency action plan at state-level, as well as entity and Brcko District level, from MoFTER. The government of Federation of Bosnia and Herzegovina approved the EEAP in July 2017. Nevertheless, the state-level EEAP was not adopted to date, which represents another matter of non-compliance.

With respect to the Energy Efficiency Directive, Bosnia and Herzegovina missed the first reporting deadlines foreseen in the Energy Efficiency Directive, as follows: 30 March 2017 for Article 4, 1 January 2017 for Article 5, 15 March 2017 for Article 7, and 30 June 2017 for Article 24(1). The Secretariat was informed about continuing activities to transpose the Energy Efficiency Obligations Scheme (Article 7 of the Energy Efficiency Directive) and develop long-term building renovation strategies, but not on the transposition of any other provisions of the Directive 2012/27/EU.

2. Energy Labelling Directive 2010/30/EU

No progress was registered in the reporting period in Republika Srpska, after having transposed provisions of Directive 2010/30/EU in its Law on Energy Efficiency and adopted nine delegated regulations in March 2016.

Federation of Bosnia and Herzegovina has not yet transposed Directive 2010/30/EU, and hence has no legal basis for adoption

of regulations on labelling of energy related products.

Therefore, Bosnia and Herzegovina continues to fail to comply with the Energy Labelling Directive.

3. Energy Performance of Buildings Directive 2010/31/EU

In Federation of Bosnia and Herzegovina, there is no progress with the outstanding obligations from the Buildings Directive as identified in the 2016 Implementation Report, namely related to developing a methodology for calculations of cost-optimal levels of the minimum energy performance, targets and plans for realization of nearly zero-energy buildings.

In Republika Srpska, there was also no progress in tackling the outstanding provisions, related to alignment of the minimum energy performance standards, national calculation methodology for energy performance of buildings, and energy performance certification with the requirements of the Buildings Directive.

Overall, Bosnia and Herzegovina still fails to comply fully with the requirements of Directive 2010/31/EU.

c. Conclusions and Priorities

The reporting period was characterised by certain progress, namely the adoption of the Law on Energy Efficiency and EEAP in the Federation of Bosnia and Herzegovina. Yet, many measures remain to be adopted in order for Bosnia and Herzegovina to be compliant with the energy efficiency *acquis*.

The first priority for Bosnia and Herzegovina is the transposition of the Energy Efficiency Directive, as well as the EEAP that was drafted and sent to the Secretariat.

For the Federation, the priority is to implement the Law on Energy Efficiency through adoption of secondary legislation, and to transpose the Labelling Directive. For Republika Srpska, the priority is to complete the implementation of the Buildings Directive.

The coordination between state and entity level authorities needs to be strengthened as a precondition for further energy efficiency progress. Putting in place adequate structures for monitoring of energy efficiency measures and verification and reporting should be another priority.



Non-transposition of Energy Services Directive

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On 19 May 2017, the Secretariat submitted a Reasoned Request to the Ministerial Council on Bosnia and Herzegovina's failure to transpose Energy Services Directive 2006/32/EC in Case ECS-1/14. After Republika Srpska, also Federation of Bosnia and Herzegovina had passed a law, which has since entered into force. However, the Secretariat considers that certain provisions of the Directive have not been transposed by the law. The Brcko District failed to adopt any legislation on energy efficiency.



Bosnia and Herzegovina

5.7 Environment

Environmental Impact Assessment Directive



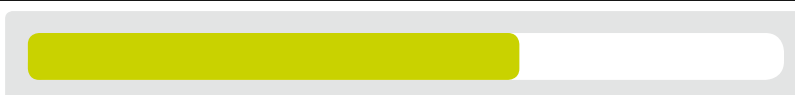
Sulphur in Fuels Directive



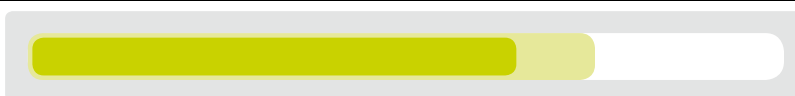
Large Combustion Plants Directive and other Acquis on Environment

Deadline not yet expired

Overall transposition ratio



Implementation ratio*



■ Status - Implementation Report 2016 ■ Progress - Implementation Report 2017

* Environmental Performance Indicators (EPI) on air quality, climate and energy; LCPD implementation preparedness

Source: Compiled by the Energy Community Secretariat

a. Sector Overview

Environmental impact assessments are carried out by the responsible ministries in the entities of Bosnia and Herzegovina. No legislation on environmental impact assessment exists at state level. In the Federation of Bosnia and Herzegovina, the Environmental Impact Assessment Directive is transposed through the Law on Environmental Protection and delegated legislation. In Republika Srpska, the Law on Environmental Protection of 2012 (amended in September 2015), governs environmental impact assessment. Several rulebooks necessary

for the implementation of the law exist. In Brcko District, the Law on Environmental Protection, in force since 2004, governs environmental impact assessment.

During the reporting period, the Ministry of Spatial Planning, Construction and Ecology of Republika Srpska adopted a decision extending the validity of the environmental permit for the Hydro Energetic System Gornja Neretva (phase I), and one decision approving the environmental impact assessment for phase II of the same project. Nine environmental impact assessment approvals have been issued for wind farms, and three

others are in progress. In Federation of Bosnia and Herzegovina six environmental permits for wind farms were adopted, out of which three are new and three are renewed. Furthermore, 26 permits in the field of energy (thermal power plants, small and large hydropower plants, gas storage sites) were issued, out of which however only seven were related to new projects while 19 concerned renewals of previously expired permits or permit modifications.

With regard to the Sulphur in Fuels Directive, the fact that Bosnia and Herzegovina has one refinery producing heavy fuel oil and gas oil, located in the municipality of Brod in Republika Srpska, is of relevance. The legal framework includes the entities' laws on air protection adopted in 2002 (Republika Srpska), 2003 (Federation of Bosnia and Herzegovina) and 2004 (Brcko District). At state level, the government adopted a Decision on Liquid Fuels Quality in 2002, which was amended several times.

Bosnia and Herzegovina has five plants falling within the scope of the Large Combustion Plants Directive with a total of 12 units and a total rated thermal input of 5.339 MW. All units use lignite and/or brown coal as fuel. In the Federation of Bosnia and Herzegovina, a Regulation on Limiting Values of Emissions into the Air from Combustion Plants adopted in 2013 transposes the emission limit values of the Large Combustion Plants Directive and requires operators of large combustion plants to develop emission reduction plans. Furthermore, a Rulebook on Conducting the Monitoring of Air Quality and Defining the Polluting Types, Limit Values and Other Environmental Quality Standards has been adopted. In Republika Srpska, the Regulation on Limit Values of Emission into the Air from Combustion Installations of 2005 and the Rulebook on Measures for Preventing and Reducing Air Pollution and Improving Air Quality of 2015 (amended in 2016), transpose the emission limit values of the Large Combustion Plants Directive both for new and existing plants.

As regards wild birds, there are three Ramsar sites in Bosnia and Herzegovina (two in Republika Srpska and one in the Federation of Bosnia and Herzegovina) and several areas nominated as candidates for Emerald sites.

b. State of Compliance

Bosnia and Herzegovina has reached a modest level of implementation of the Energy Community environmental *acquis*. As environmental legislation falls within the responsibility of the entities, differences exist between the entities as regards the level of transposition and the preparedness for implementation.

1. Environmental Impact Assessment Directive

In the Federation of Bosnia and Herzegovina, the legal framework still has certain flaws (related mainly to public participation, given the fact that the public is excluded from the notification of the preliminary environmental impact assessment, as well as the shortened deadline provided for the reaction of



Incorrect Environmental Impact Assessment of Thermal Power Plant Ugljevik 3

I On 28 July 2017, the Secretariat sent an Opening Letter to Bosnia and Herzegovina in Case ECS-1/15. The Secretariat takes the preliminary view that the environmental impact assessment procedure of the planned thermal power plant Ugljevik 3 in Republika Srpska was not carried out in compliance with the Energy Community environmental *acquis*. In particular, the Secretariat took the view that the permitting procedure failed to fully address all impacts of the project, as well as its potential transboundary impacts, as required by the Environmental Impact Assessment Directive. Furthermore, the Secretariat considers that the Directive's provisions on public participation were not fully respected.

the public). In the Brcko District, the existing legal framework also still has certain flaws mainly related to public participation, given the fact that public consultation is left to the discretion of the competent authority.



Non-compliance with Sulphur in Fuels Directive

I On 14 October 2016, the Ministerial Council adopted Decision 2016/03/MC-EnC in Case ECS-2/13 on the failure by Bosnia and Herzegovina to comply with the legally binding thresholds of the Sulphur in Fuels Directive.

S Since the breaches have not been rectified to date, the Secretariat – as invited by the Ministerial Council – will request a decision under Article 92 of the Treaty at the next Ministerial Council meeting in 2017.

2. Sulphur in Fuels Directive

The incorrect transposition and implementation of the Directive was subject to an infringement procedure which resulted in a Decision by the Ministerial Council in 2016. A derogation clause in the state government's Decision on Liquid Fuels Quality in 2002 breaches the provisions of the Directive related to the maximum sulphur content allowed in heavy fuel oil and gas oil. Furthermore, granting domestically produced petroleum products more favourable treatment with regard to the maximum sulphur content as compared to imported ones constitutes discrimination. In addition, the limit values of sulphur content of gas oil have not been correctly transposed. Following the Ministerial Council's decision, the state government appointed a working group to draft a new Decision on Liquid Fuels Quality. Drafting is still in process.

3. Large Combustion Plants and Industrial Emissions Directives

In both entities, the respective Regulations on Limiting Values of Emissions into the Air from Combustion Plants adopted in 2013 comply with the Large Combustion Plants Directive. The emission limit values of the Industrial Emissions Directive for new plants have not yet been transposed in either entity.

In October 2016, the Secretariat concluded in its opinion that the draft National Emission Reduction Plan (NERP) of Bosnia and Herzegovina, adopted by the government in December 2015 is compliant with Directive 2001/80/EC and the Secretariat's Policy Guidelines.

4. Wild Birds Directive

In Bosnia and Herzegovina, competence in the field of nature protection is regulated at the entity level. Legislation stipulating the categories of protected areas and protection procedure are the Laws on Nature Protection of both entities as well as the Brcko District. Only the implementation of international obligations of Bosnia and Herzegovina, including implementation of international agreements, coordination for projects in cooperation with international organizations, programmes and funds, are dealt with at state level. Such competences belong mainly to the Ministry of Foreign Trade and Economic Relations and, to a lesser extent, to the Ministry of Civil Affairs.

In Bosnia and Herzegovina, there are 28 protected areas, including strict nature reserves, three national parks, sixteen nature monuments, five nature parks and two areas for resource management.

In Republika Srpska, new by-laws under the Law on Nature Protection are foreseen, aimed at improving nature protection and achieving a higher level of harmonization with the Wild Birds Directive. The work plan for 2017 includes the adoption of a government order on strictly protected and protected wild species.

c. Conclusions and Priorities

Bosnia and Herzegovina followed up on the last Implementation Report's priorities with the adoption of the National Emission Reduction Plan. At the same time, there was little progress as regards the follow-up of the other priorities.

In Federation of Bosnia and Herzegovina and Brcko District, a law ensuring full compliance with the provisions of the Environmental Impact Assessment and Strategic Environmental Assessment Directives should be adopted without delay.

Following up on the 2016 Decision of the Ministerial Council, Bosnia and Herzegovina must ensure compliance with the provisions of the Sulphur in Fuels Directive immediately in order to rectify the breach identified.

Bosnia and Herzegovina must prepare the necessary administrative acts, including the permits for individual combustion plants, to ensure timely implementation of its National Emission Reduction Plan. Furthermore, the implementation of the provisions of the Industrial Emissions Directive for new plants shall be ensured.





Bosnia and Herzegovina

5.8 Climate

a. Sector Overview

Bosnia and Herzegovina is a non-Annex I party to the United Nations Framework Convention on Climate Change (UNFCCC) since 2000. The country ratified the Paris Agreement in March 2017. In its National Determined Contribution (NDC), total emissions have an upward trend. According to the baseline scenario (business-as-usual) in 2030 expected emissions are 20% higher than the level of emissions in 1990. Emission reduction that Bosnia and Herzegovina unconditionally might achieve, compared to the business-as-usual scenario, is 2% by 2030 which would mean 18% higher emissions compared to the base year 1990. It is only possible to achieve significant emission reduction with international support, which would result in emission reduction of 3% compared to 1990, while compared to the business-as-usual scenario it represents a possible reduction of 23%. The NDC covers carbon dioxide (CO₂), methane (CH₄) and nitrous oxide (N₂O).

Bosnia and Herzegovina is reporting regularly to the UNFCCC. In 2010, it submitted its Initial National Communication under the United Nations Framework Convention on Climate Change to the UNFCCC Secretariat. In October 2013, the Second National Communication was adopted. The Third National Communication and Second Biennial Update Report on Greenhouse Gas Emissions were also adopted by the Council of Ministers and submitted to the UNFCCC on 13 June 2017.

Based on mutual agreement of the two entities, Bosnia and Herzegovina's focal point for the UNFCCC is the Ministry of Spatial Planning, Civil Engineering and Ecology of Republika Srpska.

b. State of Compliance

Bosnia and Herzegovina does not have a separate law on climate change at national level. The legal basis for action in the field of climate change in Republika Srpska is Article 50 of the Law on Air Protection. Amendments to the Law on Air Protection were adopted in 2017 and published in the Official Gazette of Republika Srpska No. 46/17. The Federation of Bosnia and Herzegovina does not have any specific legislation on climate. However, it does have a Law on Air Protection which lays down technical conditions to prevent or to reduce the emissions into the ambient air from anthropogenic activities.

1. National Inventory System

Bosnia and Herzegovina does not have a clearly defined system for data collection and processing, quality assurance and

control of input data, or a reporting and monitoring system. Also, no agreement on who will manage the greenhouse gas inventory and store the data at national level has been reached.

The rules on the development of emissions inventories in Bosnia and Herzegovina are primarily stipulated by the air protection laws of the two entities that are currently in effect. In Republika Srpska, the Law on Air Protection provides that the jurisdiction to manage the greenhouse gas inventory lies with the Hydro Meteorological Institute of Republika Srpska. However, appropriate by-laws that govern inventory management have not been passed yet. The amendments to the Law on Air Protection include provisions on data exchange among ministries and institutions and envisage a rulebook on methodology for the greenhouse gas inventory. These are only partially compliant with the Monitoring Mechanism Regulation.

There is no greenhouse gas management and jurisdiction prescribed at the level of Federation of Bosnia and Herzegovina or Brcko District. This is not in line with Monitoring Mechanism Regulation (EU) 525/2013.

2. Low Carbon-development Strategies

A Climate Change Adaptation and Low Emission Development Strategy has been adopted by the Council of Ministers in 2013. This constitutes an initial step in setting the general policy course for low-emission and climate resilient development, integrating more specific policies, measures and projects into sectoral strategies; and identifying existing opportunities for adaptation and mitigation actions to attract international support.

3. Policies, Measures, Projections

Although the country has a strategy on climate change, it lacks a list of priority actions and a concrete timeframe for their implementation. In addition, the current strategy has never been revised nor does it include projections.

c. Conclusions and Priorities

Climate change issues are peripheral to most institutions in Bosnia and Herzegovina, which is manifested by the insufficient number of provisions regulating this issue. Lack of knowledge and awareness regarding climate change risks have resulted in insufficiently developed capacity to identify mitigation or adaptation measures. Although Bosnia and Herzegovina is reporting regularly to the UNFCCC, action on climate change does not take place. Most of the work so far has been coordinated by UNDP due to limited national capacities.

Bosnia and Herzegovina should adopt national legislation on climate change and transpose the Monitoring Mechanism Regulation. It should strengthen institutional capacities and formally define competences and responsibilities in this area. This includes the establishment of a greenhouse gas inventory system at national level, in accordance with the requirements

of Regulation (EU) 525/2013. The country should also develop technical models assessing climate change scenarios and impacts on all sectors of the economy, including a concrete time-frame for priority actions and a list of financial commitments to finally implement its strategy on climate change.



Bosnia and Herzegovina

5.9 Competition

a. Sector Overview

The body in charge of enforcing competition law at state level is the Competition Council. In the reporting period, the Competition Council, upon request of Elektroprivreda BiH JSC Sarajevo, issued an opinion on the competitiveness of the electricity market in Bosnia and Herzegovina.

The Law on the System of State Aid is enforced by the State Aid Council, composed of eight members and assisted by a secretariat. In the reporting period, the State Aid Council once again did not take any decision in the energy sector. As in other Contracting Parties, there is no State aid enforcement in the energy sectors in Bosnia and Herzegovina.

b. State of Compliance

1. Competition Law

The Competition Act of Bosnia and Herzegovina, adopted in 2005 and amended in 2007 and 2009, is in line with the competition *acquis*.

The Competition Council's opinion on the competitiveness of the electricity market concluded that none of the 26 power suppliers in Bosnia and Herzegovina have a market share above 50%. Furthermore, it found that all customers could freely

choose their power supplier. However, in the Federation of Bosnia and Herzegovina, Elektroprivreda HZ HB and Elektroprivreda BiH are still the dominant suppliers of electricity; other companies licenced for electricity supply are currently not interested in the supply of electricity customers. Improvements were noted with regard to industrial customers who have started to change their electricity supplier. Such an opinion constitutes a useful first step to identify potential competition concerns. However, apart from the structure of the market, full compliance with the Energy Community Treaty's obligation on enforcement of the competition *acquis* requires the Competition Council to investigate the behaviour of individual market players and actively enforce competition law by way of investigations.

The Competition Council's cooperation with the Secretariat and other national competition authorities in the framework of the Energy Community Competition Network is rather limited.

2. State Aid Law

The Law on the System of State Aid is generally in line with the State aid *acquis*. Compliance will be reinforced by the adoption of amendments to the Law on the System of State Aid in order to comply with Regulation (EU) 2015/1589, which has been prepared by the State Aid Council and submitted to the Ministry of Foreign Trade and Economic Relations. The draft law fully transposes the detailed rules of Article 108 of the Treaty on the Functioning of the European Union regarding procedural aspects of the enforcement of the State aid prohibition.

However, the State Aid Council has not rendered any decision in the energy sectors since the Law's entry into force in 2012. It is rather collecting data reported by State aid grantors without assessing the compatibility of the support measures. Therefore, implementation of the State aid law and its enforcement are yet to be achieved. This is subject to an open dispute settlement case initiated already in 2010.

Upon information forwarded by the Secretariat, two cases regarding state guarantees for TPP projects (Banovici and Tuzla 7) are currently being reviewed by the State Aid Council. Fur-



Lack of Effective State Aid Enforcement

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In September 2010, the Secretariat initiated Case ECS-1/10 maintaining that Bosnia and Herzegovina failed to fulfil its obligations under the Treaty related to State aid. Despite the fact that legislation on State aid was adopted in 2012, the State aid enforcement authority does not take decisions in the energy sectors. The system of State aid enforcement in the energy sector in Bosnia and Herzegovina is thus ineffective.

thermore, the Secretariat received complaints regarding State support in the form of settling of unpaid debts of companies active in the mining sector.

The independence of the State Aid Council remains questionable as both the decision-making body as well as the secretariat are closely linked to the government in terms of nomination of its members and financing. Furthermore, effective enforcement of the State aid *acquis* is hindered by the limited human resources of the enforcement authority.

The State Aid Council actively cooperates with the Secretariat and other national State aid authorities in the framework of the Energy Community State Aid Network.

Although the State aid *acquis* is fully transposed into national legislation, full compliance with the Treaty's obligations in the area of State aid require an independent State aid authority which actively enforces the *acquis*.

c. Conclusions and Priorities

While having formally transposed the *acquis*, Bosnia and Herzegovina must finally start to enforce competition and State aid law. In the reporting period, the State Aid Council started to review two cases in the energy sectors which constitutes slight progress in the area of State aid. The Secretariat will continue monitoring the enforcement of State aid law in Bosnia and Herzegovina and in particular the two cases investigated by the State Aid Council. It will also follow up on the complaints received.



Bosnia and Herzegovina

5.10 Infrastructure

a. Sector Overview

In Bosnia and Herzegovina, the 400 kV overhead line Bajina Basta (RS) - Visegrad (BA) - Pljevlja (ME) (EL_01), a section of the Transbalkan Corridor, has received the Project of Energy Community Interest label. Furthermore, the Bosnia and Herzegovina (Trzac-Bosanska Krupa) - Croatia (Licka Jesenica) interconnector (Gas_02) and the Bosnia and Herzegovina - Croatia interconnector (Zagvozd-Posusje-Novı Travnik with a main branch to Mostar, Gas_03) projects have been designated as Project of Mutual Interest. The country is yet to start activities on transposing Regulation (EU) 347/2013.

b. State of Compliance

As Bosnia and Herzegovina did not transpose Regulation (EU) 347/2013 through a new piece of legislation, it is not compliant with the provisions of the Regulation for which the deadlines have already expired. The country thus breaches the Energy Community infrastructure *acquis*. The electricity project promoter from Bosnia and Herzegovina failed to submit the necessary reports on the project's progress to the Energy Community Secretariat by the required deadline.

1. Designation of National Competent Authority

A report aimed at preparing for the implementation of Regulation (EU) 347/2013 showed that the optimal solution for Bosnia and Herzegovina would be to designate one state-level competent authority and one competent authority for each entity and one for the Brcko District. None have been designated to date.

2. Status of Highest National Significance for Energy Community Priority Projects

Bosnia and Herzegovina's Law on Concessions requires an assessment of whether a general (public) interest exists and defines it as the responsibility of a competent state ministry where a bidder submits its proposal for a concession for which there was no public invitation (unsolicited proposal). However, the Law on Concessions does not identify the authorized body or institution tasked to designate such a status nor does it prescribe the procedure for it. In addition, the legal framework at state level does not define how such public interest is harmonized or coordinated at the level of the entities and other levels of government in Bosnia and Herzegovina. The procedure for determining whether public interest exists is defined by entity and Brcko District laws, e.g. laws on spatial planning and construction, and laws on expropriation.

3. Manual of Procedures

Currently, an adequate manual of procedures does not exist. It is envisaged that a state-level competent authority will be in charge of preparing and publishing the final manual of procedures for the permit granting process in Bosnia and Herzegovina.

4. Transparency and Public Participation

Public participation is already defined in the existing laws, only the time schedule must be aligned with Regulation (EU) 347/2013. Currently, the public is consulted during the environmental impact assessment, which is conducted during

the construction permit procedure. During the permitting procedure, all interested parties, including non-governmental organizations, local residents, agencies, individuals, and associations, are notified of the public consultation through a letter of notification, advertising, the relevant ministry's website announcements, and calls for public hearings in the media. In addition, the public is consulted during the issuance of an energy permit, which comes later in the permitting procedure.

5. Project Visibility and Dedicated Websites

A dedicated web page for each PECE/PMI has not been made available by the project promoter.

c. Conclusions and Priorities

Bosnia and Herzegovina's authorities should adopt a law or by-law to ensure transposition of Regulation (EU) 347/2013 into na-

tional legislation, and designate a national competent authority.

The electricity project promoter should prepare and submit the necessary project progress reports to the Energy Community Secretariat as soon as possible.

The national competent authority should be designated and become operational as soon as possible. It should publish a manual of procedures for the permit granting process, applicable for PECEs, following the minimum structure presented in Annex X of the Regulation, by 31 December 2017.

The national regulatory authority should publish the methodology and criteria used to evaluate investment in electricity and gas projects and the higher risks incurred by them by 31 December 2017. The national regulator should also establish and make publicly available a set of indicators and corresponding reference values for the comparison of unit investment costs by 30 June 2018.



Bosnia and Herzegovina

5.11 Statistics

a. Sector Overview

Pursuant to the Law on Statistics of Bosnia and Herzegovina, the Agency for Statistics of Bosnia and Herzegovina (BHAS) is responsible for organizing, compiling, producing and disseminating statistical data. The Federation of Bosnia and Herzegovina and Republika Srpska have established their own authorities for collecting, compiling and disseminating statistical data, namely the Institute for Statistics of Federation of Bosnia and Herzegovina (FZS) and the Institute of Statistics of Republika Srpska (RZS RS). They are obliged to deliver statistical data to BHAS. In order to ensure uniform quality of statistical data, all three authorities have signed an agreement on implementation of harmonized methodologies and standards in producing the statistical data.

BHAS operates in accordance with the Statistical Programme, adopted by the government. The Strategy for Development of Statistics until 2020, as a multiannual plan of activities, is the basis for midterm plans and annual programmes. BHAS submits an annual report on implementation of programmes and plans to the government.

By a Memorandum of Understanding signed by BHAS with the State Electricity Regulatory Commission (SERC), the latter collects and compiles information on electricity prices.

b. State of Compliance

The responsible institutions of Bosnia and Herzegovina have achieved significant progress in complying with the energy statistics *acquis*, particularly with regard to annual energy statistics, but full compliance with Regulation (EC) 1099/2008 on annual energy statistics has not been reached. Reporting system is established only for monthly electricity, solid fuels and natural gas data. Biannual price data are disseminated by BHAS.

1. Regulation (EC) 1099/2008 on Energy Statistics

As regards annual energy statistics, Bosnia and Herzegovina since 2014 collects annual data comprising all five annual questionnaires and transmitted a full set of annual energy statistics to EUROSTAT following the defined procedure, although with considerable delay. Timeliness was also one of the problems for the data cycle 2015. Although the full set of five annual questionnaires was submitted to EUROSTAT eventually, the validation procedure raised concerns on the overall quality of annual data for the year 2015 so that not all sets of official statistical data of Bosnia and Herzegovina were published by EUROSTAT. As there are significant breaks in the series, disseminated data are marked as provisional.

In this context, it will be even more challenging for Bosnia and

Herzegovina to comply with the obligations stemming from the most recent amendments of Regulation (EU) 431/2014 adopted by the Ministerial Council in 2015, due for the reporting cycle 2017.

Bosnia and Herzegovina still fails to ensure full compliance with the obligations related to Annex B of Regulation (EC) 1099/2008.

BHAS compiles monthly reports for electricity, gas and, from 2014, for coal. Methodologies and questionnaires for monthly energy statistics are compliant with the *acquis*.

The collection of data on oil and petroleum products still remains a problem. While the legal basis was established, the country will continue to fail to comply until sufficient resources are designated for this task. A comprehensive administrative framework is still missing, along with a corresponding IT solution. BHAS has not started submitting any of its monthly collections of data to EUROSTAT yet.

Failing to collect and submit to EUROSTAT its monthly oil statistics, Bosnia and Herzegovina does not comply with Annex C and Annex D of Regulation (EC) 1099/2008 nor with the General Policy Guideline on Implementation of Certain Deadlines of the Oil Stocks Directive in the Energy Community.

2. Directive 2008/92/EC on Transparency of Gas and Electricity Prices for Industrial End-users

BHAS regularly reports semi-annual data for electricity and natural gas prices to EUROSTAT. The prices charged to industrial and household end-users are compiled and aggregated in the format and tables defined by EUROSTAT. The compilation procedure enables regular electricity and gas price reporting per consumption band in accordance with Directive 2008/92/EC.

Electricity prices are collected and compiled by SERC, whereas gas prices are provided by the biggest retail supplier. As regards the breakdown of components of electricity prices, Bosnia and Herzegovina is submitting half-yearly data covering disaggregated prices for industrial end-users and for households and complying with the *acquis*.

c. Conclusions and Priorities

In terms of annual statistics, Bosnia and Herzegovina has to further improve the timeliness, completeness and coherence of statistical data to achieve compliance with the *acquis*. Completing monthly data collection for oil and gas requires urgent action, in particular oil statistics required to meet obligations under the oil stocks *acquis* and the related General Policy Guideline.

The efforts required to implement the energy statistics *acquis* has to be matched with dedicated staff and sufficient financial and technical resources. Cooperation between BHAS and re-

spective entity institutions, as well as horizontal cooperation of institutions in possession of relevant information, should be reinforced with the aim to improve cost efficiency of the process.

Regarding price statistics, in addition to implementation of Directive 2008/92/EC, methodologies and procedures for price statistics will need continuous improvement in line with market opening and the new reporting requirements.



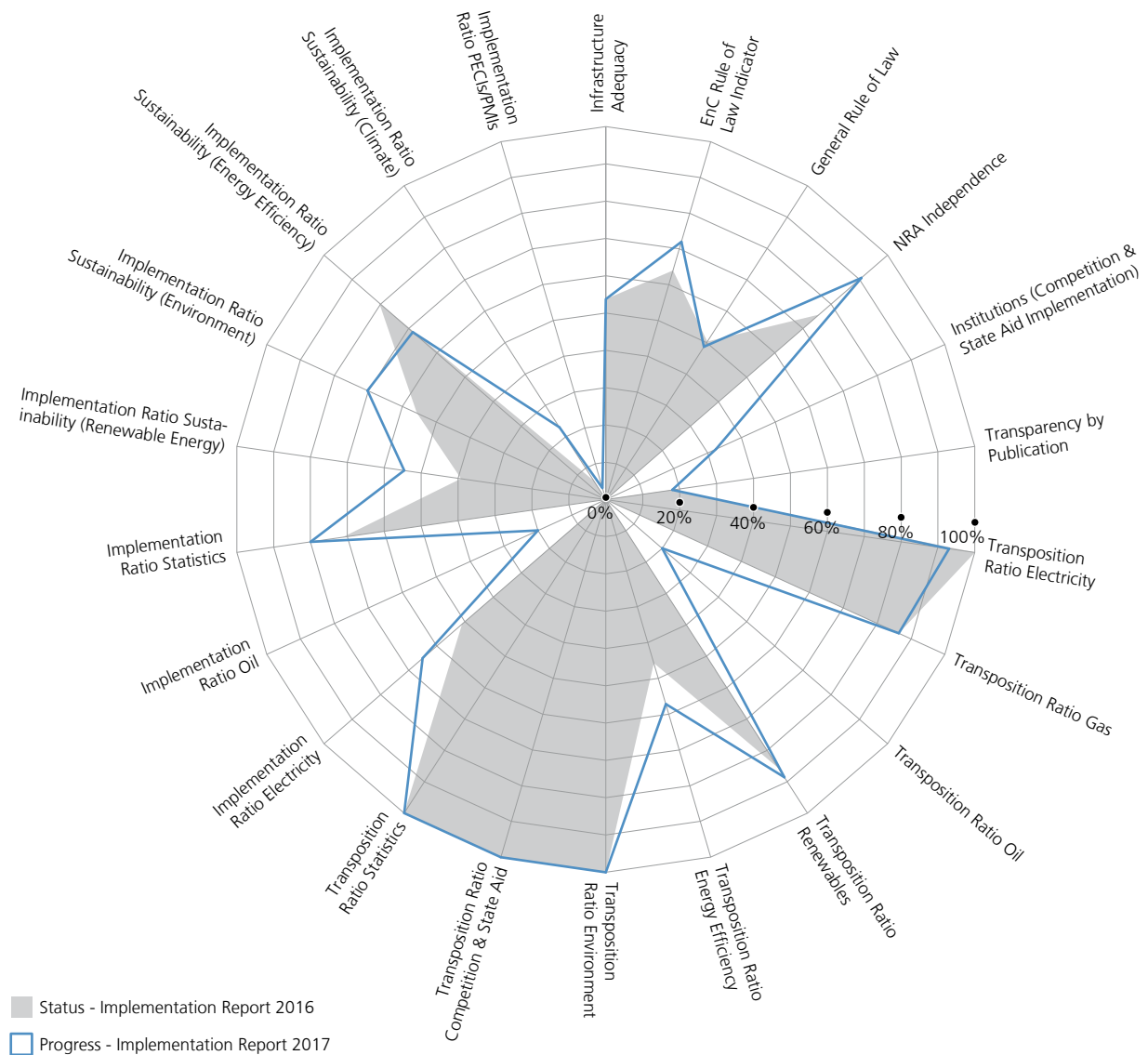
BOSNIA AND HERZEGOVINA



6

Kosovo*

Implementation Indicators Radar of Kosovo*



* Implementation indicator for gas is not applicable, as there is no gas market

Source: Compiled by the Energy Community Secretariat

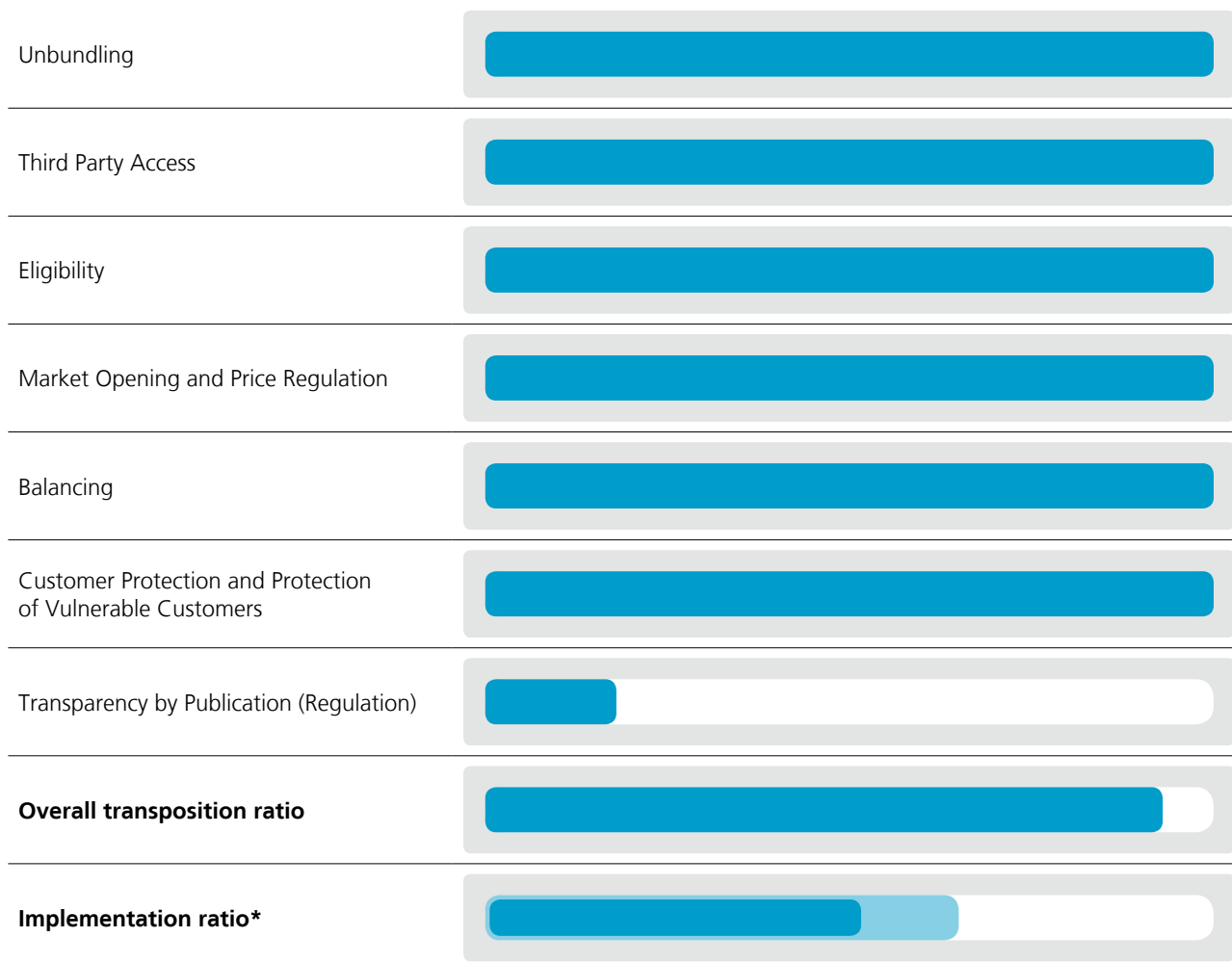
Kosovo* adopted the Third Energy Package in June 2016 and started to liberalise its electricity market. It is important that the conditions for the investment in a new lignite-fired power plant do not reverse this achievement. With adoption of the

Energy Performance of Buildings Law and closure of the related infringement case, Kosovo* achieved substantial progress in energy efficiency. The infringement linked to non-transposition of the Energy Services Directive is yet to be rectified.



Kosovo*

6.1 Electricity



Status - Implementation Report 2016 Progress - Implementation Report 2017

* actual implementation: unbundling, third party access rules etc.

Source: Compiled by the Energy Community Secretariat

a. Sector Overview

The wholesale and retail electricity markets in Kosovo* continue to be dominated by the state-owned generation utility Kosovo Energy Corporation (KEK) and the privately-owned public electricity supplier KESCO. Despite market opening measures taken, the latter still supplies electricity to all final customers. Two foreign suppliers obtained a license in 2016, however, none of them has been active so far.

The transmission system is operated by the state-owned joint-stock company KOSTT. Its multi-faceted dispute with the Serbian transmission system operator EMS is detrimental to the process of regional market integration. Despite fulfilling the technical criteria and the commitments made by EMS in the

bilateral Framework Agreement signed by both parties in 2014 mediated by the Secretariat, KOSTT has not become the operator of a control area nor a member of ENTSO-E. The entry into force of the Connection Agreement between ENTSO-E and KOSTT of October 2015, was unduly conditioned by a supply license being issued to a Serbian supplier in Kosovo*. Such a supply company has not even been registered and thus this long-standing dispute remains unresolved.

b. State of Compliance

Kosovo* has reached a high level of compliance in the electricity sector. In June 2016, Kosovo* adopted a new set of laws in the electricity sector, comprised of the Law on Energy, the Law on Electricity and the Law on Energy Regulator. Secondary acts

Electricity Facts and Figures

Description of data [unit]		2015	2016
Electricity production [GWh]		5.503	5.835
Net imports [GWh]		715	632
Net exports [GWh]		628	1121
Gross electricity consumption [GWh]		5.590	5.346
Losses in transmission [%]		1,29%	1,5%
Losses in distribution [%]		31,8%	29,7%
Consumption of energy sector [GWh]		112	109
Final consumption of electricity [GWh]		3.860	3.686
Consumption structure [GWh]	Industrial, transport, services and other non-residential sectors	1.746	1.472
	Households (residential customers)	2.114	2.214
Net maximum electrical capacity of power plants [MW]		1.222	1.033
of which:	coal-fired	1.171	960
	hydro, total	49,42	71,31
	Other renewables	1,45	1,952
Horizontal transmission network [km]	Length of transmission power lines [km]	1.324	1.353
	Substation capacity [MVA]	5.782	6.359
	Number of interconnectors	7	8
Electricity customers	Total number of customers	511.820	537.592
	out of which: non-households	76.069	80.860
	Eligible customers under national legislation	511.820	537.592
	Active eligible customers	0	1
Internal market	Electricity supplied to active eligible customers [MWh]	0	92.938
	Share of final consumption [%]	0,00%	2,52%

Source: Ministry for Economic Development of Kosovo*

needed for market opening were adopted within the nine-month deadline for aligning secondary legislation, as defined by the Law on Electricity.

1. Unbundling

The Law on Electricity transposes the requirements for ownership unbundling of the transmission system operator in line with the *acquis*. Accordingly, the government controls the generation company KEK, while the transmission system operator KOSTT is controlled by parliament. KOSTT has initiated its certification by the national regulatory authority ERO.

Legal unbundling of the distribution system operator KEDS from supply activities is in effect as of 1 January 2015. Functional unbundling was completed by the adoption of a compliance programme by ERO in July 2015 and the appointment of a compliance officer. The compliance report for 2016 is published on KEDS's website.

2. Third Party Access

The requirement to grant third party access based on published, objective and non-discriminatory tariffs has been transposed in line with the *acquis*. ERO approved and published new transmission and distribution tariffs applicable as of 1 April 2017.

KOSTT can only start performing allocation of cross-border transmission capacities upon the entry into force of the Connection Agreement with ENTSO-E. Until then, EMS continues to perform capacity allocation without the consent of KOSTT.

3. Eligibility

According to the Law on Electricity, all customers are eligible to freely choose a supplier of their choice. General principles of supplier switching are stipulated in the Law on Electricity in a compliant manner. ERO, as a responsible body, adopted the supplier switching rules in October 2016.

4. Market Opening and Price Regulation

The Law on Electricity limits regulation to supply prices for household and small customers under universal service. ERO shall annually reassess the price methodology, the level of prices and the need for further regulation.

In January 2017, ERO issued a guideline on market liberalisation in Kosovo*, according to which regulation of the generation price was terminated by 31 March 2017. An action plan for deregulation of retail prices is also included in the guideline. Accordingly, regulation of electricity supply prices for high voltage customers was phased-out by 31 March 2017.

and will be phased out for medium voltage customers by 31 March 2018. In addition, transmission and distribution system operators started to procure electricity for network losses at non-regulated prices. This was a major breakthrough in the liberalization of the Kosovo* electricity market.

ERO has started to issue supply licenses, resulting in three licensed suppliers, however, only one is active so far. By ERO's decision, KESCO was entrusted with universal supply obligations. Universal supply is remunerated based on tariffs approved by ERO. A tender for appointment of a supplier of last resort was announced by ERO in accordance with the Law, however, no application has been received so far. Last resort supply will be provided at prices determined by ERO's methodology and up to 60 days.

5. Balancing

The Law on Electricity stipulates an obligation of the transmission system operator to procure balancing services in a transparent, market-based and non-discriminatory procedure in line with the Third Energy Package. A contractual framework and a non-discriminatory approach to balance responsibility of each market participant have been introduced by the Law. The transmission system operator adopted a methodology for determining the imbalance settlement price, which is implemented as of 1 June 2017.

Given the limited balancing possibilities and costs of procuring services, regional balancing cooperation is of utmost importance for KOSTT to provide an adequate reserve level and improve quality of frequency regulation. An important step in that respect was an agreement between KOSTT and the transmission system operator of Albania OST on cross-border procurement of a reserve for secondary regulation, whose implementation however depends on the entry into force of the Connection Agreement between KOSTT and ENTSO-E.

6. Customer Protection and Protection of Vulnerable Customers

The Third Energy Package provisions on protection of customers, including vulnerable customers, have been transposed. A definition of the status of socially vulnerable customers, the scope of their rights and measures for their protection has still not been adopted.

7. Transparency

The obligations for keeping of data, reporting and provision of information are defined by the Law on Electricity. However, the requirements of Regulation (EU) 543/2013 are not transposed.

Only load forecast data and installed generation capacity, aggregated and per unit, are locally available. No transmission data are published, and submission of data to the ENTSO-E Transparency Platform does not take place. No data on balancing and market performance are available either.

c. Conclusions and Priorities

Kosovo* fulfilled the last year's highest priority task to terminate regulation of wholesale prices and start the process of retail market liberalization.

After the adoption of the new laws in 2016, Kosovo* succeeded to adopt a large number of secondary acts that enabled market opening.

ERO should issue a preliminary opinion on the certification of KOSTT as a transmission system operator under the Third Energy Package and ask the Secretariat for an opinion.

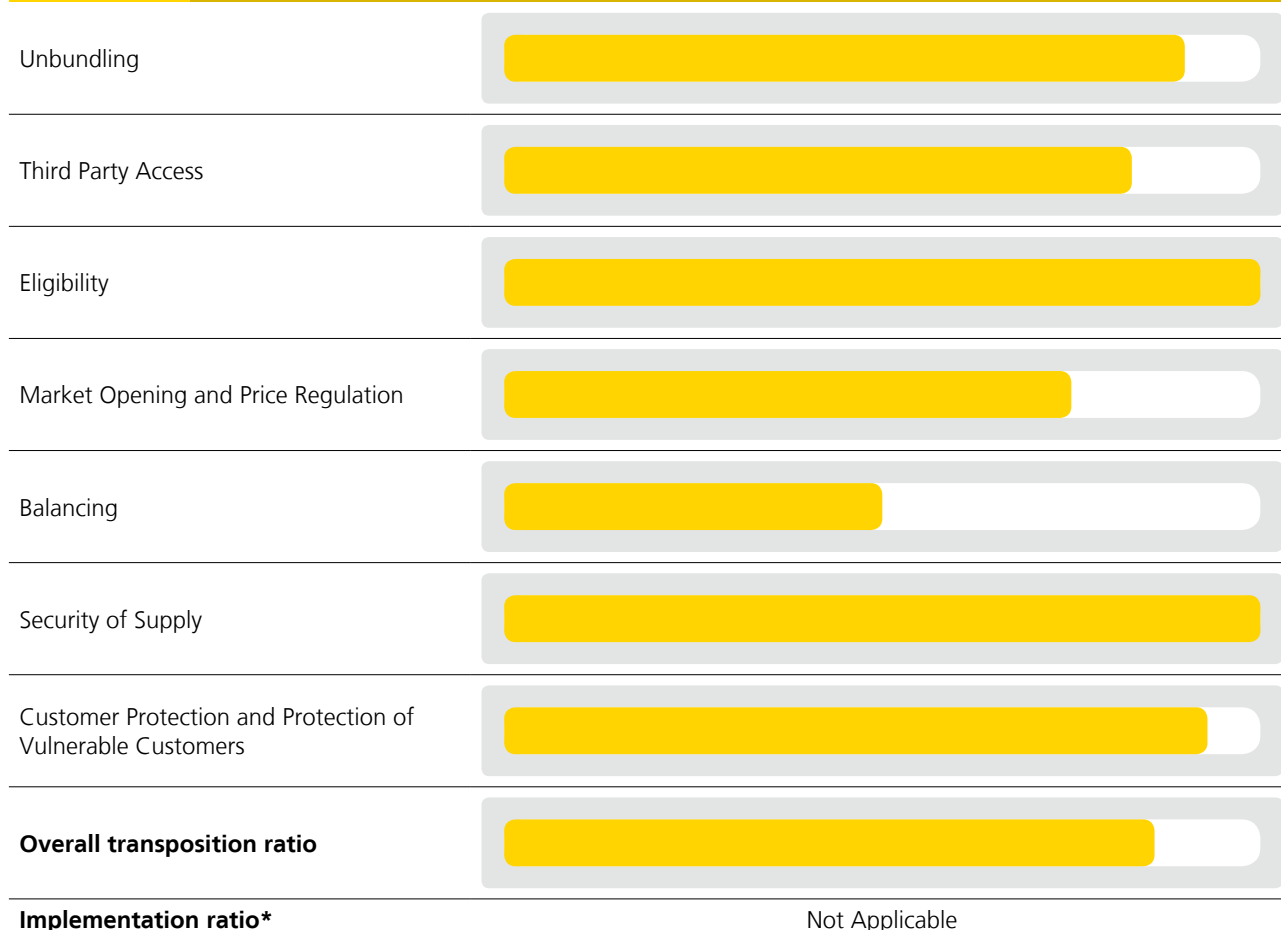
KOSTT should start procuring balancing services and with that view also strengthening regional cross-border balancing cooperation.





Kosovo*

6.2 Gas



Status - Implementation Report 2016 Progress - Implementation Report 2017

* actual unbundling, tariffs, network codes, market prices supply ratio, SoS secondary acts etc.

Source: Compiled by the Energy Community Secretariat

a. Sector Overview

A gas market is still non-existing in Kosovo*. In the future, Kosovo* plans to establish a gas supply route through an inter-connector with the planned gas transmission system of Albania (the so-called ALKOGAP project).

The legal and regulatory framework for the natural gas sector of Kosovo* is governed by the Law on Natural Gas and the Law on Energy Regulator. The two laws transpose the majority of Third Energy Package provisions in the natural gas sector.

During the last reporting period, the Ministry of Economic Development drafted an administrative instruction on security of supply of natural gas. The draft adequately transposes Directive 2004/67/EC and even several articles of Regulation (EU) 994/2010 concerning measures to safeguard security of gas supply, which is not yet in force in the Energy Community.

b. State of Compliance

Kosovo* is to a large extent compliant with the Third Energy Package in the gas sector.

1. Unbundling

The Law on Natural Gas and the Law on Energy Regulator transpose the unbundling and certification requirements as required by the Treaty, except the obligation to apply unbundling rules across the natural gas and electricity markets. The Law on Natural Gas envisages the ownership unbundling model as the only possible option for a future gas transmission system operator. The Law establishes additional ring-fencing in the ownership unbundling model related to, *inter alia*, the management of the company.

Additional distribution unbundling requirements are introduced in line with Directive 2009/73/EC. No exemptions from unbundling requirements are envisaged for system operators serving less than 100.000 customers.

2. Third Party Access

The general requirements for non-discriminatory access to the transmission, upstream and distribution networks as well as to storage facilities are transposed by the Law on Natural Gas. Conditions upon which a refusal of access may be sustained are correctly transposed. The exemption from third party access is transposed in line with the Third Energy Package.

The principles upon which tariff methodologies for access to networks will be developed are compliant with the *acquis*. However, the Law fails to specify explicitly that the transmission tariff methodologies will be based on entry/exit principles, i.e. separate tariffs for entry/exit points to/from the transmission grid, as required by Regulation (EC) 715/2009, which is not compliant with the Third Energy Package.

Transparency requirements of Regulation (EC) 715/2009 were not transposed by primary or secondary legislation for capacity trading. Despite envisaging third party services for storages, the Law on Natural Gas does not transpose any of the storage related articles of the Gas Regulation.

3. Eligibility

The eligibility of natural gas customers in Kosovo* is compliant with the Treaty deadlines, thus granting all customers, whether household or non-household, eligibility status. Yet the Law on Natural Gas stipulates that separate accounts shall be kept for both eligible and non-eligible customers, which could lead to a potential case of non-compliance with the Third Energy Package.

4. Market Opening and Price Regulation

The gas market is theoretically open as of 1 January 2015. There are no provisions regulating the natural gas supply or explicitly excluding such a possibility. Any practical implications would be possible to assess only after the gas system becomes operational in Kosovo*.

5. Balancing

The Law on Natural Gas transposes balancing provisions of Regulation (EC) 715/2009. Beyond this, the balancing rules have not yet been elaborated.

6. Security of Supply

Security of supply *acquis* pertaining to natural gas is transposed adequately by the Law on Energy Regulator and the Ministerial Regulation on Security of Supply in the Natural Gas Sector adopted in 2010.

7. Customer Protection and Protection of Vulnerable Customers

Provisions on the protection of customers, including those that are vulnerable, are transposed in Kosovo's* legal framework. This includes requirements to adopt general rules or conditions of supply, including switching rules, to ensure customer protection in practice as required by Annex I of Directive 2009/73/EC.

c. Conclusions and Priorities

Kosovo* achieved little progress as regards the priorities set out in the previous Implementation Report. Development of the *acquis*-compliant gas market secondary legislation and capacity building of ERO are the highest priority for Kosovo*.





Kosovo*

6.3 Regulatory Authority

Since the alignment of national legislation with the requirements of the Third Energy Package in 2016, the organisation, competences and independence of the Energy Regulatory Office (ERO) is compliant with the Energy Community *acquis communautaire*. ERO is headed by five board members, including a chairperson. The term of board members is limited to a period of five years, renewable once and including a rotation scheme. As an aspect of improvement, the selection procedure of commissioners would be better protected from political influence if an expert committee was involved. On the practical side the regulator's effective functioning is blocked since the board lost its decision-making quorum in April 2017. A precise date for replacement of the vacant board positions is still pending

which is a serious infringement of ERO's independence. ERO is accountable for its activities by presenting its annual report to the parliament.

During the reporting period, ERO improved its profile at the national level. First steps in liberalizing the electricity market and the introduction of an exemplary practise for mutual recognition of licenses based on the principle of reciprocity proves that the regulator is starting to live up to its competences and the challenges of compliance with the *acquis*. This deserves particular praise in an environment as difficult as that of the Kosovo* electricity sector.



Kosovo*

6.4 Oil

a. Sector Overview

Kosovo* neither produces nor refines crude oil. Petroleum products imported in 2016 amounted to some 691,2 kt, a decrease of 1,86% compared to 2015. The overall consumption of petroleum products in 2016 was 683,1 kt, a decrease of 1,63% compared to 2015.

b. State of Compliance

The main law governing the oil sector in Kosovo* is the Oil Market Law of 2005, as amended in 2009. The Ministry of Trade and Industry (responsible for oil and petroleum products) drafted a new Law on Compulsory Oil Stockholding in March 2014, with the assistance of the Secretariat. The Law was expected to be adopted in the fourth quarter of 2016 or first quarter of 2017. Despite the Secretariat's support and efforts, its approval by government and thus subsequent adoption by parliament is still pending.

c. Conclusions and Priorities

Kosovo* has not achieved any progress with respect to the priorities identified in last year's Implementation Report. None of the suggested actions have been followed up.

Kosovo* should prioritize the following:

- Drafting an action plan for building up emergency oil stocks to 90/61 days;
- Adopting the new draft Law on Compulsory Oil Stockholding;
- Drafting subsequent secondary legislation throughout 2016 - 2017;
- Improving data collection.



Illegal Customs Duties on Petroleum Products abolished

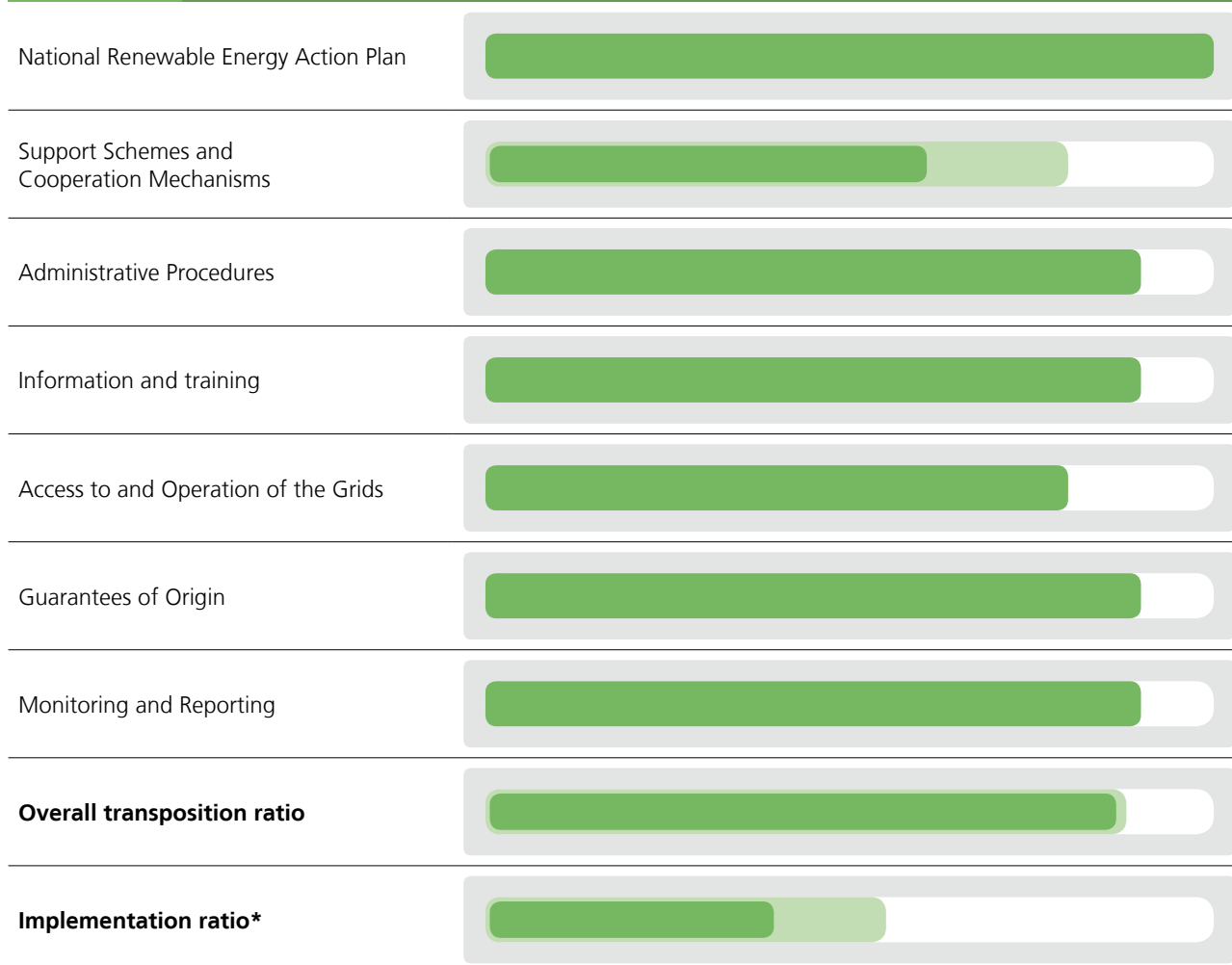
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Following the abolishment of customs duties levied on imports of petroleum products to Kosovo* in October 2016, the Secretariat decided to close Case ECS-12/14.



Kosovo*

6.5 Renewable Energy



Status - Implementation Report 2016 Progress - Implementation Report 2017

* actual implementation of NREAP and progress towards 2020 RES target

Source: Compiled by the Energy Community Secretariat

a. Sector Overview

Kosovo* committed to a binding target of 25% of energy from renewable sources in gross final energy consumption in 2020 compared with 18,9% in 2009. In 2015, according to the energy balance published by EUROSTAT, Kosovo* registered a decrease in the share of energy from renewable sources compared with previous years. The 18,5% registered is below the country's third indicative trajectory of 21,6%. Kosovo* is falling back below the trajectory also due to the increase of energy consumption by 10,7% in 2015 compared with the previous year. It is modestly attracting investments in renewable energy. Since 2009, Kosovo* increased the renewable energy capacities only by 15 MW.

b. State of Compliance

The 2016 Law on Energy and the Law on Electricity partially transpose the provisions of the Renewable Energy Directive. The existing regulatory acts are currently under revision and new ones are in adoption procedure in order to complete the legal framework required to enable investments in renewable energy and to bring the country on track to 2020. The reform of support schemes granted to renewable energy producers so that the aid is based on premiums paid on top of the electricity price sold on the market remains to be introduced in the legislation.

Renewable Energy Facts and Figures

	2014	2015	2016
Total capacities (MW)	46,2	50,9	73,3
Hydropower, out of which:	44,8	49,4	71,3
- small hydropower (<10 MW)	12,8	17,4	31,3
Wind	1,4	1,4	1,4
Solar	0	0,1	0,6
Total consumption of energy from renewable sources* (ktoe)	261,3	273,7	
- out of which biomass (ktoe)	251,8	263,8	
Gross final energy consumption (ktoe)	1336,9	1480,5	
RES share (%)	19,5%	18,5%	
RES electricity (ktoe)	9,5	9,9	
Total Electricity generated (ktoe)	537,4	509,6	
RES share in electricity (%)	1,8%	1,9%	
RES in heating and cooling (ktoe)	251,8	263,8	
Total energy consumed for heating and cooling (ktoe)	485,9	564,5	
RES share in heating and cooling (%)	51,8%	46,7%	
RES in transport (ktoe)	0	0	
Total energy consumed in transport (ktoe)	331,7	366,7	
RES share in transport (%)	0,0%	0,0%	

Source: Energy Regulatory Office and EUROSTAT

1. National Renewable Energy Action Plan

The second progress report on the promotion of the use of energy from renewable sources in 2014 - 2015 was submitted by the end of 2016. The implementation of the National Renewable Energy Action Plan to enable Kosovo* to reach the 25% renewable energy target in 2020 is at risk due to the questionable contribution of the hydro power plant (HPP) Zhur to the 2020 renewable energy targets. Kosovo* will have to revise the technology objectives and measures described in the NREAP to put the country on track to reach the renewable energy target in 2020.

The current level of investment remains minimal despite the existing legal framework for support schemes for energy produced from renewable sources.

2. Support Schemes

Support schemes exist for various renewable energy technologies like small HPPs, wind, biomass and biogas, and, since 2014, also for solar PV. In order to comply with Guidelines on State Aid for Environmental Protection and Energy 2014 - 2020, a market based approach for cost-effective promotion of renewable energy and integration of renewable energy into the market will have to be introduced.

The promotion of renewable energy is also affected by policy-makers' concerns about the potential impact of renewable

energy deployment on end-user electricity prices, which is unjustified considering the cost reduction of renewable energy technologies registered in the last years.

3. Cooperation Mechanisms

With the adoption of a revised government administrative instruction on cooperation mechanisms, Kosovo* will increase its compliance with the *acquis* in this respect. Furthermore, the provisions related to implementation of external audits need to be transposed.

4. Administrative Procedures

The authorisation and permitting procedures have been simplified to a certain extent, and an inter-ministerial group has been set up to establish a one-stop shop for renewable energy projects. However, complex and sometimes unclear authorization procedures and requirements further persist. The situation is worsened by the limited knowledge of the local authorities about the specific procedures for renewable energy projects and the lack of coordination of the authorization process. Kosovo* still fails to achieve full compliance with the *acquis*.

5. Access to and Operation of the Grids

Rather than the lack of grid capacity, connection and access to the transmission and distribution grids remain the main barriers for renewable energy producers due to the inability of the grid

operators to deal with intermittent electricity production.

The current framework provides for guaranteed transmission and distribution of generated electricity from renewable sources through the grid as well as priority dispatch. For the guaranteed and priority rights given to electricity from renewable sources to be fully implemented during the operation of the system, an adequate market design, which enables coupling with neighbouring markets, is necessary.

The requirement for notification of generation schedules has to become as close as possible to real time. Currently, Kosovo* is not compliant with Article 16 of Directive 2009/28/EC.

6. Guarantees of Origin

The legal provisions for procedures for issuance, transfer and cancellation of guarantees of origin, the template and the information required generally meet the requirements of Directive 2009/28/EC. ERO must implement a system for the issuing, transfer and cancellation of the guarantees compliant with the requirements of the Directive transposed by the Law on Electricity adopted in 2016.

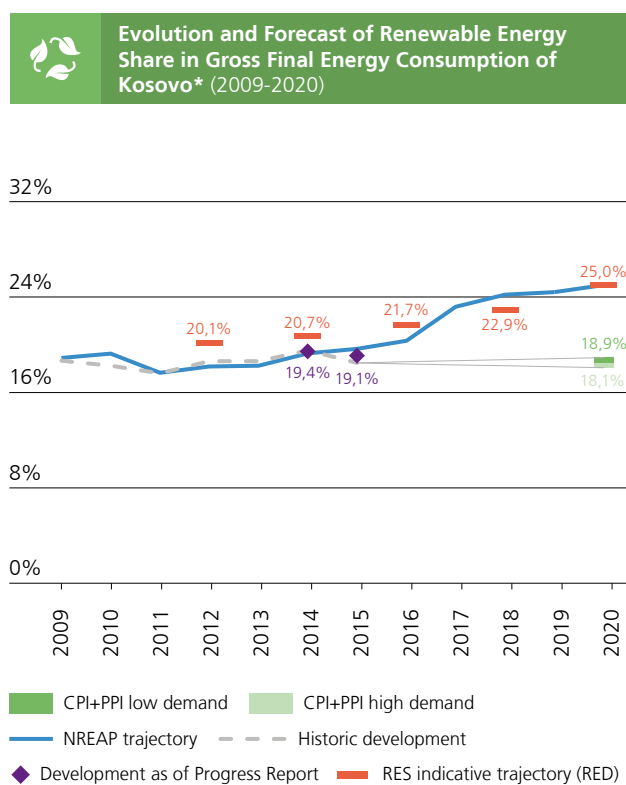
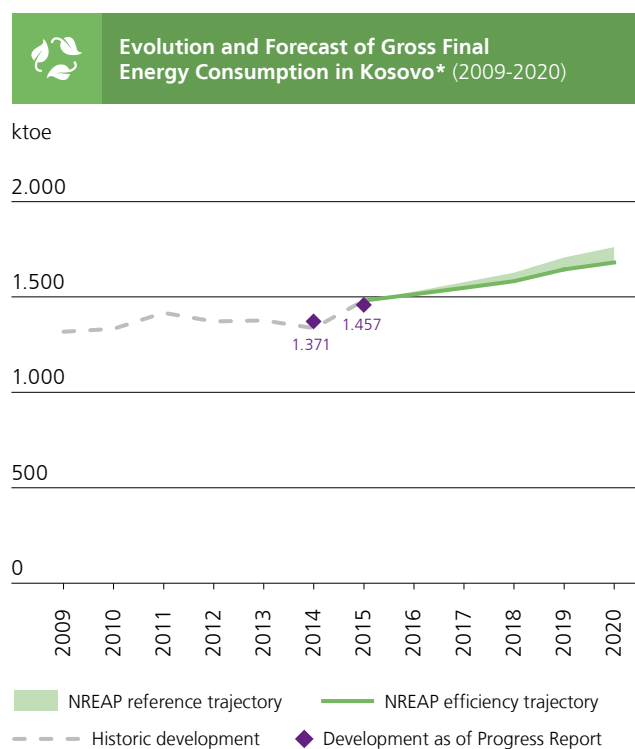
7. Renewable Energy in Heating and Cooling

To date, Kosovo* has not made substantive progress with respect to the heating and cooling from renewable sources. There are currently no minimum levels for the use of renewable energy in buildings in the relevant regulations and codes. Legislation with regard to the use of renewable energy in buildings was drafted but its adoption is still pending. Compliance remains unsatisfactory.

8. Renewable Energy in Transport

In relation to biofuels, there is no certification scheme defined or relevant body established, thus Kosovo* is non-compliant with Directive 2009/28/EC. The adoption of a secondary act aimed at transposition of Articles 17 - 21 of Directive 2009/28/EC is pending for more than two years.

Kosovo* intends to achieve the 10% target exclusively with liquid biofuels according to its NREAP. The country envisages relying fully on biofuel imports until the end of 2017, after which domestic production should contribute to fulfilling the 10% target. As long as there is no domestic production, voluntary industrial certification schemes recognized by the European Commission are planned to be used.



Source: Technical University Vienna, Assessment of the Progress in the Promotion and Use of Renewable Energy in the Energy Community, July 2017

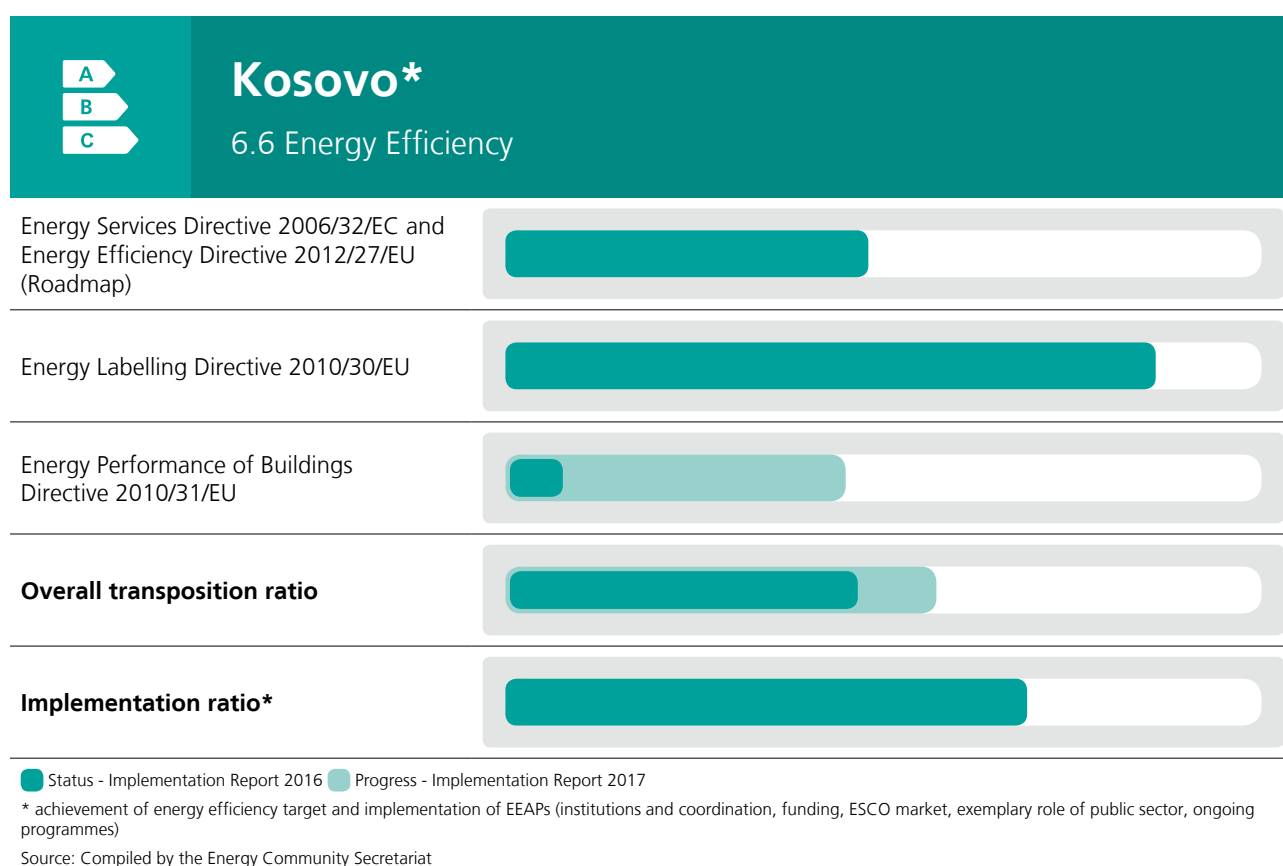
c. Conclusions and Priorities

Following the adoption of the Law on Energy and the Law on Electricity in June 2016, Kosovo* initiated the process of amending the regulatory framework to comply with the primary legislation. However, the legal and regulatory framework alone is not leading Kosovo* to be on the 2020 trajectory. Significant policy support is needed to empower energy customers to get involved in the transition to a low-carbon energy system.

The country's NREAP and all the measures included therein require a major revision as the second progress report revealed significant deviations from the trajectory. Legislation

on granting support to renewable energy producers based on a competitive process should be adopted to comply with the Guidelines on State Aid for Environmental Protection and Energy 2014 - 2020 and to ensure Kosovo* reaches the 2020 trajectory in the most cost-efficient way.

A new electricity market design must facilitate the integration of new renewable energy producers into the grids and the operation of the system with more independent renewable energy producers. Correct transposition and implementation of the sustainability criteria for biofuels and certification schemes must also be a priority if renewable energy in transport is to contribute towards the overall 2020 target.



a. Sector Overview

The final energy consumption in Kosovo* decreased in the period 2012 - 2014, and then slightly increased in 2015. While the gross domestic product continued to grow, increased consumption pushed energy intensity upwards in 2015. The residential sector has the highest share of total final energy consumption (34%), followed by transport (28%) and industry (22%).

The Ministry of Economic Development is the leading state body for development of energy efficiency policy, while the Kosovo Agency for Energy Efficiency (KEEA) is responsible for implementation, including monitoring of EEAP implementation and verifying the achievement of energy saving targets. Mu-

nicipalities are responsible for development and implementation of municipal energy efficiency plans and energy efficiency measures in public buildings.

A new Energy Efficiency Law is currently being prepared to transpose the Energy Efficiency Directive 2012/27/EU. The draft Law includes provisions on the establishment of a national energy efficiency fund and the creation of a market for operation of energy service companies (ESCOs). In real terms, however, progress to date has been very slow.

In January 2017 (i.e. six months after the 30 June 2016 deadline), Kosovo* submitted to the Secretariat the draft 3rd EEAP for comments. Subsequently, KEEA submitted the revised version

Energy Efficiency Facts and Figures

Energy Efficiency Action Plan (EEAP)*						
Period covered by EEAP		2010 – 2018				
Overall energy savings target - Directive 2006/32/EC (ktoe / % / year)		92 / 9 / 2018				
EEAP status		3 rd EEAP (final draft) submitted to ECS in February 2017				
Achieved energy savings (ktoe / % / year)		41 / 4 / 2015				
Key institution(s) in charge		Ministry of Economic Development; Kosovo* Energy Efficiency Agency; Ministry of Environment and Spatial Planning; Ministry of Infrastructure				
Main data and energy efficiency indicators**		2012	2013	2014	2015 ***	
Total primary energy supply (TPES)		ktoe	2.368	2.358	2.210	2.525
Energy Intensity (TPES/GDP)		toe / 1000 USD	0,38	0,36	0,34	0,37
TPES/Population		toe/capita	1,31	1,30	1,21	1,38
Total final energy consumption (TFEC)		ktoe	1.258	1.272	1.260	1.386
Share of TFEC by sector	Residential	%	38%	39%	38%	34%
	Services	%	9%	9%	11%	11%
	Industry	%	22%	21%	20%	22%
	Transport	%	26%	25%	27%	28%
	Others	%	2%	2%	2%	2%
	Non-energy use	%	3%	3%	2%	3%

* Source: draft 3rd EEAP of Kosovo*

** Source: International Energy Agency (June 2017)

*** Indicators calculated by the Energy Community Secretariat based on EUROSTAT energy balances for 2015

of the EEAP to the government, which is still to approve the plan. The draft 3rd EEAP includes a roadmap for the transposition of Directive 2012/27/EU before the 15 October 2017 deadline.

Five years after the deadline, a primary law compliant with Energy Performance of Buildings Directive 2010/31/EU was finally adopted by the Parliament of Kosovo* in November 2016. Kosovo* also developed a set of secondary legislation (on minimum energy performance requirements of buildings, national calculation methodology, energy performance certification of buildings and inspection of heating and air conditioning systems) as well as a software for the calculation of minimum energy performance of buildings.

b. State of Compliance

Kosovo* has achieved partial compliance with the energy efficiency *acquis*. Compliance remains problematic notably where legal acts have been drafted, but their adoption is pending (i.e. adoption of by-laws to implement Energy Performance of Buildings Directive, 3rd EEAP, etc.).

1. Energy Services Directive 2006/32/EC and Energy Efficiency Directive 2012/27/EU

Certain key provisions of Directive 2006/32/EC were transposed by the Energy Efficiency Law (energy efficiency targets and plans, exemplary role of the public sector, energy management, energy auditing, role of state institutions and other bodies dealing with energy efficiency) and further implemented by secondary legislation and the EEAP.

The adoption of the 3rd EEAP and additional secondary legislation necessary to fully implement Directive 2006/32/EC, including on financing instruments, energy efficiency procurement procedures, metering, informative billing and ESCOs, is still required to reach full compliance.

The draft Energy Efficiency Law transposing the Energy Efficiency Directive is under preparation by KEEA. A preliminary draft shared with the Secretariat in January 2017 needed significant clarifications and changes. Subsequently, Kosovo* created a working group to improve the draft and ensure its compliance with the *acquis*. The work is ongoing.

2. Energy Labelling Directive 2010/30/EU

The Administrative Instruction on the Labelling of Energy Related Products transposes Directive 2010/30/EU and the delegated regulations, as adopted by the Ministerial Council in 2010. However, Kosovo* has failed to implement the delegated regulations adopted by the Ministerial Council in October 2014. These are expected to be adopted after the entry into force of the Energy Efficiency Law.



Rectification of Failure to Transpose the Directive on Energy Performance of Buildings

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By the adoption of national legislation transposing Directive 2010/31/EU on the Energy Performance of Buildings in December 2016, Kosovo* has rectified the breach identified by the Ministerial Council in Case ECS-11/16 in its Decision 2016/10/MC-EnC.

3. Energy Performance of Buildings Directive 2010/31/EU

The Law on Energy Performance of Buildings was adopted in December 2016. It rectified the breach identified by the Ministerial Council's Decision on the lack of transposition of Directive 2010/31/EU of 2016. Nevertheless, the adoption of implementing by-laws on minimum energy performance requirements of buildings, national calculation methodology, energy performance certification of buildings and inspection of heating and air conditioning systems is pending. Thus Kosovo* fails to implement Directive 2010/31/EU.

The first priority for Kosovo* remains the adoption of the relevant secondary legislation to transpose Directive 2010/30/EU. Kosovo* should also adopt the 3rd EEAP and continue creating a framework for EEAP implementation. This includes the finalisation and adoption of the new Energy Efficiency Law, establishment of an energy efficiency fund and an ESCO supporting regulation as well as strengthening human capacities of KEEA.

Transposition of the labelling delegated regulations should continue, as well as finalization of secondary legislation to introduce energy efficiency criteria in public procurement.

c. Conclusions and Priorities

Kosovo* made progress during the reporting period, mainly by adopting the long pending Law on Energy Performance of Buildings and preparing the 3rd EEAP and Energy Efficiency Law.

Energy efficiency statistics should be improved to enable accurate monitoring, evaluation and verification of the achieved savings. A Monitoring and Verification Platform (MVP) for energy savings produced by the measures in EEAPs was made available to the Agency by the Open Regional Fund - Energy Efficiency and should be put into operation as soon as possible.



a. Sector Overview

Environmental assessments are governed by the Law on Environmental Impact Assessment and the Law on Strategic Environmental Assessment. For both types of assessments, the Ministry of Environment and Spatial Planning acts as the competent authority. In the case of the Kosova e Re (New Kosovo) power plant, the environmental impact assessment has not yet been finalised.

Between September 2016 and March 2017, the Ministry of Environment and Spatial Planning issued development consent for one hydropower plant, three wind farms and three solar farms.

Kosovo* has no refineries and consequently no domestic production of heavy fuel oil and gas oil. Currently there are 14 licensed importers of heavy fuel oil but no licensed importers of gas oil. A new Administrative Instruction 01/2017 on the quality of petroleum-derived liquid fuels, adopted in February

2017 and entered into force in April 2017, regulates the sector. Inspections in the internal market are carried out by the Market Inspectorate in cooperation with authorised inspection bodies.

Kosovo* has two plants falling under the scope of the Large Combustion Plants Directive with a total of five units and a total rated thermal input of 3.350 MW. All units are fired by lignite.

As regards wild birds, there are no Ramsar sites and no areas protected or nominated as candidates for Emerald sites in Kosovo*. The competent authority for the implementation of Article 4(2) of the Wild Birds Directive is the Ministry of Environment and Spatial Planning.

b. State of Compliance

While Kosovo* has carried out important legislative activities in the field of environment and the general level of transposition of the environmental *acquis* is high, the implementation of these measures still remains at a low level.

1. Environmental Impact Assessment Directive

Kosovo* has transposed the provisions of the Environmental Impact Assessment Directive into national law by the Law on Environmental Impact Assessment of 2010 and several acts of secondary legislation adopted during 2011. The transposition of the provisions of the new Environmental Impact Assessment Directive 2011/92/EU, as amended by Directive 2014/52/EU, is foreseen by the end of 2017.

2. Sulphur in Fuels Directive

Kosovo* transposed the requirements of the Sulphur in Fuels Directive through the new Administrative Instruction on the Quality of Oil Products. The Secretariat received a complaint alleging a systematic failure in the sampling and analysis of fuel products under the scope of the Directive. However, given the lack of sufficient evidence, no infringement action was started. As regards marine fuels, Kosovo* has no market for such products given the landlocked nature of the country.

3. Large Combustion Plants Directive

Kosovo* is preparing for the implementation of Directive 2001/80/EC according to the Law on Integrated Pollution Prevention and Control and the Administrative Instruction on the Rules and Standards of Emissions into the Air by Stationary Sources of Pollution. Operators have to obtain an integrated

permit and prepare a separate emission reduction plan for each plant, which could serve as a basis for the national one. The emission limit values have still not been brought in line with the requirements of the Large Combustion Plants and Industrial Emissions Directives which means that the domestic legislation is not compliant with these Directives. The administrative instruction requires the continuous measurement of emissions into the air in the case of large combustion plants. Kosovo* is currently making emission measurements in its two large combustion plants.

The adoption of amendments to the Administrative Instruction on the Rules and Standards of Emissions into the Air by Stationary Sources of Pollution and the Law on Integrated Pollution Prevention and Control, planned for 2016 and with a view to ensure compliance with the Large Combustion Plants and the Industrial Emissions Directives, has been postponed to end of 2017.

In October 2016, the Secretariat found that the draft National Emission Reduction Plan (NERP) was in violation of the Large Combustion Plants Directive and the Policy Guidelines 03/2014-ECS on the preparation of National Emission Reduction Plans and asked the Kosovo* authorities to amend the NERP accordingly. In May 2017, a new version of the NERP was submitted to the Secretariat, which is currently under assessment.

4. Wild Birds Directive

The Law on Nature Protection, adopted in 2010, defines special protective areas and requires their designation in compliance with the Wild Birds Directive. The Ministry of Environment and Spatial Planning plans to review the legislation on national parks by the end of 2017.

c. Conclusions and Priorities

The Secretariat is in contact with the Kosovo* authorities regarding the assessment of the revised NERP. Kosovo* has to adopt the final version of the NERP and start with its implementation from 1 January 2018.

Furthermore, in the case of large combustion plants, Kosovo* must finalise the amendments to the Administrative Instruction on the Rules and Standards of Emissions into the Air by Stationary Sources of Pollution in line with the requirements of the Large Combustion Plants and the Industrial Emissions Directives by the end of 2017.



Kosovo*

6.8 Climate

a. Sector Overview

Kosovo* is not a signatory party of the UN Framework Convention on Climate Change (UNFCCC) and hence could not sign the Paris Agreement. However, it has obligations with respect to setting targets for reducing energy use and increasing the share of renewable energy as a Contracting Party of the Energy Community Treaty.

The preparation of climate change legislation and strategy is one of the key priorities identified in the National Environmental Strategy (NES) and National Environmental Action Plan (NEAP) of Kosovo*. The responsible authority for environment and climate policy in Kosovo* is the Ministry of Environment and Spatial Planning. A Council on Climate Change has been established, which includes a working group involving a large number of stakeholders and experts responsible for data collection and the preparation of an inventory report.

b. State of Compliance

Efforts have been made to align Kosovo*'s legislation and policy framework to the EU climate *acquis*. Provisions on climate change are included in the Law on Air Pollution Protection. Kosovo* currently assesses the possibility to draft a separate Climate Change Law. The Ministry of Environment and Spatial Planning also plans to transpose Directive 2009/31/EC on the geological storage of carbon dioxide during 2017. For this purpose, a draft administrative instruction for capture and storage of carbon dioxide in suitable geological formations is being drafted.

Most notably, Kosovo* has adopted two administrative instructions partially transposing Regulation (EU) 525/2013, namely the Administrative Instruction on a Mechanism for Monitoring Greenhouse Gas Emissions and the Administrative Instruction for Monitoring Greenhouse Gas Emissions.

1. National Inventory System

The Administrative Instruction on a Mechanism for Monitoring Greenhouse Gas Emissions defines responsibilities and deadlines for providing data on greenhouse gas emissions. The Administrative Instruction for Monitoring Greenhouse Gas Emissions defines the governance and inter-institutional arrangements for providing data on greenhouse gas emissions.

Kosovo* developed a greenhouse gas inventory covering the periods 2008 - 2009, 2008 - 2013 and 2012 - 2014. The new 2015 inventory, using the 2006 IPCC guidelines, is expected to be finalized by 2017. For the time being, the national inventory system is not fully compliant with Regulation (EU) 525/2013.

2. Low Carbon-development Strategies

The Ministry of Environment and Spatial Planning developed a new National Strategy (2017 – 2026) and an Action Plan (2017 – 2019) for Climate Change. The strategy consists of two main components: a Low Emission Development Strategy and a National Adaptation Strategy. The strategy is in the procedure for adoption. It is not yet in compliance with Monitoring Mechanism Regulation.

3. Policies, Measures, Projections

Legislation defining national systems for policies, measures and projections has not been introduced yet. This is not in compliance with Regulation (EU) 525/2013.

c. Conclusions and Priorities

Kosovo* started reviewing its national greenhouse gas emissions monitoring and reporting systems and adopted two administrative instructions with a view to align with Regulation (EU) 525/2013. However, they are not fully compliant with Regulation (EU) 525/2013. Kosovo* should consider merging separate monitoring and reporting requirements in one legislative text. Moreover, the adoption of separate legislation on climate change would be highly beneficial to clarify competences and responsibilities in this area.



Kosovo*

6.9 Competition

a. Sector Overview

The authority in charge of enforcing the Law on Protection of Competition is the Kosovo Competition Authority (KCA), composed of a commission and a secretariat. In the reporting period, the KCA has drafted rules of procedure and a regulation on investigative procedures.

The State Aid Office is responsible for receiving, analysing and monitoring notifications of State aid. It used to be an administrative unit established within the KCA, which was also responsible for appointing the members of the State Aid Office. In January 2017, a new Law on State Aid entered into force, under which the State Aid Office was transferred to the Ministry of Finance.

The State Aid Office supports the State Aid Commission (SAC), which is composed of five members and is supposed to act as an independent decision-making body on an *ad hoc* basis. When the term of the current SAC expires in January 2018, the members will be selected via a merit-based recruitment process and will be appointed by the Parliament of Kosovo*, following a selection committee's proposal. Since the State Aid Office is yet to be operational, the SAC has not yet started to enforce State aid law.

b. State of Compliance

1. Competition Law

Kosovo* has transposed the competition *acquis* via its Law on Protection of Competition of 2010, amended in 2014.

The work of the KCA has been blocked since November 2013 due to a delay in the appointment of its members, which have finally been appointed in June 2016. However, the KCA has so far not investigated any cases in the energy sectors nor conducted any inquiry or review of the energy markets. Full compliance with the Treaty's obligations require active enforcement of the competition *acquis*.

Also the KCA does not cooperate with the Secretariat and other national competition authorities in the framework of the Energy Community Competition Network.

2. State Aid Law

The new Law on State Aid, which entered into force on 17 January 2017, transposes the State aid *acquis*.

As required by the Law on State Aid, the transfer of staff, assets and budget from the KCA to the Ministry of Finance has been completed and the new State Aid Office has been set up. Due to the integration of the State Aid Office into the ministry, its independence is questionable. Furthermore, the State Aid Office still has only two employees; however, the recruitment of additional staff is ongoing.

There have still been no enforcement activities in the energy sectors since the Law on State Aid first entered into force in 2014. There is also no commitment to the Energy Community State Aid Network. It follows that Kosovo* is still not complying with the obligations stemming from the Energy Community Treaty regarding the effective enforcement of the State aid *acquis*.

c. Conclusions and Priorities

As in last year's Implementation Report, Kosovo* is requested to finally render the competition and State aid law enforcement authorities operational in order to comply with the Energy Community Treaty. These authorities must be equipped with adequate infrastructure and expert resources in order to be able to act in an independent and impartial manner. Now that the members of the KCA have been appointed, Kosovo* should move forward with enforcing competition law in the energy sectors.



Lack of Effective State Aid Enforcement

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In February 2011, the Secretariat initiated Case ECS-7/11 in which it takes the view that Kosovo* failed to fulfil its obligations under the Treaty by not adopting and implementing legislation prohibiting State aid and enforcing that prohibition, as required by Articles 6 and 18 of the Treaty. A new Law on State Aid was drafted in close cooperation with the Secretariat and entered into force in January 2017. In accordance with this Law, the staff, assets and budget were transferred from the national Competition Authority to the Ministry of Finance where the new State Aid Office has been set up. However, as the enforcement authority is still not operational and is not actively enforcing the State aid *acquis*, the case remains open.



Kosovo*

6.10 Infrastructure

a. Sector Overview

In Kosovo*, one gas project, the Albania - Kosovo* interconnector („Alkogap“) (Gas_13) has received the Project of Energy Community Interest label.

b. State of Compliance

The Minister of Economic Development signed the administrative instruction on the promotion of joint regional investments in the energy sector, which transposed Regulation (EU) 347/2013, on 20 February 2017. Since Kosovo* has also designated the national competent authority, it is presently the only Contracting Party to comply with the obligation to transpose the TEN-E Regulation.

1. Designation of National Competent Authority

The national competent authority was established by a decision of the Minister of Economic Development of 7 August 2017.

2. Status of Highest National Significance for Energy Community Priority Projects

The status of the highest national significance is determined by the Law on Investments and currently covers the gas interconnection Kosovo* – Albania as well.

3. Manual of Procedures

As an adequate manual of procedures does not exist, the competent authority will have to prepare it before 30 December 2017.

4. Transparency and Public Participation

According to the existing legal requirements, public debates are compulsory and are announced in the daily press and in the Official Gazette. The public participation process still needs to be aligned with Regulation (EU) 347/2013.

5. Project Visibility and Dedicated Websites

A dedicated web page for each PEI/PMI has not been made available by the project promoter.

c. Conclusions and Priorities

Kosovo* should publish a manual of procedures for the permit granting process, applicable for PEIs, following the minimum structure presented in Annex X of the Regulation by 31 December 2017.

The national regulatory authority ERO should publish the methodology and criteria to be used in evaluating investment in electricity and gas projects and the higher risks incurred by them by 31 December 2017. ERO should also establish and make publicly available a set of indicators and corresponding reference values for the comparison of unit investment costs by 30 June 2018.





Kosovo*

6.11 Statistics

a. Sector Overview

The Law on Official Statistics determines the fundamental principles for the organization, production and publication of official statistics and the role of the Kosovo Agency for Statistics (KAS). KAS is established within the Prime Minister's Office with the task to coordinate the statistical system of Kosovo*.

KAS operates in accordance with the multi-year programme and annual plan of official statistics adopted by the government and prepares an annual report on implementation. KAS is obliged to publish its dissemination calendar.

The Rules on Energy Balances introduced by an Administrative Order of the Ministry of Economic Development determine the reporting requirements and institutions responsible for specific data. Responsibility for the compilation of the energy balance lies with the Ministry of Economic Development, which started to report annual data to IEA in 2012. According to the 2013 Memorandum of Cooperation between KAS and the ministry, the responsibilities for energy statistics were transferred to KAS in 2015.

b. State of Compliance

While annual statistics have been improving in terms of timeliness and quality, Kosovo's* compliance with the *acquis* on monthly statistics remains at a critical level.

1. Regulation (EC) 1099/2008 on Energy Statistics

As regards annual energy statistics, Kosovo* produces quarterly and annual energy balances. Since 2015, the annual questionnaires have been submitted to and published by EUROSTAT and IEA.

To comply with the obligation to implement Regulation (EU) 431/2014 amending Regulation (EC) 1099/2008 as regards the breakdown of energy consumption of households, the Secretariat made available to KAS technical assistance to obtain data for the reference year 2016.

In general, annual energy statistics are collected and disseminated as required by the *acquis*.

The frequency of statistics collection is yearly and quarterly. Monthly statistics in Kosovo* have not been established yet. The new reporting system is not in operation. For the time being, priority is placed on monthly oils statistics, as recommended in the General Policy Guideline on Implementation of Certain Deadlines of the Oil Stocks Directive in the Energy Community, which have still not been implemented by KAS.

Kosovo* has not achieved the required level of compliance with Annex C and Annex D of Regulation (EC) 1099/2008.

2. Directive 2008/92/EC on Transparency of Gas and Electricity Prices for Industrial End-users

The data for industrial and household consumers were compiled and aggregated in the format and tables defined by EUROSTAT. Electricity prices are reported by distribution system operator and the public supplier of electricity.

Electricity prices per consumption band and breakdown of taxation levels are submitted to and subsequently published by EUROSTAT. Price components for industrial end-users are reported in accordance with the *acquis*. Gas prices are not relevant for Kosovo*.

The established compilation procedure enables regular price data reporting in compliance with Directive 2008/92/EC.

c. Conclusions and Priorities

Monthly data collection has to be tackled without delay. Priority has to be given to monthly data collection for oil in order to meet obligations under the oil stock *acquis* and the related General Policy Guideline.

KAS needs to strengthen its administrative and institutional capacities to become the central office responsible for coordinating the national statistics system with full control over implementation of the statistical programme.

The required liberalization of the electricity market will make market-related information, including prices, more complex to collect, which requires greater institutional capacity building.

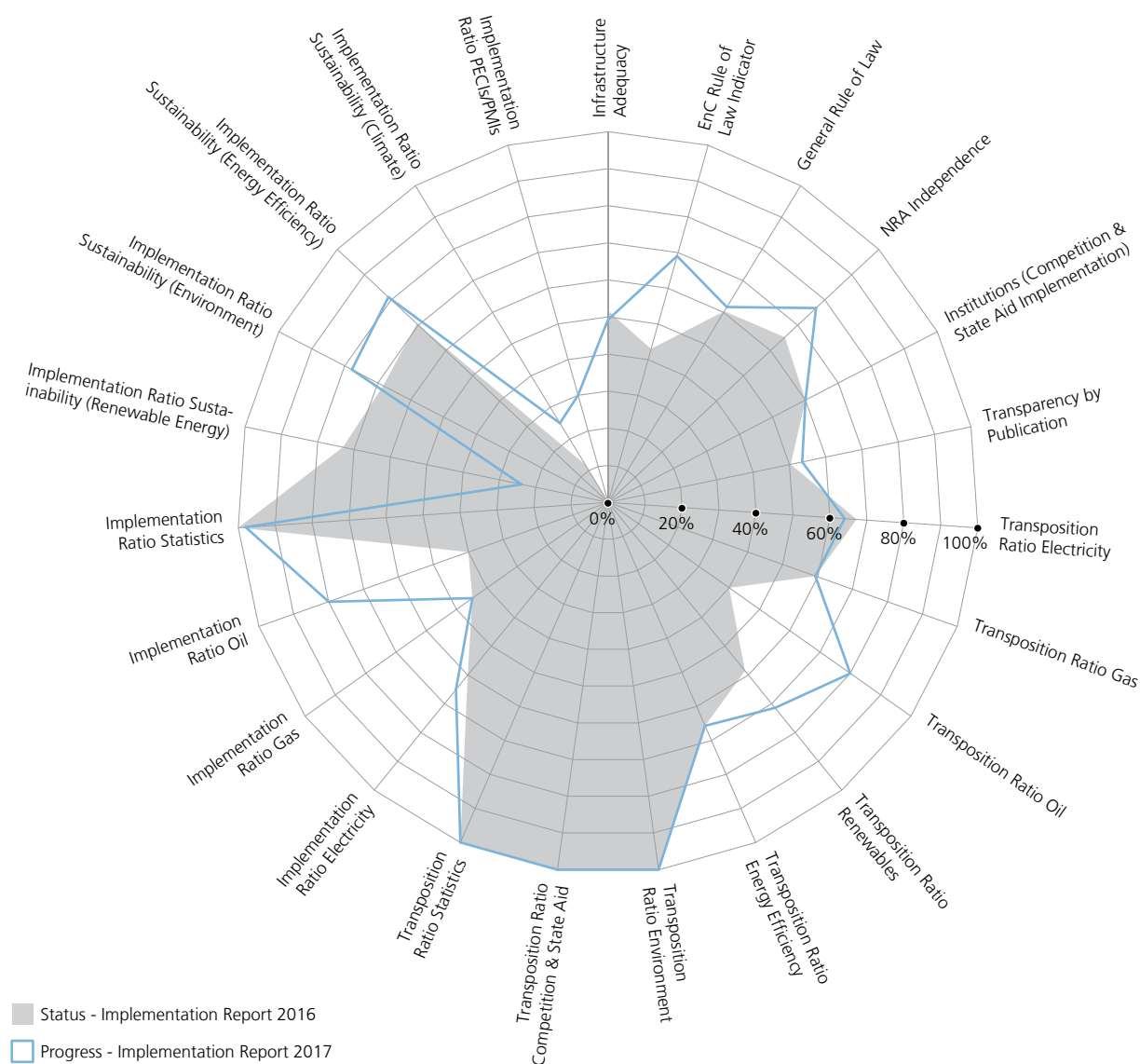


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Former Yugoslav Republic of Macedonia

Implementation Indicators Radar of Macedonia



Source: Compiled by the Energy Community Secretariat

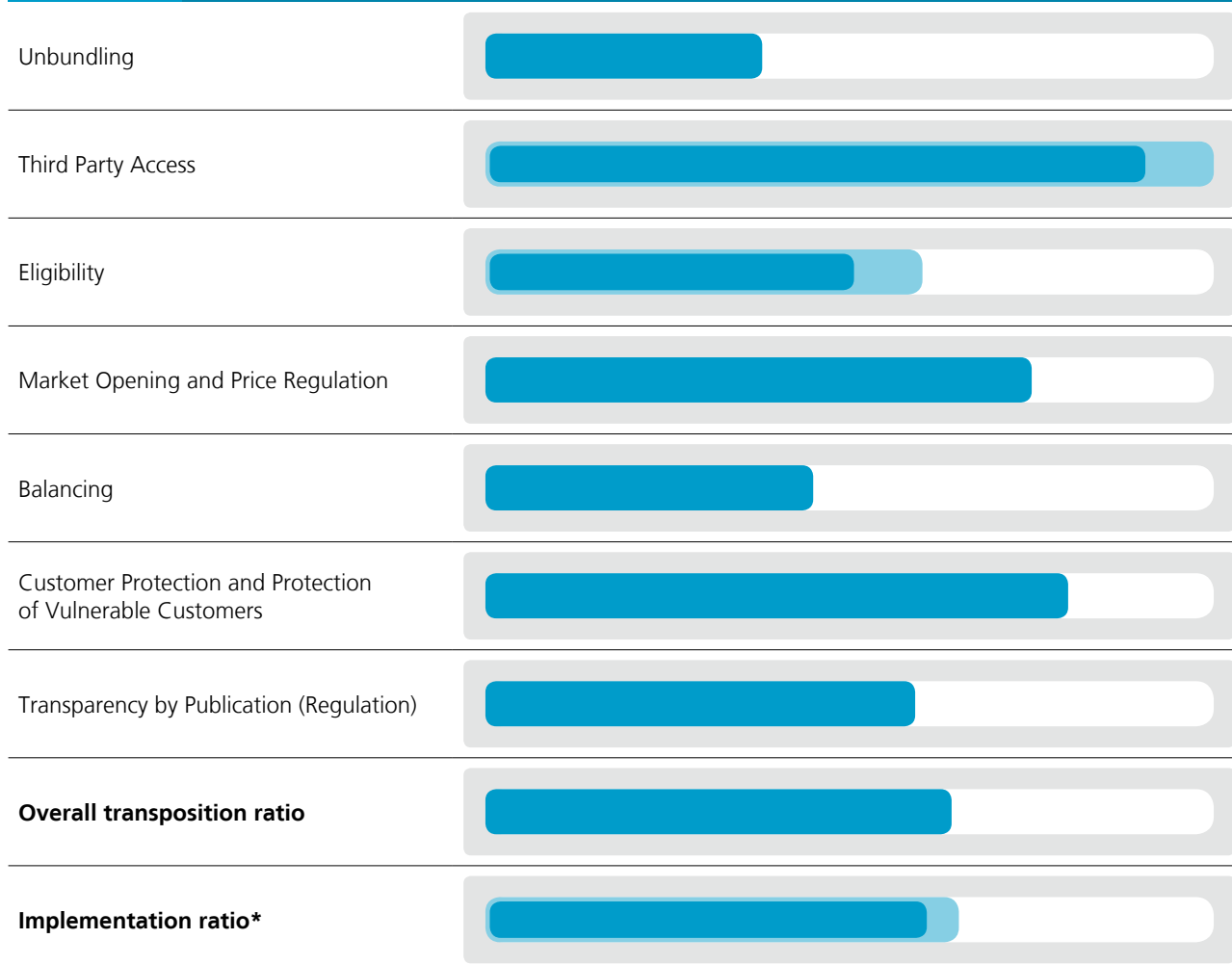
After years of deadlock, the new government started to initiate reforms in the energy sector, supported by the Energy Community Secretariat. This includes work on the new Energy Law that would transpose the Third Energy Package in gas and

electricity and the new Law on Energy Efficiency that would ensure compliance with the energy efficiency *acquis*. Certain progress was achieved in the sustainability area with the adoption of the 3rd NEEAP and revision of the NREAP.



Former Yugoslav Republic of Macedonia

7.1 Electricity



Status - Implementation Report 2016 Progress - Implementation Report 2017

* actual implementation: unbundling, third party access rules etc.

Source: Compiled by the Energy Community Secretariat

a. Sector Overview

The transmission network is operated by Makedonski Elektroprenosen Sistem Operator (MEPSO), a state-owned company, which also performs the functions of a market operator. The regional capacity allocation body SEE CAO has been allocating the country's interconnection capacities on the border with Greece from 1 January 2017.

Other key players in the electricity market are the state-owned utility Elektrani na Makedonija (ELEM) and EVN Makedonija. ELEM owns the majority of generation plants and operates a small closed distribution network. EVN Makedonija operates the greater part of the distribution network in the country and supplies electricity to the majority of small and medium customers. ELEM and EVN both hold licences for supply of last resort.



Non-transposition of Third Energy Package

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On 14 October 2016, the Ministerial Council in Decision 2016/08/MC-EnC in Case ECS-9/16 held that former Yugoslav Republic of Macedonia failed to comply with its obligations to transpose the Third Energy Package.

Since the breach has not been rectified to date, the Secretariat – as invited by the Ministerial Council - will request a decision under Article 92 of the Treaty at its next meeting in 2017.

Electricity Facts and Figures

Description of data [unit]		2015	2016
Electricity production [GWh]		5.251	5.302
Net imports [GWh]		2.656	2.191
Net exports [GWh]		143	58
Gross electricity consumption [GWh]		7.764	7.435
Losses in transmission [%]		1,7%	1,6%
Losses in distribution [%]		14,8%	14,7%
Consumption of energy sector [GWh]		208	224
Final consumption of electricity [GWh]		6.645	6.455
Consumption structure [GWh]	Industrial, transport, services and other non-residential sectors	3.503	3.398
	Households (residential customers)	3.142	3.057
Net maximum electrical capacity of power plants [MW]		2.054	2.084
of which:	coal-fired	800	825
	gas-fired	287	287
	oil-fired	210	210
	hydro, total	699	702,51
	Other renewables	57,5	59,67
Horizontal transmission network [km]	Length of transmission power lines [km]	2.450	2.458
	Substation capacity [MVA]	2.700	2.700
	Number of interconnectors	4	4
Electricity customers	Total number of customers	698.518	716.311
	out of which: non-households	253	428
	Eligible customers under national legislation	253	428
	Active eligible customers	253	175
Internal market	Electricity supplied to active eligible customers [MWh]	2.942.850	2.959.899
	Share of final consumption [%]	44,29%	45,85%

Source: Ministry of Economy of FYR of Macedonia

b. State of Compliance

Former Yugoslav Republic of Macedonia has clearly missed the deadline for implementation of the Third Energy Package by 1 January 2015. The country's electricity sector is still governed by the Energy Law of 2011, most recently amended in 2016. The current law is in breach of the Energy Community Treaty in many respects, including the denial of the eligibility right to certain customers.

1. Unbundling

The unbundling requirements of the Third Energy Package for transmission system operators have not been transposed. The transmission network operator MEPSO is only legally unbundled.

As regards distribution system operators, the Energy Law transposes the unbundling requirements from the Second Energy Package. Unbundling has been implemented in terms of legal and functional unbundling by the establishment of EVN Distribucija, a subsidiary of the EVN Makedonija in 2016. The regulatory authority has approved the compliance programme of EVN Distribucija, which has appointed a compliance officer. Additional measures to ensure functional unbundling such as

rebranding and a new visual identity of the new company have not been implemented yet, since the corresponding requirements are not transposed by the law.

ELEM as a network operator that holds also generation and supply licenses is exempt from legal unbundling as it falls under the threshold of 100.000 connected customers. However, the company has not implemented accounting unbundling, which is in breach of Directive 2009/72/EC.



Closure of Case on Non-participation in Regionally Coordinated Capacity Allocation

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Following the participation of the electricity transmission system operator MEPSO in yearly, monthly and daily regionally coordinated capacity allocations for 2017 performed by the Coordinated Auction Office South East Europe (SEE CAO) in October 2016, former Yugoslav Republic of Macedonia rectified the breach identified in Case ECS-4/11. Therefore, the Secretariat decided to close that case.

2. Third Party Access

The right to network access is granted by the Energy Law. The Third Energy Package, including Regulation (EC) 714/2009, has not been transposed with respect to third party access provisions.

The allocation of cross-border capacity is conducted through yearly, monthly, weekly and intraday auctions. As of January 2017, allocation of interconnection capacities is performed by SEE CAO on the border with Greece. Interconnection capacities on other borders are allocated in accordance with Auction Rules approved by ERC.

3. Eligibility

Former Yugoslav Republic of Macedonia is the only Contracting Party denying certain categories of customers the right to choose their supplier. The amendment of the Energy Law in October 2014 abolished the eligibility status for small customers and households until being granted the right to switch their supplier in a staged process over a period of five years. Eligibility of households is not envisaged until 1 July 2020, which constitutes a clear violation of the Treaty. The non-compliance has been confirmed by the Ministerial Council in a decision of 2016.

The list of eligible customers is published by MEPSO. The latest update counts 287 eligible customers with a turnover of above 10 million EUR and with more than 50 employees. According to MEPSO's announcement, 226 small customers with annual consumption exceeding 500 GWh in 2016 are eligible from 1 July 2017 to switch supplier.

Switching rules are part of the Rules for the Supply of Electricity. By interpreting them in a way that final customers with outstanding debts are forbidden to switch supplier, the rules constitute another obstacle to exercising eligibility in practice.

4. Market Opening and Price Regulation

Despite the denial of the right to eligibility to most customers, the volumes of electricity supplied at non-regulated prices in former Yugoslav Republic of Macedonia is the highest among the Contracting Parties. The regulated segment of the market, however, is fully foreclosed both at the wholesale and retail level. The dominance on the retail market is fostered by public service obligations for EVN and ELEM, respectively for supply of last resort and electricity generation to meet the demand of the suppliers of last resort. ERC additionally regulates the price at which the incumbent generator ELEM sells electricity to the suppliers of last resort. These public service obligations are excessive and without time limitation. They breach Article 3 of Directive 2009/72/EC.

The government adopted an action plan with the aim of establishing a power exchange by the fourth quarter of 2018.

5. Balancing


The current Energy Law imposes an obligation on the state-owned generator ELEM to provide balancing services at regulated prices until 30 June 2020. No progress has been made to remove this impediment to an open balancing market. As part of its public service obligation, ELEM is currently the provider of ancillary services.

Amendments to the Market Rules, adopted by the national regulatory authority in October 2016, introduced methodologies for market-based procurement of balancing services and non-discriminatory imbalance settlement. However, the above-mentioned impediments in the Energy Law are still in force. The new balancing rules are currently not applied. Implementation, originally envisaged from 1 July 2017, has been postponed for six months to 1 January 2018.

Balance responsible parties are registered in 34 balancing groups, out of which seven have more than one market participant. Although imbalances are calculated for all balancing groups, the costs are charged only to eligible customers and their respective balancing groups. Undertakings with an obligation to provide public services (including regulated generation, transmission, distribution and supply) are exempted from balancing responsibility. To enable their participation, distribution system operators developed standardized load profiles for market participants without hourly load registration. Thus, former Yugoslav Republic of Macedonia still falls short of complying with the *acquis*.

6. Customer Protection and Protection of Vulnerable Customers

Measures for customer protection, in particular consumer rights as defined by Annex I of Directive 2009/72/EC, have not been transposed. Some principles of customer protection are defined in the Rules for the Supply of Electricity. This is not in compliance with the *acquis*.

	Postponement of Full Electricity Market Opening
I N D I S P U T E	<p>On 14 October 2016, the Ministerial Council in Decision 2016/06/MC-EnC (Case ECS-2/15) held that by preventing the eligibility of some small non-household and all household customers former Yugoslav Republic of Macedonia failed to comply with its obligations under the Treaty. Since the breach has not been rectified to date, the Secretariat – as invited by the Ministerial Council – will request a decision under Article 92 of the Treaty at the next Ministerial Council meeting in 2017.</p>

The notion of vulnerable electricity customer is not defined by the Energy Law. The government offers monthly financial subsidies for paid energy bills to households belonging to a social protection scheme.

7. Transparency

The obligations from Regulation (EU) 543/2013 are not transposed by the Energy Law, which provides only a general obligation for data transparency. There is no further secondary legislation in place.

In practice, a significant amount of the data required by the Regulation is available. Most of the data on network loads, capacity allocation and electricity generation are regularly submitted to the ENTSO-E Transparency Platform, whereas capacity allocation data on the interconnection with Greece are submitted to ENTSO-E by SEE CAO. Some data items are provided by MEPSO only upon request, subject to the national Law on Access to Information of Public Nature, which is preventing compliance with the Regulation (EU) 543/2013. Locally availa-

ble are the data on load forecasts. No data on balancing and market performance are available as required by the Regulation.

c. Conclusions and Priorities

Since no steps were taken to improve the primary legislation, the priorities for former Yugoslav Republic of Macedonia remain the same as the year before. The country must urgently transpose the Third Energy Package and rectify the many breaches of Energy Community law. All remaining captive customers must be made eligible to switch their supplier immediately. Wholesale price regulation must be eliminated and public service obligations should only be applied as a tool for overcoming market failures and not as an instrument to obstruct the development of the markets.

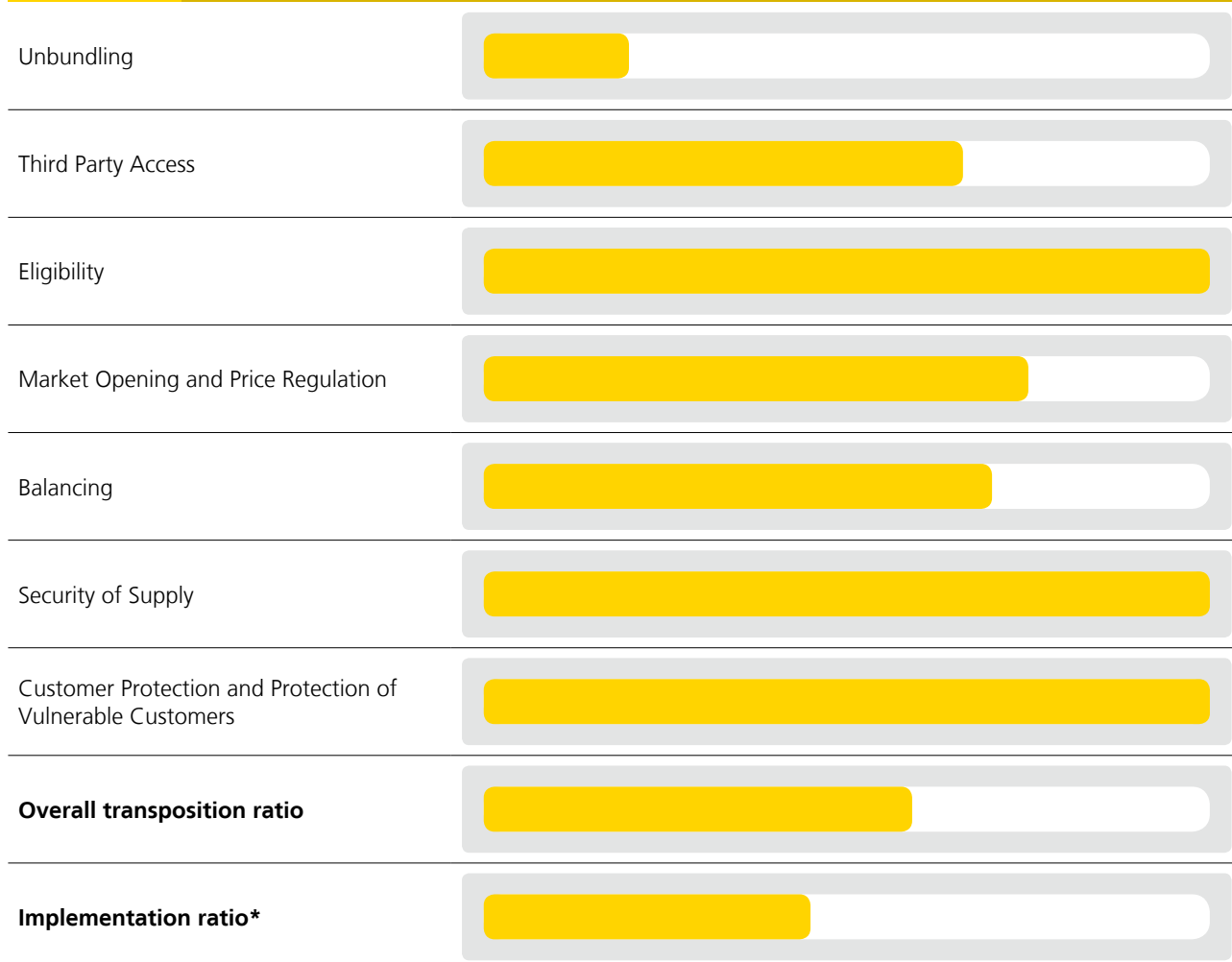
Former Yugoslav Republic of Macedonia must also effectively implement its Market Rules without delay, including the procurement of balancing energy and setting prices for ancillary services and balancing energy.





Former Yugoslav Republic of Macedonia

7.2 Gas



Status - Implementation Report 2016 Progress - Implementation Report 2017

* actual unbundling, tariffs, network codes, market prices supply ratio, SoS secondary acts etc.

Source: Compiled by the Energy Community Secretariat

a. Sector Overview

Natural gas is imported from Russia through the single entry point at the Bulgarian border. Gas is mainly consumed by industrial customers, whilst households have an almost negligible share of total consumption due to the very limited spread of distribution networks.

Fifteen licences have been issued for trade and seven for supply. The private company Makpetrol imports gas under a long-term contract with Gazprom and three big consumers import gas individually for their own needs. Promgas, a subsidiary of Makpetrol, acts as a supplier and as a supplier of last resort. The transmission system operator, GAMA, jointly controlled by Makpetrol and the state, operates the majority of the main transmission pipeline and branch pipelines.

The state-owned company Macedonia Energy Resources (MER) continues to develop the distribution network. Construction of the pipeline Klecovce (a point at the existing pipeline) to Negotino (in the south east of the country) is ongoing. In the last two years, 120 km have been constructed, and it is planned to construct an additional 140 km over the next two years. MER signed a Memorandum of Understanding with DESFA, the Greek transmission system operator, for the interconnection of the two systems. The tenders for a public private partnership contract to develop the gas distribution system further, launched by the government more than a year ago, are still running.

The natural gas market is governed by the outdated Energy Law of 2011 and related secondary legislation. More than three years after the work on drafting a new Energy Law to transpose the Third Energy Package has begun, a new law has

Gas Facts and Figures

Description of data [unit]		2015	2016
Natural Gas Production [Bcm]		0	
Import [Bcm]		0,135946902	0,213439518
Exports flows [Bcm]		0	0
Stock changes [Bcm]		0	0
Total supply [Bcm]		0,1359	0,2134
Consumption in Energy Sector [Bcm]		0,0979	0,1677
Available for final consumption of natural gas [Bcm]		0,0381	0,0457
Interconnectors' capacity [Bcm]	Total	0,80	0,80
	out of which bidirectional		
Storage working capacity [Bcm]		0	0
Length of transmission network [km]		142	181
Length of distribution network [km]		41	41
Natural gas customers	Total	289	307
	out of which: Non-households	85	103
	Eligible customers under national legislation	all	all
	Active eligible customers	5	5
	Households	204	204
Internal market	Gas supplied to active eligible customers [Bcm]	0,0979	0,1677
	Share of total consumption [%]	71,99%	78,57%
Final consumption of natural gas per sector [Bcm]		0,0387	0,0457
Consumption structure [Bcm]	Industry and commercial customers	0,03808	0,0451
	Households	0,0006	0,0006

Source: Ministry of Economy of FYR of Macedonia

still not been finalised nor submitted to the parliament. The Regulatory Energy Commission (ERC) attempted to update the Natural Gas Market Rules and draft new entry-exit transmission tariff methodology in line with the Third Energy Package, but it lacked the legal basis to adopt these acts.

b. State of Compliance

The Energy Law as of 2011 transposes only those requirements of Directive 2009/73/EC which remained the same as in Directive 2003/55/EC. All novelties introduced by the Third Energy Package are yet to be transposed, and thus the state of compliance is exactly at the same level as in the previous two Implementation Reports.

1. Unbundling

The only licensed gas transmission system operator in former Yugoslav Republic of Macedonia, GAMA, is part of a vertically integrated company which does not comply with the unbundling requirements of Directive 2009/73/EC. The state (controlling the entire production of electricity in the country) and Makpetrol, the biggest gas importer and supplier, are the only shareholders of GAMA.

The existing distribution companies are at the same time licensed for supply and distribution system operation, which is compliant with the *acquis* as they serve less than 100.000 customers.

2. Third Party Access

The Energy Law transposes third party access provisions (also) of Directive 2009/73/EC, as a general principle. Nevertheless, the exemption procedure for new infrastructure is not compliant as an involvement of ERC and the Secretariat is missing. Further, the reasons for refusal have not been transposed properly, allowing for broad refusals in "cases of risk to the reliability of supply".

ERC approves both the methodology and the tariffs for access to the transmission and distribution systems. However, an entry/exit transmission tariff methodology as required by Regulation (EC) 715/2009 is not in place.

The Transmission Grid Code and the Gas Market Rules transpose the requirements for third party access to services, capacity allocation and transparency. The provisions on cross-border issues and assessing market demand for new investments are not compliant with the requirements of Regulation (EC) 715/2009.

3. Eligibility

Based on the Energy Law and Natural Gas Market Rules, all customers became formally eligible as of 1 January 2015. The rules are in line with the Energy Community Treaty.

4. Market Opening and Price Regulation

In practical terms, only seven big customers, with annual consumption above 5 mcm changed suppliers. TE-TO AD Skopje, Kogel Sever and Proizvodstvo EE concluded contracts for gas import directly with suppliers outside former Yugoslav Republic of Macedonia.

Since 1 January 2015, customers directly connected to the transmission network became eligible customers and are supplied by Promgas at market prices. Customers connected to the distribution networks are supplied by retail suppliers, which are at the same time distribution system operators. All three distribution networks are only at the beginning of development and the number of customers is far below 100.000.

5. Balancing

The Transmission Grid Code and the Gas Market Rules lay down the balancing rules, including on balancing groups, balancing responsibility and imbalance charges. They are in line with Regulation (EC) 715/2009.

6. Security of Supply

The 2013 Regulation for the Criteria and Conditions for Proclamation of State of Crisis in the Supply of Natural Gas transposed Directive 2004/67/EC.

7. Customer Protection and Protection of Vulnerable Customers

The Energy Law and the Natural Gas Supply Rules transpose

the main measures for customer protection from the gas *acquis*. There are, however, shortcomings with respect to the transposition of certain provisions including, *inter alia*, energy efficiency measures, prepayment and vulnerable customers.

As a means of protecting vulnerable customers, the government has put in place a programme for subsidizing the consumption of energy where monthly funds partially cover the cost of energy (electricity, heating energy, natural gas and other) for social aid recipients.

c. Conclusions and Priorities

Once again, former Yugoslav Republic of Macedonia has failed to take steps towards the transposition and implementation of Directive 2009/73/EC and Regulation (EC) 715/2009. The deadline of 1 January 2015 for transposition of the Third Energy Package was missed by more than two and a half years.

Achieving full unbundling and effective operation of the transmission system operator, GAMA, is once again a top priority. Transposition and implementation of Directive 2009/73/EC, with a focus on defining the appropriate unbundling model for GAMA, could help to resolve the deadlock that has lasted almost a decade. Another potential transmission system operator, MER, will have to be established in line with the ownership unbundling rules. Very soon, a new pipeline will be ready for operation, with the perspective of bringing new customers and increasing market liquidity. However, the unresolved situation with respect to the existing operator as well as the undefined status of a company responsible for network construction may hinder further development if not addressed soon.





Former Yugoslav Republic of Macedonia

7.3 Regulatory Authority

The Energy Regulatory Commission (ERC) is one of the three remaining regulatory authorities in the Contracting Parties whose legal basis has not been adjusted to the Third Energy Package. Despite this, the organisational set-up of the regulator scores relatively high as regards formal independence and autonomy. ERC's organisation complies with the independence criteria stipulated by Directives 2009/72/EC and 2009/73/EC except for the lack of a rotation scheme for board members. ERC is headed by five commissioners, one of whom acts as president. The term of the commissioners is limited to a period of five years, renewable once.

However, regulatory independence is weakened by the fact that the management does not have full autonomy in defining the authority's internal organisation and its statutes require parliament's approval. Moreover, a selection committee of neutral experts for short-listing commissioner candidates is not in

place. Applicants need to pass a psychological and integrity test with undefined criteria which is prone to misuse. ERC ensures accountability of its activities by presenting its annual report to the parliament, ministry and government.

ERC has proven a certain commitment to actively execute its duties. The rules put in place by the regulator for the liberalised market segment prove its expertise and commitment for regulatory decision-making. It also has to be acknowledged that ERC showed readiness to stand up against politics by explicitly requesting participation of the electricity transmission system operator MEPSO in regionally coordinated capacity allocation by SEE CAO in 2016. By contrast, it must be noted that the regulator has not expressed resistance, or even concerns, against the denial of customer eligibility by amendments to the Energy Law until 2020.



Former Yugoslav Republic of Macedonia

7.4 Oil

a. Sector Overview

There was no import of crude oil into former Yugoslav Republic of Macedonia in 2016. While the domestic refining capacity is 2,5 mt/year, there was also no production of petroleum products in 2016. Yet the export of petroleum products has increased by 8,5% to 143.2 kt. The import of petroleum products had increased by 11,3% to a level of around 1.268 kt in 2016. The overall consumption of petroleum products in 2016 was around 1,1 mt.

b. State of Compliance

The Law on Compulsory Oil Reserves, which transposes Directive 2009/119/EC, entered into force in September 2014. It was supposed to be applicable as of 1 January 2015. However, on 2 December 2014, the Parliament of former Yugoslav Republic of Macedonia adopted a law amending the Law on Compulsory Oil Reserves, which postponed the application of the Law for one year. On 13 November 2015, parliament adopted another law amending the Law on Compulsory Oil Reserves, which postponed the application of the Law for two more years.

Accordingly, this Law is envisaged to begin to apply only as of 1 January 2018.

Additional technical assistance focused on assisting with the finalization of the drafts of secondary legislation regarding emergency oil stockholding fees, compensation for storage services and the structure of emergency stocks in 2018 – all prescribed by the Law on Compulsory Oil Reserves, was provided by the Secretariat in December 2016. This also entailed updating calculations of the stockholding obligation, review and revision of the planned build-up of emergency stocks, associated storage capacities needed, related costs and necessary fees for the period to 2023.

The Secretariat was approached by the oil industry with concerns about holding emergency oil stocks without adequate monetary compensation. While the storage of oil products is a pure market activity, in former Yugoslav Republic of Macedonia's case the compensation for storage of emergency oil stocks is defined by the government. Furthermore, this compensation should be differentiated from the storage capacities in the amount of 20% of a company's total storage, which it

is obliged by law to offer to the Directorate of Compulsory Reserves of Oil and Oil Products (DCOR).

In order to counter balance the effect of limited compensation for storage services and incentivize industry to participate in emergency oil stockholding, a stockholding dynamic which includes ticket contracts should be taken into consideration by DCOR. These tickets would be linked to the volumes of oil product stocks normally already held in former Yugoslav Republic of Macedonia and form the baseline of the emergency stockholding scheme upon which the purchase of physical volumes would be added to build up to a total of 90 days in the period from 2018 to 2022.

Another important element that should be taken into account is the level of the stockholding fee. This fee levied only on gasoline, diesel, gasoil and fuel oil (law provision) should be properly calculated in order to guarantee reliable financing over the period 2018 – 2022.

The State Statistical Office has started supplying monthly oil data in the Monthly Oil Statistics questionnaire.

c. Conclusions and Priorities

Former Yugoslav Republic of Macedonia has made progress in transposing Directive 2009/119/EC. While the adoption of the Law on Compulsory Oil Reserves in 2014 represents a significant step forward, the delays in its application and the approval of the necessary by-laws are not justified.

The secondary legislation determines the critical details of the elements necessary for establishing an emergency stockholding

scheme. Given its strategic importance, it is the government which must take the final decision.

Such strategic decisions need to be considered within the bigger picture of an overall strategic plan, i.e. the action plan on establishment of emergency oil stocks. The DCOR should develop the action plan in order to provide a clear and concise basis for the government's decision.

The main priorities during the next reporting period should be:

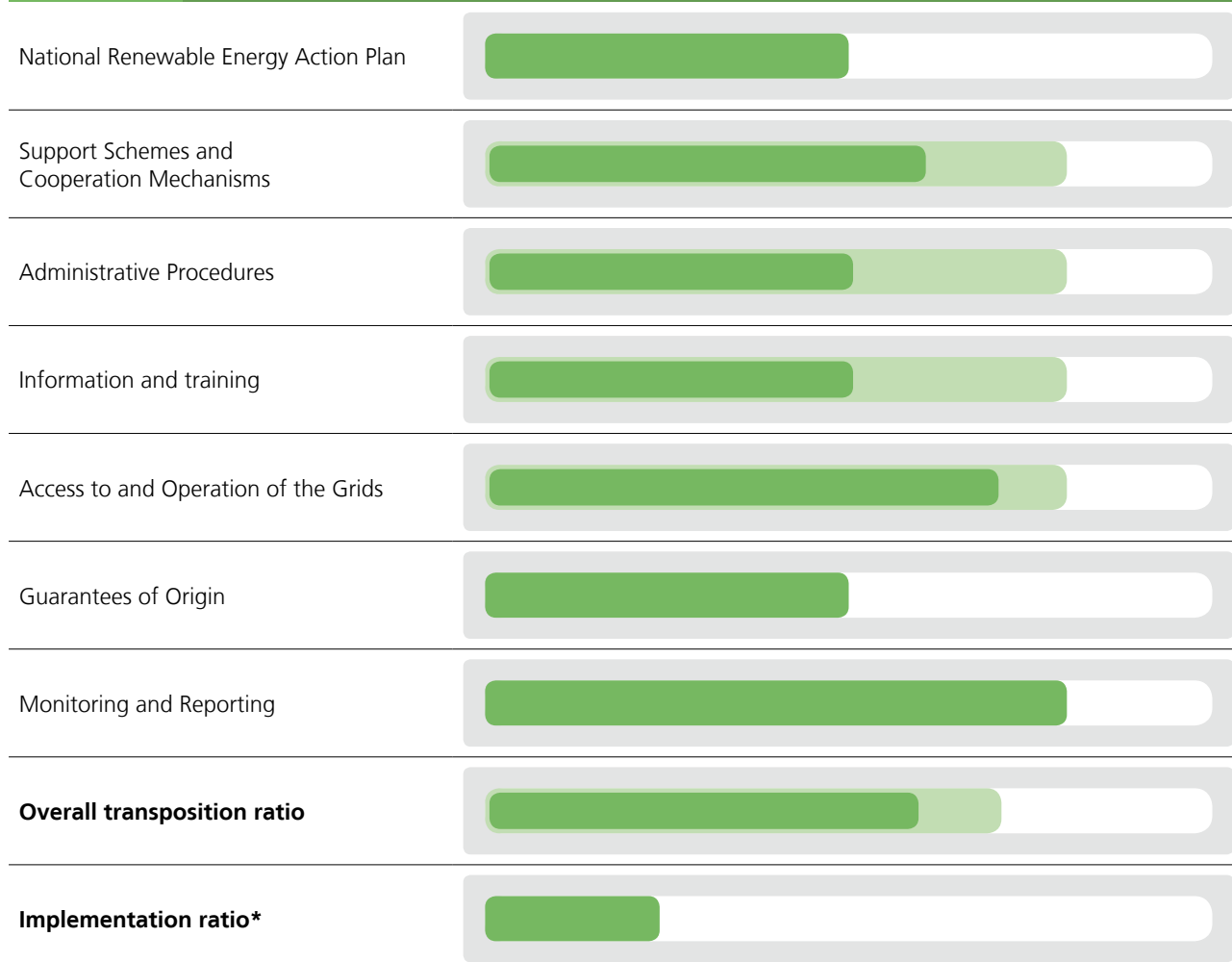
- Developing an action plan for the establishment of compulsory reserves;
- Finalizing the preparation of secondary legislation related to the transposition of the Annexes to Directive 2009/119/EC;
- Deciding on the quantity and structure of the compulsory oil reserves for the current year;
- Adopting a decree prescribing the manner of determining and calculating the amount and reimbursement of expenses for maintaining compulsory reserves;
- Adopting a decree prescribing the manner of determining and calculating the amount of the fee for oil reserves, as well as the content, manner and submission deadlines for data on the placement of oil derivatives in the country; and
- Adopting an intervention plan (decree) in the event of an emergency disruption to the supply of crude oil and petroleum products.





Former Yugoslav Republic of Macedonia

7.5 Renewable Energy



Status - Implementation Report 2016 Progress - Implementation Report 2017

* actual implementation of NREAP and progress towards 2020 RES target

Source: Compiled by the Energy Community Secretariat

a. Sector Overview

Former Yugoslav Republic of Macedonia committed to a binding target of 28% in gross final energy consumption in 2020. In 2016, the biomass data from the consumption survey conducted in 2014 - 2015 was integrated into the energy balances of the past ten years. This led to registering only a 17,2% share of energy from renewable sources in 2009 compared with 21,2% that constituted the 2009 baseline data for determining the 2020 renewable energy targets in 2012. Therefore, in 2015, according to energy balance published by EUROSTAT, the country has achieved a 19,9% share of energy from renewable sources, which is well below the second indicative trajectory of 24,6%.

In spite of the incomplete legal framework for renewables, several renewable energy projects became operational in the

last years contributing to an increasing share of energy from renewable sources in the energy mix each year.

b. State of Compliance

Directive 2009/28/EC is only partly transposed by the Energy Law of 2011 and several regulatory acts. Due to the extended delay in the adoption of the revised Energy Law, which also addresses renewable energy, the country has not made progress towards compliance with the renewable energy *acquis*.

1. National Renewable Energy Action Plan

Former Yugoslav Republic of Macedonia amended its NREAP to take into account updated biomass data in April 2017. In spite of this, the NREAP is not designed to achieve the country's

Renewable Energy Facts and Figures

	2014	2015	2016
Total capacities (MW)	681,8	716	763
Hydropower, out of which:	630	658	703
- small hydropower (<10 MW)	59,5	96	141
Wind	37	37	37
Solar	14,8	17	17
Biogas	0	4	6
Total consumption of energy from renewable sources* (ktoe)	379,3	398,3	
- out of which biomass (ktoe)	241,2	246,3	
Gross final energy consumption (ktoe)	1.939	2.006	
RES share (%)	19,6%	19,9%	
RES electricity (ktoe)	138,1	152	
Total Electricity generated (ktoe)	716,6	701,5	
RES share in electricity (%)	19,3%	21,7%	
RES in heating and cooling (ktoe)	241,2	246,3	
Total energy consumed for heating and cooling (ktoe)	689,4	688,3	
RES share in heating and cooling (%)	35,0%	35,8%	
RES in transport (ktoe)	1	0,9	
Total energy consumed in transport (ktoe)	488	560,7	
RES share in transport (%)	0,2%	0,2%	

Source: Ministry of Economy of FYR of Macedonia and EUROSTAT

legally binding renewable energy target of 28%, instead only a 24% target in 2020 is foreseen. The NREAP sets out the trajectory for meeting the country's 28% target only in 2030. This calls for a review of the national targets in compliance with EUROSTAT methodology for energy statistics.

The second progress report on the promotion of renewable energy during 2014 - 2015 was submitted to the Secretariat in February 2017.

2. Support Schemes

Currently, former Yugoslav Republic of Macedonia supports renewable energy projects with feed-in tariffs for small hydro, wind, solar PV and power plants using biogas and biomass. Eligible renewable energy developers receive the feed-in tariff via a power purchase agreement with the market operator, valid for 20 years for wind farms and small hydro, and 15 years for the other technologies.

In order to initiate the process of transitioning towards a competitive procedure for granting support to renewable energy producers in line with the requirements of the Guidelines on State Aid for Environmental Protection and Energy 2014 - 2020, former Yugoslav Republic of Macedonia has set up a technical working group tasked with analysing the possibilities to move towards a feed-in premium. The new system would be introduced once a competitive day-ahead trading platform is in place. In order to ensure compliance with the Guidelines

on State Aid, the capacity cap per type of renewable energy technology has to be removed. This will ensure the cost-effective achievement of the 2020 renewable energy target based on the decrease of costs of renewable energy technologies in the past years.

3. Cooperation Mechanisms

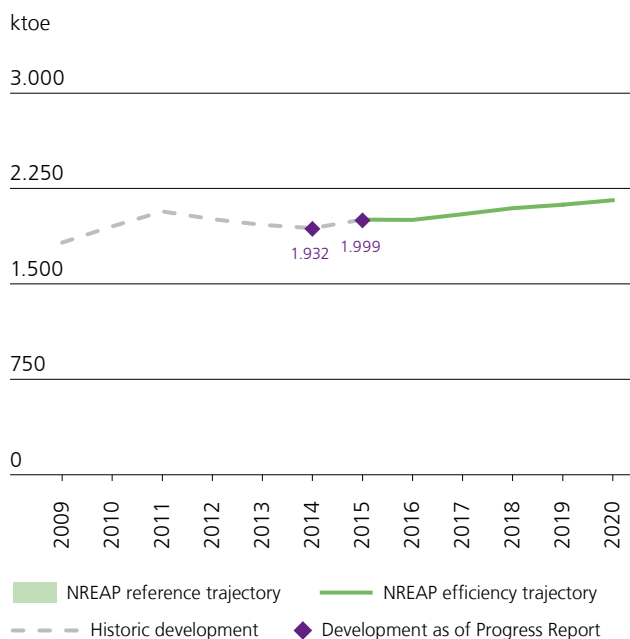
The provisions related to cooperation mechanisms among the Contracting Parties or with EU Member States are only foreseen in the draft Energy Law. At present, the country fails to comply with the Directive 2009/28/EC in this respect.

4. Administrative Procedures

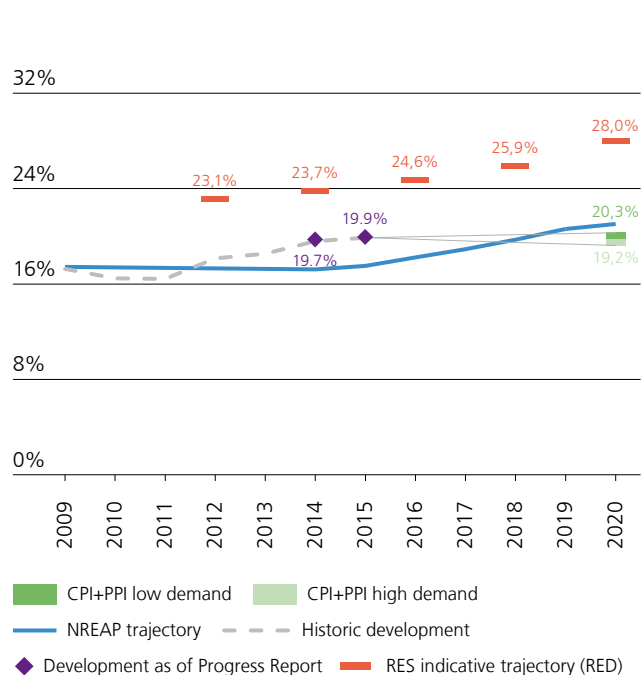
In the past few years, several steps have been taken to remove some of the burdensome administrative procedures linked to authorization, urban planning and property issues. Deadlines have been shortened, unnecessary procedural steps have been abolished and gaps in coordination between authorities have been overcome to some extent. Investor guides for various renewable energy technologies are published on the Ministry's website.

While a one-stop shop for all permit applications is yet to exist, a simplified procedure for solar PV installation on buildings is applicable since 2016. Compliance with Article 13 of Directive 2009/28/EC remains to be achieved.

Evolution and Forecast of Gross Final Energy Consumption in former Yugoslav Republic of Macedonia (2009-2020)



Evolution and Forecast of Renewable Energy Share in Gross Final Energy Consumption of former Yugoslav Republic of Macedonia (2009-2020)



Source: Technical University Vienna, Assessment of the Progress in the Promotion and Use of Renewable Energy in the Energy Community, July 2017

5. Access to and Operation of the Grids

Rules on connection to the grids are published by the transmission and distribution system operators. However, specific rules for taking renewable energy into consideration in transmission and distribution network development planning are still not in place.

To comply fully with Article 16 of Directive 2009/28/EC, MEPSO and EVN as network operators have to become more transparent towards producers of renewable energy with regard to information on the estimated costs and timeframe for connection. The regulator has to ensure that rules for connection and access to the networks are implemented in a non-discriminatory and objective way for private and state companies. Priority access and priority dispatch are being implemented in practice.

The market operator, which is the single buyer of renewable energy under the support scheme, is taking balance responsibility for the entire portfolio of preferential producers; however, each producer must submit generation schedules and is financially responsible for deviations.

6. Guarantees of Origin

A certification system based on guarantees of origin has been established. The Energy Agency is in charge of the implementation of the certification system and the issuing body for these types of certificates.

That said, the implementation of the system of issue, transfer and cancellation of guarantees of origin has not advanced in the last reporting period. According to the existing regulations, the guarantees of origin are only issued to producers which do not benefit from feed-in tariffs. A register for guarantees of origin is already established, but there are no applications at the moment, not even from the existing large hydropower plant producers. The country is currently non-compliant.

7. Renewable Energy in Heating and Cooling

Whilst secondary legislation on the use of renewable energy for heating and cooling in buildings is in place, proper implementation by the competent central and local authorities is still lacking. In spite of this, several programmes have been launched in the last years, including on subsidising solar thermal collectors and pellet stoves.

Compliance with the renewable energy *acquis* has been partially achieved in this sector.

8. Renewable Energy in Transport

Given the complete lack of progress, the country's legal framework remains completely non-compliant with Directive 2009/28/EC in the transport sector.

Despite the working group set up by the Ministry of Economy to develop the necessary primary and secondary legislation during

FORMER YUGOSLAV REPUBLIC OF MACEDONIA

2015, Articles 17 to 21 of Directive 2009/28/EC related to sustainability of biofuels are still not transposed. Currently, there is no certification scheme defined or relevant body established.

Without proper incentives and mandatory blending obligations in place, most of the biofuels currently produced are exported under an industry voluntary certification scheme recognised in the EU, instead of counting towards the fulfilment of the national target.

c. Conclusions and Priorities

The lack of political will to adopt the Energy Law during the last two reporting periods is also affecting the country's compliance with the Renewable Energy Directive. The only progress made

by former Yugoslav Republic of Macedonia in this reporting period is the revision of the NREAP in April 2017 based on revised data on biomass consumption. The country has to decide about the call for the review of the national targets based on experience and progress in compliance with EUROSTAT methodology for energy statistics.

In spite of this, the country has continued to commission new renewable energy projects, thus advancing implementation.

The adoption of the draft Energy Law and a law on biofuels transposing Directive 2009/28/EC in full, including the introduction of a competitive process for granting support to renewable energy producers, continues to be the foremost priority for the country.

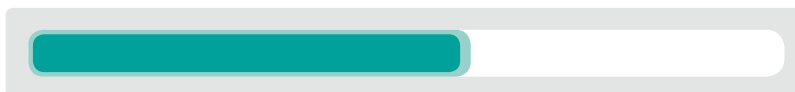




Former Yugoslav Republic of Macedonia

7.6 Energy Efficiency

Energy Services Directive 2006/32/EC and Energy Efficiency Directive 2012/27/EU (Roadmap)



Energy Labelling Directive 2010/30/EU



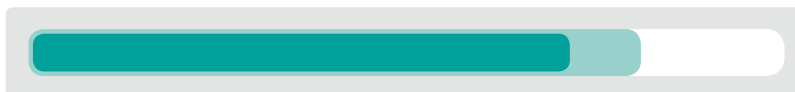
Energy Performance of Buildings Directive 2010/31/EU



Overall transposition ratio



Implementation ratio*



● Status - Implementation Report 2016 ● Progress - Implementation Report 2017

* achievement of energy efficiency target and implementation of EEAPs (institutions and coordination, funding, ESCO market, exemplary role of public sector, ongoing programmes)

Source: Compiled by the Energy Community Secretariat

a. Sector Overview

Final energy consumption decreased in the period 2012 – 2014 in former Yugoslav Republic of Macedonia (and slightly increased in 2015), while the gross domestic product resumed growth. The positive trend is reflected in decreased energy intensity and the decoupling of economic growth from energy demand growth.

Key institutions responsible for the promotion of energy efficiency are the Ministry of Economy and the Energy Agency. The Energy Law provides a legal basis for the establishment of financial support mechanisms, including an energy efficiency fund.

The Energy Law includes an extensive chapter on energy efficiency and establishes a good legal basis for the development of secondary legislation and implementation of Directives 2006/32/EC, 2010/30/EU and 2010/31/EU. The country's new government is currently working with the Secretariat to prepare a new separate Energy Efficiency Law to transpose Directive 2012/27/EU. In July 2017, the 3rd EEAP was adopted by the government.

The updated secondary legislation and software needed for the calculation of minimum energy performance of buildings has not been adopted yet.

b. State of Compliance

Former Yugoslav Republic of Macedonia achieved compliance with the Labelling Directive, and some degree of compliance with the other energy efficiency *acquis*, especially with regard to transposition of Directive 2012/27/EU. Despite the significant work invested in drafting of secondary legislation, there was limited progress in terms of improving compliance in the reporting period.

1. Energy Services Directive 2006/32/EC and Energy Efficiency Directive 2012/27/EU

Directive 2006/32/EC was transposed by the Energy Law and secondary legislation (on energy audits, monitoring and management, etc.). In accordance with the Energy Law, the public sector is obliged to implement measures aimed at energy efficiency improvements in their buildings.

The 3rd EEAP was finally adopted in July 2017 by the government. Former Yugoslav Republic of Macedonia complies with this requirement of Directive 2006/32/EC. The 3rd EEAP includes planned policy measures for transposition of Directive 2012/27/EU, but concrete activities are in an initial phase. Former Yugoslav Republic of Macedonia missed the first reporting deadlines foreseen in the Energy Efficiency Directive, as follows: 30 March 2017 for Article 4, 1 January 2017 for Article 5, 15 March 2017 for Article 7, and 30 June 2017 for Article 24(1).

Energy Efficiency Facts and Figures

Energy Efficiency Action Plan (EEAP)*					
Period covered by EEAP		2010 - 2018			
Overall energy savings target - Directive 2006/32/EC (ktoe / % / year)		149 / 9,1 / 2018			
EEAP status		3 rd EEAP adopted in July 2017			
Achieved energy savings (ktoe / % / year)		79,4 / 4,9 / 2015 (reported in the 3 rd EEAP)			
Key institution(s) in charge		Ministry of Economy; Energy Agency			
Main data and energy efficiency indicators**		2012	2013	2014	2015 ***
Total primary energy supply (TPES)	ktoe	2.961	2.701	2.623	2.698
Energy intensity (TPES/GDP)	toe / 1000 USD	0,31	0,27	0,26	0,25
TPES/Population	toe/capita	1,43	1,30	1,26	1,29
Total final energy consumption (TFEC)	ktoe	1.870	1.795	1.774	1.944
Share of TFEC by sector	Residential	28%	25%	25%	28%
	Services	13%	11%	11%	11%
	Industry	31%	31%	29%	24%
	Transport	24%	28%	30%	32%
	Others	1%	2%	2%	2%
	Non-energy use	3%	3%	3%	3%

* Source: 3rd EEAP of former Yugoslav Republic of Macedonia

** Source: International Energy Agency (June 2017)

*** Indicators calculated by the Energy Community Secretariat based on EUROSTAT energy balances for 2015

2. Energy Labelling Directive 2010/30/EU

Directive 2010/30/EU and delegated acts were transposed with the adoption of the updated Rulebook on Labelling of Energy-Related Products in September 2016. This includes all new labelling delegated regulations adopted by the Ministerial Council in 2014.

3. Energy Performance of Buildings Directive 2010/31/EU

Key provisions of Directive 2010/31/EU were incorporated in the Energy Law and the Rulebook on Energy Performance of Buildings. However, the amendments to the Energy Law of March 2015 resulted in non-compliance with the following articles of Directive 2010/31/EU: Article 11 (energy performance certificates), Article 12 (issuing of energy performance certificates), and Article 13 (display of energy performance certificates). Moreover, the implementation of its provisions with respect to existing buildings was postponed until former Yugoslav Republic of Macedonia accedes to the European Union. This constitutes a clear breach of the country's obligation to implement Directive 2010/30/EU.

The country also failed to adopt an updated regulation on minimum energy performance requirements of buildings, national calculation methodology, energy performance certification of buildings and inspection of heating and air-conditioning systems.

c. Conclusions and Priorities

Former Yugoslav Republic of Macedonia has been held back by a lack of political will to implement the energy efficiency *acquis*. The significant work invested in drafting of legislation by the relevant institutions, with the support of donors and the Secretariat, presents a unique opportunity for the new government to act swiftly to ensure compliance with the energy efficiency *acquis*.

Adoption of the 3rd EEAP in July 2017 was the first positive step forward in implementing the recommendations from the previous Implementation Report. However, complete implementation of the requirements of Directive 2010/31/EU on Energy Performance of Buildings and adoption of the already drafted secondary legislation remain highest priorities. The work on preparation of a separate Energy Efficiency Law to remove remaining gaps and transpose Directive 2012/27/EU should intensify.

Given the multitude of benefits to be gained from tapping into the country's energy efficiency potential, former Yugoslav Republic of Macedonia should show political support for the implementation of measures planned under the 3rd EEAP by creating an energy efficiency fund and an ESCO enabling market framework. The human capacities in the Ministry of Economy (energy efficiency department) and the Energy Agency should also be strengthened.



Former Yugoslav Republic of Macedonia

7.7 Environment

Environmental Impact Assessment Directive



Sulphur in Fuels Directive



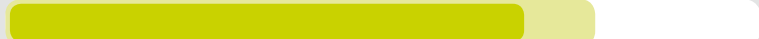
Large Combustion Plants Directive and other Acquis on Environment

Deadline not yet expired

Overall transposition ratio



Implementation ratio*



● Status - Implementation Report 2016 ● Progress - Implementation Report 2017

* Environmental Performance Indicators (EPI) on air quality, climate and energy; LCPD implementation preparedness

Source: Compiled by the Energy Community Secretariat

a. Sector Overview

Environmental impact assessment is regulated by the Environmental Law as amended in 2010 and 2011 and a number of by-laws.

During the reporting period, one decision requiring an environmental impact assessment was taken for the construction of a wind park in Bogoslovec (municipality of Sveti Nikole). Four public debates were organized on impact assessment studies, two on the Bogoslovec wind park, one on the modernization of thermal power plant Oslomej-Kichevo and one on a wind park in the municipality of Bogdanci. One report on the approval of the environmental impact assessment study was prepared in relation to the modernization of TPP Oslomej-Kichevo.

Four development consents have been issued for the following projects: treatment of communal and non-hazardous industrial waste in the municipality of Bitola; treatment of municipal and non-hazardous industrial waste for residual usage in the municipality of Kavadarci; construction of foundry for iron and iron products in Probishtip; and the modernization of thermal power plant Oslomej-Kichevo.

Former Yugoslav Republic of Macedonia has one refinery located in the vicinity of Skopje and operated by OKTA. The refinery currently does not produce any heavy fuel oil or gas oil, the fuels subject to the Sulphur in Fuels Directive. Former Yugoslav Republic of Macedonia adopted a Law on Ambient Air Quality and rulebooks on the quality of liquid fuels, on maximum permissible concentration and quantities of other

harmful matters that may be released into the air by individual pollution sources, and on ambient air quality.

The country has nine plants falling under the scope of the Large Combustion Plants Directive with a total of twelve units and a total rated thermal input of 4.368 MW. Four units are fired by lignite, three by natural gas, three by fuel oil while two are using multiple fuels.

As regards wild birds, there are two Ramsar sites in former Yugoslav Republic of Macedonia and several areas nominated as candidates for Emerald sites. However, during the reporting period, there were no legislative changes at primary/secondary level, nor were any new Ramsar sites designated.

b. State of Compliance

Former Yugoslav Republic of Macedonia has reached a high level of transposition of the Energy Community environmental *acquis*, with certain amendments related to large combustion plants still to be adopted.

1. Environmental Impact Assessment Directive

The Environmental Impact Assessment Directive was transposed into national law by the Environmental Law and by-laws following closely the structure and content of the Directive.

2. Sulphur in Fuels Directive

The legal framework in place contains maximum thresholds

for the sulphur content of heavy fuel oil and gas oil compliant with those of the Sulphur in Fuels Directive.

3. Large Combustion Plants Directive

The provisions of the Large Combustion Plants Directive were transposed by the Rulebook on the Limit Values for the Permissible Levels of Emissions and Types of Pollutants in the Exhaust Gases and Vapours Emitted into the Air from Stationary Sources. The emission limit values for new and existing plants are aligned with those of the Directive. The Rulebook also includes the common stack approach.

Since February 2016, amendments to the Rulebook are being prepared to transpose the Industrial Emissions Directive. Moreover, the Law on Control of Emissions from Industry is in the process of being drafted and is planned to be adopted by the end of 2017. The specific provisions of Chapter III and Annex V of the Directive, including emission limit values for combustion plants are expected to be transposed by secondary legislation. A Decree for Determining the Combustion Facilities that Have to Take Measures to Protect Ambient Air Pollution Quality requires operators of large combustion plants to prepare and implement a five-year plan (to be reviewed annually) to reduce the plants' emissions. In its opinion on the draft National Emission Reduction Plan (NERP) of 13 October 2016, the Secretariat recommended certain amendments to the plan and indicated that in case they are implemented, it will meet the requirements of the Directive and the Secretariat's Policy

Guidelines. The Government of Former Yugoslav Republic of Macedonia adopted the NERP in April 2017, after having incorporated the Secretariat's comments. No requests for an opt-out were submitted to the competent authorities by the operators of combustion plants.

4. Wild Birds Directive

The Law on Nature Protection requires the designation of special protective areas in accordance with Article 4(2) of the Wild Birds Directive.

c. Conclusions and Priorities

Former Yugoslav Republic of Macedonia adopted its National Emission Reduction Plan, indicated as a priority in last year's Implementation Report. Efforts should now be focused on the implementation of the NERP, which starts on 1 January 2018.

Efforts should be focused on the practical implementation of the Environmental Impact Assessment and Sulphur in Fuels Directives and on capacity building for the authorities responsible for their implementation.

The country should also proceed with the adoption of the Law on Control of Emissions from Industry and the related secondary legislation to transpose the relevant requirements of the Industrial Emissions Directive.





Former Yugoslav Republic of Macedonia

7.8 Climate

a. Sector Overview

Former Yugoslav Republic of Macedonia is a non-Annex I party to the United Nations Framework Convention on Climate Change (UNFCCC) since 1998. The country signed the Paris Agreement but to date has not yet ratified it.

Almost 80% of the total greenhouse gas emissions are CO₂ emissions originating from the energy, buildings and transport sectors. Emissions from agriculture, forestry and other land uses (as well as from industrial processes and waste) have a relatively small share in total greenhouse gas emissions.

Former Yugoslav Republic of Macedonia's National Determined Contribution (NDCs) includes a mitigation scenario with existing policies and measures (WEM) and an ambitious scenario that includes additional measures (WAM) such as natural gas and geothermal plants, phasing out incandescent light bulbs, and the electrification of transport. WEM indicates a 30% reduction of CO₂ emissions from fossil fuels by 2030 from business-as-usual levels, while WAM refers to a 36% CO₂ emissions reduction by 2030 compared to the business-as-usual scenario.

The country reports regularly to the UNFCCC and has so far submitted three National Communications on Climate Change for the years 2003, 2008 and 2014. The first Biennial Update Report on climate change has been submitted to the UNFCCC in January 2015. The preparation of the second Biennial Update Report started in September 2016. Updated information on greenhouse gas inventories for the period 1990 - 2012 and the inventory for the period 2013 - 2014 are complete and publicly accessible.

The Ministry of Environment and Physical Planning is the leading national institution responsible for climate change policies as well as the national contact point for the UNFCCC. The country's Environmental Information Centre, an organizational unit within the Ministry of Environment and Physical Planning, is in charge of collecting, processing and presenting official data.

b. State of Compliance

The Law on Environment contains climate provisions. The preparation of a separate Law on Climate Action (including transposition of Regulation (EU) 525/2013) and a Long-term Strategy on Climate Change is envisaged to start by the end of 2017.

In order to align with the Monitoring Mechanism Regulation, the country has prepared an assessment which takes into account the requirement to establish the legal and institutional preconditions for the implementation of the core elements of

the Regulation. The assessment will be the basis for recommendations on the greenhouse gas inventory, mitigation policies and projections and adaptation policies and measures under the Regulation (EU) 525/2013.

1. National Inventory system

Former Yugoslav Republic of Macedonia has been preparing a greenhouse gas inventory since 2000, using 2006 IPCC methodology. The last National Inventory Summary Report was submitted to the UNFCCC in 2014, along with the Third National Communication on climate change. Data on greenhouse gas emissions are verified by the National Academy of Sciences and Arts.

In order to align with the Monitoring Mechanism Regulation, the institutionalization of the greenhouse gas inventory system is necessary. This is already mentioned in the Law on Environment which refers to a national inventory of anthropogenic greenhouse gas emissions by sources and sinks.

2. Low Carbon-development Strategies

Although there is not a specific reference to low-carbon strategies, the Law on Environment provides that a National Plan on Climate Change is adopted by the government. The plan should include an assessment of vulnerability and adaptation measures, education and public awareness raising actions, and a timeframe and financial plan for implementation of anticipated measures and activities. For the time being it is not compliant with Regulation (EU) 525/2013.

3. Policies, Measures, Projections

According to the Law on Environment, and in compliance to the Monitoring Mechanism Regulation, the National Plan on Climate Change should contain projections of greenhouse gas emissions and an analysis on the reduction of emissions.

c. Conclusions and Priorities

The country has the technical capacity required to prepare good quality greenhouse gases inventory reports, but a sustainable approach for reporting obligations is lacking. It would be important to define competences and responsibilities of the relevant institutions.

Although the country has a strategy on climate change, it lacks a list of priority actions and a concrete timeframe for their implementation. In addition, the current strategy has not been revised nor includes any projections.



Former Yugoslav Republic of Macedonia

7.9 Competition

a. Sector Overview

The authority in charge of enforcing competition and State aid law is the Commission for Protection of Competition (CPC).

In the reporting period, the CPC adopted Leniency Guidelines to refine the existing leniency programme which provides for the exemption or reduction of a fine for whistle-blowers. However, there have been no decisions by the CPC in the area of competition and State aid.

b. State of Compliance

1. Competition Law

The Law on Protection of Competition, adopted in 2010, as amended, and secondary legislation transpose the competition *acquis* into domestic legislation. However, the CPC did not carry out any investigation in the energy sectors during the reporting period. Also the CPC's cooperation with the Secretariat and other national competition authorities in the framework of

the Energy Community Competition Network is rather limited. However, full compliance with the Treaty's obligations require active enforcement of the competition *acquis*.

2. State Aid Law

The Law on State Aid Control, adopted in 2010, transposes the State aid *acquis* into national legislation. However, no decision on State aid in the energy sectors has been adopted by the CPC since 2013. There is also no commitment to the Energy Community State Aid Network. It follows that former Yugoslav Republic of Macedonia is not complying with the obligations stemming from the Treaty regarding effective enforcement of the State aid *acquis*.

c. Conclusions and Priorities

As recommended in last year's Implementation Report, CPC should start enforcing competition and State aid law by actively conducting investigations on its own initiative or by using the leniency provisions.





Former Yugoslav Republic of Macedonia

7.10 Infrastructure

a. Sector Overview

In former Yugoslav Republic of Macedonia, the 400 kV overhead line Bitola (MK) - Elbasan (AL) electricity interconnector (EL_13) has received the Project of Energy Community Interest label. The gas project Serbia (Vranje) – FYR of Macedonia (Klechove - Sopot) (Gas_11) has also been designated as Project of Energy Community Interest label, and the Greece – FYR of Macedonia (Hamzali - Stojakovo) interconnector (Gas_04B) is a Project of Mutual Interest. The country is yet to start activities on transposing Infrastructure Regulation (EU) 347/2013.

b. State of Compliance

As former Yugoslav Republic of Macedonia did not transpose Regulation (EU) 347/2013, it is in breach of the infrastructure *acquis*.

1. Designation of National Competent Authority

No decision was taken on the designation of a competent authority.

2. Status of Highest National Significance for Energy Community Priority Projects

The status of highest national significance for energy infrastructure does not exist in the current legislation.

3. Manual of Procedures

A unified procedure already exists, but it is not fully compliant with Regulation (EU) 347/2013.

4. Transparency and Public Participation

Pursuant to the Energy Law, the Ministry is required within three days of receiving from an investor an application for a construction permit for an energy project to request all other relevant institutions to start their procedures for producing the documents necessary for the permit. The public participation process is yet to be aligned with Regulation (EU) 347/2013.

5. Project Visibility and Dedicated Websites

A general website on strategic infrastructure exists (www.sep.gov.mk), but a dedicated web page for each PEI/PMI has not been made available by the project promoter/s.

c. Conclusions and Priorities

Authorities of former Yugoslav Republic of Macedonia should adopt a law or by-law to ensure transposition of Regulation (EU) 347/2013 as soon as possible.

The national competent authority should be designated and become operational. It should publish a manual of procedures for the permitting process for PEIs, following the minimum structure presented in Annex X of the Regulation, by 31 December 2017.

The national regulatory authority ERC should publish the methodology and the criteria to be used to evaluate investment in electricity and gas projects and the higher risks incurred by them by 31 December 2017. ERC should also establish and make publicly available a set of indicators and corresponding reference values for the comparison of unit investment costs by 30 June 2018.



Former Yugoslav Republic of Macedonia

7.11 Statistics

a. Sector Overview

According to the Law on State Statistics of 1997, amended in 2007 and 2011, the State Statistical Office (SSO) is an independent professional institution responsible for the compilation of official statistics and coordination of all statistical activities in the country.

The Energy Law allows the ministry in charge of energy and the national regulatory authority to collect certain energy data, such as data for energy balances. The ministry adopted a Rulebook for Energy Balance and Energy Statistics.

The government regularly adopts a programme for statistical surveys, the most recent one for the period 2013 - 2017 and annual work plans for SSO, which entrust the statistical office to collect, compile and disseminate energy statistics, including energy price data, in accordance with the definitions and methodology set by EUROSTAT. SSO is obliged to publish a release calendar of official statistics and to update it quarterly.

b. State of Compliance

Former Yugoslav Republic of Macedonia has transposed and implemented key requirements of the energy statistics *acquis*, whereas only timeliness and quality of collections has to be improved further in accordance with best practice and statistical standards.

1. Regulation (EC) 1099/2008 on Energy Statistics

Annual data are compiled and disseminated in questionnaires for coal, oil, natural gas, electricity, heat and renewable energy. The breakdown of final consumption is presented in accordance with the national classification of activities. SSO has already established a quality system for producing reporting as required under the Treaty.

Data are collected through monthly and annual surveys from reporting units with full coverage of the energy sector, sampling of industrial energy consumers, annual surveys on forestry, agriculture and external trade statistics, and estimates of energy consumption in other sectors and in households. On the basis of all collected data, SSO develops energy balances for all energy commodities used in the country. Annual questionnaires are communicated to IEA and EUROSTAT timely and in compliance with the *acquis*.

The results of the survey of consumption in households conducted in 2015 were integrated in annual energy statistics, creating also a solid database to produce disaggregated data

on residential consumption of energy in line with Regulation (EU) 431/2014. For that purpose, the Secretariat made available technical assistance for SSO to improve its modelling and projection techniques.

Former Yugoslav Republic of Macedonia has ensured compliance with the obligations from Annex B of Regulation (EC) 1099/2008.

SSO releases monthly energy statistics on electricity, natural gas, oil and petroleum products and solid fuels. From 2014, SSO collects and submits to EUROSTAT monthly energy statistics which are published by EUROSTAT. This is in accordance with Annex C of Regulation (EC) 1099/2008.

In 2015, SSO established communication with United Nations Statistical Division (UNSD) on Joint Organisations Data Initiative (JODI), thus ensuring the visibility of its oil and gas statistics in the global JODI database. Concerning monthly oil statistics, former Yugoslav Republic of Macedonia complies with the General Policy Guideline on Implementation of Certain Deadlines of the Oil Stocks Directive in the Energy Community.

2. Directive 2008/92/EC on Transparency of Gas and Electricity Prices for Industrial End-users

Prices of electricity charged to industrial end-users and households and prices of natural gas charged to industrial end-users are compiled and submitted to EUROSTAT. From 2014, SSO has been publishing the average electricity and gas prices for industry and households per consumption band on its website.

SSO reported disaggregated electricity prices for industrial end-users as well as disaggregated electricity prices for households, as required by Directive 2008/92/EC. However, the accuracy of reported data was not satisfactory. In 2017, SSO in cooperation with the regulator created a new reporting scheme to disclose the price component charged to end-users. For this reason, the submission of price data for second semester 2016 was late, but the accuracy of the data was improved and its dissemination was finally in line with the requirements of Directive 2008/92/EC.

c. Conclusions and Priorities

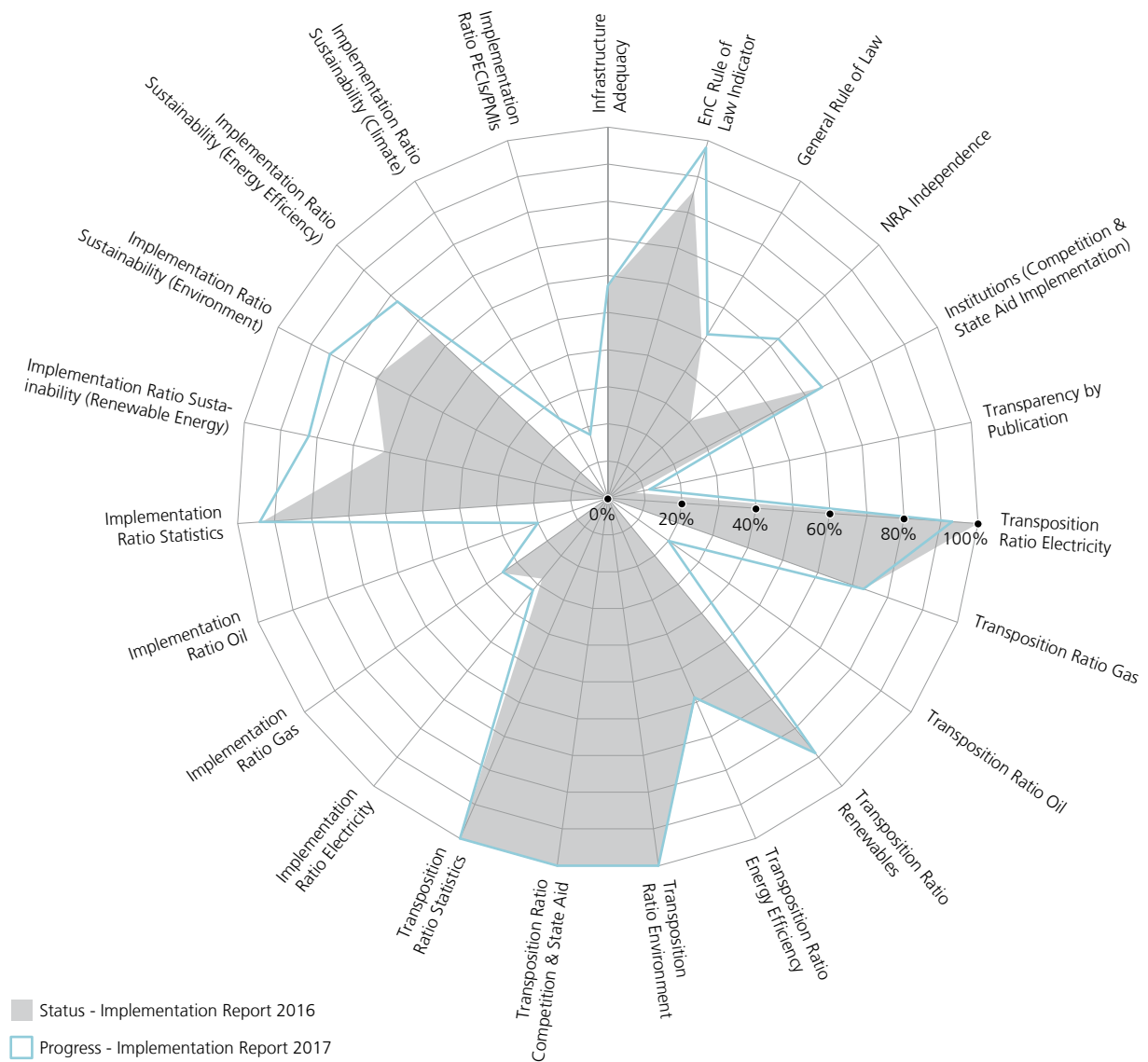
The system of continuous data collection should be permanently improved and adjusted to reflect the changes in the energy sector and to the reporting requirements of competitive markets. Providing sufficient financial and human resources is a key prerequisite for SSO to be able to fulfil its tasks.



8

Moldova

Implementation Indicators Radar of Moldova



Source: Compiled by the Energy Community Secretariat

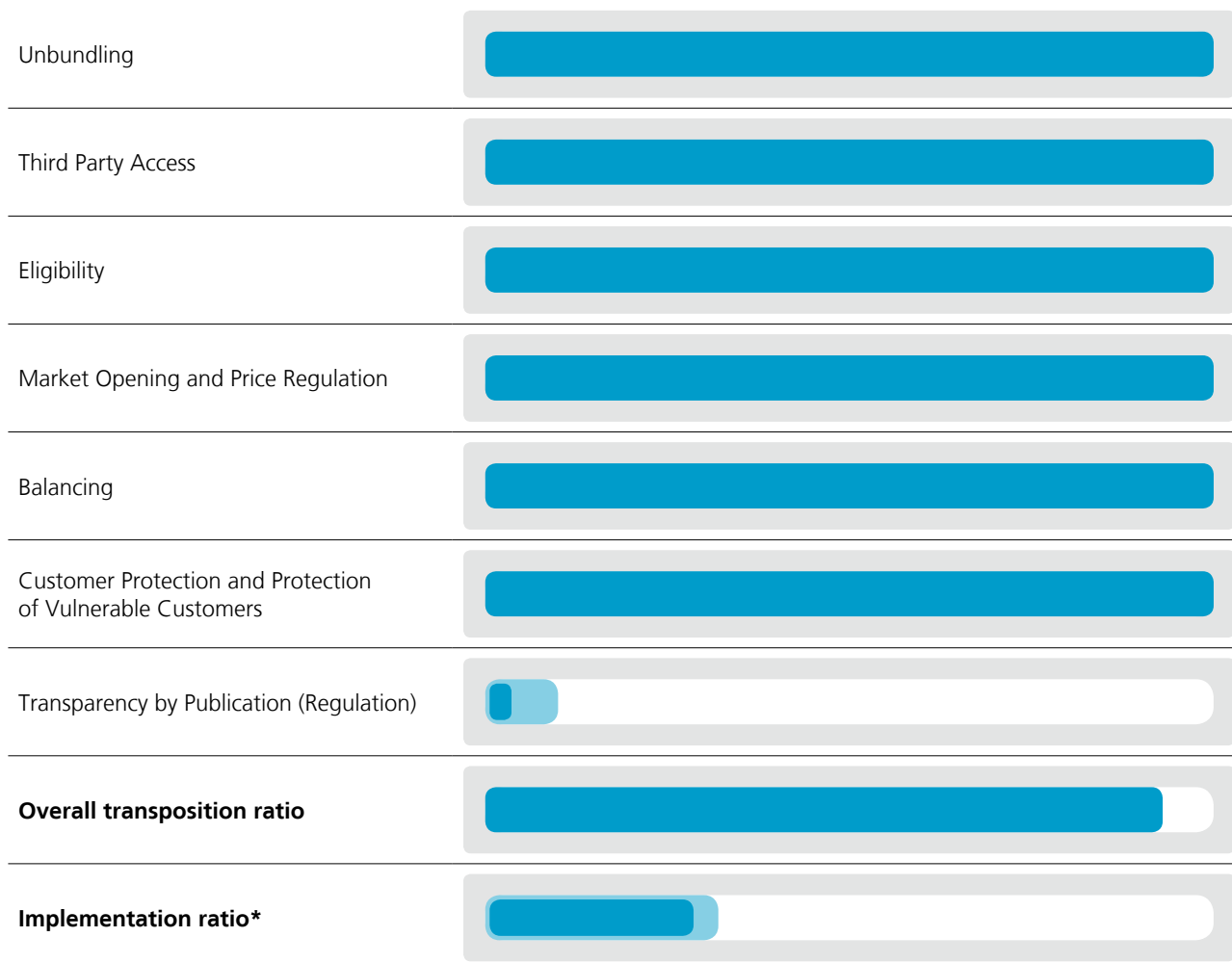
The progress achieved with the adoption of the Electricity Law and Law on Natural Gas in May 2016 was not followed up. Moldova must speed up the adoption of new implementing legislation and the revision of the existing regulations to align

with the new legal framework. This concerns in particular the adoption of secondary legislation, including the setting of tariffs in a fair and cost-reflective manner by the country's energy regulatory authority.



Moldova

8.1 Electricity



Status - Implementation Report 2016 Progress - Implementation Report 2017

* actual implementation: unbundling, third party access rules etc.

Source: Compiled by the Energy Community Secretariat

a. Sector Overview

The electricity sector of Moldova is fully dependent on external energy sources. Domestic supply sources consist of several combined heat and power (CHP) plants covering up to 20% of domestic consumption. The rest of demand is met by electricity procured either by imports from Ukraine or from the Cuciurgani-Moldavskaya GRES gas-fired power plant, owned by the Russian company Inter-RAO and located in Transnistria.

During 2016 - 2017, steps towards the introduction of non-discriminatory and transparent procedures for electricity procurement have been made. In January 2017, the Ministry of Economy adopted Guidelines for the Annual Procurement of Electricity drafted by the Secretariat. The guidelines were

used for the first time in February-March 2017, when the two regulated suppliers and four network operators launched the electricity procurement procedure for the period 1 April 2017 - 31 March 2018. Energocom, a state-owned trader, was declared as the successful bidder.

The Spanish company Gas Natural Fenosa is the owner of the distribution network operator RED Union Fenosa and the electricity supply company Gas Natural Fenosa Furnizare Energie. The other suppliers in the market are the incumbent state-owned company Furnizarea Energiei Electrice Nord and Energocom, supplier at unregulated tariffs. Currently, there is only one customer who switched supplier, which is being serviced by Energocom.

Electricity Facts and Figures

Description of data [unit]		2015	2016
Electricity production [GWh]		793	755
Net imports [GWh]		3.360	3.347
Net exports [GWh]		0	0
Gross electricity consumption [GWh]		4.153	4.101
Losses in transmission [%]		2,7%	2,7%
Losses in distribution [%]		8,5%	8,5%
Consumption of energy sector [GWh]			
Final consumption of electricity [GWh]		3.717	3.669
Consumption structure [GWh]	Industrial, transport, services and other non-residential sectors	2.054	2.036
	Households (residential customers)	1.663	1.633
Net maximum electrical capacity of power plants [MW]		401	403
of which:	gas-fired	380	380
	hydro, total	16	16
	Other renewables	5,192	6,9
Horizontal transmission network [km]	Length of transmission power lines [km]	3.912	3.917
	Substation capacity [MVA]	4.725	4.725
	Number of interconnectors	22	22
Electricity customers	Total number of customers	1.342.704	1.354.804
	out of which: non-households	74.623	76.372
	Eligible customers under national legislation	1.342.704	1.354.804
	Active eligible customers	1	1
Internal market	Electricity supplied to active eligible customers [MWh]	93.086	65.715
	Share of final consumption [%]	2,50%	1,79%

Source: National Agency for Energy Regulation of Moldova

b. State of Compliance

With the adoption of the Electricity Law in May 2016, Moldova transposed the Third Energy Package requirements. The regulatory acts to implement the electricity *acquis* are in various drafting stages and face significant delays in achieving the deadlines set in the Electricity Law.

1. Unbundling

The Electricity Law transposes the ownership unbundling model for the transmission system operator. However, the state-owned transmission system operator Moldelectrica is currently only legally unbundled from generation and supply activities. Moldova is thus not in compliance with Directive 2009/72/EC in this respect.

The three electricity distribution companies are all legally separated from supply activities. Rebranding and appointment of the compliance officers has not been completed for both incumbent supply companies. Requirements for accounting unbundling for regulated and non-regulated supply activities and per category of customers are transposed by the law. This is not implemented in practice.

2. Third Party Access

The right to third party access has been transposed by the Electricity Law.

A draft methodology for determining, calculation and approval of the tariff for access to the transmission network developed by ANRE needs significant improvements to comply with the regulatory principles for access charges.

Tariffs for access to the distribution network at different voltage levels unbundled from the end-user regulated electricity prices were revised in March 2017 based on amendments to the methodology made in February 2017. These amendments and the new distribution tariff are currently subject to a dispute initiated by Gas Natural Fenosa. The revised methodology impacts the cost-recovery of the distribution network operator in areas such as network losses, country risk ratio in the calculation of the weighted average of cost of capital and the cost of extension of the lifespan of the assets.

Rules for access to interconnection capacities partly transposing the principles from Regulation (EC) 714/2009 have been adopted by ANRE in December 2016 and entered into force in January 2017. However, no auction for access to the interconnections was held by Moldelectrica during 2017. Currently,

only one Ukrainian company (DTEK) is exporting to Moldova. The Moldovan and the Romanian systems are not synchronously connected. They are allocated jointly based on market procedures and performed by the Romanian system operator whenever a trading opportunity is identified. This violates the third party access principle.

3. Eligibility

All customers are eligible to choose their supplier. The 2016 Electricity Law transposed the concept of closed distribution systems correctly as defined in Directive 2009/72/EC, thus removing the non-compliant “sub-customer” category which existed under the previous Electricity Law.

4. Market Opening and Price Regulation

The electricity market in Moldova suffers from limited competition in the wholesale and, by consequence, the retail market. The competition in the wholesale market is mainly between imports from Ukraine and electricity generated at Cuciurgani-Moldavskaya GRES situated in Transnistria. The electricity producers in Moldova (mostly CHP generation and few renewables) are supplying under a regulated regime with priority and meeting only about 20% of the electricity demand. On the retail market, there are two universal suppliers supplying at regulated prices and Energocom supplying at non-regulated prices.

Electricity suppliers at regulated tariffs are designated as universal suppliers for end-customers and suppliers of last resort. For all customers supplied by the two incumbent supply companies, ANRE regulates the end-user electricity price. Only one eligible customer, a cement factory, has switched supplier and is supplied at unregulated prices by the state-owned Energocom.

5. Balancing

Moldova is balancing its system mostly through imports from Ukraine or from Cuciurgani-Moldavskaya GRES. The Electricity Law tasks the transmission system operator Moldelectrica with procuring balancing energy and system services to keep the electricity system in balance. The rules on balancing included in the Market Rules have not yet been revised to comply with the Electricity Law's provisions. This is not implemented in practice.

6. Customer Protection and Protection of Vulnerable Customers

The Directive 2009/72/EC's provisions on customer protection have been transposed by the 2016 Electricity Law.

Vulnerable customers are also defined in the Electricity Law as a household customer that in compliance with the social protection legislation is defined as vulnerable or a member of a vulnerable family. They are entitled to social protection measures that include financial assistance for covering energy costs.

7. Transparency

An obligation for publication of data is defined by the Electricity Law. However, Regulation (EU) 543/2013 is not transposed. Rules transposing the Regulation are under preparation by the regulator. The transmission system operator Moldelectrica started testing the publication of specific data items with ENTSO-E.

In practice, no data on Moldova are published by ENTSO-E yet. On its local website, Moldelectrica is publishing a small number of items which are not available in English - data on total load and monthly and yearly load forecasts, physical flows on the transmission system and installed generation capacity. The remaining load and transmission data, as well as the required data on balancing and wholesale market performance, are not available.

c. Conclusions and Priorities

Following the adoption of the Electricity Law in May 2016, Moldova must speed up the adoption of new implementing legislation or the revision of the existing regulations to align with the new legal framework.

The progress made in 2016 with the adoption of the Electricity Law transposing the Third Energy Package is overshadowed by the initiation of the dispute by the largest and only private distribution system operator due to the amendments of the tariff methodology by ANRE which impact the viability of the company to make investments into the grid.

The progress made in improving transparency and non-discrimination in the electricity procurement process has been recently put in doubt by the alteration of the supply contract of the declared winner, Energocom, after the procedure was terminated. While this may have mitigated supply risks and decreased electricity prices, it proves the imperfection of the electricity market framework in which Moldova operates.

The certification of the transmission system operator and update of the rules for the electricity market, including balancing and imbalance settlement rules, must be the top priorities.

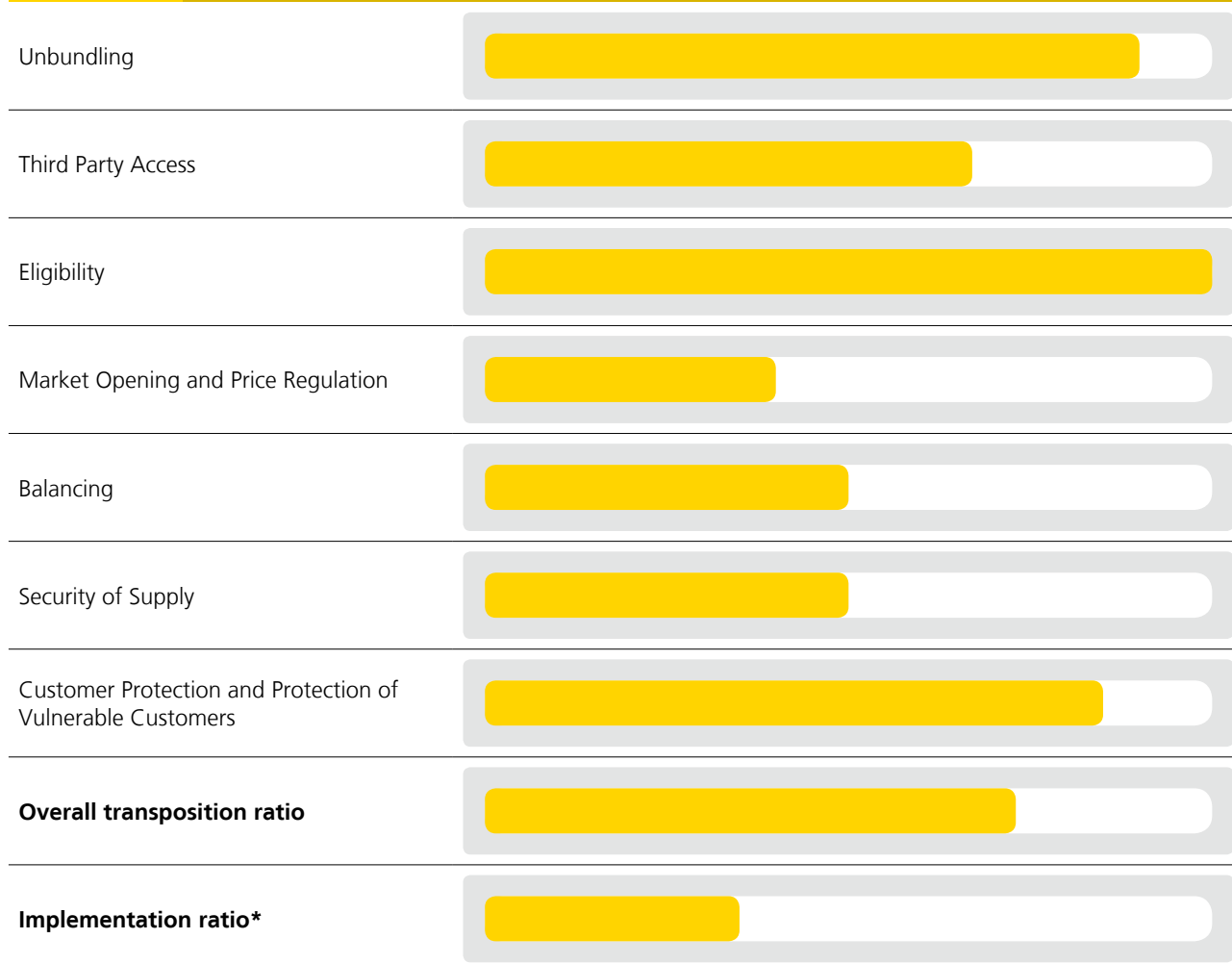
The creation of a common electricity market between Ukraine and Moldova would enable wholesale suppliers in Moldova to be given non-discriminatory access to Ukraine's more competitive supply market as well as market-based access to capacities on interconnections for cross-border trade. Rules for capacity allocation of cross-border capacities and transparency requirements have to be implemented by Moldelectrica and Ukrenergopro in accordance with Regulation (EC) 714/2009.

The decision on the most suitable electricity interconnections with Romania still needs to be taken. The future projects aim at increasing security of electricity supply in Moldova, reducing the dependence on very few sources of electricity supplies and providing increased competition for the benefit of the customers in Moldova.



Moldova

8.2 Gas



■ Status - Implementation Report 2016 ■ Progress - Implementation Report 2017

* actual unbundling, tariffs, network codes, market prices supply ratio, SoS secondary acts etc.

Source: Compiled by the Energy Community Secretariat

a. Sector Overview

Moldova is still largely dependent on gas supplies from the Russian Federation. In 2016, out of 1.038 Bcm of contracted gas imports, over 99% were acquired from Russia's Gazprom. Another 2 Bcm were delivered by Gazprom to Transnistria and mainly used for electricity generation. Domestic gas production in the country is marginal and amounts to up to 0,1 mcm/y. Moldova does not have underground gas storage or LNG facilities.

Moldova is an important route for the transit of Russian gas to Turkey and the Western Balkans. In recent years, the amount of gas transported through Moldova was around 20 Bcm/y.

Moldova's gas market is entirely monopolized. Major gas mar-

ket activities in the country remain concentrated within the corporate group of one vertically integrated company – Moldovagaz. The company is responsible for gas imports from Russia and exercises control over the country's two gas transmission system operators, Moldovatransgaz and Tiraspoltransgaz. Through its 12 subsidiaries, the company controls about 70% of Moldovan gas distribution networks, and it also acts as the major wholesale and retail supplier. Moldovagaz's shares are divided between the state (35,33%), authorities in Transnistria (13,44%) and Gazprom (50%).

Diversification of gas supplies in Moldova primarily depends on making operational its interconnector with Romania through the Iasi-Ungheni pipeline, and in particular on its projected extension to Chisinau. In 2016, the pipeline remained underused and, out of 1,5 Bcm of its annual capacity, only 1,2 mcm were

Gas Facts and Figures

Description of data [unit]	2015	2016
Natural Gas Production [Bcm]	0,00011	0,00007
Import [Bcm]	1,0085	1,0384
Exports flows [Bcm]	0	0
Stock changes [Bcm]	0	0
Total supply [Bcm]	1,0086	1,0385
Consumption in Energy Sector [Bcm]	0,4807	0,4764
Available for final consumption of natural gas [Bcm]	0,4954	0,5610
Interconnectors' capacity [Bcm]	Total	45,0
	out of which bidirectional	45,0
Storage working capacity [Bcm]	0	0
Length of transmission network [km]	1.570	1.570
Length of distribution network [km]	22.897	23.011
Natural gas customers	Total	695.861
	out of which: Non-households	12.806
	Eligible customers under national legislation	695.861
	Active eligible customers	0
	Households	683.055
Internal market	Gas supplied to active eligible customers [Bcm]	
	Share of total consumption [%]	
Final consumption of natural gas per sector [Bcm]		0,4954
Consumption structure [Bcm]	Industry and commercial customers	0,2176
	Households	0,2778
		0,2853

Source: National Agency for Energy Regulation of Moldova

contracted to acquire gas from Romania's OMV Petrom. In December 2016, Moldova signed loan agreements with EBRD and EIB for financing of the pipeline extension project (Ungheni-Chisinau). Construction works are planned to commence in the beginning of 2018 and the pipeline is expected to be operational in 2020. The project is implemented by the state-owned company Vestmoldtransgaz, which is also licensed by the regulatory authority ANRE for gas transmission activities.

b. State of Compliance

With the adoption of the Law on Natural Gas in May 2016, Moldova transposed the Third Energy Package. Some transitional provisions of the Law on Natural Gas may be detrimental to the correct implementation of the *acquis* in the future. As Moldova failed to adopt any secondary acts during this reporting period, which could have rectified these shortcomings, the Secretariat's concerns remain in place. In addition, numerous secondary legislative acts are yet to be adopted as a precondition for Moldova to implement the gas *acquis* in real terms. In 2016, no tangible progress was reached by Moldovan authorities in developing the necessary secondary legislation.

1. Unbundling

The Law on Natural Gas establishes unbundling requirements for transmission system operators and certification procedures

in compliance with Directive 2009/73/EC and Regulation (EC) 715/2009. The Law introduces all three possible unbundling models and transposes a derogation granted by the Ministerial Council for Third Energy Package compliant unbundling until 1 January 2020.

Both transmission system operators Moldovatransgaz and Vestmoldtransgaz function as legally separate network companies, and the core measures ensuring their organisational and decision-making independence are formally in place. Legal and functional unbundling applies as an interim legal regime before one of the unbundling models envisaged by the Third Energy Package will be implemented, i.e. not longer than by 1 January 2020. No data regarding the status of *Tiraspoltransgaz* was provided.

The Law on Natural Gas also transposes the unbundling provisions for distribution system operators including the exemption for those serving less than 100.000 customers. Distribution system operators in Moldova are legally separated from other gas market activities. However, no information regarding their functional unbundling exists.

2. Third Party Access

The Law on Natural Gas transposes the principle of third party access to transmission, distribution and storage networks from

Directive 2009/73/EC. Access is granted based on the rules and tariffs approved by ANRE. Third party access services, capacity allocation and congestion management procedures as required by Regulation (EC) 715/2009 for the transmission system are in place. The conditions for refusal of access are aligned with the gas *acquis*.

Compliant gas transmission and distribution network rules to be adopted by the end of 2017 are currently being drafted. The implementation of an entry/exit transmission tariff, however, was postponed by the Law on Natural Gas until "identifying relevant market conditions" without any additional explanation, which is non-compliant with the *acquis*. The Secretariat, in cooperation with ANRE, nevertheless initiated the preparation of entry/exit transmission tariff methodologies.

A provision in the Law stating that transmission and distribution system operators shall give priority to natural gas produced on the territory of Moldova contravenes the general principle of non-discrimination, regardless of the scarce domestic gas production.

3. Eligibility

Under the Law on Natural Gas, all customers are eligible and allowed to freely choose and switch their gas supplier. In practice, however, the monopoly on the gas market eliminates the customers' ability to actually choose and switch their gas supplier. Rules and procedures for supplier switching are yet to be developed.

4. Market Opening and Price Regulation

The Law on Natural Gas is based on the assumption of an open natural gas market. Household customers and small enterprises are entitled to regulated gas supplies by the supplier under public service obligations. The Law envisages a concept of last resort supplier for all final customers. Operational rules regulating the supply of gas under public service obligations are yet to be developed through secondary legislation and the supplier (or suppliers) in charge have to be designated.

In contrast to these general principles, the Law on Natural Gas effectively and unduly allows that all final customers can benefit from gas supplies under regulated prices without restrictions in time and clearly defined and transparent rules, thus making the Law non-compliant with the Directive 2009/73/EC's provisions on public service obligations.

5. Balancing

The Law on Natural Gas requires from a transmission system operator the adoption of balancing rules designed in a fair, non-discriminatory and transparent manner, but not necessarily market-based. To date, balancing rules and imbalance charges

are not implemented in Moldova.

6. Security of Supply

The Law on Natural Gas transposes the general provisions of Directive 2004/67/EC and Directive 2009/73/EC on security of gas supply, including national monitoring competences, reporting obligations, adequate minimum security of supply standards and safeguard measures. Furthermore, it requires that the Ministry of Economy adopts an emergency plan with an accompanying action plan securing reliable and efficient gas supplies. Adoption of the emergency plan is still pending.

7. Customer Protection and Protection of Vulnerable Customers

The Law on Natural Gas transposes the requirements of Directive 2009/73/EC with regard to customer protection. It introduces the concept of a vulnerable customer and refers to the relevant social security regulations for the definition. Their practical implementation is yet to be ensured through secondary legislation.

c. Conclusions and Priorities

Moldova has to rectify the non-compliances identified in the Law on Natural Gas, whether through amendments or, where possible, through secondary legislation. In any case, numerous secondary acts must be developed and adopted in order to ensure the organisation and functioning of the country's gas sector. To date, no tangible progress has been reached in implementing the Law.

Moldova must implement legal and functional unbundling of VestMoldTransgaz (VMTG), MoldovaTransGaz (MTG) and ChisinauGaz (CG) in practice through necessary regulatory, corporate and organisational measures. Preparation for the unbundling of transmission system operators in compliance with the Third Energy Package should start without delay so as to have properly unbundled operators already designated and certified by 1 January 2020.

Entry/exit gas transmission tariff methodologies should be developed, adopted and applied in practice so as, firstly, to ensure compliance with the *acquis* and, secondly, to allow for transparent and non-discriminatory gas market operations and genuine market opening. In order to enhance the competitiveness and liquidity of the gas market, supplier switching rules shall be introduced and actual competition between suppliers shall be triggered by abolishing exclusive supply rights currently possessed by incumbent suppliers.

Moldova must ensure strengthening the institutional set up and independence of ANRE. Finally, a commercial set up for the Ungheni-Chisinau pipeline must be pursued.



Moldova

8.3 Regulatory Authority

Moldova has transposed the Third Energy Package in the gas and electricity sector but not yet as regards the institutional set-up of the National Agency for Energy Regulation (ANRE). This is subject to the Energy Law not yet in force. Following the Secretariat's in-depth assessment of the independence and performance of ANRE and the adoption of an action plan to improve the situation in late 2016, the revision of the existing Energy Law was an important step.

The applicable legal framework up till now fell short in relation to a number of additional independence criteria stipulated by Directive 2009/72/EC and Directive 2009/73/EC such as vague appointment requirements for board members and the lack of a neutral selection committee for appointment of board members. Moreover, the criteria of "incompatibility" and "conflict of interest" were listed among the legal reasons for dismissal of a commissioner. This unspecified provision proved to be critical in praxis as it was used as a lever for suspension of the regulator's director in 2013 and 2014. In addition, the rules on regulatory

decisions are partly problematic. Rulings of ANRE on withdrawal of licenses are subject to validation by a state court. Budgetary autonomy has been put at risk in the past by delayed approval of the regulator's annual budget by the parliament. However, it was reported that a new Energy Law was recently adopted. The Secretariat is yet to review the new Law.

ANRE is headed by five board members out of whom the parliament designates one as director. The term of board members is limited to six years, renewable once. A rotation scheme is in place. ANRE is held accountable for its activities by being obliged to present its annual report to the parliament.

In practice, a recent change of the electricity distribution tariff methodology put the stability and predictability of the regulatory regime in question. This is subject to a complaint to the Secretariat. Moreover, ANRE still has to improve its profile in proactively designing and monitoring the market.



Moldova

8.4 Oil

a. Sector Overview

Moldova is completely reliant on imports of petroleum products to meet domestic oil demand. Moldova imported and consumed petroleum products in the amount of 903 kt and 906 kt respectively in 2016, an increase of 13,2% and 15,5% respectively compared to 2015. In terms of storage of petroleum products, the total capacity is over 150.000 cm, encompassing state and industry storage but excluding the army. In addition, the Giurgiulesti terminal (GIFP), which has a status of a free economic zone until 2030, has eight tanks for petroleum product storage with a capacity of 63.600 cm at its disposal.

b. State of Compliance

During this reporting period, Moldova has drafted a law on creating and maintaining a minimum level of oil products stocks. The draft is in compliance with Directive 2009/119/EC. However, the timeline for the law's adoption is currently not clear.

The draft law foresees its entry into force on 1 January 2021. The draft law prescribes intermediate obligations to be fulfilled by economic operators in order to create and maintain emergency stocks at the level of 30 days of average daily net imports

by 31 December 2020; 60 days by 31 December 2021; and 90 days by 31 December 2022. The draft also foresees that before its entry into force the government will submit proposals to bring existing legislation into conformity with this law; approve a regulation on emergencies on the oil market and approve emergency stock levels to be created and maintained for each type of petroleum product and economic operator.

c. Conclusions and Priorities

Drafting the oil stocks law in compliance with Directive 2009/119/EC is a major step forward. Nevertheless, some improvements concerning the funding, intuitional set-up and emergency response should be considered.

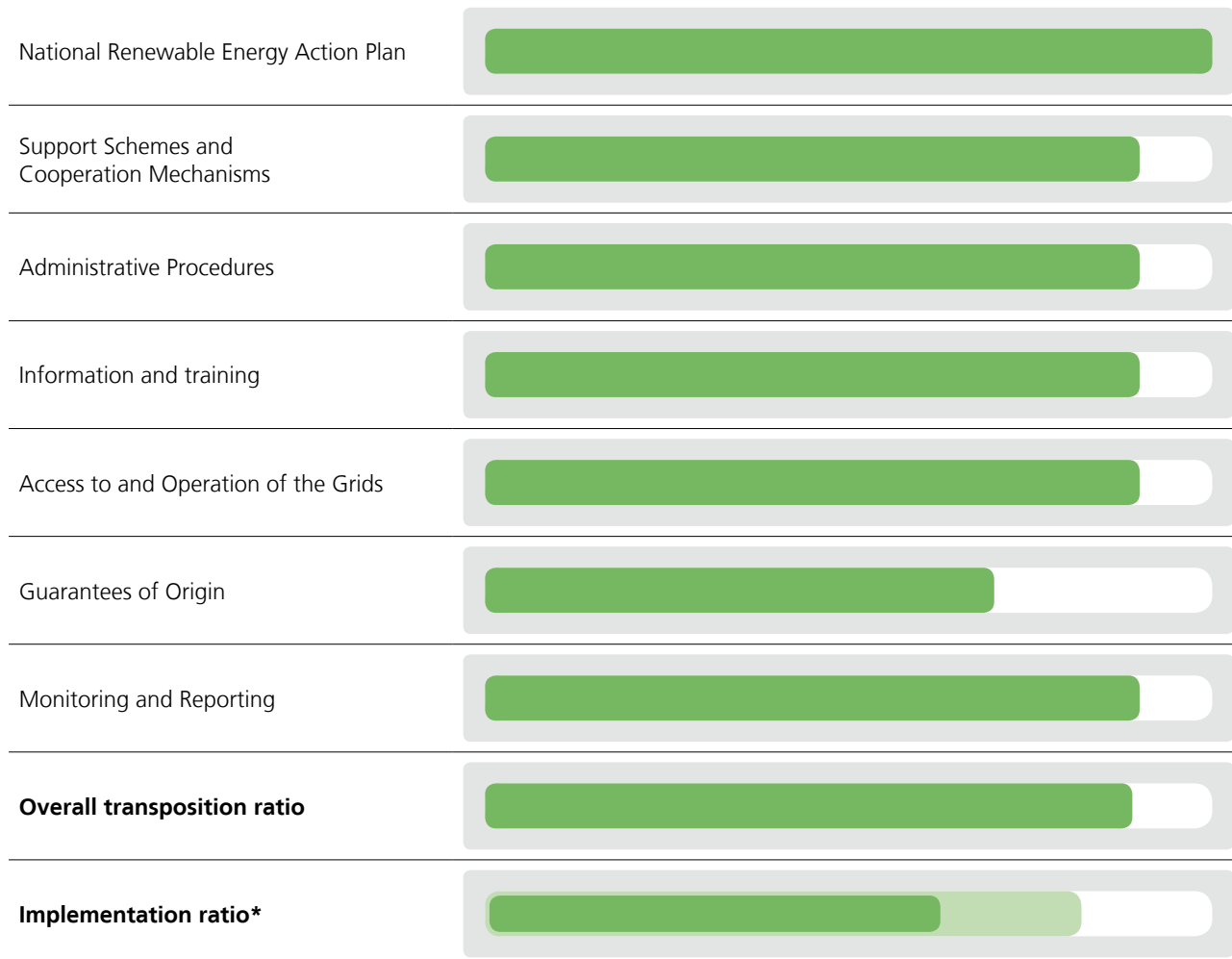
In 2017 - 2018, Moldova should focus on:

- Adopting the new draft law on creating and maintaining the minimum level of oil products stocks;
- Drafting secondary legislation in line with the law; and
- Improving data collection.



Moldova

8.5 Renewable Energy



Status - Implementation Report 2016 Progress - Implementation Report 2017

* actual implementation of NREAP and progress towards 2020 RES target

Source: Compiled by the Energy Community Secretariat

a. Sector Overview

In 2012, Moldova committed to a binding target of 17% of energy from renewable sources in gross final energy consumption by 2020, compared with 11,9% in 2009. In 2015, according to the energy balance published by EUROSTAT, Moldova was on track towards reaching its 2020 target. The country reached a 15,8% share of energy from renewable sources, which is above the indicative trajectory of 14,2%.

The 2016 Law on Promotion of Energy from Renewable Sources transposed the binding 17% target in 2020 and the 10% target of renewable energy in transport. The entry into force of the Law initially envisaged on 25 March 2017 was postponed by parliament by one year to 25 March 2018. The measure is intended to allow the necessary secondary acts to be put in place.

b. State of Compliance

The prolonged application of the 2007 Renewable Energy Law means that Moldova will continue to fail to comply with the renewable energy *acquis* until the new Law's entry into force in March 2018.

1. National Renewable Energy Action Plan

Moldova adopted and submitted to the Secretariat the NREAP required under Directive 2009/28/EC. The second report on the progress in promotion of renewable energy 2014 - 2015 was submitted in February 2017. The report revealed that Moldova is on track to reach the 2020 renewable energy targets, with the exception of the transport sector. However, the renewable energy technology objectives projected in the NREAP will probably need to be revised.

Renewable Energy Facts and Figures

	2014	2015	2016
Total capacities (MW)	20,9	21,2	23
Hydropower, out of which:	16	16	16
- small hydropower (<10 MW)	0	0	0
Wind	1,1	1,1	2,3
Solar	1	1,3	1,8
Biogas	2,8	2,8	2,8
Total consumption of energy from renewable sources* (ktoe)	308,1	336,6	
- out of which biomass (ktoe)	276,9	307,6	
Gross final energy consumption (ktoe)	2494,4	2135,3	
RES share (%)	12,4%	15,8%	
RES electricity (ktoe)	31,2	29	
Total Electricity generated (ktoe)	523	82,3	
RES share in electricity (%)	6,0%	35,2%	
RES in heating and cooling (ktoe)	276,9	307,6	
Total energy consumed for heating and cooling (ktoe)	1359,1	1111,8	
RES share in heating and cooling (%)	20,4%	27,7%	
RES in transport (ktoe)	1,1	0,9	
Total energy consumed in transport (ktoe)	613,3	573	
RES share in transport (%)	0,2%	0,2%	

Source: National Agency for Energy Regulation of Moldova and EUROSTAT

2. Support Schemes

Following the adoption of the Law on Promotion of Energy from Renewable Sources in 2016, Moldova is the second Contracting Party that envisages the introduction of market-based support schemes to comply with the Guidelines on State Aid for Environmental Protection and Energy 2014 - 2020. However, the new auction rules to grant support to renewable energy producers remain to be adopted. The renewable energy operator, as the counterparty of the renewable energy producers in the contract for granting support, remains to be appointed based on a competitive procedure.

3. Cooperation Mechanisms

Possibilities for entering into cooperation mechanisms on renewable energy are transposed in the new Law. Moldova could take advantage of cooperation projects on renewable energy should the trajectory to the binding targets in 2020 be exceeded.

4. Administrative Procedures

The delay in the entry into force of the new Law prolongs the non-compliance of Moldova with requirements to implement a more simplified, transparent and non-discriminatory framework taking into account particularities of individual renewable energy technologies.

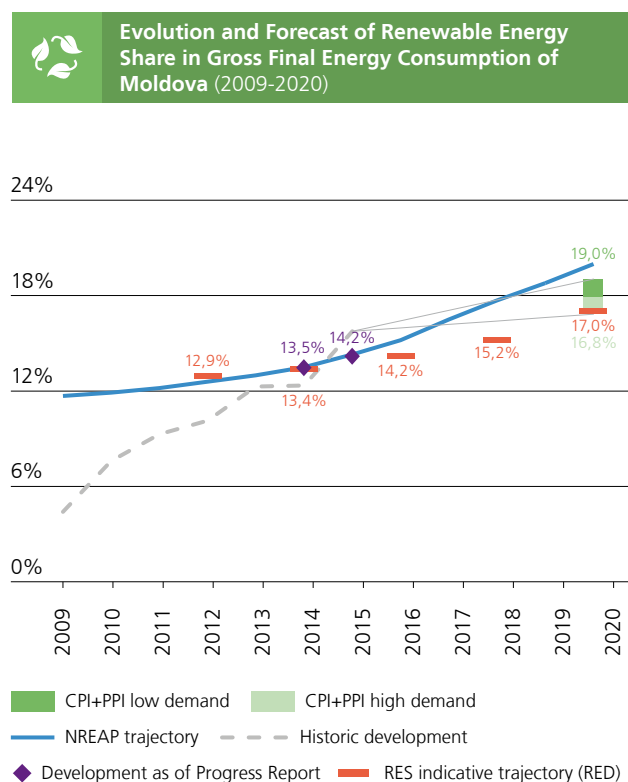
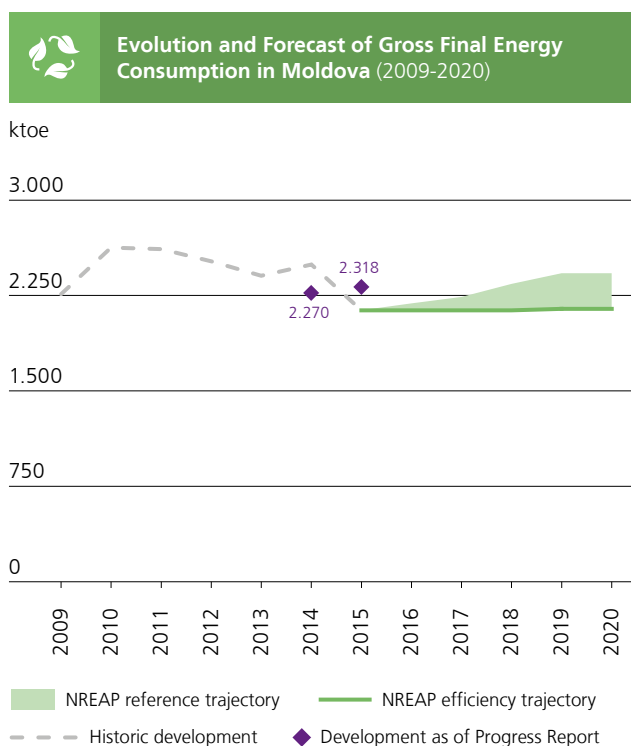
5. Access to and Operation of the Grids

The 2016 Law on Promotion of Energy from Renewable Sources transposes correctly the requirements for non-discriminatory access to the grid, priority dispatch of electricity generated from renewable energy, guaranteed purchase for eligible producers (selected through auctioning) and minimisation of curtailment. It is envisaged that the renewable energy operator will take balancing responsibility for the entire portfolio of renewable energy projects under the support scheme.

Methodologies for determining costs of connection to the transmission and distribution grids for new renewable energy producers have not yet been issued. The current practice of the network operator to provide information only on a case-by-case basis is not compliant. In this respect, Moldova fails to meet the requirements of Article 16 of Directive 2009/28/EC.

6. Guarantees of Origin

No progress has been registered in the last reporting period on the implementation of a system for guarantees of origin for the electricity and heat produced from renewable sources. There is still no electronic registry and no guarantee of origin issued. The requirement to set up and maintain separate accurate, reliable and fraud-resistant registries for the issue, transfer and cancellation of guarantees of origin for all four network operators is burdensome. A single entity managing one system for the entire country would minimize the costs and the administrative



Source: Technical University Vienna, Assessment of the Progress in the Promotion and Use of Renewable Energy in the Energy Community, July 2017

burden on all three network operators, however, this is not envisaged in the adopted law. Moldova is not compliant with Article 15 of Directive 2009/28/EC.

7. Renewable Energy in Heating and Cooling

The Law on Promotion of Energy from Renewable Sources transposed the requirement to include renewable energy technologies when planning, constructing and renovating buildings or industrial sites. The Law also requires the introduction of support measures for heating and cooling from renewable sources.

The combined adoption of the Law on Heat and Promotion of Cogeneration, the Law on Energy Performance in Buildings, and the Law on Promotion of Energy from Renewable Sources enables Moldova to gradually catch up with its compliance obligations stemming from the Energy Community Treaty. Moldova has to ensure compliance with these requirements further in terms of implementation.

8. Renewable Energy in Transport

No progress has been achieved during the last reporting period concerning renewable energy in the transport sector, thus the compliance status remains the same as in the last report. The Law on Promotion of Energy from Renewable Sources tasks the Ministry of Environmental Protection to develop and the government to adopt a regulation on sustainability criteria to be submitted to the parliament by 25 March 2017. Neither task was fulfilled.

This means that any consumption of biofuels, and small quantities have been registered by the official statistics, cannot be counted towards the target due to the missing system for verification of sustainability, as required by Directive 2009/28/EC. The only progress registered to date has been the appointment of the Energy Efficiency Agency as the certification body, including for voluntary certification schemes. The agency is to take up the new responsibilities once the relevant secondary legislation is in force.

c. Conclusions and Priorities

The postponement of the entry into force of the Law on Promotion of Energy from Renewable Sources is widening the compliance gap with respect to the renewable energy *acquis*. Rules on auctions for granting support to renewable energy projects have to be adopted. Moreover, administrative procedures need to be simplified and methodologies for determining the cost of connection to the transmission and distribution networks have to be adopted immediately. Later on, monitoring of the effectiveness of the adopted measures by the Ministry of Economy will be crucial.

Except for the transposition of basic requirements by the new Law on Promotion of Energy from Renewable Sources, the regulatory framework for biofuels needs to introduce the sustainability criteria and adequate production incentives. The lack of progress only further hinders the development of the country's significant agricultural potential, which should be tapped into rather than relying on imports of biofuels to reach the 10% target in 2020.



Moldova

8.6 Energy Efficiency

Energy Services Directive 2006/32/EC and Energy Efficiency Directive 2012/27/EU (Roadmap)



Energy Labelling Directive 2010/30/EU



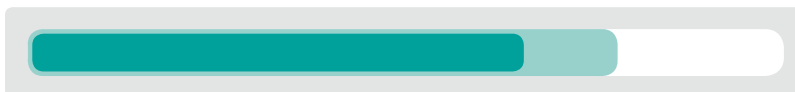
Energy Performance of Buildings Directive 2010/31/EU



Overall transposition ratio



Implementation ratio*



■ Status - Implementation Report 2016 ■ Progress - Implementation Report 2017

* achievement of energy efficiency target and implementation of EEAPs (institutions and coordination, funding, ESCO market, exemplary role of public sector, ongoing programmes)

Source: Compiled by the Energy Community Secretariat

a. Sector Overview

The energy intensity of the Moldovan economy significantly decreased in 2015 compared to previous years. This is due to a drop in final energy consumption in the period from 2011 to 2015, mostly a result of energy efficiency measures and a decrease in energy consumption by industry, while the gross domestic product continued to grow.

The Ministry of Economy, Ministry of Regional Development and Constructions and Energy Efficiency Agency share the responsibility to transpose and implement the energy efficiency *acquis*. Programmes to support energy efficiency and renewable energy are implemented via an energy efficiency fund established in 2012.

In December 2016, the 2nd EEAP (2016 - 2018) was adopted by the Government of Moldova. In the first quarter of 2017, the Ministry of Economy prepared the draft Energy Efficiency Law aimed at transposing Energy Efficiency Directive 2012/27/EU. After public consultation and received comments, the draft law will be finalised and submitted to the government, with the plan to be adopted in the fourth quarter of 2017.

b. State of Compliance

In spite of Moldova's progress during the last reporting period, the country's legal framework on energy efficiency remains only partially compliant with the Energy Community *acquis*.

1. Energy Services Directive 2006/32/EC and Energy Efficiency Directive 2012/27/EU

The Energy Efficiency Law of 2010 and the secondary legislation, including the adoption of the 1st and 2nd EEAP, have transposed the main provisions of Directive 2006/32/EC. Due to its later accession to the Energy Community, the country is obliged to prepare only the 2nd EEAP by 2016, and not the 3rd one. However, the adoption of certain important pieces of secondary legislation such as public procurement and ESCO-related regulations is still pending.

In the first quarter of 2017, the Government of Moldova prepared the Energy Efficiency Law for transposition of Energy Efficiency Directive 2012/27/EU. The Secretariat's comments related to the national target setting and alternative policy measures that can be reported against the target in Article 7 were taken into consideration in the final draft circulated for consultations.

The first annual report under Directive 2012/27/EU was submitted in July 2017, as required by Article 24(1) of Directive 2012/27/EU. Nevertheless, Moldova has missed the following reporting deadlines foreseen in the Energy Efficiency Directive: 30 March 2017 for Article 4, 1 January 2017 for Article 5, and 15 March 2017 for Article 7.

Energy Efficiency Facts and Figures

Energy Efficiency Action Plan (EEAP)*					
Period covered by EEAP		2013 - 2020			
Overall energy savings target - Directive 2006/32/EC (ktoe / % / year)		167 / 9 / 2020			
EEAP status		2 nd EEAP adopted in December 2016			
Achieved energy savings (ktoe / % / year)		30 / 1,6 / 2016			
Key institution(s) in charge		Ministry of Economy; Energy Efficiency Agency; Ministry of Regional Development and Construction			
Main data and energy efficiency indicators**		2012	2013	2014	2015 ***
Total primary energy supply (TPES)	ktoe	3.415	3.070	3.302	2.356
Energy intensity (TPES/GDP)	toe / 1000 USD	0,56	0,46	0,47	0.33
TPES/Population	toe/capita	0,96	0,86	0,93	0,66
Total final energy consumption (TFEC)	ktoe	2.360	2.265	2.350	2.080
Share of TFEC by sector	Residential	39%	41%	36%	43%
	Services	11%	11%	10%	13%
	Industry	27%	21%	24%	10%
	Transport	20%	22%	25%	31%
	Others	2%	2%	3%	1%
	Non-energy use	2%	2%	2%	2%

* Source: 2nd EEAP of Moldova

** Source: International Energy Agency (June 2017)

*** Indicators calculated by the Energy Community Secretariat based on national statistical data

2. Energy Labelling Directive 2010/30/EU

Moldova transposed Directive 2010/30/EU in 2014 together with five labelling regulations, namely on household tumble driers, air conditioners, domestic ovens and range hoods, electrical lamps and luminaries and household washing machines. In 2016, Moldova adopted energy labelling regulations on household dishwashers, household refrigerating appliances and televisions. Delegated regulations on the labelling of water heaters, space heaters and vacuum cleaners are yet to be adopted. Moldova transposed eight out of twelve delegated regulations, and has thus not yet fully transposed the labelling *acquis*.

3. Energy Performance of Buildings Directive 2010/31/EU

The Law on Energy Performance of Buildings of 2014 is not fully compliant with Directive 2010/31/EU. In particular, energy performance certification does not apply to multi-apartment buildings that were commissioned before the Law came into force, even if they are sold or rented.

During the reporting period, the government adopted a regulation on the certification procedure of energy performance of buildings and buildings units and its code of practice, as well as a regulation on periodic inspections of heating systems in buildings, and a related code of practice.

Moreover, EU standards on energy performance of buildings - impact of building automation, controls and building manage-

ment and energy performance of buildings were also adopted during the reporting period.

The Energy Efficiency Agency has prepared a regulation on energy auditor's certification, which is needed for the implementation of both the Energy Efficiency Law and the Law on Energy Performance of Buildings. Its adoption by the government is still pending.

c. Conclusions and Priorities

In the reporting period, Moldova made good progress by adopting the 2nd EEAP, adopting certain regulations required to implement the Energy Performance of Buildings Directive and preparing the draft Energy Efficiency Law to transpose the Energy Efficiency Directive.

The first priority for Moldova should be to work towards full compliance of the Law on Energy Performance of Buildings with Directive 2010/31/EU by developing and implementing the buildings certification system, including the certificate calculation software.

The second priority is the adoption of the Energy Efficiency Law to bring Moldova into compliance with new Directive 2012/27/EU and its implementing secondary legislation.

Finally, Moldova should adopt the necessary by-laws to ensure full transposition of the energy labelling *acquis*, as adopted by the Ministerial Council in October 2014.



Moldova

8.7 Environment

Environmental Impact Assessment Directive



Sulphur in Fuels Directive



Large Combustion Plants Directive and other Acquis on Environment

Deadline not yet expired

Overall transposition ratio



Implementation ratio*



■ Status - Implementation Report 2016 ■ Progress - Implementation Report 2017

* Environmental Performance Indicators (EPI) on air quality, climate and energy; LCPD implementation preparedness

Source: Compiled by the Energy Community Secretariat

a. Sector Overview

Environmental impact assessments are governed by the Law on Environmental Impact Assessment adopted in 2014 and carried out by the Ministry of Environment. During the reporting period, four environmental impact assessments relevant for network energy were carried out, namely the construction of the Ungheni-Chisinau natural gas pipeline, the Cotiujeni wind farm with a capacity of 60 MW and the Edinet and Cupcini wind farms (each consisting of two wind turbines). Furthermore, environmental impact assessments of two other projects are currently being processed (construction of overhead electrical power lines with a voltage of 400 kV and a length of 149 km and Pietrosu wind farm consisting of nine wind turbines).

Moldova has no refineries and consequently no domestic production of heavy fuel oil and gas oil.

Moldova has two plants falling under the scope of the Large Combustion Plants Directive with a total of eight units and a total rated thermal input of 1.294 MW. All units are run on natural gas and are capable of complying with the emission limit values of the Directive.

As regards wild birds, there are three Ramsar sites in Moldova and several areas nominated as candidate for Emerald sites. During the reporting period, the designation of sites has not started yet. Nature protection is regulated in the country by the Law on Environmental Protection, the Law on Red Book, the Law on Animal Kingdom and the Law on Protected Areas Fund.

b. State of Compliance

With the exception of the Large Combustion Plants and Industrial Emissions Directives, Moldova has reached a high level of transposition of the environmental *acquis*.

1. Environmental Impact Assessment Directive

With the Law on Environmental Impact Assessment, Moldova has fully transposed the Directive's provisions into national law. Furthermore, a draft Guideline on the Application of the Environmental Impact Assessment Procedure has been prepared and is expected to be approved in the course of 2017. It shall establish best practice standards for the competent authorities carrying out environmental impact assessments. Furthermore, the Ministry of Environment has prepared proposals for amendments with the aim of transposing the new Environmental Impact Assessment Directive 2014/52/EU.

2. Sulphur in Fuels Directive

In April 2016, a governmental Decision on the Reduction of the Sulphur Content of Certain Liquid Fuels (including marine fuels) was adopted. With this decision, Moldova transposed the provisions of the Sulphur in Fuels Directive into national law.

3. Large Combustion Plants Directive

Moldova has not yet transposed the requirements of the two Directives regulating the emissions of large combustion plants into national law and therefore national legislation is not com-

plaint with the Energy Community *acquis*. The relevant provisions of the Industrial Emissions Directive are planned to be transposed by 2018.

Moldova did not submit opt-out declarations or a National Emission Reduction Plan under Article 4(6) of the Large Combustion Plants Directive, meaning that plants will need to comply with the emission limit values of the Large Combustion Plants Directive from 1 January 2018 onwards individually. Based on the technical characteristics of the plants, it is expected that compliance can be reached without any difficulty.

4. Wild Birds Directive

A draft law amending and supplementing the Law on Wildlife, which is to transpose Article 4(2) of the Wild Birds Directive, was prepared in 2016. The draft law was submitted to parliament, however, its adoption is still pending.

c. Conclusions and Priorities

With the exception of the priorities related to the Large Combustion Plants and Industrial Emissions Directives, Moldova followed up on the priorities set in last year's Implementation Report.

Moldova must adopt the necessary domestic legal measures transposing the relevant provisions of the Large Combustion Plants and Industrial Emissions Directives into national law without further delay. Otherwise the Secretariat will have to start enforcement action.

Moldova should ensure the practical implementation of the Laws on Environmental Impact Assessment and Strategic Impact Assessment as well as the Decision on the Sulphur Content of Liquid Fuels and provide the administrative capacities necessary for the task.

Moldova should adopt the amendments to the Law on Wildlife to ensure the protection of wild birds in accordance with Article 4(2) of the Wild Birds Directive.





Moldova

8.8 Climate

a. Sector Overview

Moldova is a non-Annex I party to the United Nations Framework Convention on Climate Change (UNFCCC) and ratified the Paris Agreement in June 2017. According to its National Determined Contribution (NDC), Moldova is committed to an unconditional target of insert a 64 - 67% reduction of its greenhouse gas emissions by 2030 compared to 1990 levels.

The country reports regularly to the UNFCCC, submitting its Biennial Update Report and Report on Greenhouse Gas System in April 2016 as well as the three National Communications.

The Ministry of Environment is the main executive authority which establishes and implements the policies of the government in the areas of climate change and environment, and also serves as the UNFCCC focal point. Within the ministry, the Climate Change Office prepares the National Communications as well as climate change related projections/modelling. A National Commission, chaired by the Ministry of Environment, is designated as the supreme national authority responsible for the implementation and realization of the commitments under the UNFCCC.

b. State of Compliance

Moldova has no dedicated legislation on climate change. However, in 2017 a set of normative acts on climate were drafted. They include a Regulation on the Organization and Functioning of the National Monitoring and Reporting of Greenhouse Gas Emissions and Other Information relevant to Climate Change, a governmental Decision on the Establishment of Mechanisms to Coordinate Activities on Climate Change and a governmental Decision on the Establishment of the National Commission on Climate Change. The draft Regulation on the Organization and Functioning of the National Monitoring and Reporting of Greenhouse Gas Emissions and Other Information relevant to Climate Change transposes Regulation (EU) 525/2013. The draft is expected to be adopted in 2018.

Currently, mitigation and adaptation are dealt through different sectoral laws and policy documents.

1. National Inventory System

The draft Regulation on the Organization and Functioning of the National Monitoring and Reporting of Greenhouse Gas Emissions and Other Information relevant to Climate Change, in compliance with Regulation (EU) 525/2013, contains clear provisions on responsibilities and deadlines for providing data on greenhouse gas emissions as well as governance and institutional arrangements.

2. Low Carbon-development Strategies

Moldova adopted a Low Emission Strategy up to 2030 and an action plan for its implementation on 30 December 2016. This is compliant with Regulation (EU) 525/2013.

3. Policies, Measures, Projections

The draft Regulation on the Organization and Functioning of the National Monitoring and Reporting of Greenhouse Gas Emissions and Other Information relevant to Climate Change envisages the creation of a national system for policies, measures and projections, in compliance with Regulation (EU) 525/2013.

c. Conclusions and Priorities

Preparation of legislation compliant with Regulation (EU) 525/2013 is progressing in Moldova. A remaining barrier to further progress in the climate sector is the country's limited financial and technical capacity.

Moldova should formally establish an inventory system by adopting the Regulation on the Organization and Functioning of the National Monitoring and Reporting of Greenhouse Gas Emissions and Other Information relevant to Climate Change as soon as possible.



Moldova

8.9 Competition

a. Sector Overview

The authority in charge of enforcing competition and State aid law in Moldova is the Competition Council.

There has not been any enforcement activity by the Competition Council with regard to competition and State aid law in the energy sectors in this reporting period.

b. State of Compliance

1. Competition Law

Moldova adopted a Competition Law in 2012. It includes provisions corresponding to Articles 101, 102 and 106 of the Treaty on the Functioning of the European Union. Since 2013, the Competition Council has not adopted any infringement decision nor conducted any inquiries in the energy sectors.

The Supreme Court has rendered a judgment declaring any further review of the 2011 competition case leading up to a fine of 186.752,83 lei for JSC Red Union Fenosa inadmissible. In February 2011, the Competition Council had found that the company had abused its dominant position on the market for supply and distribution of electricity at regulated tariffs by imposing unjustified requirements on installation of meters for electricity consumers. The decision of the Competition Council had been unsuccessfully appealed before the Court of Appeals and again before the Supreme Court. With the latest decision, the Supreme Court rejected any revision of its previous decision

on the inadmissibility of an appeal on procedural grounds.

The Competition Council's cooperation with the Secretariat and other national competition authorities in the framework of the Energy Community Competition Network is rather limited.

Although the competition *acquis* is fully transposed into national legislation, full compliance with the Treaty's obligation on enforcement of the competition *acquis* requires active enforcement of the competition *acquis* by the Competition Council.

2. State Aid Law

The State Aid Law, adopted in 2012, contains a general prohibition of State aid in accordance with Article 107(1) of the Treaty on the Functioning of the European Union and covers aid to providers of services of general economic interest. However, in this reporting period, there were no enforcement activities in the energy sectors. Nonetheless, the Competition Council is very actively involved in the Energy Community State Aid Network, thereby fostering cooperation with the Secretariat and other State aid authorities.

c. Conclusions and Priorities

No progress has been made with regard to enforcing competition and State aid law. As repeatedly underlined in previous Implementation Reports, the Competition Council should address the enforcement of competition and State aid law in the energy sectors more rigorously.





Moldova

8.10 Infrastructure

a. Sector Overview

In Moldova, the back-to-back station on the 400 kV overhead line Vulcanesti (MD) - Issacea (RO) and the new 400 kV overhead line Vulcanesti (MD) - Chisinau (MD) (EL_06) have received the Project of Mutual Interest label. Moreover, the Romania - Moldova interconnector (Gas_18) has been designated as a Project of Mutual Interest. The country is yet to start its activities on transposing Regulation (EU) 347/2013.

b. State of Compliance

As Moldova did not transpose Regulation (EU) 347/2013 and failed to establish a single competent national authority, it is not compliant with the *acquis* in this respect.

1. Designation of National Competent Authority

No decision was taken to date on the designation of the competent authority.

2. Status of Highest National Significance for Energy Community Priority Projects

A status of highest national significance is referred to by the Law on Expropriation for Public Utility Purposes, which also includes electricity and gas infrastructure.

3. Manual of Procedures

Currently, there is no manual of procedures for authorization applicable to PECLs or PMIs.

4. Transparency and Public Participation

The current legal framework includes provisions on ensuring

transparency and public participation. The requirements include raising public awareness about the decision to be taken; making available to interested parties the draft of the decision and accompanying materials; holding stakeholder consultations; examining the recommendations of stakeholders in the process of drafting the decision and informing the public about the decision taken. However, the public participation process is not in line with Regulation (EU) 347/2013.

5. Project Visibility and Dedicated Websites

All information on energy infrastructure projects is available on the website of the project promoter (Moldova Energy Projects Implementation Unit), created by a governmental decision of 21 December 2000 for management of the projects in the country's energy sector. The current system is compliant with the TEN-E Regulation.

c. Conclusions and Priorities

Moldova should adopt a law or by-law to ensure transposition of Regulation (EU) 347/2013 into national legislation.

The national competent authority should be designated and become operational as soon as possible. It should publish a manual of procedures for permitting related to PECLs and PMIs, following the minimum structure presented in Annex X of the Regulation, by 31 December 2017.

The national regulatory authority ANRE should publish the methodology and criteria used to evaluate investment in electricity and gas projects and the higher risks incurred by them by 31 December 2017. ANRE should also establish and make publicly available a set of indicators and corresponding reference values for the comparison of unit investment costs by 30 June 2018.



Moldova

8.11 Statistics

a. Sector Overview

The Law on Official Statistics of 2004 designates the National Bureau of Statistics (NBS) as the principal body providing official statistics responsible for the coordination of the Moldovan statistical system. The Law on Official Statistics is supplemented by a governmental decree on energy statistics adopted in February 2014. Energy statistics are also covered by the Law on Energy which defines general rules for statistical reports and transparency.

NBS has established the governance and procedural rules to ensure compliance with the quality standards of official statistics. It operates in accordance with the National Statistical System Development Strategy 2016 - 2020, and an action plan for its implementation and statistics work programme adopted by the government. NBS publishes its release calendar, as well as reports on implementation of the annual programme.

b. State of Compliance

With the completion of annual, monthly and price statistics, Moldova has achieved major progress towards compliance with all key obligations of the statistical *acquis*. Coverage of the entire national territory still poses the main challenge for the official statistics.

1. Regulation (EC) 1099/2008 on Energy Statistics

Since 2012, NBS has been preparing annual statistical data in line with the unified format of IEA/EUROSTAT in time series from 1990. Energy balances are published on NBS's website. Annual questionnaires are communicated timely to the IEA and EUROSTAT and published on their respective databases. However, information on Transnistria territory are not reported in a consistent manner which lead to EUROSTAT marked data submitted by NBS as "provisional".

With the support of the Secretariat, NBS conducted a survey on energy consumption in households based on a representative sample. The results of the survey are integrated in the official statistics in the annual report for 2015. The results will enable implementation of Regulation (EU) 431/2014. In addition, NBS has taken part in a project to produce disaggregated data on energy consumption in households, supported by the Secretariat, in order to ensure compliance with the new Regulation.

NBS is producing annual data in compliance with the *acquis*, save for the concerns on completeness.

The reporting scheme for monthly data has been established in Moldova and NBS publishes monthly datasets for coal, oil

and petroleum products, natural gas and electricity. Monthly collections are not transmitted to the EUROSTAT database yet.

NBS has been compiling Joint Organisations Data Initiative (JODI) oil and gas questionnaires starting with January 2015 and submitting them to the United Nations Statistics Division (UNSD). The information is available in the global JODI database from 2016.

Moldova has ensured compliance with its *acquis* obligations as regards monthly statistics defined in the General Policy Guideline on Implementation of Certain Deadlines of the Oil Stocks Directive in the Energy Community and Annex C of the Regulation (EC) 1099/2008. It has yet to ensure transmission of the data to EUROSTAT.

2. Directive 2008/92/EC on Transparency of Gas and Electricity Prices for Industrial End-users

NBS has established a methodology and a reporting system to collect electricity and gas prices. Regular surveying of electricity and gas prices charged to end-users was initiated in 2015.

The dissemination of these data started in August 2015 when the first collection of prices for the first semester of 2015 was published on NBS's website. The price statistics include bi-annual gas and electricity price data per consumption band and disaggregated electricity prices for industrial end-users and households, broken down per price components.

The price data are submitted to EUROSTAT. In this respect, Moldova has achieved compliance with the *acquis* on price statistics.

c. Conclusions and Priorities

In order to maintain a sustainable system of energy statistics, NBS must be equipped with the technical means and sufficient financial resources ensuring its capacity to perform its responsibilities. The remaining task is to complete short-term monthly statistics as well as develop quality reporting as required by Regulation (EC) 1099/2008.

Additional efforts will be needed to implement Regulation (EU) 431/2014 related to disaggregated data on energy consumption in households.

In addition, NBS needs to permanently improve its reporting system and build up its capacity, not only to implement remaining obligations from Regulation (EC) 1099/2008, but also to timely implement new reporting obligations and collect data from dynamic energy markets.

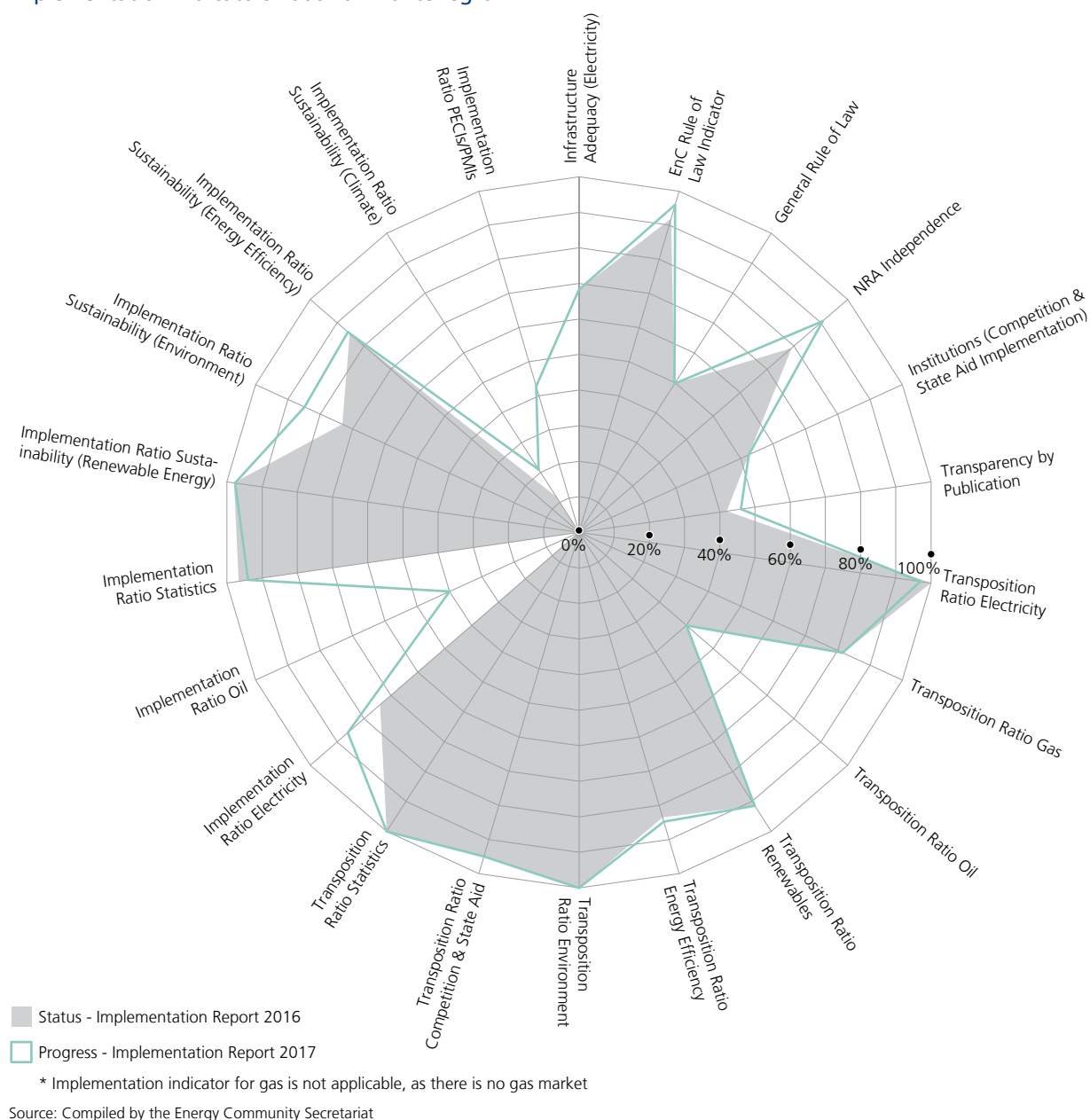


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Montenegro

Implementation Indicators Radar of Montenegro



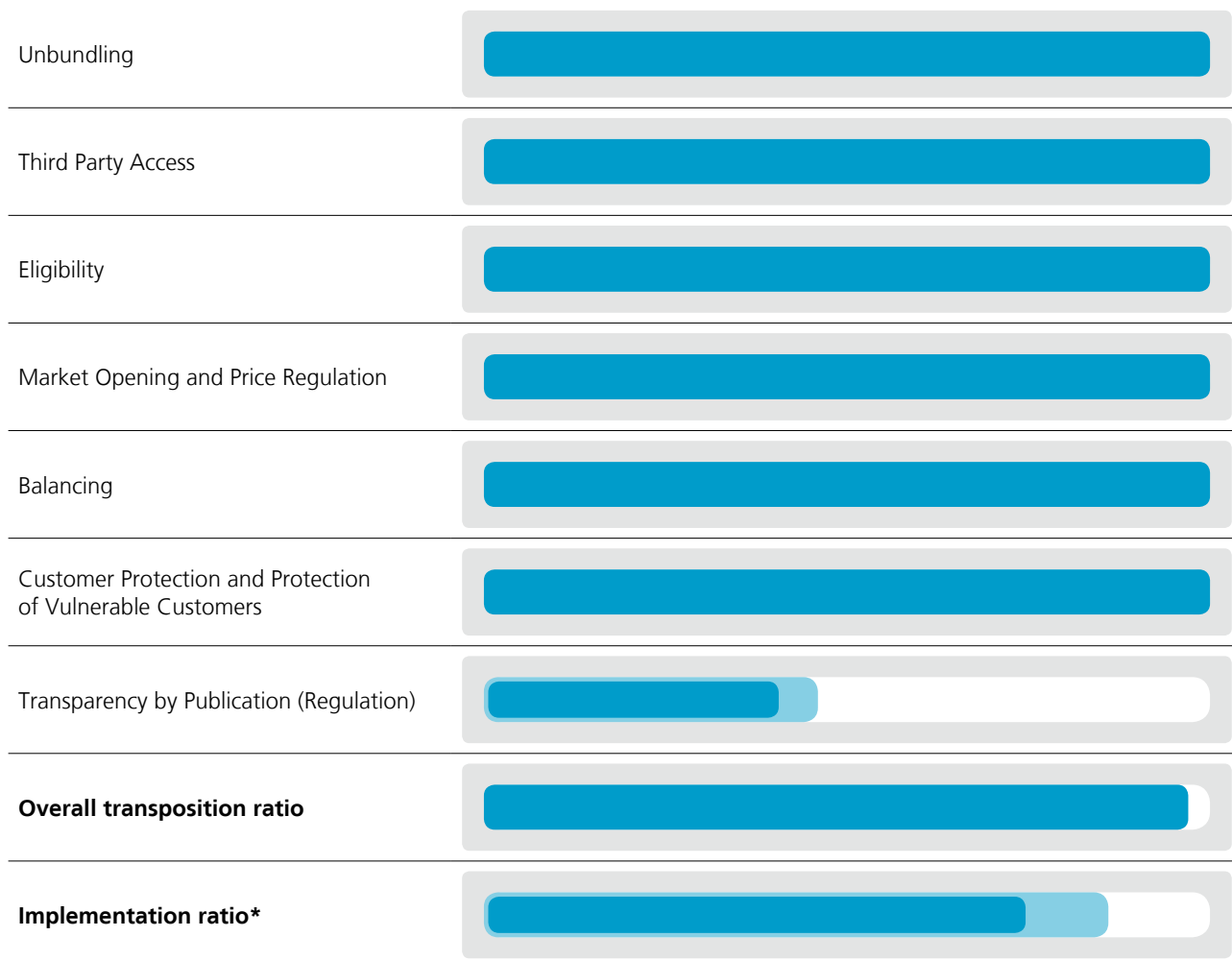
Montenegro is a frontrunner in the Energy Community regarding overall results achieved, but with modest progress during the reporting period. Having transposed the Third Energy Package in December 2015, Montenegro continues to work on secondary legislation to achieve full compliance with the Energy

Community *acquis*. It also progresses in the sustainability area, being the highest performer and having already met its binding renewable energy target for 2020. There are currently no open infringement cases against Montenegro.



Montenegro

9.1 Electricity



■ Status - Implementation Report 2016 ■ Progress - Implementation Report 2017

* actual implementation: unbundling, third party access rules etc.

Source: Compiled by the Energy Community Secretariat

a. Sector Overview

The electricity sector in Montenegro is dominated by the utility Elektroprivreda Crne Gore (EPCG), which performs generation, distribution (through its subsidiary Crnogorski elektrodistributivni sistem, CEDIS), and supply activities. EPCG also performs the task of public supplier and supplier of last resort until these tasks are assigned to a supplier in a competitive procedure.

Transmission system operation is performed by Crnogorski elektroprenosni sistem (CGES) and the electricity market is operated by Crnogoroski operator trzista elektricne energije (COTEE).

In the wholesale electricity market, there are 37 active traders registered at COTEE. In the retail market, there are currently

only three licensed suppliers of end-customers, one of them being a "self-supplying" customer.

The market operator COTEE, the transmission system operator CGES and the incumbent company EPCG have set up a company with a task to establish a power exchange in Montenegro.

b. State of Compliance

The Energy Law and the Law on Transmission Systems for Cross-border Exchange of Electricity and Gas transpose the Third Energy Package. The responsible institutions and undertakings have started its implementation. The overall progress toward achieving the deadlines set in the laws is satisfactory, in particular as regards secondary legislation within the com-

Electricity Facts and Figures

Description of data [unit]		2015	2016
Electricity production [GWh]		2.872	3.023
Net imports [GWh]		865	1.244
Net exports [GWh]		273	929,8
Gross electricity consumption [GWh]		3.464	3.338
Losses in transmission [%]		3,8%	4,0%
Losses in distribution [%]		17,6%	15,6%
Consumption of energy sector [GWh]		9	11
Final consumption of electricity [GWh]		2.876	2.787
Consumption structure [GWh]	Industrial, transport, services and other non-residential sectors	1.625	1.536
	Households (residential customers)	1.251	1.251
Net maximum electrical capacity of power plants [MW] of which:		886	892
	coal-fired	218,5	218,5
	hydro, total	667,7	673,7
Horizontal transmission network [km]	Length of transmission power lines [km]	1.300	1.300
	Substation capacity [MVA]	3.359	3.413
	Number of interconnectors	11	11
Electricity customers	Total number of customers	374.109	367.880
	out of which: non-households	35.133	33.690
	Eligible customers under national legislation	374.109	367.880
	Active eligible customers	4	4
Internal market	Electricity supplied to active eligible customers [MWh]	719.371	613.865
	Share of final consumption [%]	25,01%	22,03%

Source: Ministry of Economy of Montenegro

petence of the regulator RAE. Most of the regulations and measures to be issued by the state administration, ministry and/or government are still not adopted.

1. Unbundling

Montenegro has still not unbundled its transmission system operator. The transmission system operator applied for certification in June 2017.

As regards distribution unbundling, EPCG established in 2016 a separate legal entity (CEDIS) to operate, maintain and own the distribution network and identified its assets, staff and management structure. The regulatory authority has approved a compliance programme of CEDIS and the appointment of a compliance officer.

2. Third Party Access

The Energy Law requires network operators to grant non-discriminatory access to the transmission and distribution networks unless the provision of public services is endangered. RAE has developed network tariff methodologies for transmission and distribution system operators. Tariff methodologies in Montenegro are regularly challenged in court and subject to judicial rulings in a manner which affects predictability of network tariffs for users and regulated entities.

The Coordinated Auction Office in Southeast Europe (SEE CAO) performs joint capacity allocation for CGES on a yearly, monthly and daily basis for the interconnections with Albania and Bosnia and Herzegovina. CGES applies Rules for Allocation of Interconnection Capacity through annual, monthly and daily auctions of interconnection capacities split 50:50 with the Serbian electricity system.

3. Eligibility

All customers are eligible from 1 January 2015.

The conditions and procedure for supplier switching are defined in rules developed by RAE. In this respect, Montenegro complies with the *acquis*.

4. Market Opening and Price Regulation

Only the electricity prices for the four customers connected to the transmission network are not regulated. Customers connected to the distribution network, however, were entitled to regulated supply by the incumbent EPCG until a universal service supplier will be appointed in a competitive procedure not later than 31 December 2016. The government missed that deadline.

Until the selection of a supplier, the methodology for setting

prices for supplier of last resort and vulnerable customers is applied. Regulated prices based on a reference market price of electricity are available to households, small customers, vulnerable customers, and to other customers if left without their supplier. The Energy Law introduced another possibility for end-user price regulation allowing RAE to intervene to prevent abuse of a dominant position. Pursuant to the time schedule for price setting, price increases are restricted to 7% in 2017 and 6% in 2018 for households and small customers

Overall, the degree of retail market opening in Montenegro is not satisfactory. The rather small and highly concentrated retail market makes supplier switching unattractive and impedes new entrants from entering the supply market.

5. Balancing

The 2012 Market Rules define principles for functioning of the balancing market and setting market-based imbalance prices for customers connected to the transmission network. COTEE is responsible for the calculation of imbalances and ensuring the financial settlements. In principle, this system is compliant with the *acquis*.

Pursuant to the Energy Law, RAE adopted the methodology for setting prices, terms and conditions for provision of ancillary services and balancing services and set prices for capacity reserve provided to the transmission system operator. This is in compliance with Articles 15(7) and 37(6)(b) of Directive 2009/72/EC.

Since 2015, CGES and EMS of Serbia implement a mechanism for exchange of balancing energy from the tertiary reserve based on a common merit order list. The balancing model defined by the market rules allows for market-based and non-discriminatory balancing with an inter-transmission system operator model for cross-border exchange of balancing energy.

6. Customer Protection and Protection of Vulnerable Customers

The Energy Law transposes the *acquis*' requirements for customer protection as well as principles and system for protection of vulnerable customers. Vulnerable customers are defined as customers in need of social support whose social status is determined by a responsible authority or having health conditions requiring a certain level of quality of supply. Vulnerable customers are also entitled to supply at regulated prices by EPCG. However, the government failed to adopt rules setting

the criteria and manner of providing subsidies to vulnerable customers.

7. Transparency

Reporting obligations are generally transposed by the Energy Law and in more detail by the Law on Cross-Border Exchange of Electricity and Natural Gas. The scope of data, however, is not fully compliant with Regulation (EU) 543/2013 and a secondary act is required for full transposition. The ministry drafted a rulebook on required data and methods of publication, which is expected to be adopted soon.

Data on load forecasts, day-ahead capacity forecasts and intraday offers, allocated capacity, commercial exchanges and physical flows, along with the data on installed generation capacity, day-ahead and aggregated production and water storage data are submitted to ENTSO-E. The data on offered and allocated capacity on interconnections with Albania and Bosnia and Herzegovina are submitted by SEE CAO. Balancing reserves and prices, accepted offers and total imbalance volume are reported to ENTSO-E as well. Data on planned unavailability of transmission are available locally. Yearly load forecasts, critical infrastructure, capacity forecasts and congestion management methods are not publicly available. Data for aggregated generation are published, while data on unavailability of production units are missing. The required data for the electricity market are not published.

c. Conclusions and Priorities

Montenegro was mostly successful in fulfilling last year's priorities.

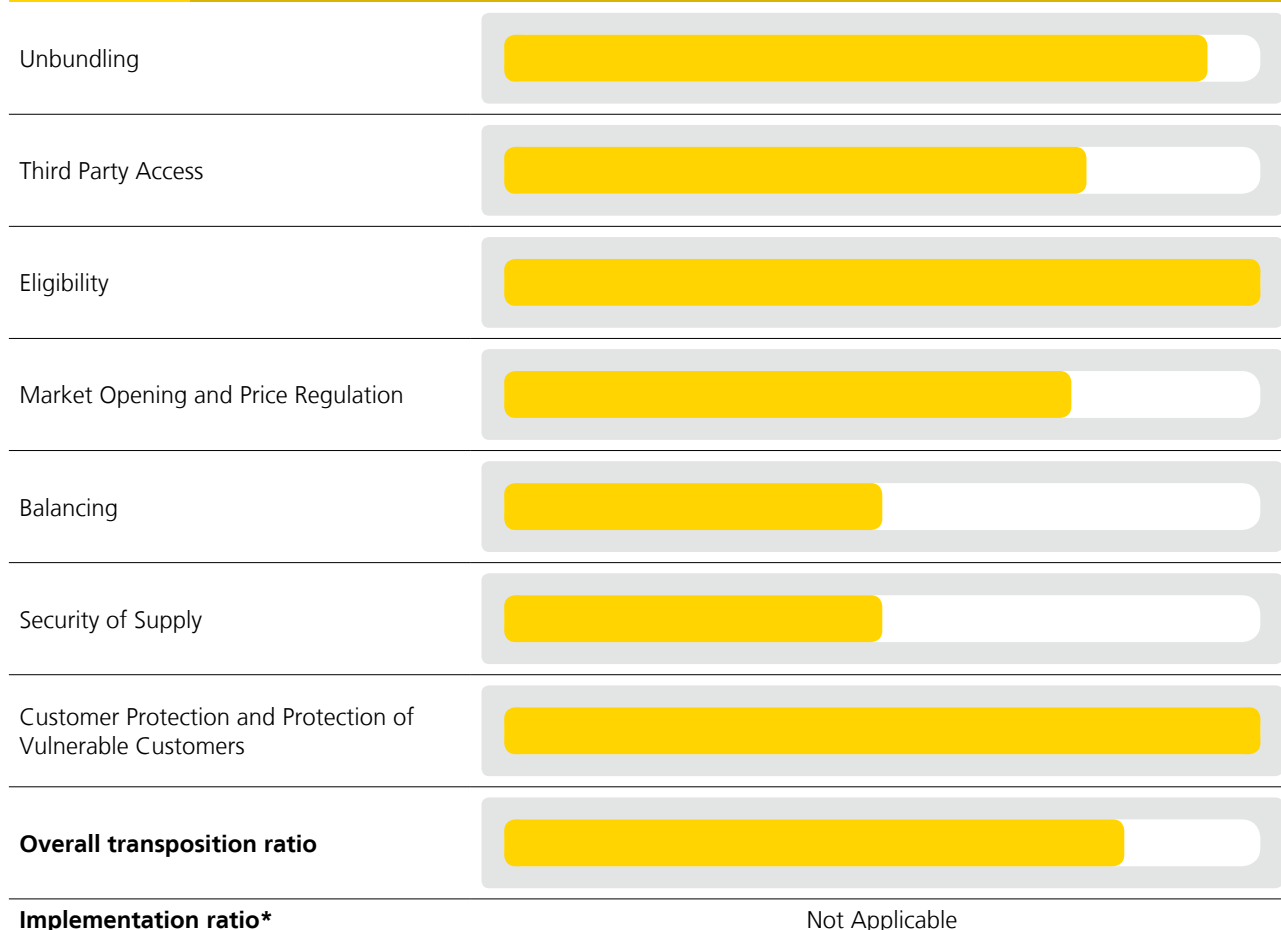
The completion of the unbundling process and certification of the transmission system operator remains the top priority for Montenegro.

Moreover, enabling measures for market opening and competition development shall be implemented as soon as possible. To begin with, the government has to set the necessary rules and conduct the competitive procedure for selecting a supplier of last resort and of vulnerable customers. These measures, in combination with activities to establish a competitive spot market on the wholesale level, should lead to creating a more attractive environment for new entrants in the retail market and better offers for customers.



Montenegro

9.2 Gas



Status - Implementation Report 2016 Progress - Implementation Report 2017

* actual unbundling, tariffs, network codes, market prices supply ratio, SoS secondary acts etc.

Source: Compiled by the Energy Community Secretariat

a. Sector Overview

At present, no gas market exists in Montenegro.

Following the country's adoption of the 2015 Energy Law and the 2016 Law on Cross-Border Exchange of Electricity and Natural Gas, which jointly transpose the gas *acquis*, Montenegro is now in the process of drafting secondary legal acts in the gas sector.

b. State of Compliance

Montenegro's compliance with the Third Energy Package related to the gas *acquis* has reached a high level. However, some missing or ambiguously transposed provisions will have to be clarified by secondary legal acts.

1. Unbundling

The Energy Law is compliant with the Third Energy Package unbundling and certification requirements. The ownership unbundling is the only possible model for the country. The unbundling requirements for distribution and storage system operators is in line with Directive 2009/73/EC.

2. Third Party Access

The general requirements for non-discriminatory access to the transmission and distribution networks as well as to storage facilities and LNG terminals are stipulated in the Energy Law and the Law on Cross-Border Exchange of Electricity and Natural Gas.

The conditions for refusal of access are aligned with the gas *acquis*. However, a provision requiring refusals or deviation from the Secretariat's opinions to be duly reasoned is missing. In addition, the law implies that only a transmission system operator can apply for an exemption, which restricts the *acquis*.

The tariff methodologies and systems for access to networks are compliant with Directive 2009/73/EC and with Regulation (EC) 715/2009. Tariff systems have not been adopted.

3. Eligibility

The law grants eligibility to all final customers. Nevertheless, the concept of eligibility in the law does not specify whether wholesale customers (traders) are deemed eligible. This will have to be elaborated in secondary legislation.

4. Market Opening and Price Regulation

The law allows market opening in line with the Third Energy Package. The market rules refer to "the same conditions as for the electricity market" and allocate the market operator role to the transmission system operator. The law sets provisions on gas supply related to, *inter alia*, public supply and supplier of last resort, but secondary acts will have to be adopted to implement these general principles.

5. Balancing

Both laws require the transmission system operator to adopt balancing rules. Such balancing rules must be market-based as required by Regulation (EC) 715/2009. General provisions on balancing and imbalance charges have been transposed.

6. Security of Supply

The two laws transpose provisions of Directive 2009/73/EC and Directive 2004/67/EC relevant for security of supply, including a few provisions of Regulation (EC) 994/2010 on security of gas supply. The Law on Cross-Border Exchange of Electricity and Natural Gas obliges the government to adopt the relevant by-laws related to security of supply within 12 months after the final investment decision on the relevant gas infrastructure is adopted.

7. Customer Protection and Protection of Vulnerable Customers

The Energy Law transposes customer protection measures as well as measures to protect vulnerable customers.

Certain provisions of Annex I of Directive 2009/73/EC related to contractual rights of customers are missing. These include the right to receive transparent information on applicable prices and tariffs and on standard terms and conditions; a wide choice of payment methods; transparent, simple and inexpensive procedures for dealing with complaints; and having access to consumption data. These deficiencies will have to be overcome by way of secondary legislation.

c. Conclusions and Priorities

The Energy Law and the Law on Cross-Border Exchange of Electricity and Natural Gas transposed Directive 2009/73/EC and Regulation (EC) 715/2009 respectively, though with certain shortcomings. During this reporting period, Montenegro started developing the missing secondary legal acts, thus preparing the foundation for gas penetration in the country.





Montenegro

9.3 Regulatory Authority

After the adoption of a new Energy Law transposing the Third Energy Package in 2015, the Energy Regulatory Authority of Montenegro (RAE) ranks among those regulators whose organisation complies with all independence criteria and competences stipulated by Directives 2009/72/EC and 2009/73/EC with the exception of two shortcomings. Firstly, the management is not entirely free to decide on the authority's internal organisation as its statutes are subject to governmental approval. Secondly, the right to impose penalties is not with the regulator but is transferred to a competent court. Whilst this is not against Energy Community law, it weakens the ability of RAE to ensure enforcement effectively. In addition, the possible penalty levels are significantly below the required 10% threshold, which represents a breach of the *acquis*.

RAE is headed by a board consisting of two members and a president and, in addition, has an executive director and a deputy executive director. The term of the president and board members is limited to a period of five years, renewable once and a rotation scheme is in place. RAE is held accountable for its activities by being obliged to annually present a financial report as well as a report on the situation in the energy sector to parliament.

Following the entry into force of the new Energy Law, the regulator has demonstrated a high level of independence and professionalism. In the electricity sector, RAE developed an

advanced market model and proved being a proactive promoter of national and regional reforms envisaged under the Western Balkan 6 process. The regulator's efforts finally resulted in the establishment of a national power exchange and launching of certification of the electricity transmission system operator in June 2017. Despite the lack of a gas market in Montenegro, RAE started developing secondary legislation for gas. The regulator further demonstrated commitment to defend its secondary legislation in front of national courts and proved expertise in proposing legislative changes able to address the court's concerns.

Effective functioning and independence of RAE are, however, challenged by several staff salary cuts in a row. The cuts are a direct result of a shortage in the state budget and RAE's staff being made subject to salary rules applicable to civil servants even though the regulator is not financed from state budget. This weakens the ability of the regulator to attract qualified staff and risks brain drain.

Cooperation with the Secretariat is well established. On regional level, RAE participates actively in ECRB, the president of which is president of RAE. The activity performance of RAE resulted in the first positive assessment by the Secretariat for a Contracting Party regulator's compliance with the criteria for participation in the working groups of the Agency for the Cooperation on Energy Regulators.



Montenegro

9.4 Oil

a. Sector Overview

The consumption of petroleum products in Montenegro was at a level of around 272 kt in 2016, an increase of 11,6% compared to 2015. These products were mainly imported from Greece and Serbia. The total storage capacity that could be used for the needs of strategic stock holding is around 205.000 cm.

Montenegro signed a concession contract for production of hydrocarbons for four blocks with companies Eni Montenegro BV Holland and Novatek Montenegro BV Holland in September 2016, awarding them the right of exploration and production of hydrocarbons in the Montenegrin offshore. Furthermore, the parliament in December 2016 awarded a concession contract for production of hydrocarbons for two other offshore blocks to the Cypriot company Energean Montenegro Limited. Energean Oil & Gas, the sole oil and gas producer in Greece, plans to invest about USD 19 million over a seven-year period in the offshore of Montenegro.

b. State of Compliance

The Energy Law of 2010, which requires that strategic reserves of oil and petroleum products are equal to 90 days of average domestic consumption in the previous year, has never been implemented. A new draft Law on Security of Supply of Oil Products, which regulates the manner of establishing and managing emergency oil stocks and the procedure in case of disruption of supply of petroleum products to Montenegro,

was finalized during the third quarter of 2016. The draft law transposes all provisions of Directive 2009/119/EC.

The General Policy Guideline adopted by the Ministerial Council of the Energy Community in Sarajevo on 14 October 2016 foresees the adoption of the draft law and the secondary legislation relevant for emergency oil stockholding by 31 December 2017. However, the Government of Montenegro has indicated that its target date for adoption is the last quarter of 2018. If this is the case, Montenegro will not meet the deadline set by the Ministerial Council.

c. Conclusions and Priorities

During the reporting period, Montenegro has finalized the drafting of compliant primary legislation. Nevertheless, the priorities identified in last year's Implementation Report - adopting the new draft law and the subsequent secondary legislation in line with Directive 2009/119/EC – have not been achieved.

In 2017 - 2018, Montenegro should focus on:

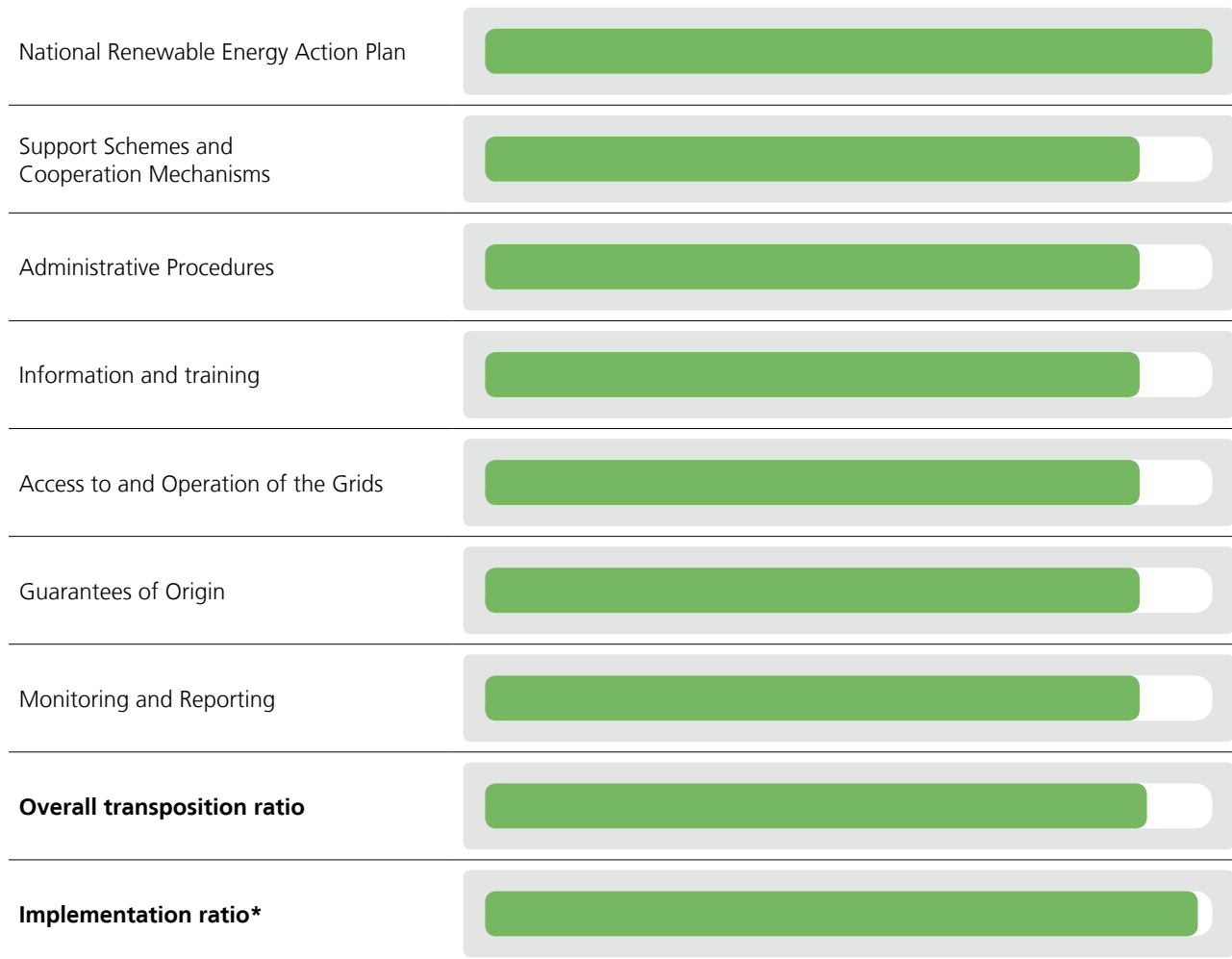
- Adopting the new draft law on security of supply of oil products;
- Drafting subsequent secondary legislation in line with Directive 2009/119/EC; and
- Improving data collection.





Montenegro

9.5 Renewable Energy



Status - Implementation Report 2016 Progress - Implementation Report 2017

* actual implementation of NREAP and progress towards 2020 RES target

Source: Compiled by the Energy Community Secretariat

a. Sector Overview

Montenegro committed to a binding 33% target of energy from renewable sources in gross final energy consumption in 2020. According to the energy balances published by EU-ROSTAT, Montenegro achieved a 37,7% share of energy from renewable sources in 2015 and a 37,1% share in 2014, thus overachieving the 33% target for 2020. This is mainly due to revision of biomass data in 2011, leading Montenegro to exceed its target already in 2009 without any additional effort.

The first wind project of 72 MW in Krnovo is expected to become operational in the upcoming period setting Montenegro on the path to a more low-carbon energy system.

b. State of Compliance

The Energy Law adopted in 2015 is the main legislative act transposing the principles of the Renewable Energy Directive. Amendments to the existing secondary legislation are needed to complete the regulatory framework and thus fulfil all the requirements of Directive 2009/28/EC and Guidelines on State Aid for Environmental Protection and Energy 2014 - 2020 concerning market-based support schemes for renewables.

1. National Renewable Energy Action Plan

Montenegro adopted and submitted to the Secretariat the National Renewable Energy Action Plan required by Directive 2009/28/EC. The NREAP foresees reaching 36% of energy from

Renewable Energy Facts and Figures

	2014	2015	2016
Total capacities (MW)	658	668	674
Hydropower, out of which:	658	668	674
- small hydropower (<10 MW)	9	18,8	25
Total consumption of energy from renewable sources* (ktoe)	266,5	280,4	
- out of which biomass (ktoe)	164,8	170,1	
Gross final energy consumption (ktoe)	717,4	743,4	
RES share (%)	37,1%	37,7%	
RES electricity (ktoe)	101,8	110,3	
Total Electricity generated (ktoe)	295,3	303,2	
RES share in electricity (%)	34,5%	36,4%	
RES in heating and cooling (ktoe)	164,8	170,1	
Total energy consumed for heating and cooling (ktoe)	243,4	247,9	
RES share in heating and cooling (%)	67,7%	68,6%	
RES in transport (ktoe)	1,2	1,6	
Total energy consumed in transport (ktoe)	155,3	178,1	
RES share in transport (%)	0,8%	0,9%	

Source: Ministry of Economy of Montenegro and EUROSTAT

renewable sources in gross final energy consumption in 2020. The second progress report for 2014 - 2015 submitted to the Secretariat states that the country achieved a 31,7% share of energy from renewable sources in 2015 and a 31,9% share in 2014, which contradicts the statistical data submitted by the Statistical Office of Montenegro to EUROSTAT. The calorific value of firewood is the main disputed parameter by the Ministry of Economy leading to different results in the calculation of the share of energy from renewable sources. The authorised institutions of the country have to comply with the *acquis* on energy statistics of Regulation (EC) 1099/2008, therefore enabling comparability of data.

2. Support Schemes

The Energy Law grants support for the use of renewable energy sources and high-efficiency cogeneration based on auctions. Despite this requirement, no secondary legislation was adopted which would implement the Law in this respect. The support to renewable energy producers is based on a decree setting feed-in tariffs for privileged producers generating electricity from renewable energy sources and high-efficiency cogeneration reviewed in 2015. Power purchase agreements (PPAs) on feed-in tariffs are signed between the market operator and the privileged producers for 12 years.

At the beginning of each year, the government adopts a decree with the incentive fee applied to end-customers to compensate the cost for the promotion of electricity from renewable sources. For 2017, the incentive was set at a value of 0.058715 c€/kWh, representing a 27% increase compared with 2016. The market operator, COTEE, concludes PPAs with electricity suppliers who are obliged to purchase a certain percentage of

electricity from renewable sources.

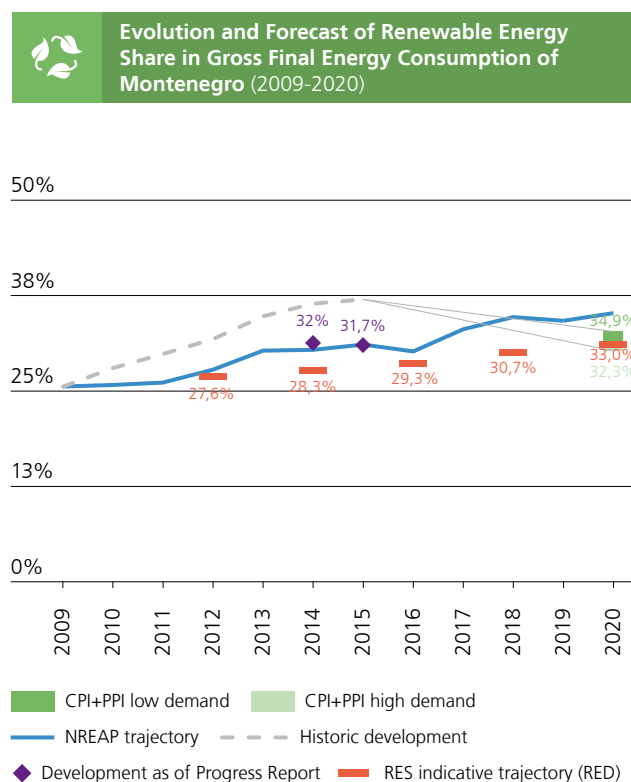
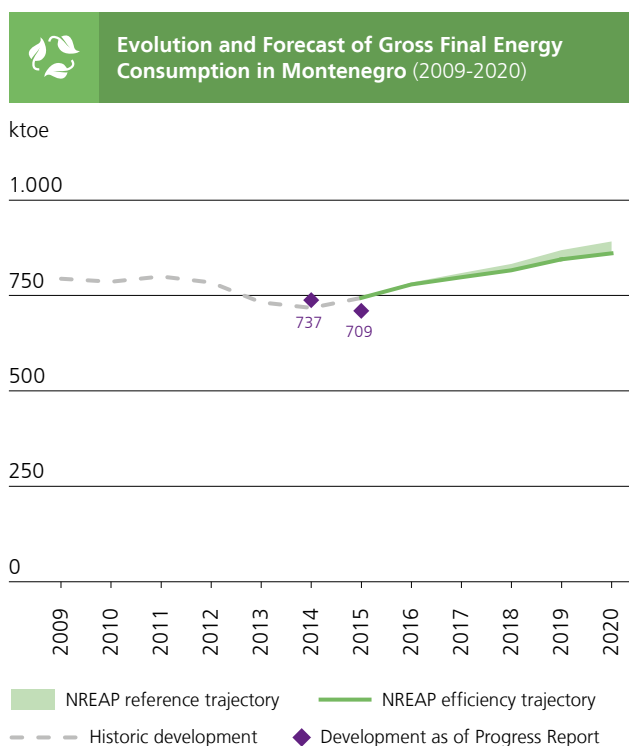
Secondary legislation introducing auctions for granting support to renewable energy producers remains to be adopted in order to ensure compliance with Guidelines on State Aid for Environmental Protection and Energy 2014 - 2020.

3. Cooperation Mechanisms

The provisions related to cooperation mechanisms have been transposed in the 2015 Energy Law. As Montenegro has already achieved the mandatory renewable energy target according to EUROSTAT data, it can benefit from entering into cooperation mechanisms with EU Member States or other Contracting Parties to statistically transfer renewable energy to count to another country's target.

4. Administrative Procedures

No significant progress has been made in the last reporting period. The administrative procedures for permitting, construction and licensing remain quite lengthy and burdensome despite several simplification rounds. The number of procedures for issuing the construction licenses and permits in the Ministry of Sustainable Development and Tourism were reduced from 36 to two. However, there are several procedures involving different authorities resulting in an uncoordinated and non-transparent process, despite the authorisation and permitting procedures being clearly defined by law. A one-stop shop is envisaged only for small projects and only in relation to the technical specifications and building and deployment permits. Self-consumption of electricity from renewable energy sources is not acknowledged in the legislation or regulations.



Source: Technical University Vienna, Assessment of the Progress in the Promotion and Use of Renewable Energy in the Energy Community, July 2017

Currently, Montenegro fails to comply with the requirements of Article 13 of Directive 2009/28/EC.

5. Access to and Operation of the Grids

The Energy Law provides for priority access and priority dispatch for the privileged renewable energy producers. However, the requirements related to access to and operation of the grids as well as rules for connection to the grids for renewable energy producers provided for in Article 16 of Directive 2009/28/EC are still not entirely implemented. Due to lack of transmission and distribution capacities, applications for connections to the grids are on hold which is deterring investors. The transparency of the network operators towards investors and new users has to increase. A clear, predictable and transparent connection timetable has to be provided to applicants.

According to the Energy Law, the costs associated with grid reinforcements have to be supported by the grid operators, however, this is not the case in practice. Developers are required to bear the cost of connection including grid reinforcement, if applicable, and then transfer the assets to transmission or distribution network operators in exchange for compensation paid over maximum 20 annual instalments. The system operators have to develop plans and foster investments in the grids in order to accommodate and integrate more renewable energy in the system.

6. Guarantees of Origin

The 2011 Government Decree on Guarantees of Origin that constitutes the framework for the issue, transfer and cancellation of guarantees of origin needs to be revised in order to comply with the 2015 Energy Law's provisions. In its capacity as issuing body for the guarantees of origin, the energy regulator should develop the standard template and the entire system for issuing, transfer and cancellation of the guarantees of origin in compliance with European practice and therefore increase compliance with respect to the implementation of Article 15 of Directive 2009/28/EC.

7. Renewable Energy in Heating and Cooling

The existing regulation on the use of energy from renewable sources in heating and cooling should be adjusted to the country's new Energy Efficiency Law. While several programmes for increasing use of solar thermal and biomass are already operational and producing results, Montenegro must adopt support measures for promotion of the use of energy from renewable sources in heating and cooling in order to fully comply with the Renewable Energy Directive.

8. Renewable Energy in Transport

No progress was achieved during the last reporting period. Montenegro has only transposed the basic principles of Directive 2009/28/EC with regard to renewable energy used in transport in the Energy Law, including the 10% renewables in transport target and principles of Articles 17 to 21 related to sustainability criteria for biofuels and bioliquids. However, the framework still remains incomplete as no incentives for the production or use of biofuels or a sustainability verification system have been established as required by Directive 2009/28/EC. Further to that, the government has to define annual shares and obligations for market players.

c. Conclusions and Priorities

Since the adoption of the Energy Law transposing the principles of the Renewable Energy Directive in 2015, very few steps have been taken to accelerate the uptake of energy from renewable sources. Thus, the priorities for Montenegro remain the same as in last year's Implementation Report.

Montenegro shall adopt the secondary legislation essential for enabling the Energy Law's implementation in practice. The auction rules for granting support to renewable energy producers for a cost-effective deployment of renewables have to be adopted and implemented.

Moreover, the network and market operators should increase their efforts related to planning, connection procedures and operation of the grids to be able to take up more renewable energy in the electricity system.

In the permitting and grid connection procedures, simplification (expanding the one-stop shop) and increased transparency are urgently required to create a conducive investment framework. The poor record of installing electricity generation capacities from renewable sources testifies to this.

In the transport sector, the speedy adoption and implementation of the missing by-laws are necessary if Montenegro wants to be on track to fulfil the 10% target.





Montenegro

9.6 Energy Efficiency

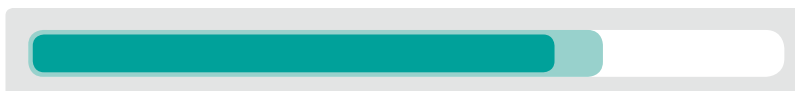
Energy Services Directive 2006/32/EC and Energy Efficiency Directive 2012/27/EU (Roadmap)



Energy Labelling Directive 2010/30/EU



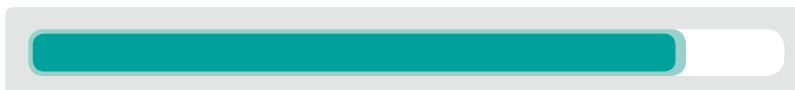
Energy Performance of Buildings Directive 2010/31/EU



Overall transposition ratio



Implementation ratio*



● Status - Implementation Report 2016 ● Progress - Implementation Report 2017

* achievement of energy efficiency target and implementation of EEAPs (institutions and coordination, funding, ESCO market, exemplary role of public sector, ongoing programmes)

Source: Compiled by the Energy Community Secretariat

a. Sector Overview

The final energy consumption of Montenegro decreased between 2012 and 2014 but slightly increased in 2015 as the gross domestic product continued to grow again. The residential sector contributes with the highest share of total final energy consumption (37%), followed by the transport sector (29%).

The key state body responsible for the implementation of national energy efficiency policy in Montenegro is the Ministry of Economy and its Directorate for Energy Efficiency. The State Fund for Energy Efficiency supports implementation of programmes and projects and manages donations, loans and/or other financing mechanisms.

The transposition of Energy Efficiency Directive 2012/27/EU continued during this reporting period with the government's adoption of a three-year plan on reconstruction of central government buildings 2017 - 2019 in December 2016. Furthermore, a rulebook for calculating primary energy savings from cogeneration as well as a strategic framework for estimation of the potential and promotion of high-efficient cogeneration and district heating and cooling was drafted during the reporting period.

b. State of Compliance

With the exception of several missing delegated regulations on labelling, Montenegro has achieved a relatively high level

of transposition of the energy efficiency *acquis*. Efforts must continue to also achieve effective implementation in practice.

1. Energy Services Directive 2006/32/EC and Energy Efficiency Directive 2012/27/EU

After adoption of the Law on Efficient Use of Energy in December 2014 (compliant with Directives 2006/32/EC, 2010/30/EU and 2010/31/EU and partly with Directive 2012/27/EU), a comprehensive package of secondary legislation was adopted. The by-laws deal with the promotion of the leading role of the public sector in energy efficiency, development of programmes and plans for municipalities and big energy consumers, energy efficiency in public procurement, setting methodology for calculation of achieved energy savings, implementation of information systems, energy audits, etc.

In order to implement Article 5 of Directive 2012/27/EU, the Ministry of Economy adopted in 2016 a decree on the reconstruction of official buildings, which sets a 1% reconstruction target for central government buildings, and prioritizes buildings with lowest energy performance. In December 2016, a three-year plan for reconstruction of central government administrative buildings for 2017 - 2019 was adopted by the government. The plan includes an inventory of buildings and defines the measures to achieve the 1% target.

The exemplary role of the public sector is being promoted by the Law and the EEAP. The 3rd EEAP, which also includes preliminary

Energy Efficiency Facts and Figures

Energy Efficiency Action Plan (EEAP)*					
Period covered by EEAP		2010 – 2018			
Overall energy savings target - Directive 2006/32/EC (ktoe / % / year)		58,9 / 9 / 2018			
EEAP status		3 rd EEAP adopted on 30 June 2016			
Achieved energy savings (ktoe / % / year)		15 / 2,3 / 2015 (limited reporting, full report under preparation)			
Key institution(s) in charge		Ministry of Economy (Directorate for Energy Efficiency)			
Main data and energy efficiency indicators**		2012	2013	2014	2015 ***
Total primary energy supply (TPES)	ktoe	1.062	982	957	1.030
Energy intensity (TPES/GDP)	toe / 1000 USD	0,26	0,23	0,22	0,23
TPES/Population	toe/capita	1,71	1,58	1,54	1,66
Total final energy consumption (TFEC)	ktoe	734	665	656	710
Share of TFEC by sector	Residential	38%	40%	39%	37%
	Services	1%	2%	10%	10%
	Industry	27%	26%	19%	19%
	Transport	28%	26%	27%	29%
	Others	1%	2%	1%	1%
	Non-energy use	4%	4%	4%	4%

* Source: 3rd EEAP of Montenegro

** Source: International Energy Agency (June 2017)

*** Indicators calculated by the Energy Community Secretariat based on EUROSTAT energy balances for 2015

reporting and a roadmap to support implementation of Directive 2012/27/EU, was adopted by the government on 30 June 2016.

Montenegro missed the following reporting deadlines foreseen in the Energy Efficiency Directive: 30 March 2017 for Article 4 and 30 June 2017 for Article 24(1).

2. Energy Labelling Directive 2010/30/EU

The Law on Efficient Use of Energy of 2014 transposed requirements of Directive 2010/30/EU. Rulebooks on obligatory labelling of household washing machines and air-conditioners (November 2015), and on energy labelling of household refrigerating appliances, televisions, dishwashers, and electrical lamps and luminaries (November 2016) have been adopted. However, Montenegro still needs to adopt the remaining six rulebooks in order to achieve compliance with the *acquis*.

3. Energy Performance of Buildings Directive 2010/31/EU

The requirements of Directive 2010/31/EU are transposed by the Law on Efficient Use of Energy and further through a set of rulebooks adopted in December 2015. The rulebooks deal with setting of minimal energy performance requirements in buildings, certification, regular inspection of heating and air-conditioning systems and energy audits of buildings. The issuance of energy performance certificates is obligatory from January 2016.

However, certain requirements of the Directive (i.e. cost-optimal calculations, nearly zero-energy building targets and strategies) have still not been implemented in practice. Therefore,

Montenegro is not fully compliant with Directive 2010/31/EU.

c. Conclusions and Priorities

During this reporting period, Montenegro again achieved progress with the implementation of the Law on Efficient Use of Energy and the adoption of a package of by-laws and other strategic documents. However, no other priorities indicated in last year's Implementation Report were followed up.

Without delay, Montenegro should adopt the missing secondary legislation on energy labelling of energy-related products. The transposition and implementation of Directives 2012/27/EU and 2010/31/EU must also be continued.

Montenegro should also improve statistical data collection and put in place a functional system for calculation of energy efficiency indicators and savings, as well as monitoring of EEAP implementation. The ongoing work on the methodology and the Monitoring and Verification Platform (MVP) is a step forward; however, adequate human and financial resources must be dedicated to this area for implementation to be improved.

In order to achieve the energy savings target, Montenegro must continue to mobilize financial resources that go beyond public budget financing, e.g. public private partnerships and energy service companies (ESCOs) finance models.

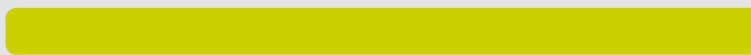
Finally, Montenegro is yet to adequately strengthen the country's institutions, either by reinforcing the capacity within the Ministry of Economy and local authorities or by establishing a specialized energy efficiency agency.



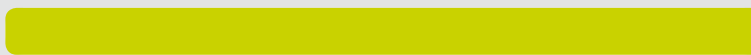
Montenegro

9.7 Environment

Environmental Impact Assessment Directive



Sulphur in Fuels Directive



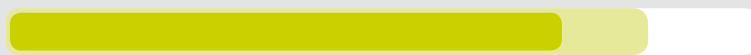
Large Combustion Plants Directive and other Acquis on Environment

Deadline not yet expired

Overall transposition ratio



Implementation ratio*



■ Status - Implementation Report 2016 ■ Progress - Implementation Report 2017

* Environmental Performance Indicators (EPI) on air quality, climate and energy; LCDP implementation preparedness

Source: Compiled by the Energy Community Secretariat

a. Sector Overview

Environmental impact assessment in Montenegro is governed by the Law on Environmental Impact Assessment of 2005 (as amended in 2010, 2011 and 2013) and the Decree on Projects Subject to Environmental Impact Assessment adopted in 2013, which defines projects for which an environmental impact assessment is mandatory (List 1) and those that have to undergo a screening procedure (List 2). Assessments are carried out by the Environmental Protection Agency or local authorities, depending on the type of the project. No information on the number of environmental impact assessments related to the energy sector were provided by the Montenegrin authorities.

As concerns the Sulphur in Fuels Directive, Montenegro has neither domestic crude oil production nor installations for the refining of oil products. Hence heavy fuel oil and gas oil are not produced domestically. The Law on Air Quality and the Regulation on the Limit Values of Polluting Substances in Liquid Fuels of Petrol Origin stipulate the thresholds of 1% of sulphur content by mass for heavy fuel oil and 0,1% for gas oil.

Montenegro has one single unit, lignite-fired plant (TPP Pljevlja) falling under the scope of the Large Combustion Plants Directive with a rated thermal input of 516 MW.

In accordance with the Ramsar Convention, Montenegro has two Ramsar sites and several sites nominated as candidates for Emerald sites. Designation of the Ulcinj Salina, situated at the south-eastern coast of the Adriatic Sea in Montenegro and

covering large areas of a former inland lagoon, as a Ramsar site is currently ongoing. The saline area is visited by at least by 250 bird species.

b. State of Compliance

Montenegro has reached a high level of transposition of the Energy Community environmental *acquis*.

1. Environmental Impact Assessment Directive

Montenegro has transposed the requirements of the Environmental Impact Assessment Directive into national law. Amendments to the Law on Environmental Impact Assessment and the Decree on Projects Subject to Environmental Impact Assessment with the aim of transposing new Environmental Impact Assessment Directive 2011/92/EU as amended by Directive 2014/52/EU are expected to be adopted by the end of 2017.

2. Sulphur in Fuels Directive

Montenegro has transposed the requirements of the Sulphur in Fuels Directive into its national law. On 17 March 2017, Montenegro adopted a new Decree on Limit Values of Pollutants in Liquid Fossil Fuels, transposing the Sulphur in Fuels Directive (EU) 2016/802 and Implementing Decision (EU) 2015/253. Implementation of Decision (EU) 2015/253 is ensured by the Annual Monitoring Programme for Automotive and Marine Fuels adopted in May 2017.

3. Large Combustion Plants Directive

The Large Combustion Plants Directive was only partially transposed by the Law on Air Quality and the Regulation on Limit Values for Emissions into the Air from Stationary Sources. While the emission limit values for new plants are fully harmonized with those of the Industrial Emissions Directive, the Regulation provides in its transitional provisions that plants which are put into operation before its entry into force are allowed to exceed the emission limit values by 250% until 31 December 2025. This must be abolished prior to the implementation deadline of the Large Combustion Plants Directive, *i.e.* 31 December 2017.

Montenegro's only large combustion plant features on the opt-out list adopted by Ministerial Council Decision 2016/19/MC-EnC, meaning that it will be able to remain in operation for a maximum of 20.000 operational hours between 1 January 2018 and 31 December 2023.

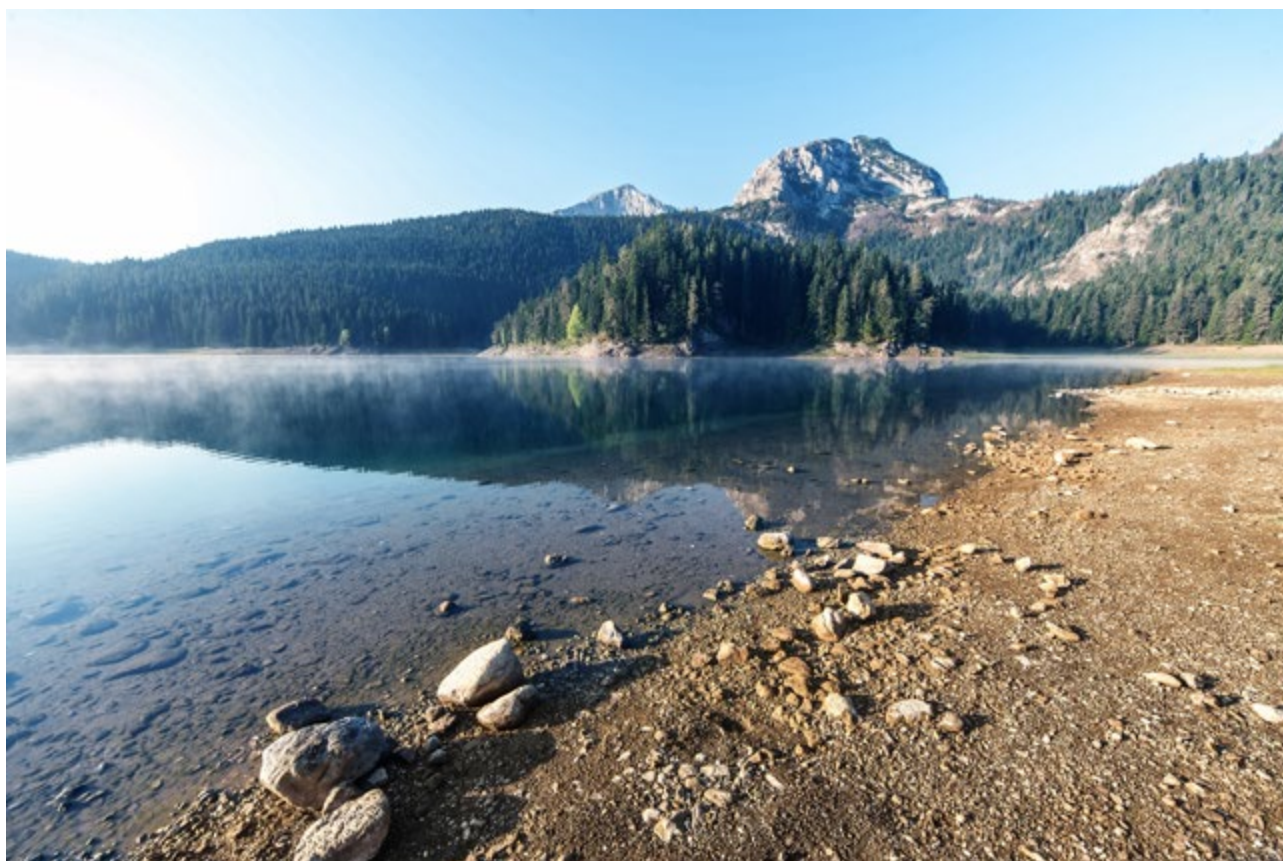
4. Wild Birds Directive

Montenegro adopted a new Law on Nature Protection in August 2016, which establishes the so-called ecological network areas in conformity with Article 4(2) of the Wild Birds Directive.

c. Conclusions and Priorities

With regard to the priorities identified in last year's Implementation Report, Montenegro has not yet fully transposed the provisions of the Large Combustion Plants and Industrial Emissions Directives into national law, which must be rectified by end 2017.

From 1 January 2018, Montenegro shall start monitoring the operational hours consumed by thermal power plant Pljevlja under its opt-out regime.





Montenegro

9.8 Climate

a. Sector Overview

Montenegro is a non-Annex I party to the United Nations Framework Convention on Climate Change (UNFCCC). The Paris Agreement has been ratified in October 2017. The energy sector is the main source of greenhouse gas emissions. According to Montenegro's Nationally Determined Contribution (NDC), it will reduce by 30% its emissions by 2030 compared to 1990. The reduction is to be achieved by a general increase of energy efficiency, improvement of industrial technologies, increase of the share of renewables and modernization of the power sector. Montenegro's NDC is currently under revision, with the addition of the financial component and an adaptation strategy.

Montenegro reports regularly to the UNFCCC. The first National Communication on Climate Change was submitted in October 2010, and the second National Communication in May 2015. The first Biennial Update Report was submitted in January 2016. Preparatory work on the third National Communication on Climate Change and the second Biennial Update Report are ongoing.

The relevant governmental actors for climate action are the Ministry of Sustainable Development and Tourism and the Environmental Protection Agency.

b. State of Compliance

The legal basis for tackling climate change and the collection of data on greenhouse gas emissions is the Law on Air Protection. The Law on Environment also contains provisions related to climate change. A draft Law on Climate Change is currently under preparation.

1. National Inventory System

To date, an inventory system with concrete reporting obligations does not exist. So far the system is based on an informal, voluntary approach, as the government does not have the legal

instruments to force operators refusing to share information.

A Rulebook on the Method of Production and the Content of the List of Greenhouse Gas Emissions, which only partially transposes the Monitoring Mechanism Regulation provisions on the establishment of a formal national inventory system, has been adopted by the Ministry of Sustainable Development and Tourism in 2014. The Rulebook is currently under revision. The Ministry of Sustainable Development and Tourism is working on an annual data collection plan for creating an inventory of air pollutants and a list of greenhouse gas emissions to be adopted by the end of 2017.

2. Low Carbon-development Strategies

The country has a National Strategy on Climate Change until 2030, however the financial component is under discussion. This is not fully compliant with the Monitoring Mechanism Regulation. Low-carbon strategies are referred to in Article 32 of the Law on Environment.

3. Policies, Measures, Projections

Currently there is no legislation providing for emission projections. This is not compliant with the Monitoring Mechanism Regulation.

c. Conclusions and Priorities

Montenegro is developing relevant climate change legislation; however, the adoption process has to be moved up a gear.

It would be important to formally establish an inventory system and have concrete obligations to report also on policies and measures. To implement the Monitoring Mechanism Regulation, the country needs to develop low-carbon strategies and projections, a task that suffers from lack of capacity.



Montenegro

9.9 Competition

a. Sector Overview

The Agency for Competition Protection (ACP), established in 2013, is entrusted with the enforcement of competition law in Montenegro. There has been no activity in the enforcement of competition law in the energy sectors in the reporting period, apart from the ongoing assessment of two mergers of companies in the oil and oil derivatives sector. Both companies have small market shares in Montenegro.

The authority in charge of enforcing State aid law is the State Aid Control Commission (SACC), composed of five members appointed by the government and chaired by the Ministry of Finance. The work of the SACC is prepared by the Ministry of Finance, both procedurally and on substance. Amendments to the Law on Protection of Competition provide that the SACC will be moved under the umbrella of the ACP.

b. State of Compliance

1. Competition Law

Montenegro transposed Articles 101, 102 and 106 of the Treaty on the Functioning of the European Union in its 2012 Competition Law.

There has been no case of applying competition law to the energy sectors in the past four years, except for the ongoing review of two mergers in the reporting period. Also, the ACP's cooperation with the Secretariat and other national competition authorities in the framework of the Energy Community Competition Network is rather limited. More intense enforcement of competition law, in particular with regard to anticompetitive agreements and the abuse of dominance, is needed in order for Montenegro to fully comply with its obligations under the Energy Community Treaty.

2. State Aid Law

The Law on State Aid Control adopted in 2009 and amended in 2011 continues to fall short of complying with the State aid *acquis*, especially as regards the definition of State aid and the independence of the SACC. The SACC still has no power to order recovery of unlawfully granted aid and can only propose measures for recovery to the government or the competent local authority. The shortages with respect to the independence of the SACC, repeatedly pointed out in previous Implementation Reports, should be addressed in a new Law on State Aid Control currently being drafted. Also, there is no commitment to cooperation with the Secretariat and other national State aid authorities in the framework of the Energy Community State Aid Network.

The amendments to the Law on Protection of Competition provide for a transfer of State aid control to the ACP. In order to strengthen its independent decision-making, a council will be introduced, comprising a president and two members (for competition and State aid respectively).

Therefore, Montenegro still falls short of complying with its obligations under the Treaty with regard to the enforcement of the State aid *acquis*.

c. Conclusions and Priorities

Competition law is formally in line with the EU *acquis*. However, its enforcement in the energy sectors remains at an unsatisfactory level. The priority in the following period should be the adoption of the draft Law on State Aid Control that is compliant with the *acquis* as well as more rigorous enforcement of both State aid and competition law. The institutional shift of State aid control should be accompanied by a strengthening of the ACP's human resources.



Montenegro

9.10 Infrastructure

a. Sector overview

In order to facilitate the permit granting process, a unified procedure has already been introduced and is applied for all infrastructure projects, which is a positive example of accelerating the overall process of infrastructure project preparation.

In the process of transposing Regulation (EU) 347/2013, Montenegro has drafted secondary legislation, the adoption of which is pending however.

The 400 kV overhead line Pljevlja (ME) - Lastva (ME), a section of the Transbalkan Corridor (EL_03), has received the Project of Energy Community Interest label. Furthermore, the gas project Ionian Adriatic Pipeline (Gas_16) has been designated as a Project of Mutual Interest.

b. State of Compliance

As Montenegro did not transpose the TEN-E Regulation yet and failed to establish a national competent authority, it is not compliant with the relevant deadlines set by the Regulation.

1. Designation of National Competent Authority

No decision was taken to date on designation of the competent authority as required by Article 8(1) of Regulation (EU) 347/2013.

2. Status of Highest National Significance for Energy Community Priority Projects

This status does not exist in the laws relevant for energy facilities of strategic importance. However, the Law on Spatial Development and Construction of Structures defines the "status of state-owned structures of general interest" for infrastructure projects of significance for Montenegro. This may include gas pipelines, oil pipelines, electricity transmission and distribution networks at voltage of 35kV and above, etc. However, the approach is not in line with the Regulation.

3. Manual of Procedures

A unified procedure already exists and is applied for all projects. There are strictly defined deadlines to obtain the necessary documents from other permit granting entities. Still, the existing unified procedure is not in line with Regulation (EU) 347/2013.

4. Transparency and Public Participation

According to the legal provisions currently in force, the government shall make draft spatial planning documents subject of a public debate. A second public debate may be carried out, when the public debate identified that the planning document defers significantly from the original draft spatial planning document. The party responsible for conducting the preparatory tasks shall determine the degree of difference. The second public debate shall be carried out on the entire planning document or only a part of it if its duration shall be no longer than 15 days from the day of publication of the document. The public participation process needs to be aligned with Regulation (EU) 347/2013.

5. Project Visibility and Dedicated Websites

The project promoters still need to put in place a dedicated web page for each PECE/PMI.

c. Conclusions and Priorities

Montenegro should adopt a law or by-law to transpose Regulation (EU) 347/2013 as soon as possible.

The national competent authority should also be designated and become fully operational as soon as possible. It should publish a manual of procedures for the permit granting process applicable for PECEs, following the minimum structure presented in Annex X of the Regulation, by 31 December 2017.

The national regulatory authority RAE should publish the methodology and the criteria used to evaluate investment in electricity and gas projects and the higher risks incurred by them by 31 December 2017. RAE should also establish and make publicly available a set of indicators and corresponding reference values for the comparison of unit investment costs, by 30 June 2018.



Montenegro

9.11 Statistics

a. Sector Overview

The 2012 Law on Official Statistics and the Official Statistical System defines the organizational framework for production and dissemination of official statistics. The Statistical Office of Montenegro (MONSTAT) is the central body responsible for development of the statistical system and the programme of statistical surveys entitled to have access to all relevant administrative data.

The government adopts the Programme of Official Statistics, the latest for period 2014 - 2018, and annual plans of official statistics. MONSTAT publishes its annual release calendar and annual report on implementation of the annual plan. Key energy indicators are published in the Annual Statistical Yearbook.

The 2015 Energy Law defines additional transparency and reporting requirements for stakeholders in the energy sector.

b. State of Compliance

In terms of annual energy statistics and electricity price statistics, Montenegro achieved compliance with the *acquis*. MONSTAT established a procedure to maintain the expected level of quality. However, there is still not sufficient progress to achieve compliance with the *acquis* related to monthly statistics.

1. Regulation (EC) 1099/2008 on Energy Statistics

As regards annual energy statistics, MONSTAT collects and publishes energy balances containing annual data on production, import, export, transformation, consumption and distribution of electricity, coal, oil products and firewood in Montenegro. The methodology and formats are harmonized with IEA/EUROSTAT standards.

Based on the results of the conducted surveys of biofuel consumption and energy consumption in services and industry, MONSTAT revised the data on energy production and consumption, thus improving relevance and completeness of its energy statistics.

MONSTAT has taken part in the project, supported by the Secretariat, aimed at producing disaggregated data on energy consumption in households and complying with Regulation (EU) 431/2014.

Annual questionnaires are communicated timely to IEA and EUROSTAT and are in compliance with the *acquis*.

Montenegro established a functional reporting system for monthly energy data managed by the Ministry of Economy, operational since 2013. Monthly reports on electricity and solid fuels are prepared and transmitted to EUROSTAT. From 2014 onward, short-term monthly oil data have not been transmitted to EUROSTAT. The missing monthly oil statistics that should follow the General Policy Guideline on Implementation of Certain Deadlines of the Oil Stocks Directive in the Energy Community constitute a major shortcoming.

On the whole, Montenegro failed to keep up the previously achieved level of compliance and produce statistics of relevance.

2. Directive 2008/92/EC on Transparency of Gas and Electricity Prices for Industrial End-users

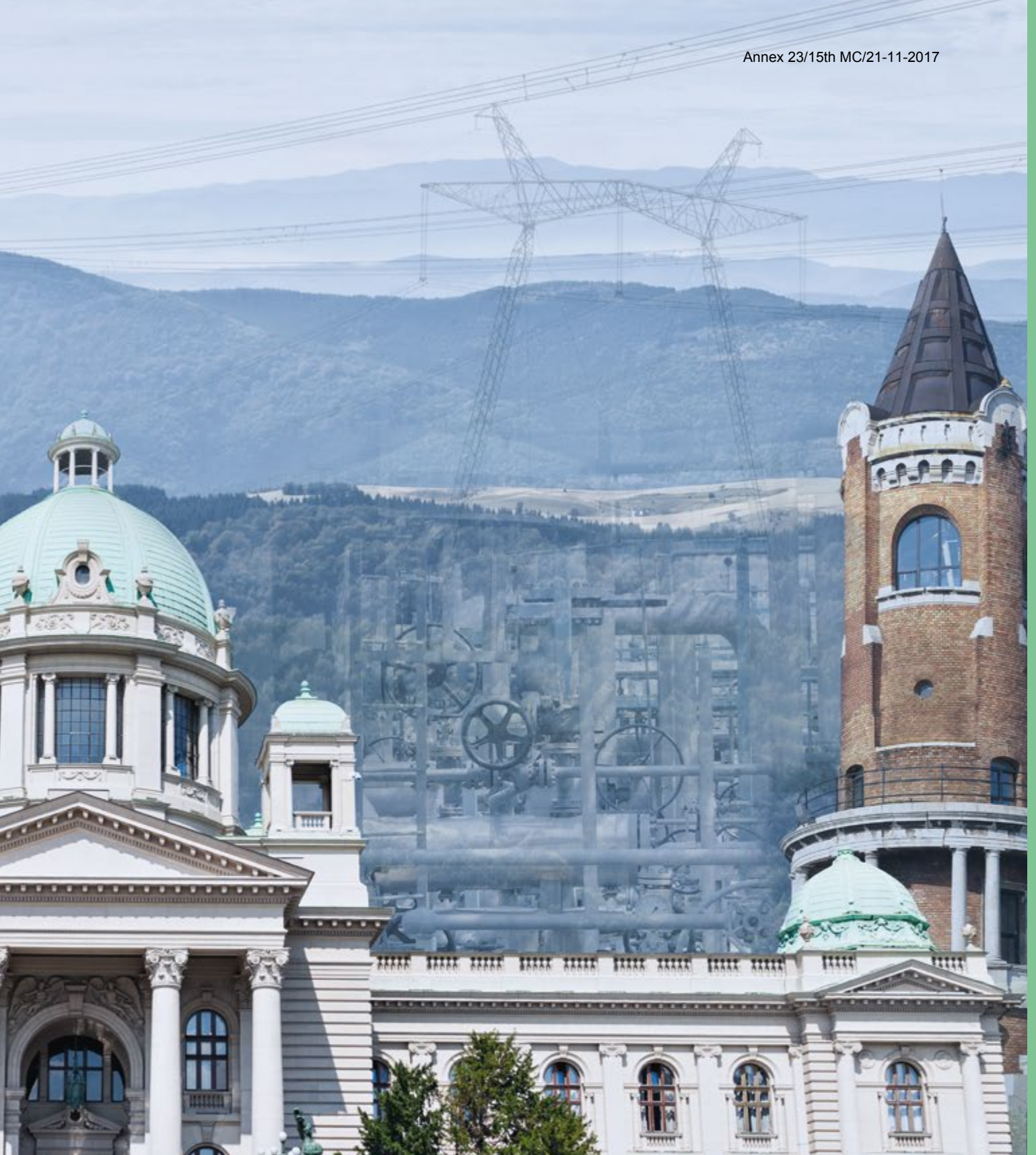
Price statistics are established for electricity supplied to industrial end-users and households. Prices, reported per consumption band and broken down per cost driver, are communicated to and subsequently published by EUROSTAT. In this regard, Directive 2008/92/EC is implemented.

c. Conclusions and Priorities

With the completion of the survey on consumption of energy in services and integration of its results in official statistics, the quality of energy statistics has improved. Montenegro has to put additional effort into the implementation of Regulation (EC) 1099/2008, in particular related to monthly data.

The system of continuous data collection should be permanently improved, particularly information on final consumption and information obtained from sample surveys. Additional efforts will be needed to implement Regulation (EU) 431/2014 related to disaggregated data on energy consumption in households.

Regarding price statistics, in addition to implementation of Directive 2008/92/EC, methodologies and procedures for price statistics will need continuous improvement in line with market opening and new reporting requirements.

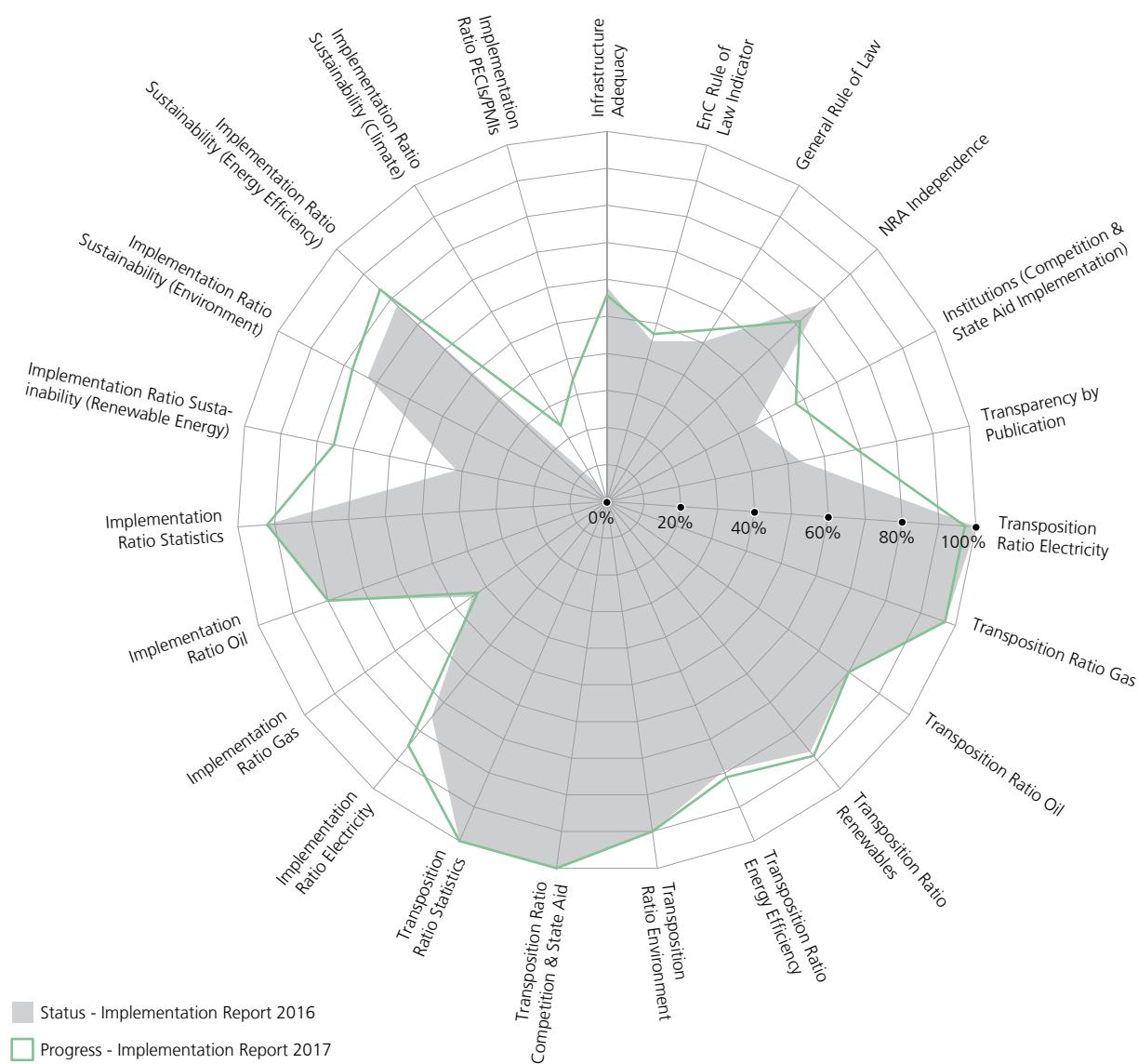


10 | Serbia

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Serbia

Implementation Indicators Radar of Serbia



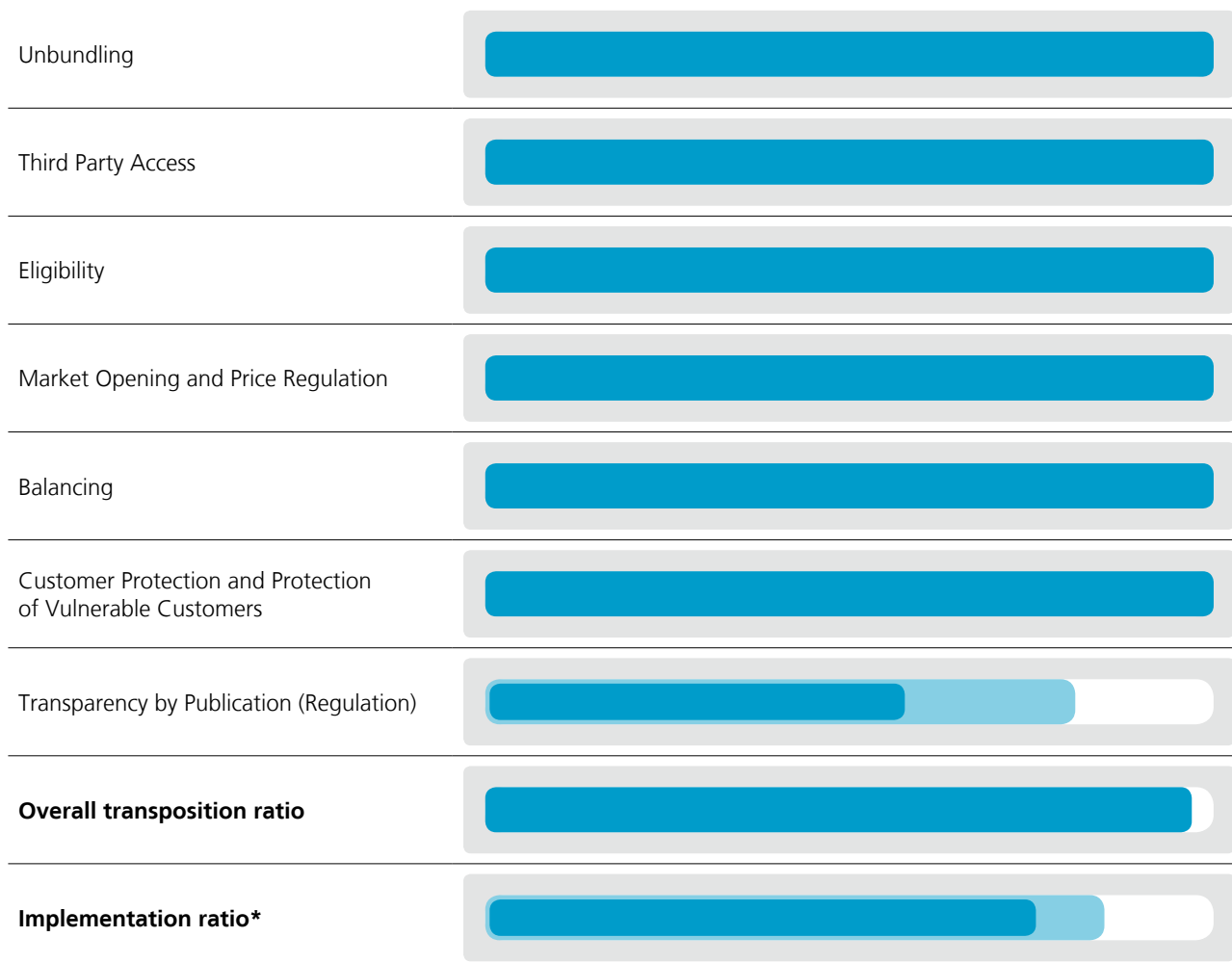
Serbia is generally doing well in transposing in the Energy Community acquis, but with modest progress during this reporting period. The Energy Law and the adopted secondary legislation constitute a largely compliant legal framework. However, implementation is lagging behind, in particular with regard to

the unbundling of the transmission system operators, EMS in electricity and Yugarosgas Transport and Srbijagas in natural gas. The lack of implementation leads to a comparatively high number in infringement cases. Serbia must also facilitate the implementation of the signed agreements with Kosovo*.



Serbia

10.1 Electricity



■ Status - Implementation Report 2016 ■ Progress - Implementation Report 2017

* actual implementation: unbundling, third party access rules etc.

Source: Compiled by the Energy Community Secretariat

a. Sector Overview

The electricity market in Serbia is essentially run by the state-owned company Elektroprivreda Srbije (EPS), which dominates coal production, generation and supply activities. 95% of all electricity is supplied by EPS. Distribution is carried out by its subsidiary EPS Distribution. EPS should have been transformed into a joint-stock company until 1 July 2016, which has not happened. Fourteen alternative suppliers were supplying electricity to final customers during the reporting period.

The state-owned transmission system operator Elektromreža Srbije (EMS) was transformed into a joint-stock company by a government decision of October 2016. EMS is in a long-term dispute with the system operator of Kosovo*, KOSTT, in the solution of which no progress was made during the report-



Non-compliance with Rules for Cross-border Electricity Flow

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On 14 October 2016, the Ministerial Council in Decision 2016/02/MC-EnC in Case ECS-3/08 held that Serbia failed to comply with its obligations under the Treaty by not using the revenues resulting from the allocation of interconnection on the interconnectors between Kosovo* and Albania, former Yugoslav Republic of Macedonia and Montenegro for the purposes specified by Article 6(6) of Regulation (EU) 714/2009.

ing period. In 2016, the Ministerial Council issued a decision declaring that Serbia breaches Energy Community law by the

Electricity Facts and Figures

Description of data [unit]		2015	2016
Electricity production [GWh]		35.912	36.781
Net imports [GWh]		1.520	1.998
Net exports [GWh]		2309	3696
Gross electricity consumption [GWh]		35.123	35.083
Losses in transmission [%]		2,22%	2,15%
Losses in distribution [%]		14,10%	12,95%
Consumption of energy sector [GWh]		1.518	1.425
Final consumption of electricity [GWh]		28.531	28.819
Consumption structure [GWh]	Industrial, transport, services and other non-residential sectors	14.469	14.888
	Households (residential customers)	14.062	13.931
Net maximum electrical capacity of power plants [MW]		7.192	7.450
of which:	coal-fired	3.905	4.032
	gas-fired	353	357
	hydro, total	2.898	3.024
	Other renewables	36	37
Horizontal transmission network [km]	Length of transmission power lines [km]	9.493	9.504
	Substation capacity [MVA]	30.498	30.812
	Number of interconnectors	22	22
Electricity customers	Total number of customers	3.617.781	3.624.625
	out of which: non-households	396.248	396.659
	Eligible customers under national legislation	3.617.781	3.624.625
	Active eligible customers	87.890	102.864
Internal market	Electricity supplied to active eligible customers [MWh]	10.683.000	12.474.000
	Share of final consumption [%]	37,44%	43,28%

Source: Ministry of Mining and Energy of Serbia and Energy Community Secretariat

manner it uses the congestion revenues earned on Kosovo's* borders with other Contracting Parties. EMS is also the only transmission system operator in the Western Balkans not participating in SEE CAO.

The day-ahead market is operated by the joint-stock company South East European Power Exchange (SEEPEX), with 75% of its shares owned by EMS and 25% by the power exchange EPEXSPOT. In 2016, 11 market participants were using SEEPEX services.

b. State of Compliance

The Energy Law and the adopted secondary legislation constitute a largely compliant legal framework for the implementation of the Third Energy Package. However, implementation is lagging behind, in particular with regard to the unbundling of the transmission and distribution system operators, which entails non-compliance with the *acquis*.

1. Unbundling

The deadline for completion of (ownership) unbundling of the transmission system operator set by the Energy Law was end of

December 2016. The Energy Agency of the Republic of Serbia (AERS) adopted a preliminary decision on the certification of EMS on 26 January 2017. The Secretariat issued its Opinion 03/17 on 15 June 2017, concluding that EMS is not unbundled in line with the ownership unbundling model. In particular, EMS is still directly controlled by the same public body (the government) which also controls the State's significant activities in production and/or supply of electricity (and natural gas). After the Secretariat issued its Opinion, the Law on Ministries was changed. Despite the fact that the Secretariat did not review compliance in the light of these changes, AERS adopted its final decision in August 2017, certifying EMS as an operator of the electricity transmission system.

The distribution system operator is legally but not functionally unbundled. In June 2016, a compliance programme of the distribution system operator was approved by AERS. The first annual compliance report was published on 30 June 2017. The compliance officer concluded that independence of the company in terms of organization and decision-making has still not been ensured and that the adopted compliance programme is still to be fully implemented. The act on establishment of the distribution system operator will have to be changed in order to ensure functional unbundling in compliance with the *acquis*.

	Non-participation in Regionally Coordinated Capacity Allocation
I N D I S P U T E	<p>On 19 May 2017, the Secretariat submitted a Reasoned Request to the Ministerial Council in Case ECS-6/11 for Serbia's failure to comply with its obligations under the Energy Community's rules requiring the state-owned electricity transmission system operator to participate in a common coordinated congestion management method and procedure for the allocation of capacity.</p>

2. Third Party Access

Provisions on third party access to transmission and distribution systems are transposed in compliance with the Third Energy Package. Tariffs for access to the transmission and distribution systems are determined based on the methodologies adopted by AERS and are published.

EMS still fails to allocate cross-border transmission capacities through the regional coordinated capacity allocation platform. In May 2016, EMS submitted an application for shareholder status in SEE CAO. So far, this has not resulted in an agreement on either shareholder or service agreement. The failure of EMS to participate in SEE CAO is subject to an infringement action by the Secretariat.

3. Eligibility

All customers are eligible to choose their supplier as of 1 January 2015, including households and small customers. The switching rules are in line with the Directive 2009/72/EC's requirements. To facilitate the process of switching supplier, the regulator amended the switching rules in February 2017.

4. Market Opening and Price Regulation

Wholesale market is liberalised and organized through a functional day-ahead market. Liquidity of the market was improved since the licensing regime was relaxed by allowing foreign companies to obtain a license without having to register a seat in Serbia. However, to improve liquidity of the day-ahead market further measures are needed such as purchase of network losses, selling of electricity from renewable sources, further deregulation of the retail market and phasing out of wholesale licenses.

At the retail market, households and small customers are still entitled to supply by a so-called guaranteed supplier at regulated prices. In practice, they all continue to be supplied by EPS at prices regulated by AERS. According to a report on the need for further regulation of the price of electricity for guaranteed supply, published by AERS in May 2017, customers entitled to guaranteed supply are not incentivised to switch supplier due

to a gap between regulated electricity prices of the guaranteed supplier and the reference market prices. Nevertheless, AERS recommends to continue regulation of the electricity price for universal service.

5. Balancing

The Energy Law obliges the transmission system operator to procure balancing services in line with the Directive 2009/72/EC's requirement for a market-based and non-discriminatory approach. According to the Law, prices of reserve capacity needed for secondary and tertiary regulation may however be regulated, depending on the assessment of AERS. In practice, EMS procures the balancing reserve from EPS based on the price regulated by AERS, which impedes the establishment of a cross-border exchange of balancing services. AERS' report on the need for further regulation of the balancing reserve price of May 2017 concludes that this price should continue to be regulated in order to prevent abuse of dominant position of EPS as the single balancing reserve provider. At the same time, the Market Rules adopted by EMS give preference to balancing service providers that are obliged to offer balancing services, namely EPS, which is discriminatory and prevents new balancing service providers from entering the market.

Cross-border balancing cooperation is implemented between EMS and CGES of Montenegro for exchange of balancing energy from a manually activated frequency restoration reserve.

6. Customer Protection and Protection of Vulnerable Customers

The Energy Law defines a compliant framework for protection of customers which shall be detailed by the decree on delivery and supply and rules on quality of delivery and supply. Yet, both of these acts are still to be aligned with the Law. In line with the Energy Law, the government adopted a decree on vulnerable energy customers in December 2015. The decree defines detailed criteria for obtaining the status of vulnerable customer in electricity or gas, namely the customer's social situation, health condition and whether or not the household customer lives in one residential unit with a single metering point. The decree also sets the maximum income and quantities of electricity and gas to benefit from the social tariff. Funds for vulnerable energy customers are provided from the state budget. However, less than one fifth of potentially vulnerable household customers used their rights in 2016.

7. Transparency

The Energy Law defines a general obligation for publication of data. Regulation (EU) 543/2013 was transposed by the Rules for Publication of Key Market Data adopted by the transmission system operator in 2016. Full compliance, however, is subject to amendments of the Energy Law and other relevant laws as regards the possibility to publish data on generation units, which are currently considered as commercially sensitive information.

The publication of data and its submission to ENTSO-E are implemented through an electronic transparency platform operated by EMS. The relevant data on the load, transmission network availability, capacity forecasts and allocation on all time horizons are provided to ENTSO-E, along with most of the data on generation and balancing. Activated balancing reserves, their prices and activated energy are published locally, while actual unavailability of generation and production units, accepted balancing offers, cross-border balancing offers and corresponding prices are not published yet. Submission of these data should start in 2018. Actual productions per unit and congestion management measures are not available. Data from the power exchange SEEPEX are submitted to ENTSO-E by EMS.

c. Conclusions and Priorities

Serbia made modest progress in fulfilling last year's priorities. EMS failed to close either of the two open issues in the sphere of regional capacity allocation. Joining a capacity allocation platform and unblocking implementation of the signed agreement between ENTSO-E and KOSTT remain the highest priority tasks for EMS in order to close the long-standing disputes.

The unbundling of the transmission system operator must be finalized in line with the Third Energy Package requirements. Due to change of national legislation, i.e. the Law on Ministries, AERS should open a certification procedure for reassessment of compliance of EMS.

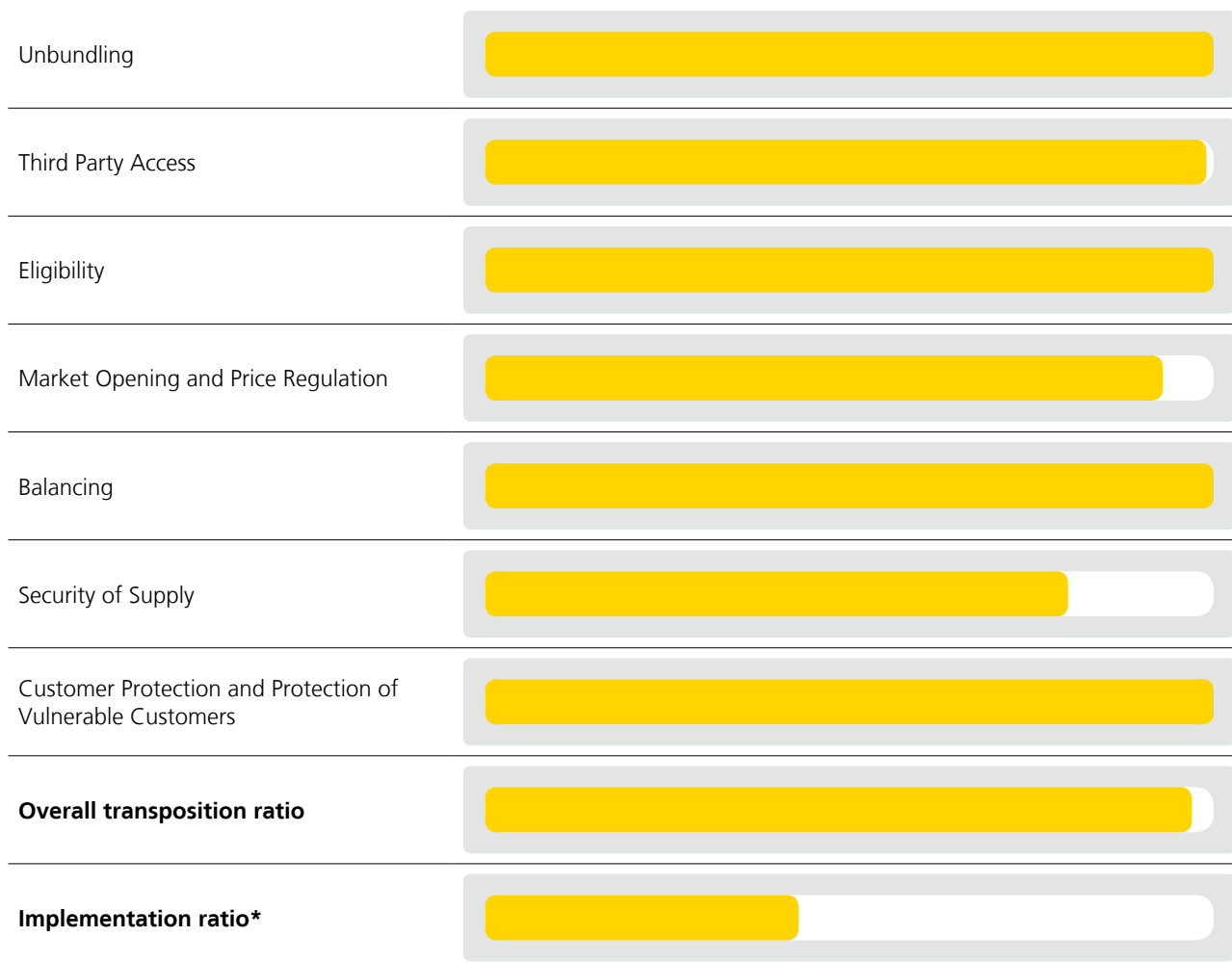
Further progress also depends on the further deregulation of the electricity market, finalisation of the unbundling of the distribution system operator and strengthening regional co-operation.





Serbia

10.2 Gas



Status - Implementation Report 2016 Progress - Implementation Report 2017

* actual unbundling, tariffs, network codes, market prices supply ratio, SoS secondary acts etc.

Source: Compiled by the Energy Community Secretariat

a. Sector Overview

Serbia imports gas supplies from the Russian Federation via a long-term agreement with Serbian incumbent Srbijagas which accounted for 84% of total demand in 2016. The remainder was produced by the only domestic producer, Naftna Industrija Srbije (NIS), which is majority-owned by Gazpromnjeft of Russia. The only two wholesale players present in Serbia are NIS and Srbijagas. The latter is a bundled transmission system operator wholly owned by the state and supplying under long-term oil-indexed contracts with Gazprom, through the vertically integrated company Yugorosgaz as intermediary. Yugorosgaz is owned again by Gazprom (50%), Srbijagas (25%), Central ME Energy and Gas Vienna (25%), which is in turn controlled by Gazprom. Yugorosgaz owns Yugorosgaz Transport, the country's second transmission system operator. Banatski Dvor,

51% owned by Gazprom and 49% owned by Srbijagas, is a licensed storage system operator.

In retail gas supply, Srbijagas is also the dominant market player, accounting for some 87% of total natural gas sales in 2016. Thirty-two licensed distribution system operators are active on municipal level.

Overall, the Serbian gas market is highly concentrated and foreclosed. Its reform is in significant delay.

In 2016, the Ministerial Council adopted a decision stipulating that Serbia's failure to unbundle Srbijagas in line with the Second Energy Package is a serious and persistent breach. The Government of Serbia adopted a binding action plan on the restructuring of Srbijagas, in line with the Third Energy Package

requiring Srbijagas to unbundle by May 2017. However, no actions were taken in this respect.


b. State of Compliance

Serbia's gas sector is governed by the Energy Law, which transposes the Third Energy Package, and numerous secondary legislation adopted by the national regulatory authority AERS. However, several important secondary acts were not updated in line with the Law. Moreover, the gap between the transposition of laws and their implementation in Serbia is widening each year.

1. Unbundling

The deadline of 1 June 2016 for the unbundling of transmission system operators was missed by Serbia.

All three models of transmission operator system unbundling were transposed by the Energy Law. Several transitory provisions related to management cooling off periods under the independent transmission operator (ITO) model could lead to non-compliance with the Directive 2009/73/EC. The government's 2016 action plan on Srbijagas unbundling, which failed to come to fruition, envisaged an ITO model for Srbijagas. Srbijagas continues to hold licenses for supply and transmission, whereas Transportgas Srbija, established in 2015, is still only

 Lack of Unbundling in the Gas Sector	
I N D I S P U T E	<p>Serbia continues to breach Energy Community law by failing to comply with the gas unbundling rules of the Second Energy Package. After its first decision in Case ECS-9/13 adopted on 23 September 2014 under Article 91 of the Treaty, the Ministerial Council adopted a decision on 13 October 2016 establishing a serious and persistent breach under Article 92 of the Treaty.</p> <p>The Ministerial Council postponed the adoption of sanctions to 2017 following the Serbian authorities' adoption of an action plan on the restructuring of Srbijagas in line with the Third Energy Package. Serbia was urged to take all appropriate measures to rectify the breaches identified in Ministerial Council Decision 2014/03/MC-EnC in cooperation with the Secretariat and to report to the Ministerial Council about the implementation of the measures taken in 2017.</p> <p>Since the action plan was not respected and the breach has not been rectified to date, the Secretariat – as invited by the Ministerial Council – will request a decision on imposing measures against Serbia at the next Ministerial Council meeting in 2017.</p>

Gas Facts and Figures

Description of data [unit]		2015	2016
Natural Gas Production [Bcm]		0,4320	0,3990
Import [Bcm]		1,7400	1,8040
Exports flows [Bcm]		0,0000	0,0000
Stock changes [Bcm]		-0,1150	0,0568
Total supply [Bcm]		2,0570	2,2598
Consumption in Energy Sector [Bcm]		0,5976	0,6090
Available for final consumption of natural gas [Bcm]		1,4437	1,6750
Interconnectors' capacity [Bcm]	Total	5,2378	5,2378
	out of which bidirectional	0	0
Storage working capacity [Bcm]		0,46	0,46
Length of transmission network [km]		2.423	2.423
Length of distribution network [km]		16.532	16.653
Natural gas customers	Total	262.567	267.158
	out of which: Non-households	12.764	13.079
	Eligible customers under national legislation	262.567	267.158
	Active eligible customers	802	923
	Households	249.803	254.222
Internal market	Gas supplied to active eligible customers [Bcm]	1,7800	1,9900
	Share of total consumption [%]	87%	87%
Final consumption of natural gas per sector [Bcm]		1,4437	1,6750
Consumption structure [Bcm]	Industry and commercial customers	1,2530	1,4650
	Households	0,1907	0,2100

Source: Ministry of Mining and Energy of Serbia

a shell company incapable of performing any of the functions stipulated in the Law. Transportgas Srbija is not functionally unbundled from its parent Srbijagas.

Yugorosgaz Transport (controlled by a company from a third country) applied for certification under Article 11 of Directive 2009/73/EC in autumn 2016, in line with the independent system operator (ISO) model. AERS adopted a final decision on certification in June 2017, after having asked for but not having followed the Secretariat's Opinion 02/17. The Secretariat deemed that Yugorosgaz Transport is not properly unbundled (and potentially prevented by an intergovernmental agreement between Serbia and Russia), and Serbia did not carry out the security of supply assessment required by Article 11 of Directive 2009/73/EC correctly. The Secretariat considers the certification decision in contravention of Energy Community law.

The Energy Law also requires the unbundling of storage and distribution operators from activities not related to storage and distribution, if they are part of a vertically integrated undertaking. The storage system operator, Banatski Dvor, does not apply the minimum criteria for unbundling under Article 15 of the Gas Directive.

As all retail undertakings in the Serbian gas sector serve less than 100.000 final customers, they are exempted from the unbundling requirements by law. Srbijagas established a daughter company, the limited liability company Distribucijagas Srbija, a shell company that does not actually perform distribution. In practice, Srbijagas still acts as a distribution system operator.

2. Third Party Access

The Energy Law transposes non-discriminatory network access to transmission, distribution system and storage facilities, as well as to upstream pipelines, as a principle rule. Detailed rules on access to the transmission network have been included in the network codes of Srbijagas and Yugorosgaz Transport and distribution codes of distribution system operators.

The regulatory authority approved network tariffs based on entry/exit principles of the Gas Directive for both transmission system operators. However, the tariffs for usage of the Srbijagas grid include an additional levy, which was introduced outside the regulatory procedure.

The storage operator has never published or adopted conditions stipulating its third party access services, and tariffs according to the methodology developed by AERS have never been published by Banatski Dvor.

The Energy Law and the network codes of Srbijagas of 2013 and Yugorosgaz Transport of 2015 contain detailed provisions on third party access services, capacity allocation and congestion management. Secondary trading and interruptible capacity are offered as a means of congestion management although they do not allow for capacity rights transfer on a monthly

or daily basis. Nevertheless, neither Srbijagas nor Yugorosgaz Transport have ever performed capacity allocation according to the codes. In practical terms, the codes are not implemented, which contributes to the foreclosure of the gas market in Serbia.

Yugorosgaz Transport received AERS's consent on its ten-year network development plan, whereas Srbijagas did not even draft such a document.

3. Eligibility

The eligibility right to freely choose a supplier is guaranteed to all customers in line with the gas *acquis*.

Supplier switching rules were adopted in 2015, while guidelines to ensure their efficient implementation were adopted in 2016. They are compliant with the Gas Directive.

4. Market Opening and Price Regulation

On the wholesale level, bilateral contracts are concluded among suppliers and between suppliers and a producer. Additionally, the purchase contracts between public suppliers and the supplier of public suppliers, Srbijagas, are still in place.

The existing intergovernmental agreement signed between Serbia and Russia in 2012 on the supply of natural gas to Serbia, which is implemented via a contract between Gazprom, Srbijagas and Yugorosgaz valid until 2021, includes a destination clause, which constitutes a restriction of the territory to which the goods may be sold. The agreement is subject to an infringement procedure.

Big customers must purchase gas on the market at unregulated prices, representing 85,3% of gas quantities available, but they can choose only between Srbijagas and NIS. The latter uses the majority of its production for its own needs and does not make it available to the market.

The rest of the market (household customers and some small consumers) is supplied under regulated prices by 33 public suppliers. These categories of customers are also free to opt for supply under market conditions, but the switching rate is low.

The Energy Law granted households and small customers the opportunity to be supplied under public supply (regulated prices included). Supply of last resort is available under certain conditions for all customers up to 60 days. Srbijagas is the appointed supplier of last resort and at the same time performs the role of supplier of public suppliers until a competitive natural gas market is established in Serbia. The timeline for such a competitive procedure has been postponed several times.

5. Balancing

The balancing rules defined in the Srbijagas network code are in compliance with Regulation (EC) 715/2009. The code envisages

a virtual trading point. Serbia is one balancing zone, which in theory means that the users of the system of YugoRosgaz Transport fall under the balancing provisions of the Srbijagas network code. In practical terms, the balancing rules are not being applied.

6. Security of Supply

Serbia complies with the provisions on security of supply required by Directives 2009/73/EC and 2004/67/EC.

7. Customer Protection and Protection of Vulnerable Customers

The Energy Law and the Law on Customer Protection transpose customer protection provisions from the Third Energy Package. AERS monitors, in particular, the right of customers to have their consumption data at their disposal, quality of supply and complaint handling. The government's Decree on the Protection of Vulnerable Customers defines vulnerable customers, who receive a discount on gas supply for which suppliers are compensated from the state budget. Customers can apply for compensation for either electricity or gas bills. However, the number of such requests in the gas sector is several orders of magnitude smaller than of those in the electricity sector.

c. Conclusions and Priorities

The total lack of progress in gas market reforms and enforcement of national gas legislation is becoming more evident each year. The Energy Law and by-laws are not being implemented. The certification of YugoRosgaz Transport by AERS in spite of evident non-compliance with Third Energy Package principles is yet another proof in that respect. The gas sector in Serbia is plagued with opacity and legacy contracts and defies the rule of law. The highly concentrated share of Srbijagas in the wholesale and retail markets explains the company's obstruction to unbundling and making space for new entrants.





Serbia

10.3 Regulatory Authority

Since the alignment of Serbian legislation with the Third Energy Package in 2014, the organisation of AERS complies with the independence criteria stipulated by Directives 2009/72/EC and 2009/73/EC except that the management does not have full autonomy in designing the authority's internal management which requires approval by parliament. AERS is headed by a council consisting of a president and four members with a term of five to seven years, all renewable once. A rotation scheme is in place. AERS ensures accountability of its activities by presenting its annual report to the parliament.

In praxis, regulatory independence is threatened by budgetary uncertainty and *de facto* lack of autonomy in setting staff salaries. According to the Law on the Maximal Number of Employees in the Public Sector, the employment of additional staff is subject to a decision of the National Assembly Committee for Administrative and Budgetary Affairs. The appointment of new employees is indirectly subject to parliament's approval of

the regulator's annual budget.

AERS' performance is beyond doubt when it comes to technical aspects of market regulation and tariff setting. AERS has proven both expertise and commitment to develop secondary legislation in line with domestic deadlines. By contrast, AERS failed to enforce compliance of regulated companies with Serbian and Energy Community law in a number of core areas such as unbundling of the incumbents Srbijagas, YugoRosgaz and EMS. In the latter two cases, the issuance of a positive certification decision by the regulator despite the lack of the companies' compliance with unbundling requirements is critical.

The right to impose penalties is not with the regulator but is transferred to a competent court. While this is in line with Energy Community law it weakens the ability of AERS to ensure enforcement effectively.



Serbia

10.4 Oil

a. Sector Overview

In Serbia, oil production was around 960 kt in 2016. Import of crude oil was around 2,4 mt, 22,3% higher than in 2015. Crude oil exports were around 6 kt, 50% higher than in 2015. As regards the domestic production of petroleum products, the volume of 3.421 kt processed in 2016 constitutes an increase by 12,5% compared to 2015. The estimated export of petroleum products increased by 16,7% compared to 600 kt in 2015. The estimated import of petroleum products also increased by 12,5% compared to a level of around 800 kt in 2015. The overall consumption of petroleum products in 2016 was 2.554 kt, the same as in 2015.

b. State of Compliance

Following the transposition of the most relevant provisions of Directive 2009/119/EC on emergency oil stocks in 2013, Serbia has adopted nearly all the secondary legislation necessary to implement and bring into operation its emergency stockholding system apart from the Emergency Response Plan.

Several by-laws have been adopted during this reporting period, namely a decree on the plan and procurement criteria for the formation of emergency reserves, a decree on the methodology for determining the price of storing emergency reserves in publicly-owned storages, and an instruction on additional requirements for storing emergency reserves and means for securing the stored reserves required from the energy subjects.

The current efforts of the Administration for Reserves of Energy Generating Products in the Ministry of Mining and Energy are focused on improving stockholding fee collection and data reporting, increased availability, accessibility and control of emergency oil stocks and increased level of oil stocks. This will require the current action plan to be updated in order to establish emergency oil stocks fully in line with Directive 2009/119/EC before end-2022. In addition, improving control over collecting the emergency oil stockholding fee by establishing a register of all emergency oil stocks is seen as another priority.

Serbia is also planning to undertake a study on investment in storage capacities, which will help to prepare a strategy

on providing the necessary storage availability on a long-term basis for emergency stockholding. The obligation of Serbia to establish emergency stocks under the Oil Stocks Directive is estimated in the amount of 495 kt of crude oil equivalent.

During 2016/2017, activities were conducted on the formation of emergency reserves. Public procurement for selecting the company which will ensure emergency reserves was carried out as well as for the company which will control the quality and quantity of the emergency reserves. In addition, public procurement for the purchase of petroleum products type EURO Diesel in the amount of 9.5 kt was carried out. However, the public procurement of tickets option was cancelled by the Commission for the Protection of the Rights in an appeal process. In line with the financial and procurement plan, the Administration for Reserves of Energy Generating Products should prepare a new public procurement procedure for the tickets option.

The current estimated number of days of emergency reserves is around 10 of average daily consumption. If the new pro-

curement of the tickets option will be successfully completed than the number of days of average daily consumption will be doubled in 2017.

c. Conclusions and Priorities

Serbia is clearly the most advanced Contracting Party in terms of transposition and implementation of the oil *acquis*. After three years of operation, it is obvious that the work on emergency oil stockpiling is progressing well. The only remaining by-law not yet transposed is the Emergency Response Plan in the event of an oil supply disruption.

The main priorities for 2017 - 2018 should be:

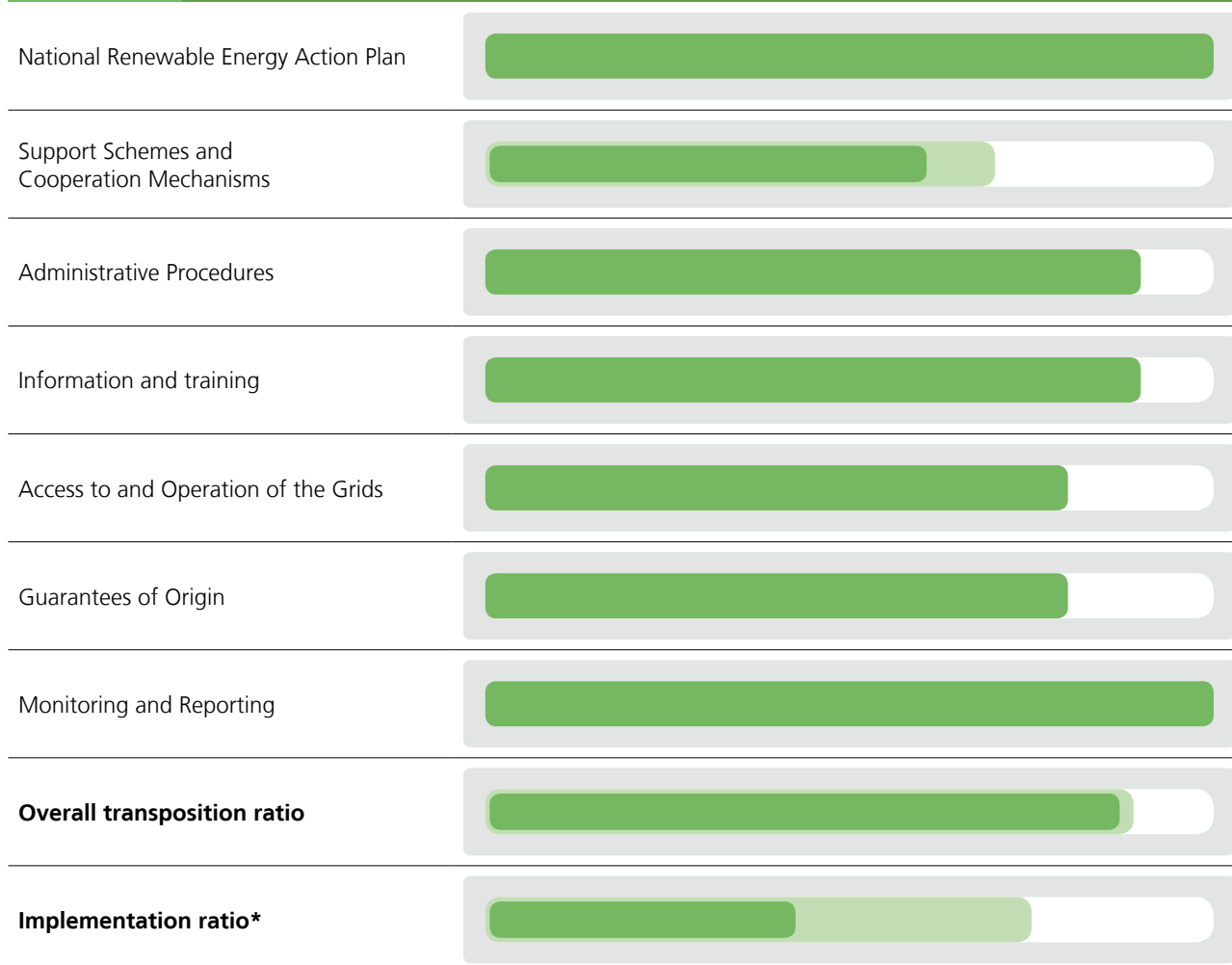
- Approving the Emergency Response Plan; and
- Building up stocks in compliance with the country's long-term, mid-term and annual programmes.





Serbia

10.5 Renewable Energy



Status - Implementation Report 2016 Progress - Implementation Report 2017

* actual implementation of NREAP and progress towards 2020 RES target

Source: Compiled by the Energy Community Secretariat

a. Sector Overview

With the adoption and adaptation of Directive 2009/28/EC by the Ministerial Council in 2012, Serbia committed to a binding 27% target of energy from renewable sources in gross final energy consumption in 2020 compared with 21,2% in 2009. In 2015, according to the energy balance published by EUROSTAT, Serbia achieved a 21,8% share of energy from renewable sources, which is below the third indicative trajectory of 23,8%. Due to the increase of energy consumption compared with 2014 and minimal contribution of new renewable energy projects, the share in 2015 registered a decrease of one percentage point compared with the previous year.

The regulatory decrees on renewable energy adopted by the government in June 2016 are expected to become instrumental

for the development of new renewable energy projects. The regulation on privileged producers determined the conditions and procedure for acquiring the status of privileged producer. The regulation on the incentive measures for producing electricity and heat from renewable sources and for high-efficiency cogeneration set the level of feed-in tariffs offered to privileged producers per type of technology and the duration of the support. The third regulation on the standard model for the power purchase agreement set the template for such agreements to be signed by the privileged renewable energy producers and the guaranteed supplier.

b. State of Compliance

The 2014 Energy Law sets the main legislative framework for renewable energy and partly transposes Directive 2009/28/

Renewable Energy Facts and Figures

	2014	2015	2016
Total capacities (MW)	2910	2914	3051
Hydropower, out of which:	2897	2898	3013
- small hydropower (<10 MW)	54,2	63,2	79
- pumped storage	614	614	614
Wind	0,5	0,5	17
Solar	7,2	10,8	10,8
Biogas	4,9	4,9	10,3
Total consumption of energy from renewable sources* (ktoe)	1937,3	1948,8	
- out of which biomass (ktoe)	1038,3	1044,7	
Gross final energy consumption (ktoe)	8529,2	8944,4	
RES share (%)	22,7%	21,8%	
RES electricity (ktoe)	899	904,1	
Total Electricity generated (ktoe)	3010,2	3153,7	
RES share in electricity (%)	29,9%	28,7%	
RES in heating and cooling (ktoe)	1038,3	1044,7	
Total energy consumed for heating and cooling (ktoe)	3603,3	3947,8	
RES share in heating and cooling (%)	28,8%	26,5%	
RES in transport (ktoe)	20,7	21,5	
Total energy consumed in transport (ktoe)	1765,7	1776,8	
RES share in transport (%)	1,2%	1,2%	

Source: Ministry of Mining and Energy of Serbia and EUROSTAT

EC, including the provisions linked to the transport sector. Additional elements of the legal and regulatory framework for renewable energy are divided among several laws and by-laws. The legal and regulatory framework is still non-compliant in many respects.

1. National Renewable Energy Action Plan

Serbia adopted and submitted to the Secretariat its NREAP by the deadline. The second progress report on the promotion of renewable energy 2014 - 2015 revealed that Serbia is not on the indicative trajectory. The country is at risk of not meeting the 27% renewable energy target in 2020 as the trajectory becomes steeper in the next years. Given the minimal deployment of renewables so far and expected increase of gross final energy consumption to 2020, Serbia should consider revising its NREAP as well as putting in place new measures in order to ensure it is on track to meet the 2020 renewable energy target.

2. Support Schemes

In accordance with the Energy Law, support schemes for various renewable energy technologies have been adopted, including a template for power purchase agreements between privileged renewable energy producers and the guaranteed supplier.

The support schemes do not take into the account the requirements of the State Aid Guidelines for Environmental Protection

and Energy 2014 - 2020 (EEAG), especially rules on granting the aid in a competitive procedure and in the form of a premium on top of the price of electricity sold directly on the market. Proposed amendments to the legal and regulatory framework have to be finalised and adopted in the upcoming period to ensure compliance with the renewable energy *acquis*.

3. Cooperation Mechanisms

The possibility to enter into cooperation mechanisms is partially transposed in the new Energy Law. In case Serbia plans to make use of the cooperation mechanisms to reach the 2020 target, the government, upon a proposal of the ministry, shall adopt the conditions for implementation of cooperation mechanisms with one or more Contracting Parties as set out in Decision 2012/04/MC-EnC of the Ministerial Council.

In case of cooperation with EU Member States using statistical transfers or joint support schemes, Serbia must ensure compliance with Articles 8, 9 and 13 of Decision 2012/04/MC-EnC. In case of joint projects on renewable energy, the conditions set in Articles 7, 8, 9 and 10 of Directive 2009/28/EC as adapted by Decision 2012/04/MC-EnC of the Ministerial Council have to be transposed and implemented.

4. Administrative Procedures

The investor guides for various renewable energy technologies

have been updated. However, the requirements for streamlining, simplification and coordination of procedures for authorization, licensing and network connections and introduction of one-stop shops as required by the revised Law on Construction and Planning are yet to be implemented in practice. No significant progress has been registered in the reporting period. Serbia must ensure full compliance with Article 13 of Directive 2009/28/EC.

5. Access to and Operation of the Grids

Currently, the Energy Law does not include guaranteed access for electricity or gas produced from renewable sources to enable the transition to a support scheme based on a feed-in premium to be paid on top of the price of electricity or gas sold directly to the market. It only contains priority dispatch for renewables under the condition that security of supply or operation of the distribution or transmission system will not be jeopardised. If priority dispatch is rejected on these grounds, the distribution and transmission system operators must inform the regulator about the measures needed to prevent the limitation of electricity from renewable sources. Compensation in case of curtailments is envisaged in the power purchase agreement template adopted by a 2016 government decree.

The methodologies for determining connection costs to the transmission and distribution systems were approved by AERS in December 2015 and entered into force by the end of the same

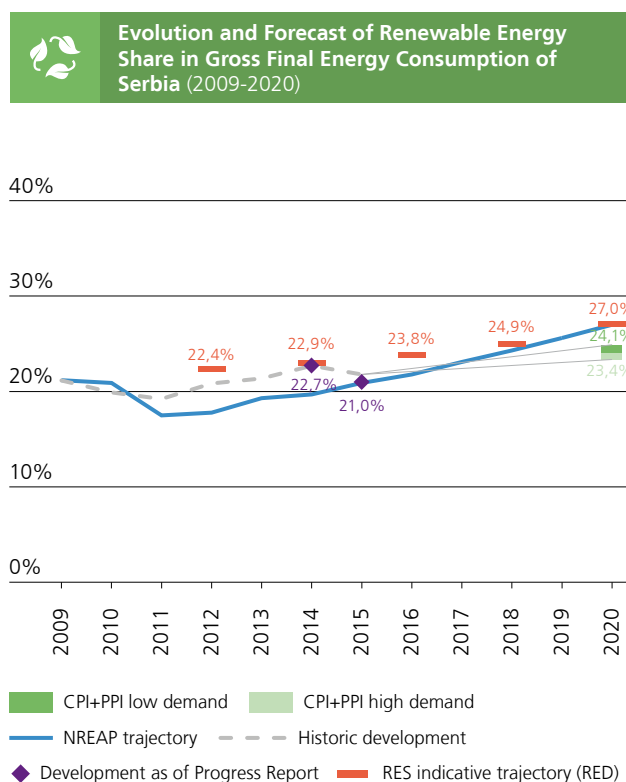
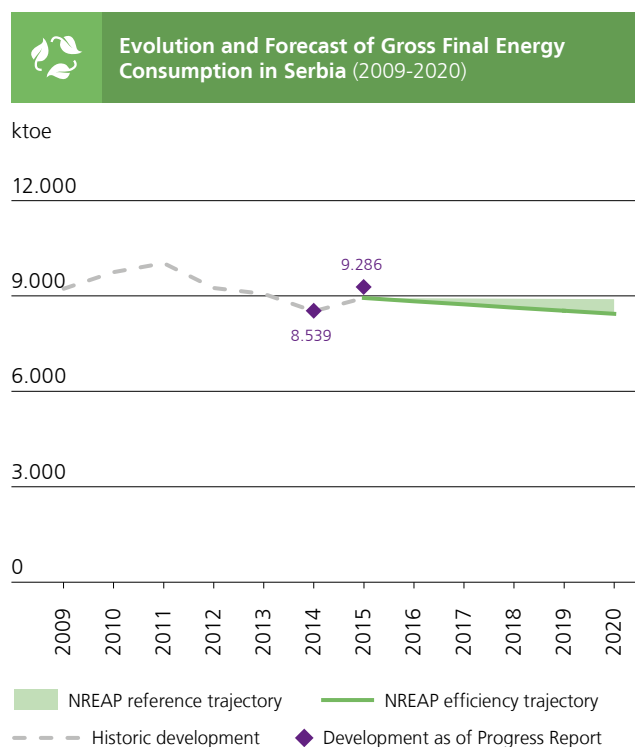
year. Detailed information about the procedures is available on the operators' websites. However, in practice, the procedures for connection to the transmission and distribution grids are the greatest barriers after the permitting and authorisation procedures. Overall, Serbia does not fully comply with Article 16 of the Directive.

6. Guarantees of Origin

Based on the Rules on Issuing, Transfer and Cancellation of Guarantees of Origin, the transmission system operator EMS, as the issuing body for guarantees of origin, has taken steps towards the implementation of an accurate, reliable and fraud-resistant system in accordance with European practice. Based on a software solution compliant with European practice, the registry for guarantees of origin became operational in July 2016, however, no further progress has been registered in the reporting period. Serbia shall ensure full compliance with Article 15 of the Renewable Energy Directive in the implementation phase.

7. Renewable Energy in Heating and Cooling

Investment support for biomass heating power plants has only recently been introduced. Nonetheless, the framework for promotion of heating and cooling from renewable sources is not yet complete.



Source: Technical University Vienna, Assessment of the Progress in the Promotion and Use of Renewable Energy in the Energy Community, July 2017

During this reporting period, a project targeting the conversion of several district heating plants from fossil fuels to biomass has begun. In addition, the first biomass logistics and trading centre has been opened in Serbia. Nevertheless, increasing the efficiency of wood biomass use for heating by residential customers requires further support. Serbia needs to ensure full compliance and continue the promotion of heating and cooling from renewable sources in the most cost-effective and sustainable way.

8. Renewable Energy in Transport

Serbia's NREAP includes the 10% renewables target in transport by 2020. However, the actual share of energy from renewables in the transport sector is close to 0%. Despite being an obligation under the 2014 Energy Law, the sustainability criteria for biofuels have not been adopted so far.

Serbia is completely non-compliant with provisions of Directive 2009/28/EC in the transport sector, none of the Articles 17 to 21 has been transposed. Even measures already required by the previous Directive 2003/30/EC have not been fulfilled in Serbia.

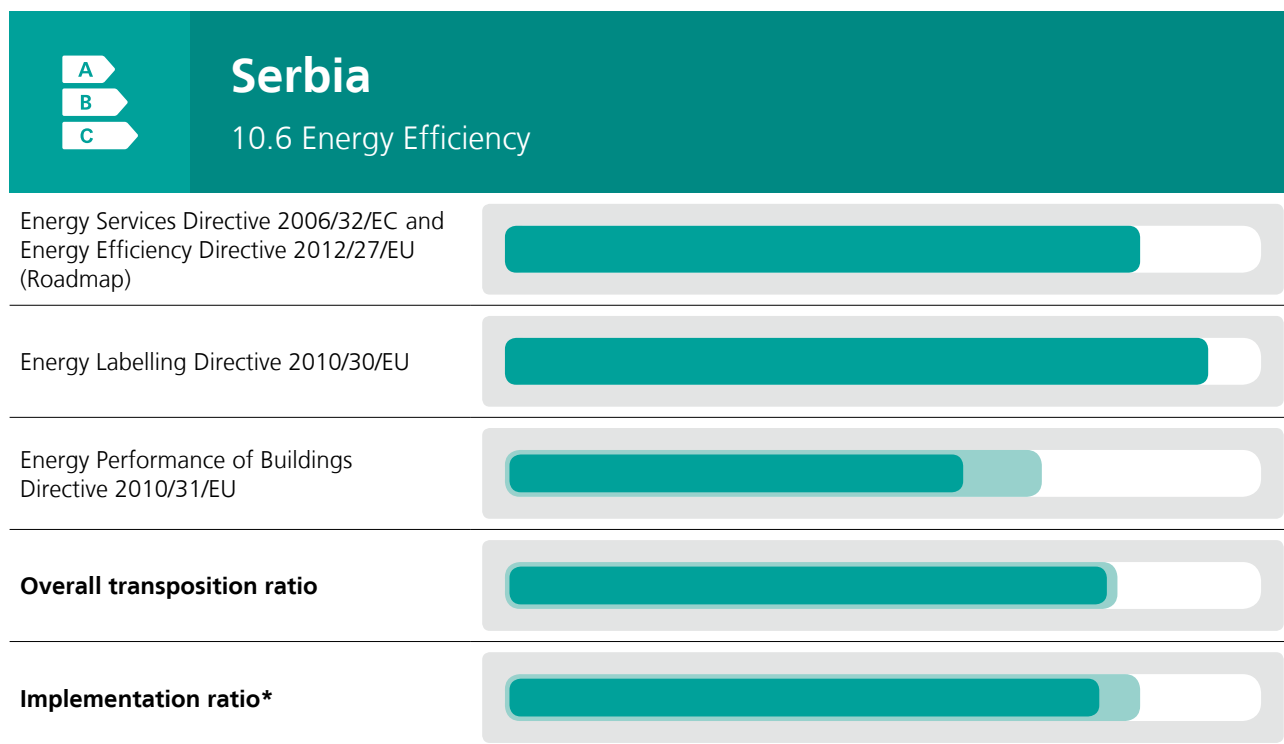
c. Conclusions and Priorities

In this reporting period, Serbia made progress in implementing renewable energy policy measures. However, the achievement of the technology objectives outlined in its NREAP is far from satisfactory. Serbia needs to revise its NREAP in order to ensure the country is on track to meet the renewable energy targets in 2020. Moreover, the secondary legislation on support schemes based on feed-in tariffs adopted in 2016 needs to be amended in order to comply with the State aid *acquis*. A revision of the Energy Law and the relevant regulatory framework in this respect shall be prioritized in the upcoming period.

The administrative, permitting and grid connection procedures and commercial agreements have to be further streamlined to ensure a conducive environment for investors. Fostering the contribution of renewables in heating and cooling needs to continue. Measures to increase the efficient use of renewables in heating shall be a priority to ensure sustainability of the bioenergy used.

Finally, Serbia should also introduce compliant sustainability criteria and a certification system for liquid biofuels without further delay.





a. Sector Overview

Final energy consumption in Serbia increased in 2015, while the gross domestic product continued to recover after its contraction in 2012. The increased consumption pushed energy intensity upwards in 2015. The residential sector constituted the highest share of total final energy consumption (32%), followed by industry (26%) and transport (23%).

The Ministry of Mining and Energy is the key institution for implementation of state energy efficiency policy, while the Ministry of Construction, Transport and Infrastructure is responsible for developing and updating legislation for the improvement of energy performances of buildings. State support for measures in public sector is provided through the budgetary fund for energy efficiency.

During the reporting period, the Ministry of Mining and Energy continued preparing for the transposition of the Energy Efficiency Directive. Nevertheless, at the time of publication of this report, Serbia has not submitted a draft law to the Secretariat for comments.

In practical terms, seven tenders were prepared for municipal street lighting projects financed with energy service companies (ESCOs), with two projects already being implemented.

The 3rd Energy Efficiency Action Plan (EEAP) reported savings of 4.4% achieved between 2010 and 2015 out of the 9% energy

savings target to be achieved in 2018.

b. State of Compliance

Serbia has achieved a high level of implementation of the energy efficiency *acquis*. However, efforts must continue to achieve full implementation.

1. Energy Services Directive 2006/32/EC and Energy Efficiency Directive 27/2012/EU

The Law on Efficient Use of Energy adopted in March 2013 transposes the main provisions of Directive 2006/32/EC (definitions, EEAP requirements, energy audits, minimum energy efficiency requirements in generation, transmission and distribution of electricity, new financing mechanisms and obligations of the public sector).

The Ministry of Mining and Energy has also adopted a comprehensive package of secondary legislation to enable the full implementation of Directive 2006/32/EC and certain aspects of Directive 2012/27/EU (e.g. energy management). The 3rd EEAP was adopted in December 2016 and includes a roadmap for full implementation of Directive 2012/27/EU. The first annual report under Directive 2012/27/EU was submitted in June 2017, as required by Article 24(1) of Directive 2012/27/EU. Nevertheless, Serbia has missed the following reporting deadlines foreseen in the Directive: 30 March 2017 for Article 4, 1 January 2017 for Article 5, and 15 March 2017 for Article 7.

Energy Efficiency Facts and Figures

Energy Efficiency Action Plan (EEAP)*					
Period covered by EEAP		2010 - 2018			
Overall energy savings target - Directive 2006/32/EC (ktoe / % / year)		752 / 9 / 2018			
EEAP status		3 rd EEAP adopted by the Government in December 2016			
Achieved energy savings (ktoe / % / year)		370 / 4,4 / 2015			
Key institution(s) in charge		Ministry of Mining and Energy; Ministry of Construction, Transport and Infrastructure; other state and local authorities			
Main data and energy efficiency indicators**		2012	2013	2014	2015 ***
Total primary energy supply (TPES)	ktoe	14.545	14.908	13.259	14.736
Energy intensity (TPES/GDP)	toe / 1000 USD	0,39	0,39	0,35	0,37
TPES/Population	toe/capita	2,02	2,08	1,86	2,06
Total final energy consumption (TFEC)	ktoe	8.650	8.675	8.118	8.770
Share of TFEC by sector	Residential	36%	33%	34%	32%
	Services	10%	9%	9%	10%
	Industry	28%	28%	24%	26%
	Transport	20%	22%	25%	23%
	Others	2%	2%	2%	2%
	Non-energy use	4%	6%	6%	7%

* Source: 3rd EEAP of Serbia

**Source: International Energy Agency (June 2017)

*** Indicators calculated by the Energy Community Secretariat on EUROSTAT energy balances

2. Energy Labelling Directive 2010/30/EU

Directive 2010/30/EU and nine delegated acts were transposed with the adoption of the Decree and Rulebooks on the Labelling of Energy-Related Products. Regulations on vacuum cleaners, tumble driers, ovens and range hoods were adopted in 2017. The remaining three regulations for space heaters, water heaters and combined washer dryers were drafted, but their adoption is pending. Therefore, Serbia is not fully compliant with Directive 2010/30/EU.

3. Energy Performance of Buildings Directive 2010/31/EU

The Law on Construction and Planning, the Law on Efficient Use of Energy, the Rulebook on Energy Efficiency of Buildings, the Rulebook on Conditions, Content and Manner of Issuance of Certificates of Energy Performance of Buildings, and the Rulebook on Inspection of Heating and Air Conditioning Systems transposed core provisions of Directive 2010/31/EU. However, little progress has been achieved regarding the full transposition of Directive 2010/31/EU since the last Implementation Report. Provisions related to the adoption of the methodology for calculation of cost-optimal levels of energy performance

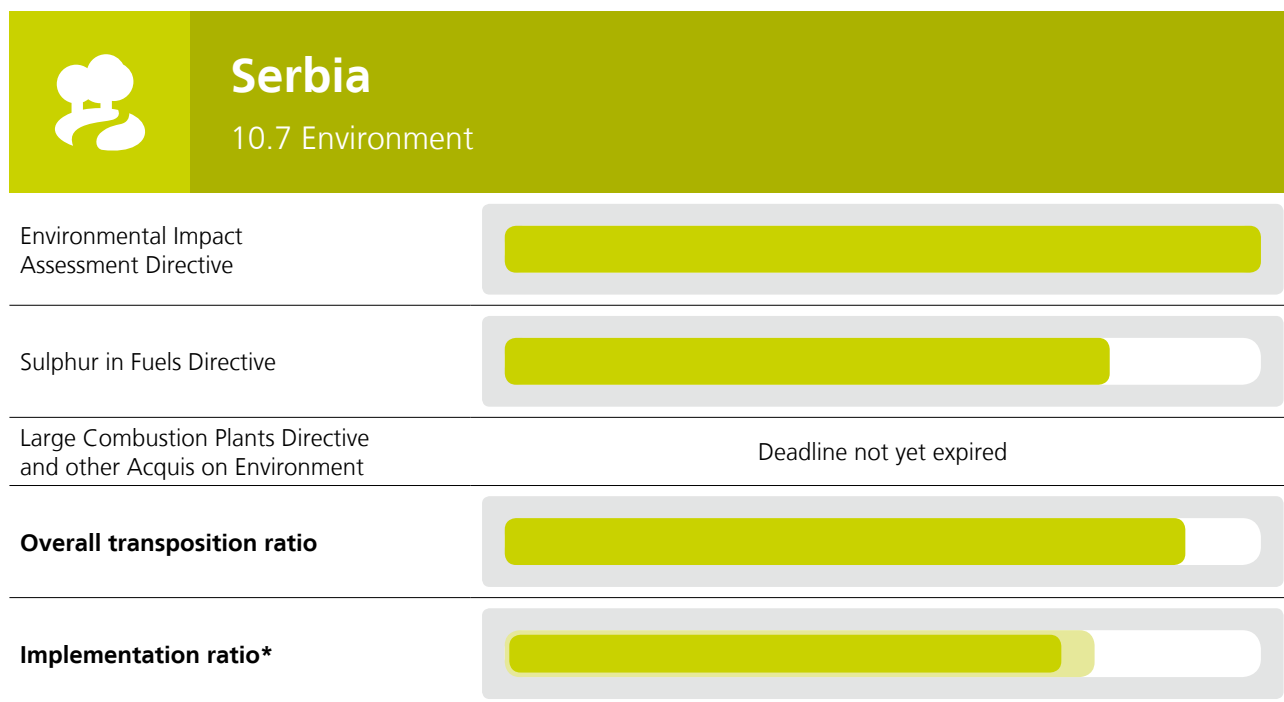
requirements, setting nearly zero-energy building targets and preparation of national plans to increase their uptake are still missing.

c. Conclusions and Priorities

Serbia achieved progress towards transposition and implementation of the energy efficiency *acquis* with the adoption of the 3rd EEAP, as well as the regulations on labelling of certain energy related products. Nevertheless, additional secondary legislation mainly linked to the buildings *acquis* is still missing and should be adopted without delay.

The first priority for Serbia in the forthcoming period is the transposition of the Energy Efficiency Directive, either through amending the Law on Efficient Use of Energy or through a new law on energy efficiency.

The second priority should be the full implementation of the Buildings Directive and adoption of the remaining two delegated regulations on space heaters and water heaters in accordance with the Ministerial Council Decision of September 2014.



■ Status - Implementation Report 2016 ■ Progress - Implementation Report 2017

* Environmental Performance Indicators (EPI) on air quality, climate and energy; LCPD implementation preparedness

Source: Compiled by the Energy Community Secretariat

a. Sector Overview

Environmental impact assessment in Serbia is governed by the Law on Environmental Impact Assessment of 2004, as amended in 2009. The list of activities requiring an environmental impact assessment is transposed by the Decree on the Lists of Projects Subject to an Environmental Impact Assessment of 2008. Furthermore, Serbia adopted a Law on the Ratification of Amendments to the Espoo Convention governing transboundary environmental assessments in 2016. Following the entry into force of the new Environmental Impact Assessment Directive (2011/92/EU) and its amendments by Directive 2014/52/EU in the Energy Community, Serbia started revising the Decree.

Environmental impact assessments are carried out by different authorities depending on the responsibilities for issuing building permits, while all environmental impact assessments with potential transboundary impact fall under the responsibility of the Ministry of Environmental Protection.

The environmental impact assessments for four Projects of Energy Community Interest are ongoing (400 kV OHL SS Kragujevac - SS Kraljevo; 400 kV OHL SS Resita (RO) - SS Pancevo (RS); 400 kV OHL SS Obrenovac - SS Bajina Bašta; and interconnection pipeline Niš (RS) – Dimitrovgrad (BU)). For two others (400 kV OHL Bajina Bašta (RS) - Višegrad (BA) - Pljevlja (ME) and Interconnector Serbia - former Yugoslav Republic of Macedonia), the preparation of the environmental impact assessment has not started yet.

With regard to the Sulphur in Fuels Directive, Serbia has two

refineries producing heavy fuel oil and gas oil located in the municipalities of Pancevo and Novi Sad operated by NIS a.d. The legal framework consists of the Law on Technical Requirements for Products and Conformity Assessment, the Rulebook on Technical and Other Requirements for Liquid Fuels of Petroleum Origin, the Decree on Oil Derivatives and Biofuels Quality Monitoring, and the Rulebook on the Annual Programme of Fuel Quality Monitoring for 2017. Serbia has also ratified the MARPOL Convention on the Prevention and Pollution from Ships. In 2016, 59 samples of heavy fuel oil and gas oil were tested.

Serbia has nine thermal power plants falling under the scope of the Large Combustion Plants Directive operated by Elektroprivreda Srbije (EPS), with a total of 21 units and a total rated thermal input of 15.049 MW (including Toplana Vreoci Kolubara Prerada and an auxiliary boiler at TPP Nikola Tesla B). Seventeen units are fired by lignite while four are running on natural gas. Furthermore, a total of 26 combustion plant units are operated in different industrial sectors.

Serbia has adopted legislation regulating the emissions of large combustion plants, namely the Regulation on Emission Limit Values of Pollutants into Air from Combustion Plants and the Regulation on the Measurements of Emissions of Pollutants into Air from Stationary Sources of Pollution.

Implementation of the Wild Birds Directive takes place at national, provincial and local level. The authorities in charge for implementing the Directive are the Ministry of Environmental Protection together with the relevant agencies (at national

level) and the Provincial Secretariat for Urban Planning and Environmental Protection together with the Provincial Institute for Nature Conservation (at regional level). In Serbia, there are ten Ramsar sites and several sites nominated for the Emerald Network which are however not yet designated. Furthermore, the national system of protected areas includes various levels of protection (strict nature reserve, special nature reserve, national park, monument of nature, protected habitat, landscape of exceptional qualities and nature park).

b. State of Compliance

With the exception of the Sulphur in Fuels Directive, Serbia has reached a high level of transposition of the Energy Community environmental *acquis*.

1. Environmental Impact Assessment Directive

Serbia has transposed the currently applicable version of the Environmental Impact Assessment Directive into national law.

2. Sulphur in Fuels Directive

Sulphur in Fuels Directive is only partially transposed into Serbian law. As confirmed by Decision 2016/04/MC-EnC of the Ministerial Council of 14 October 2016, Serbia failed to fulfil its obligations to transpose Article 3(1) of the Sulphur in Fuels Directive by 31 December 2011 into national legislation. Despite the fact that the 2015 amendment of the Rulebook addressed some issues (namely the definition of heavy fuel oil and gas oil as well as sampling and analysis), one of the critical issues still persists, namely that the Rulebook allows for an unconditional derogation from the maximum sulphur content of heavy fuel oil until the end of 2019.

As regards marine fuels, the fuels used in ships navigating in the inland waterways of Serbia must have less than 1.00% sulphur by mass in accordance with the Rulebook on Technical and Other Requirements for Liquid Fuels of Petroleum Origin.

3. Large Combustion Plants and Industrial Emissions Directives

Domestic law effectively transposes the emission limit values of the Large Combustion Plants Directive (for existing plants) and the Industrial Emissions Directive (for new plants) and enable Serbia to implement the provisions of these Directives by the deadlines, namely 1 of January 2018.

In its opinion of 13 October 2016, the Secretariat recommended certain amendments to the draft National Emission Reduction Plan (NERP) and indicated that in case they are implemented, the NERP prepared by Serbia will meet the requirements of the Secretariat's Policy Guidelines on NERPs. The final NERP, however, has not been adopted to date. Preparation of the strategic environmental assessment of the NERP is planned for the second half of 2017.

4. Wild Birds Directive

Serbia has transposed Article 4(2) of the Directive by the Law on Nature Protection. As regards the further steps, Serbia shall focus on practical implementation of the Directive and step up efforts in the designation of special protective areas.

c. Conclusions and Priorities

Serbia followed up on the priorities identified in last year's Implementation Report, with the exception of the ones related to the Sulphur in Fuels Directive. Serbia must comply with the Decision of the Ministerial Council and complete the transposition and effective implementation of the Sulphur in Fuels Directive.

As regards the Large Combustion Plants and Industrial Emissions Directives, Serbia should speed up its efforts on preparing for the practical implementation of the Directives, in particular adopting the NERP. Environmental permits of large combustion plants shall be reconsidered and updated to be brought in line with the emission ceilings established by the NERP.

Serbia should proceed with the adoption of the amendments to the Laws on Environmental Impact Assessment and Strategic Environmental Assessment in order to comply with the deadlines required by the Energy Community environmental *acquis*, namely 1 January 2019 and 31 March 2018, respectively.



Non-compliance with Sulphur in Fuels Directive

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On 14 October 2016, the Ministerial Council adopted Decision 2016/04/MC-EnC in Case ECS-4/13 on the failure by Serbia to comply with the thresholds set in the Sulphur in Fuels Directive.

Since the breaches have not been rectified to date, the Secretariat – as invited by the Ministerial Council – will request a decision under Article 92 of the Treaty at the next Ministerial Council meeting in 2017.



Serbia

10.8 Climate

a. Sector Overview

Serbia is a Non-Annex 1 country and has been party to the United Nations Framework Convention on Climate Change since 2001 and to the Kyoto Protocol since 2008. The Ministry of Agriculture and Environmental Protection is the national focal point for the implementation of the Convention and the Protocol.

Serbia submitted to the UNFCCC one National Communication on climate change (2010) and one Biennial Update Report in 2016. In its National Determined Contributions (NDC), the country made a pledge to reduce greenhouse gas emissions by 9.8% by 2030 compared to 1990 levels. A Climate Change Law was drafted in the past months and is currently under review/under consultation. Serbia ratified the Paris Agreement in May 2017.

b. State of Compliance

The legal basis for work on climate issues and creation of national greenhouse gas inventories is the Law on Air Quality. A draft of the Law on Climate Change was elaborated and is still discussed by the Ministry of Environmental Protection within its climate change working group, which includes governmental officials, experts and members of civil society.

Serbia is expected to establish institutional and procedural arrangements for the implementation of the Monitoring Mechanism Regulation and to strengthen the administrative capacities of the relevant institutions in the field of climate change.

1. National Inventory System

The competent authority for data collection in Serbia is the Environmental Protection Agency. The agency started to prepare the inventories in early 2013, covering the period 1990 – 2013, and updates the inventory on a regular basis. The country is using the methodology of the 2006 IPCC Guidelines for National Greenhouse Gas Inventories. To date, there are no legal instruments to force operators refusing to share information

on GHG emissions; compliance with the corresponding provisions of the Monitoring Mechanism Regulation (EU) 525/2013 should be ensured.

2. Low Carbon-development Strategies

Preparation of the National Climate Change Strategy is still in its early phases. It started in July 2016 and its first deliverable (identification of policy gaps) is under finalization. The strategy and action plan will identify priority emissions reduction measures and define the responsible institutions for specific options together with timelines for implementation and overall financial resource requirements. The strategy will also provide a framework for an adaptation policy addressing the priority areas of agriculture, forestry and water management. This provision is not yet in full compliance with the Regulation (EU) 525/2013.

3. Policies, Measures, Projections

The cost-effective greenhouse gases mitigation potential of Serbia will be assessed through the preparation of quantitative scenarios/projections and regular reporting thereon. These will cover key economic sectors for the years 2020, 2025, 2030 and 2050. This provision is not yet in full compliance with the Monitoring Mechanism Regulation.

c. Conclusions and Priorities

Doubts remain on the quality of the data gathered on greenhouse gas emissions, which results in a certain level of uncertainty about the preciseness of the inventories. For the time being, verification is carried out mainly by the Environmental Protection Agency, with serious constraints in terms of human resources.

The speeding-up of the adoption of climate change legislation – currently still in the draft phase - and the finalization of the National Climate Change Strategy represent the two key priorities for Serbia in the upcoming period.



Serbia

10.9 Competition

a. Sector Overview

Competition law in Serbia is enforced by the Commission for Protection of Competition (CPC).

Since its establishment, with regard to the energy sectors, the CPC had so far only been active in the review of merger transactions. In the reporting period, however, it adopted a decision on abuse of dominance. Furthermore, it completed its sixth sector inquiry of the wholesale and retail petroleum product markets in Serbia in 2015.

The body in charge of the enforcement of State aid law is the Commission for State Aid Control. It is assisted by the Department for State Aid Control, established within the Ministry of Finance.

b. State of Compliance

1. Competition Law

The Law on Protection of Competition is largely in line with the competition *acquis*. However, its implementation and application in the energy sectors still has to be improved. The CPC's cooperation with the Secretariat is very satisfactory; however, it should also engage in cooperation with other national competition authorities in the framework of the Energy Community Competition Network.

On 23 December 2016, the CPC adopted its first decision in the electricity sector, finding that the national electricity distribution system operator EPS Distribucija LLC Belgrade ("EPS Distribution") abused its dominant position as the sole operator on the market for electricity distribution in Serbia. It found that EPS Distribution abused its dominant position by placing certain commercial electricity suppliers and, in particular, its sister company EPS Snabdevanje LLC Belgrade ("EPS Supply"), in a more favourable position *vis-à-vis* their competitors. While contracting access to the electricity distribution system, EPS Distribution imposed a commitment to deposit security instruments on all commercial suppliers except its sister company, EPS Supply. At the same time, EPS Distribution discriminated between different suppliers in terms of the amount of the deposited security instruments, by setting the amount for some suppliers based on the monthly value of services provided, while for others the amount was based on the quarterly value. In addition, almost all commercial suppliers of electricity were obliged to deposit their security instruments in just one commercial bank, chosen by EPS Distribution. During a brief period, EPS Supply also enjoyed a much longer grace period for

settling its liabilities towards EPS Distribution, compared to all other commercial suppliers. This conduct resulted in increased costs for competing commercial electricity suppliers. A fine amounting to approximately EUR 2,67 million was imposed on EPS Distribution. Furthermore, behavioural measures aimed at providing equal business conditions on the relevant market were imposed on EPS Distribution. This decision constitutes considerable progress in the enforcement of competition law in the electricity sector. However, the decision has been appealed and is currently pending before the Supreme Court.

Furthermore, in September 2017, Gecic Law Firm, the Association for Protection of Constitutionality and Legality and YUCOM Lawyers' Committee for Human Rights have lodged a constitutional challenge against the Law on Protection of Competition, secondary legislation and general regulations before the Constitutional Court for non-compliance with the Constitution and the European Convention of Human Rights (ECHR). They argue that competition procedures are of criminal nature but because they are dealt with under administrative proceedings, they lack certain procedural safeguards required by the ECHR. Furthermore, they allege that the principle of *nulla poena sine lege* is infringed since the fines are calculated according to secondary legislation. Finally, they argue that the principle of *ne bis in idem* is infringed because companies can be fined and found to be liable for bid rigging under criminal law.

2. State Aid Law

The Law on State Aid Control is generally in line with the State aid *acquis*. Some changes to the by-law are in the process of being adopted. However, the Secretariat cannot comment on its compliance since the draft amendments are not public and are not available to the Secretariat.



Non-compliance with State Aid Acquis

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On 19 May 2017, the Secretariat submitted a Reasoned Request to the Ministerial Council in Case ECS-11/14 concerning Serbia's failure to comply with the Energy Community State aid *acquis*. In its Reasoned Request, the Secretariat challenged that the Serbian Commission for State Aid Control has not assessed or incorrectly assessed the compatibility of certain measures constituting State aid granted to Elektroprivreda Srbije for the Kolubara B project.

The State aid enforcement authority is not independent as it is closely linked to the Ministry of Finance and chaired by a representative of the same ministry. Furthermore, there is no commitment to cooperation with the Secretariat and other national State aid authorities in the framework of the Energy Community State Aid Network.

	Non-compliance with Competition Acquis related to Serbia-Russia Intergovernmental Agreement on Natural Gas Supply
I N D I S P U T E	<p>On 19 May 2017, the Secretariat submitted a Reasoned Request to the Ministerial Council in Case ECS-18/16 on Serbia's failure to comply with the Energy Community competition <i>acquis</i>. The Secretariat considers that by ratifying an agreement requiring undertakings to adopt anti-competitive conduct in the sense of Article 18(1)(a) of the Treaty, Serbia deprived this provision of its effectiveness and thereby infringed its obligations under the Treaty.</p>

The Secretariat has initiated an enforcement case in relation to support measures in the form of guarantees for loans and the transfer of property for the Kolubara power plant project. Serbia had issued four state guarantees for loans from EBRD and KfW to Elektroprivreda Srbije (EPS) and transferred property and land to EPS for the same project. The Secretariat found that the support measures constituted State aid. However, the Commission for State Aid Control issued a decision only with regard to one of these measures. Therefore, the Secretariat con-

cludes that by not rendering a decision regarding the remaining measures and incorrectly assessing one measure, Serbia did not fulfil its obligation to enforce the Energy Community State aid *acquis* effectively.

Moreover, the Secretariat is currently reviewing a complaint regarding support measures for the Kostolac power plant project.

c. Conclusions and Priorities

Despite having transposed the competition *acquis* to a large extent, the CPC's enforcement of competition law in the energy sectors has been at a low level so far. The CPC rendered its first decision regarding an abuse of dominance and should continue its enforcement activity. It is also advisable that it undertakes an inquiry into the electricity and gas sectors in addition to the inquiry into the oil market, as these markets suffer from a high degree of concentration.

In the area of State aid, no progress has been made with regard to the enforcement activities. The Commission for State Aid Control only became active with regard to the support for the Kolubara project following a request for information issued by the Secretariat. The decision rendered is not in line with the State aid *acquis*. The Commission for State Aid Control should more actively investigate support measures and issue formal decisions which strictly follow the rules for the assessment of State aid. As recommended last year, the Commission's independence from the Ministry of Finance should be strengthened and not be composed of representatives of the ministry itself.





Serbia

10.10 Infrastructure

a. Sector Overview

In order to facilitate the development of strategic energy infrastructure, the government adopted a law on establishing public interest and special procedures for the expropriation and obtaining of documents for the realization of the construction of a 400 kV power transmission system “Transbalkan Corridor - First phase”, a Project of Energy Community Interest. It outlines the procedures for public consultation and for permitting and land acquisition.

Nevertheless, the country has not yet transposed and implemented Regulation (EU) 347/2013.

In Serbia, four sections of the Transbalkan Corridor, namely 400 kV OHL Resita (RO) - Pancevo (RS), 400 kV OHL Kragujevac (RS) - Kraljevo (RS), 400 kV OHL Obrenovac (RS) - Bajina Basta (RS) and 400 kV OHL Bajina Basta (RS) - Visegrad (BA) - Pljevlja (ME) (EL_01), have received the Project of Energy Community Interest label. Among gas projects, the Serbia (Nis) - Bulgaria interconnector (Gas_09) and Serbia (Vranje) - former Yugoslav Republic of Macedonia (Klečovce - Sopot) (Gas_11) have been designated as Projects of Energy Community Interest, and the Serbia (Futog) - Croatia interconnector project (Gas_10) has received the Project of Mutual Interest label.

b. State of Compliance

Serbia missed the deadline to transpose Regulation (EU) 347/2013 and to designate a single national competent authority. Serbia is yet to agree on a plan to ensure that the deadlines stipulated by the Regulation are met.

1. Designation of National Competent Authority

No decision was taken to date on the designation of the competent authority as required by Article 8(1) of Regulation (EU) 347/2013. The government is currently considering extending the competences of the existing institutions to cover the tasks of the competent authority in line with the provision of Regulation (EU) 347/2013 and to act as a one-stop shop.

2. Status of Highest National Significance for Energy Community Priority Projects

Priority status for energy facilities of strategic importance is not stipulated in the current Law on Planning and Construction. However, the Law on the Transbalkan Corridor grants a special status to that Corridor.

3. Manual of Procedures

A unified procedure already exists and is applied for all infrastructure projects by the Ministry of Construction, Transport and Infrastructure. There are strictly defined deadlines to obtain all relevant documents from the other permit granting entities. The unified procedure is fully web based. However, it is not fully compliant with Regulation (EU) 347/2013.

4. Transparency and Public Participation

Pursuant to the Law on Planning and Construction, public participation in the field of infrastructure investments is obligatory at the stage of presentation of the project’s draft planning document. As a rule, the construction planning documents for energy facilities are subject to a strategic environmental impact assessment in accordance with the Law on Strategic Environmental Impact Assessment.

Both procedures envisage the participation of the public, including stakeholders from other countries in case of cross-border impacts. The transparency of the construction status of the investment is ensured by public access to data and procedures of the ministry’s department for construction works, the unified procedure being published online on the website of the competent ministry or the website of the Agency for Business Registers within the central registry of unified procedures. Nevertheless, public participation processes are still not in line with Regulation (EU) 347/2013.

5. Project Visibility and Dedicated Websites

A dedicated web page for projects of Energy community interest is still to be made by project promoters.

c. Conclusions and Priorities

Serbia should adopt a law or by-law that will ensure transposition of Regulation (EU) 347/2013 immediately.

The national competent authority should be designated and become fully operational as soon as possible. It should publish a manual of procedures for the permit granting process, applicable for Projects of Energy Community Interest, following the minimum structure presented in Annex X of the Regulation (EU) 347/2013, by 31 December 2017.

The national regulatory authority AERS should publish the methodology and criteria to be used to evaluate investment in electricity and gas projects and the higher risks incurred by them by 31 December 2017. AERS should also establish and make publicly available a set of indicators and corresponding reference values for the comparison of unit investment costs by 30 June 2018.



Serbia

10.11 Statistics

a. Sector Overview

The Law on Official Statistics established the legal framework for the organization, production and dissemination of official statistics. The central body responsible for energy statistics is the Statistical Office of the Republic of Serbia (SORS). It operates in accordance with the Strategy for Development of Official Statistics adopted by the parliament, and a multi-year statistical programme and annual plan of official statistics adopted by the government.

SORS publishes its release calendar and prepares reports on the implementation of the plan and programme. SORS established the quality management system based on written procedures and policies.

The Energy Law from 2014 supports the collection of official statistics by obliging economic operators to provide the necessary data at the request of the ministry in charge of energy.

b. State of Compliance

To fully comply with the statistics *acquis*, Serbia must implement the reporting requirements in terms of monthly data collection in oil and gas.

1. Regulation (EC) 1099/2008 on Energy Statistics

SORS collects, compiles and disseminates annual energy statistics comprising supply, transformation and consumption of solid fuels, gas, oil, oil derivatives, electricity, heat and renewable energy. The data are collected from regular annual surveys from companies operating in the energy sector, including traders, administrative sources and surveys in industry, transport and construction.

Data is available on the website of SORS and in the form of five questionnaires communicated to IEA and EUROSTAT. Annual energy statistics are published by EUROSTAT. The only shortcoming referred to the data series on electricity generation capacities, which was addressed in the course of 2017.

The *acquis* related to annual statistics is mostly implemented.

SORS is also responsible for disseminating monthly data. The web application for monthly data reporting has been operational since 2014. Monthly electricity and coal data have been collected and transmitted to EUROSTAT from September 2015 onward.

The ministry is responsible for reinforcing implementation of the Regulation on the Methodology of Data Collection and Processing and Calculation of Average Daily Net Imports, the Average Daily Consumption and the Amount of Required Reserves of Oil and Oil Derivatives. Yet, it has not followed up on this task. While SORS was expected to complete implementation of Annex C of Regulation (EC) 1099/2008 as set out in the Annual Plan for Official Statistics for 2016, monthly oil and gas data are still not transmitted in line with the *acquis*.

Failing to collect and submit to EUROSTAT its monthly oil statistics, Serbia does not comply with Annex C and Annex D of Regulation (EC) 1099/2008 as well as with the General Policy Guideline on Implementation of Certain Deadlines of the Oil Stocks Directive in the Energy Community.

2. Directive 2008/92/EC on Transparency of Gas and Electricity Prices for Industrial End-users

SORS is responsible for price statistics. Questionnaires for collection of gas and electricity prices charged to industry and households were developed in accordance with EUROSTAT methodology. Prices of electricity and gas for industry and households per consumption band and the price breakdown per component and level of taxation are submitted to EUROSTAT.

Price system reporting is established in accordance with the *acquis*.

c. Conclusions and Priorities

Serbia has to collect and disseminate the remaining monthly data in the requested format and ensure its timely transmission to EUROSTAT. The priority is the full implementation of Annex C of Regulation (EC) 1099/2008, followed by Annex D of Regulation (EC) 1099/2008.

The system of continuous data collection should be completed and permanently improved. Additional efforts will be needed to implement *acquis* related to detailed data on energy consumption in households, which is due for 2016 annual data.

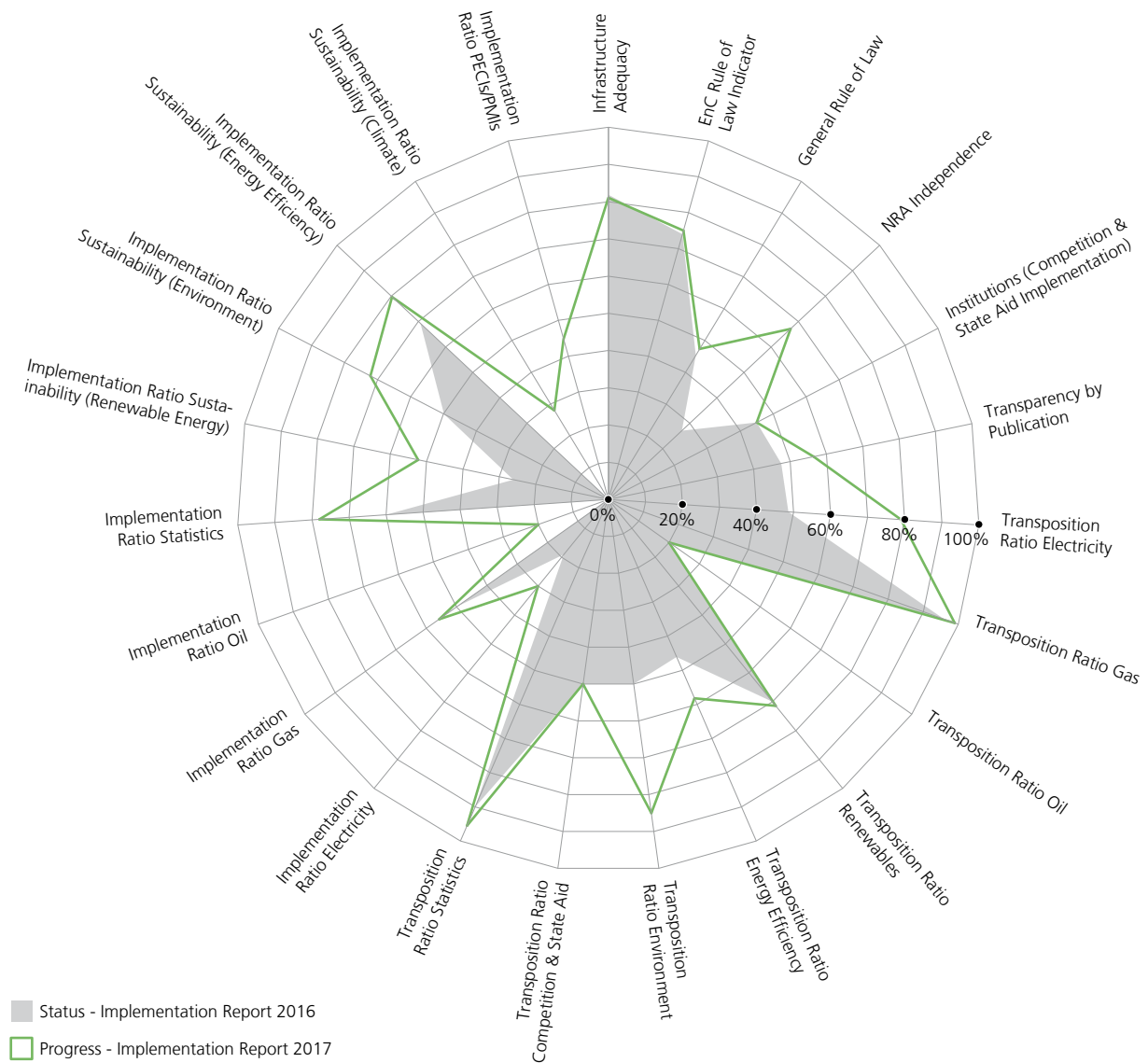
Methodologies and procedures for price statistics will need continuous improvement to reflect changes in the functioning of the market and new reporting requirements.



11

Ukraine

Implementation Indicators Radar of Ukraine



Source: Compiled by the Energy Community Secretariat

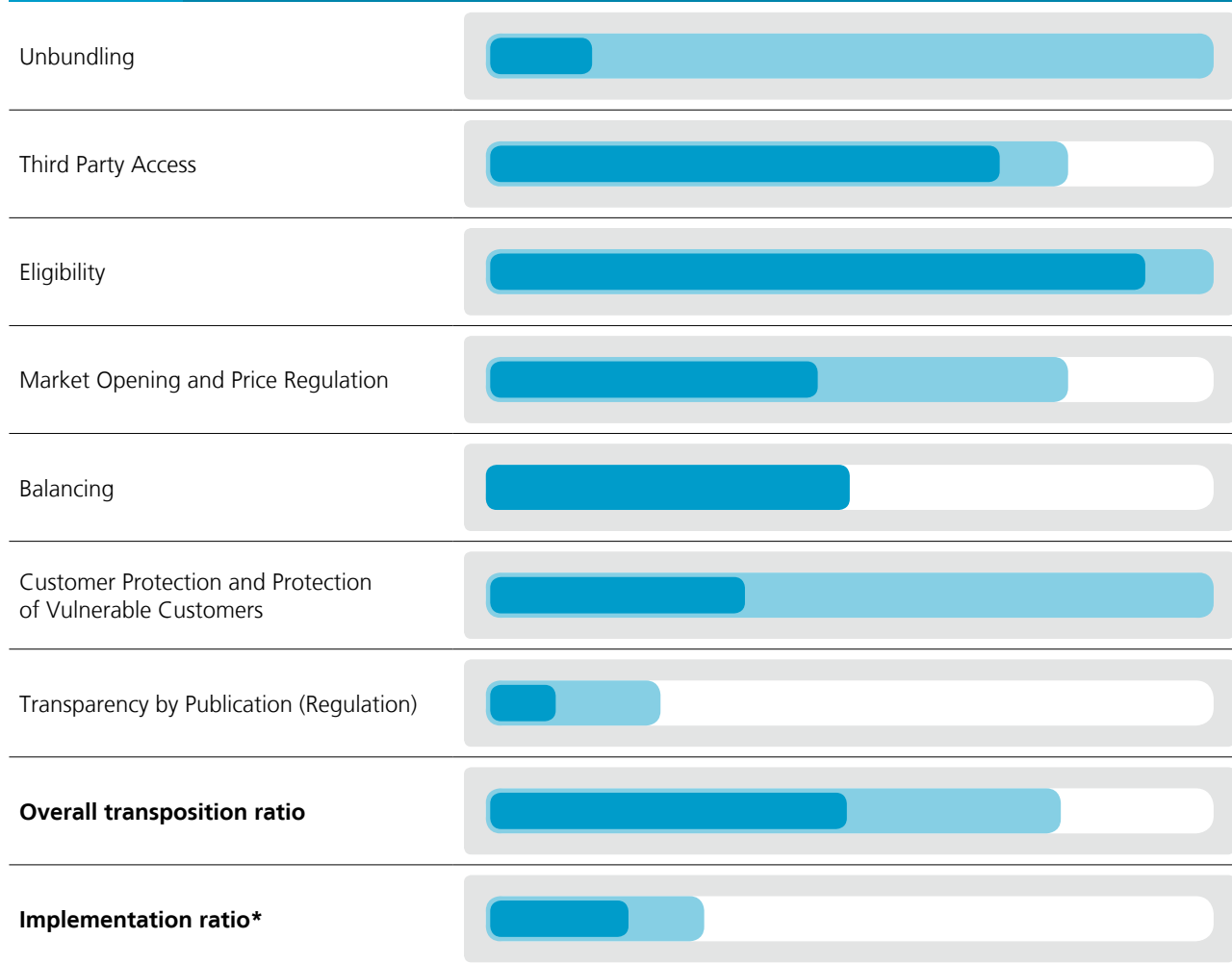
Ukraine's adoption of a new Electricity Market Law signals substantial progress during this reporting period. After the adoption of the Law on Natural Gas Market, this hallmarks the second major step in the reform of the country's highly inefficient energy sector. Yet implementation (unbundling of Naftogaz and Ukrenergo as well as market opening and de-monopolization in practice) is not taking place at the required

pace. In the sustainability area, certain progress was achieved with the adoption of legislation transposing partly the Energy Performance of Buildings Directive, transposition of the Environmental Impact Assessment Directive and the submission of the National Emission Reduction Plan. Ukraine still needs to press ahead with the reform of the energy efficiency sector.



Ukraine

11.1 Electricity



Status - Implementation Report 2016 Progress - Implementation Report 2017

* actual implementation: unbundling, third party access rules etc.

Source: Compiled by the Energy Community Secretariat

a. Sector Overview

The new Electricity Market Law of Ukraine, which entered into force in June 2017, envisages a radical restructuring of the electricity sector and electricity market in Ukraine.

Until the current market model is replaced by a wholesale market scheme compliant with the Third Energy Package (envisaged by July 2019), the electricity market will continue to be organised based on a "single buyer" model operated by the company Energorynok. Bilateral contracts (except for small generators) are not allowed, as Energorynok is the sole buyer and seller of electricity at the wholesale level under regulated prices. Energorynok also sells electricity for export, namely to the winners

of auctions for access to cross-border transmission capacity organized by the transmission system operator Ukrenergo.

The electricity system of Ukraine operates as part of the United Power System (UPS), which includes the neighbouring systems of Moldova, Belarus and the Russian Federation. Only a small network in the area of so-called Burstyn Island, which shares its borders with Poland, Slovakia, Hungary and Romania, is synchronised with ENTSO-E. The new market model will allow for Burstyn Island to be coupled with the day-ahead markets (and later with intraday markets) of the neighbouring ENTSO-E systems.

Electricity Facts and Figures

Description of data [unit]		2015	2016
Electricity production [GWh]		144.063	133.208
Net imports [GWh]		2.292	77
Net exports [GWh]		3638	4017
Gross electricity consumption [GWh]		142.717	129.268
Losses in transmission [%]		3,0%	2,7%
Losses in distribution [%]		9,8%	9,9%
Consumption of energy sector [GWh]		2.142	
Final consumption of electricity [GWh]		117.140	116.873
Consumption structure [GWh]	Industrial, transport, services and other non-residential sectors	80.122	80.413
	Households (residential customers)	37.018	36.461
Net maximum electrical capacity of power plants [MW]		54.355	54.130
of which:	coal-fired	25.334	24.565
	gas-fired	8.392	8.392
	nuclear	13.835	13.835
	hydro, total	5.884	6.311
	Other renewables	910	1.028
Horizontal transmission network [km]	Length of transmission power lines [km]	58.214	58.559
	Substation capacity [MVA]	74.715	74.714
	Number of interconnectors	53	46
Electricity customers	Total number of customers	17.068.426	17.076.137
	out of which: non-households	512.168	548.094
	Eligible customers under national legislation	17.068.426	17.076.137
	Active eligible customers	1.435	1.272
Internal market	Electricity supplied to active eligible customers [MWh]	10.153.877	9.421.062
	Share of final consumption [%]	8,67%	8,06%

Source: National Energy and Utilities Regulatory Commission of Ukraine

Ukraine has recently initiated discussions with Moldova with a view to provide services to the latter for the electronic auction for cross-border capacity allocation, which could potentially lead to market coupling with Moldova on the UPS mode.

b. State of Compliance

The Electricity Market Law transposes Directive 2009/72/EC, Regulation (EC) 714/2009 and Directive 2005/89/EC. However, since the Law foresees a two-year transitional period, even if all timelines are kept, full compliance will not be achieved before mid-2019.

1. Unbundling

The transmission system operator, Ukrenergo, is legally unbundled pursuant to the Second Energy Package only. The new Electricity Market Law transposes the Third Energy Package requirements for unbundling of transmission and distribution system operators. Yet Ukraine is in breach of the Third Energy Package in this respect in practice. According to the new law, Ukrenergo should, within nine months after the Electricity Market Law's entry into force, request certification in accordance with the ownership unbundling regime. As a precondition,

companies performing generation and/or supply of electricity still under the control of the Ministry of Energy and Coal Industry must be transferred under the control of another ministry, in view of Ukrenergo's ownership unbundling.

In practice, distribution is not yet unbundled from the (regulated) supply of electricity. According to the new law, distribution system operators should be unbundled no later than in 18 months after the Law entered into force.



Capacity Allocation on Electricity Interconnectors


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On 19 May 2017, the Secretariat submitted a Reasoned Request to the Ministerial Council in Case ECS-1/12 concerning Ukraine's failure to comply with the Treaty's obligations related to electricity interconnector capacity allocation. The Secretariat considers the allocation of cross-border capacity by the Ukrainian transmission system operator Ukrenergo, under the Auction Rules approved by the National Electricity Regulatory Commission, as non-compliant.

2. Third Party Access

The new Electricity Market Law transposes the relevant requirements of the Third Energy Package. As far as it concerns access to cross-border capacity, the new Electricity Market Law foresees for a transitional period before full compliance is achieved. Cross-border capacity allocation is subject to two infringement procedures initiated by the Secretariat.

In March 2017, new rules were adopted for cross-border allocation of capacity. These rules are still not in full compliance with the Third Energy Package. Electronic auctioning started in May 2017 (for both imports and exports) allocating capacity on all borders on a yearly, monthly and daily basis. The first annual electronic actions are expected to be performed at the end of this year.

	Non-compliance with Capacity Allocation Rules for the Purpose of Transit of Electricity
I N D I S P U T E	<p>On 24 May 2017, the Secretariat initiated Case ECS-8/15 against Ukraine related to the allocation of cross-border capacity for transit. In its Opening Letter, the Secretariat takes the preliminary view that linking the allocation of cross-border capacity with the undertakings' participation to, and the functioning of, the wholesale electricity market operated by a single buyer, the different treatment of interconnector capacities allocation for export on the one hand, and import and transit on the other hand, as well as requiring a ministry's approval for the latter two activities constitute breaches of Energy Community law.</p>

3. Eligibility

According to the previous law of 2013, all non-household customers were eligible since 1 January 2014 and residential customers were supposed to become eligible from 1 January 2015. However, this law has never been applied in practice. In practice, only non-household customers can change the regulated supplier. Due to the single buyer model still in force, customers are not exercising their eligibility rights.

According to the new Electricity Market Law, the regulator should approve rules for switching of supplier within nine months after the Law's entry into force and all customers (except households and small non-household) should become eligible to choose a supplier no later than in 18 months after the Law entered into force.

4. Market Opening and Price Regulation

The single buyer model currently applied in the country effectively forecloses the electricity market in Ukraine. Only generation units with an installed capacity lower than 20 MW can sell

electricity directly to final consumers. Price formation is based on a bidding mechanism available to coal-fired thermal power plants only. State-owned nuclear and large hydro production is regulated below the market price, allowing for a margin which is used to subsidize electricity production from renewable and gas-fired CHP units and regulated supply of electricity to captive customers. The new Electricity Market Law envisages the abolishment of the non-compliant single buyer model and introduces, by mid-2019, bilateral trading, market-based balancing, a day-ahead and an intraday market.

5. Balancing

The currently applied system is not in compliance with Article 15 of Directive 2009/72/EC. It fails to ensure adequate treatment of the costs of balancing and imbalances, as no separate balancing market or mechanism is in place to reveal relevant costs. The current system is based on a centrally dispatched model where everything is bundled (including network losses) and implicitly included in the market price. The imbalances of suppliers and generators are netted out. The suppliers (utilities) are responsible for imbalances above 5% of their nominations in the course of a month. This arrangement does not provide price signals for balancing services, true balance responsibility or incentives for accurate load nominations.

Under the new Electricity Market Law's provisions, a market-based balancing market will be organised accompanied by web-based auctions for reserves procurement. Imbalances will be settled with balance responsible parties on an hourly basis.

6. Customer Protection and Protection of Vulnerable Customers

Currently, the Law on Social State Aid to Low-Income Families provides for a general right to subsidies from the state budget covering a certain percentage of the electricity bills of some categories of customers.

However, it is not based on a sustainable and transparent mechanism targeting electricity consumption and thus protection of household customers is actually performed by price regulation and funded through cross-subsidies.

The new Electricity Market Law introduces a definition of a vulnerable customer and contains provisions for customer protection compliant with Article 3(7) of Directive 2009/72/EC. It further transposes Article 3 and, with the exemption of smart metering provisions, Annex 1 of Directive 2009/72/EC related to household customer protection.

7. Transparency

Data transparency is regulated by the Electricity Market Law. Detailed requirements for publication of specific data items, as required by Regulation (EU) 543/2013, are not transposed by the Law. A secondary legal act on the requirement does not exist.

Ukrenergo publishes on its website only basic information. Data in accordance with the Regulation are not available on the ENTSO-E platform. Ukrenergo is currently testing an electronic platform for submission of data to ENTSO-E. On the local website, Ukrenergo is publishing only the actual total load and the daily load forecasts, transmission capacity forecasts and offers for all time horizons and physical flows and aggregated production per type including renewable production. Data on transmission infrastructure unavailability, allocated capacity and congestion management measures, balancing and market performance are not available.

c. Conclusions and Priorities

Adoption of the new Electricity Market Law has brought the legal framework into compliance with the Third Energy Package and provided the long-awaited starting point for the implementation of the reforms. The next step is the approval of the secondary legislation in compliance with the Third Energy Package, as also required by the new Electricity Market Law. This is a prerequisite for unbundling and certification of the transmission system operator, as well as for implementing the structural reforms in the domain of the distribution and market operation.

Among the first reform priorities should be the unbundling of Ukrenergo under the ownership unbundling regime foreseen in the new Electricity Market Law, as well as the unbundling of the distribution network operators (which currently perform both the functions of distribution and regulated supply). Under the new Law's transitional provisions, progressive measures are foreseen with a view to removing regulated prices and cross-subsidies and creating room for cost-reflective retail prices.

The cross-border capacity allocation platform launched in May 2017 is performing capacity allocations for both exports and imports but still not on a joint auction basis. Joint auctions are foreseen by the new Electricity Market Law and Ukrenergo has initiated preliminary discussions.

The development of trading platforms and software for system balancing, day-ahead and intraday trading and settlement, as well as for electronic joint auctions for allocation of cross-border capacity, is the major practical challenge ahead, as the newly adopted Electricity Market Law foresees deadlines for the operation of the new market model.





Ukraine

11.2 Gas



Status - Implementation Report 2016 Progress - Implementation Report 2017

* actual unbundling, tariffs, network codes, market prices supply ratio, SoS secondary acts etc.

Source: Compiled by the Energy Community Secretariat

a. Sector Overview

After bringing the country's legislation in compliance with the Third Energy Package, Ukraine's reform pace has slowed down significantly during this implementation period. Several actions taken must be considered even as steps backward. On the whole, little has been achieved to transform the adopted laws into a transparent, non-discriminatory regime for gas market participants.

Prolonging and amending the government's Public Service Obligation Resolution, which the Secretariat originally had accepted as a transitory tool towards long-awaited market liberalisation, forecloses the market even further. The process of unbundling Ukrtransgaz from Naftogaz has not achieved the objectives to which Ukraine committed. Neither the government nor Naf-

togaz show the required ambition. The only tangible result was the creation of a shell company, Magistralny Gazoprovody Ukraine (MGU), to serve as a vehicle for a future transmission system operator. Finally, a number of amendments to already adopted regulatory acts risk to undo the reforms further.

Naftogaz continues to be the biggest producer, importer and wholesale trader on the Ukrainian gas market. Nevertheless, the share of private companies in overall gas import into Ukraine increased 2,6 times during 2016, reaching almost 3 Bcm. Thirty-two importers booked entry capacity to Ukraine whereas a number of others, e.g. Engie and Trafigura, have concluded contracts on transmission and storage of natural gas with Ukrtransgaz and started to supply the Ukrainian market directly at the beginning of 2017.

Gas Facts and Figures

Description of data [unit]		2015	2016
Natural Gas Production [Bcm]		18,89	19,12
Import [Bcm]		16,45	11,08
Exports flows [Bcm]		0,00	0,00
Stock changes [Bcm]		-2,53	2,01
Total supply [Bcm]		32,81	32,21
Consumption in Energy Sector [Bcm]		3,54	2.60**
Available for final consumption of natural gas [Bcm]		29,82	29,61
Interconnectors' capacity [Bcm]	Total	480,60	****
	out of which bidirectional	21,40	****
Storage working capacity [Bcm]		30,95	30,95
Length of transmission network [km]		38.800	38.550
Length of distribution network [km]		294.845	309.460
Natural gas customers	Total	12.294.262	12.270.950
	out of which: Non-households	99.546	101.908
	Eligible customers under national legislation	12.294.262	12.270.950
	Active eligible customers	n/a	n/a
	Households	12.194.716	12.169.042
Internal market	Gas supplied to active eligible customers [Bcm]	n/a	n/a
	Share of total consumption [%]	n/a	n/a
Final consumption of natural gas per sector [Bcm]		23,91	23,60
Consumption structure [Bcm]	Industry and commercial customers	12,63	11,72
	Households	11,28	11,88

* without Crimea

** without extraction losses

*** households needs

**** clear measuring unit (Bcm per hour or a day or a month)

Source: National Energy and Utilities Regulatory Commission of Ukraine

Functionally bundled with the incumbent Naftogaz, Ukrtransgaz still operates the gas transmission system, including the transit pipelines for the supply of Russian gas to Europe and the storage system. Naftogaz holds a transit contract with Gazprom currently under arbitration.

During this reporting period, Ukraine continued to import gas exclusively from European suppliers. This has been the case since the last quarter of 2015. Ukrainian gas demand has continued to decrease, albeit at a slower rate of 2%, reaching 29,3 Bcm consumed during 2016. Ukraine's gas production has slightly increased to the level of 20,1 bcm as a result of a gradual decrease of royalty rates for both state and private companies. Ukgazvydobuvannya and Ukrnafta, both controlled by Naftogaz, are the country's largest gas production companies. Private producers account for *circa* 20% of Ukraine's total annual gas output. In 2016, the Russian transit increased by 23% to 82 bcm, which is comparable with the levels of transit before Ukrainian and Russian relations deteriorated in 2014.

As part of the Public Service Obligation Resolution, the government raised the gas prices in two phases aiming at achieving their market level. However, market prices are yet to be achieved.

b. State of Compliance

The Natural Gas Market Law drafted together with the Secretariat transposes the majority of Third Energy Package provisions. In spite of the adoption of numerous secondary acts, Ukraine has failed to amend other relevant primary legal acts (e.g. Law on the Cabinet of Ministers, Law on Pipeline Transport, Law on Oil and Gas, etc.) without which the Natural Gas Market Law cannot be fully implemented. On top of this, certain rules (such as provisions from the storage and transmission codes or the switching procedure as part of the supply rules) have never been implemented, thus further reducing the state of compliance.

1. Unbundling

Pursuant to the Natural Gas Market Law, the gas transmission operator must be independent and separated from the production and supply activities. In practice, however, Ukrtransgaz, the transmission and storage system operator, is still only legally unbundled from Naftogaz. This is a breach of the Third Energy Package.

On 1 July 2016, the Government of Ukraine adopted a Plan on Unbundling of Naftogaz. The plan foresees the creation of two new entities to operate the transmission and storage systems,

owned by the state and managed by the Ministry of Energy and Coal Industry. According to the plan, gas production and supply activities of Naftogaz would remain under the control of the Ministry of Economic Development and Trade. The plan stipulates that the actual transfer of assets controlled by Ukrtransgaz (and thus under Naftogaz's control) to the newly established transmission system operator take place within 30 days after the Stockholm tribunal's award in the transit contract case.

The reasons which prevented the unbundling plan's implementation were manifold. One of them was the lack of implementation of the plan on the transfer of assets, covering all necessary legal, financial, organisational and contractual steps, from Naftogaz to a newly established transmission system operator. Moreover, Ukraine failed to establish legal ground to comply with ownership unbundling rules under the Gas Directive (reinforcement of the economic management rights over the assets; amendments to the Commercial Code of Ukraine, the Law on the Pipeline Transport and the Law on Management of the State Property Objects, the Civil Code of Ukraine, etc.). Ukraine did not enable the separation of public bodies exercising control over energy undertakings, in particular, by immediate transfer of all production and supply companies in electricity and gas from the Ministry of Energy and Coal Industry to the Ministry of Economy and Trade.

Legal unbundling of distribution system operators from supply companies took place in 2015. However, the regulatory authority NEURC is yet to assess the compliance programmes and their compliance with the Third Energy Package. Distribution companies are exempt from the unbundling requirements if they serve less than 100.000 customers.

2. Third Party Access

The Natural Gas Market Law grants the right to connection and third party access under regulated conditions to all system users. The gas distribution, storage and transmission codes adopted by NEURC determine conditions for granting access to the Ukrainian grids and storage system in line with the Third Energy Package. The procedure for allocation of actual gas volumes at entry/exit points has improved. However, this progress was offset with the amendments to the Transmission Grid Code which placed public service suppliers in a privileged position thus breaching the principle of non-discrimination.

NEURC also adopted tariff methodologies for access to transmission, storage and distribution systems. However, transmission tariffs for interconnection points with neighbors were calculated according to the new entry/exit methodology, while tariffs for internal entry/exit points are still calculated according to an old methodology (i.e. zero charges for entry points from production fields).

Even though a new distribution tariff methodology was adopted, upon recommendation of the Cabinet of Ministers NEURC canceled distribution tariffs calculated under that methodology

in April 2017. This is a signal that the NEURC is not acting independently from the government.

3. Eligibility

The customer's right to freely choose and switch a supplier is legally prescribed in the Natural Gas Market Law and Rules on the Supply of Natural Gas in line with Annex I of Directive 2009/73/EC. Two European traders started direct gas supplies to Ukraine at the beginning of 2017. Data on the switching rate are not available. *De facto*, eligibility in the retail market does not exist.

4. Market Opening and Price Regulation

The Natural Gas Market Law foresees full market opening and gradual phase out of gas price regulation. For the purpose of general economic interest and protection of vulnerable customers in specific cases and for a defined period of time, the Law allows the imposition of public service obligations. The Public Service Obligation Resolution as amended in March 2017 is not compliant with the rules and principles of the gas *acquis*. Rather, it effectively prevents the participation of new wholesale suppliers (other than Naftogaz) and independent retail suppliers (other than Oblgazes) in the market. In August 2017, the Secretariat launched infringement actions and, together with the World Bank, proposed a resolution which would actually promote liberalisation while protecting the population and heat producers from price increases.

5. Balancing

The Gas Transmission System Code defines the balancing regime, capacity allocation and congestion management in line with Regulation (EU) 715/2009, except for disproportional balancing guarantees.

Daily balancing obligations are imposed on interconnection network users. However, they are not being applied in practice. An obstacle to daily balancing of the entire gas transmission system is the absence of an IT platform of the gas transmission operator, which prevents daily imbalances calculation.

The Storage Code allows for reserving an undefined part of the storages for balancing the system, which is not a market-based solution and will create an obstacle for the development of a balancing market.

6. Security of Supply

The provisions of the Natural Gas Market Law related to security of supply go beyond Directive 2004/67/EC and introduce many elements in line with Regulation (EU) 994/2010.

Amendments to the Natural Gas Market Law from 1 November 2016 require suppliers to create gas reserves up to 10% of the planned monthly volumes of the natural gas supplied to

consumers. The exact reserves are to be established annually based on a decision by the Cabinet of Ministers. In 2016 and 2017, no contribution to gas reserves was required.

7. Customer Protection and Protection of Vulnerable Customers

The Natural Gas Market Law and by-laws adopted and amended by NEURC are compliant with Annex I of Directive 2009/73/EC regarding the protection of gas consumer rights.

The government, in response to the gas price reform of 2016, is currently updating the Housing and Utilities Subsidy Programme which envisages financial support in the form of subsidies to vulnerable customers.

c. Conclusions and Priorities

Although Ukraine somewhat improved the compliance record of its gas secondary legislation in this reporting year, its full implementation is still missing. Ukraine failed to amend the relevant outdated laws and in particular, those, which would enable the correct unbundling of Naftogaz, are yet to be realized.

The biggest challenge for Ukraine continues to be unbundling of the natural gas transmission system operator Naftogaz. This delay continues to block the much needed next reform steps for the gas market. Moreover, Ukraine should amend the Public Service Obligation Resolution to allow full market opening. Another significant obstacle is the lack of application of gas transmission and distribution codes and tariff methodologies. Finally, Ukraine should quickly amend the package of old laws, which stand in the way of effective reforms, and proceed with the monetization of subsidies while fading out regulated prices.





Ukraine

11.3 Regulatory Authority

The National Energy and Utilities Regulatory Commission of Ukraine (NEURC) is the single authority for regulating gas and electricity in Ukraine. Since the adoption of the new Law on the National Commission for the Regulation of Energy and Utilities in 2016, the regulator's competences and level of independence are theoretically well aligned with the Energy Community *acquis*. NEURC is headed by six commissioners and a chairman. The term of board members is limited to six years, renewable once.

In practical terms, full implementation of the newly gained powers and autonomy of NEURC still requires adjustment of other legislation. First, introducing the budgetary autonomy stipulated in the 2016 Law requires amendments of the Budget Code. Also, NEURC's management is not in a position yet to set staff salaries at a level comparable to the regulated industry, and the entry into force of decisions of NEURC is delayed due to financial constraints of the office in charge of publication in the Official Gazette.

Most importantly, NEURC may lose the decision-making quorum required by the Law if a committee for selection of NEURC board members envisaged by Law on the National Commission for the Regulation of Energy and Utilities is not established. As two board members' mandates expire under the rotation scheme in place in November, their replacement is crucial for the functioning of NEURC. Political intervention in the regulator's activities was recently proven by suspension of the entry-exit gas tariff methodology adopted by the regulator for national entry/exit points in March 2017 following a request of the president and prime minister.

The Secretariat agreed with the regulator to perform an in-depth analysis of the adequacy of its legal framework, independence and practical performance in 2017.





Ukraine

11.4 Oil

a. Sector Overview

Ukraine is increasingly dependent on imports of petroleum products. Crude oil production was around 2,25 mt in 2016, 7,41% lower than in 2015. Crude oil exports were around 65 kt, having increased by around 209% year-on-year. Imports increased by 119% to 515 kt in 2016. As regards domestic production, the volume of 1,1 mt of petroleum products processed in 2016 constitutes a decrease by 13% compared to 2015. The export of petroleum products decreased by 39,4% to 126 kt whereas the import of petroleum products was increased by 18,4% - 8,98 mt. The overall consumption of petroleum products in 2016 was 9,79 mt, an increase by 6,2% compared to 2015.

Ukraine's dependency on the import of petroleum products is around 85% due to five of the country's six refineries being out of operation. In order to run the remaining five refineries, Ukraine needs to make large investments. Today, Kremenchug, the only operational refinery in Ukraine, is operating close to minimal load, which continues to fall on an annual basis. Domestic gasoline production, focusing on the Kremenchug refinery, increased by 18% to 738 kt. Thus, the share of domestic production of gasoline in 2016 was 33% against 30% in 2015. Value of imports and production of diesel fuel remained the same: 89% versus 11%. An additional problem in the refinery sector of Ukraine is feedstock. Supply from Russia is impossible and supplying feedstock from overseas is very expensive.

b. State of Compliance

Currently, Ukraine has no legal framework in place for the establishment of emergency oil stocks. A legal act on a model for oil stocks was planned to be developed and approved in cooperation with the Secretariat by the end of 2016. This deadline has not been met.

In the reporting period, the established working group led by the State Reserves Agency was not able to develop the long-term action plan (2016 - 2022) for creating an emergency oil stockholding system to meet the Oil Stock Directive's requirements. The working group's other main task, presenting to

the government for decision an optimal stockholding model, was not fulfilled.

The oil stockholding model proposed by the Secretariat was based on the creation of an independent central stockholding entity (CSE) fully responsible for meeting Ukraine's minimum stockholding requirements under Directive 2009/119/EC. This CSE would be established as an independent legal entity enabling it to operate on the market on a non-profit basis and independently from the operational aspects of stockholding.

A dedicated law on emergency oil stockholding, which would prescribe all relevant terms and conditions for establishment, storage and maintenance of emergency stocks, was not prepared by 2016 as originally foreseen.

The State Statistical Service of Ukraine (SSSU) receives monthly data on quantities sold (retail reporting) from oil companies and data on quantities imported/exported from customs authorities. SSSU is responsible for reporting monthly oil data to the Joint Organisation Data Initiative (JODI) and will assume the responsibility for reporting the monthly oil statistics (MOS).

c. Conclusions and Priorities

Despite ongoing preparation for adopting a complaint oil stock holding regime, no progress can be reported so far. None of last year's priorities were taken up, instead being delayed for an unspecified period of time.

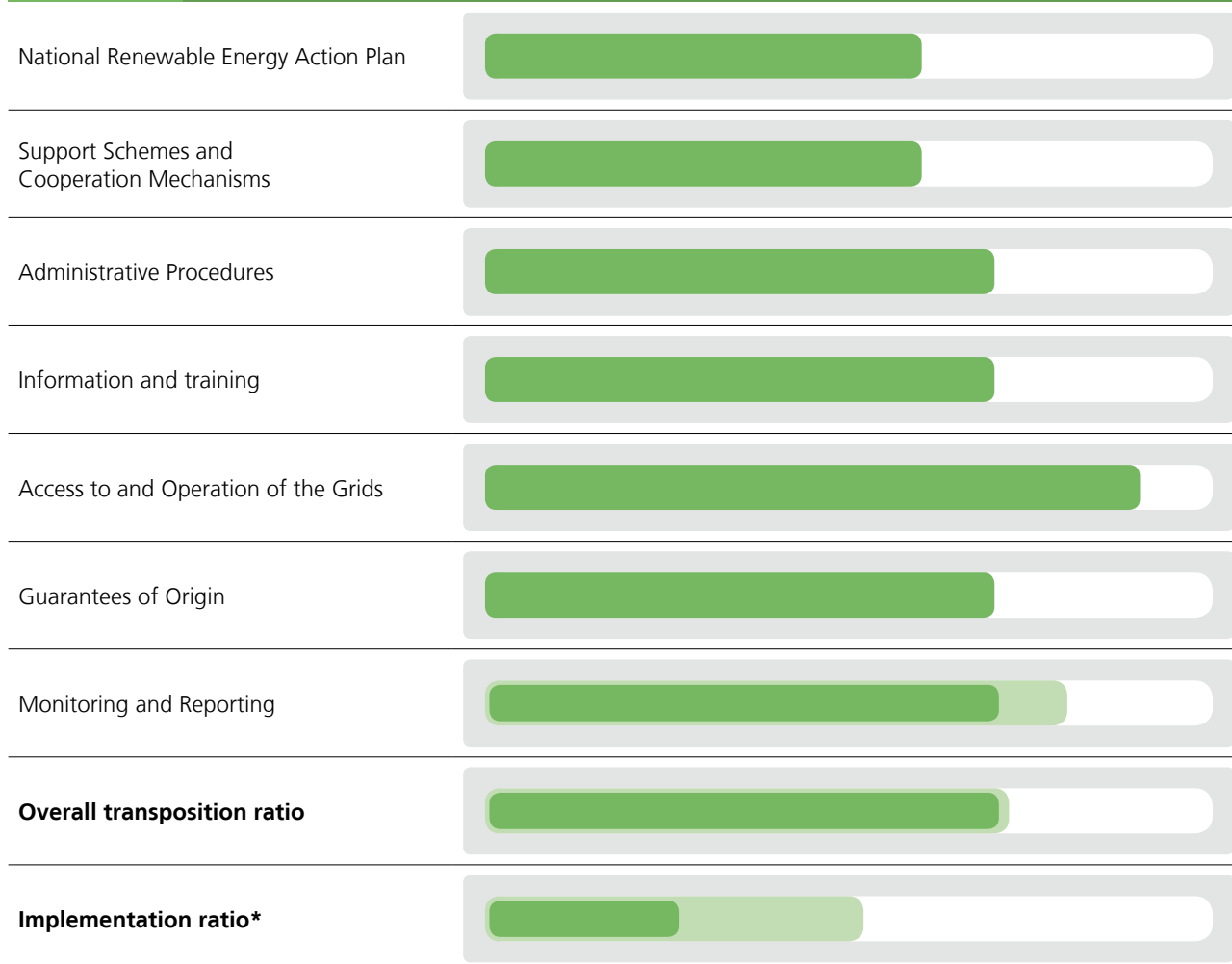
The main priorities for Ukraine during 2017 - 2018 should be as follows:

- Approving the oil stockholding model (expected in 2017) and the action plan for building up emergency oil stocks to 90/61 days;
- Drafting of an emergency oil stockholding law and relevant secondary legislation by the end of 2017; and
- Beginning the collection of monthly data necessary for operating the emergency oil stockholding system and meeting reporting requirements under Directive 2009/119/EC.



Ukraine

11.5 Renewable Energy



Status - Implementation Report 2016 Progress - Implementation Report 2017

* actual implementation of NREAP and progress towards 2020 RES target

Source: Compiled by the Energy Community Secretariat

a. Sector Overview

With the adoption of Directive 2009/28/EC, Ukraine committed to a binding 11% target of energy from renewable sources in gross final energy consumption in 2020 compared with a share of 5,5% in 2009. In 2015, according to the energy balance published by EUROSTAT, the country has achieved a 4,3% share of energy from renewable sources, well below the third indicative trajectory of 8%. This is due to the delay in revision of biomass data based on a consumption survey to be conducted by the Ukrainian Statistical Office.

The Electricity Market Law that contains provisions on renewable energy integration into the market and the grids has been adopted in 2017. The main legislative acts on renewable en-

ergy are the Electricity Law, the Law on Alternative Energy Sources and the Law on Alternative Fuels. The main institutions responsible for the implementation of renewable energy policy are the State Agency on Energy Efficiency and Energy Savings (SAEE) under the auspices of the Ministry of Regional Development, Building and Housing and Communal Services of Ukraine and the National Energy and Utilities Regulatory Commission (NEURC).

The framework for renewable energy in the transport sector consists of the Law on Energy Savings, the Law on Alternative Energy Sources, the Law on Alternative Fuels, which is currently in the process of being amending, and the Order Arranging Production and Use of Biogas, but none of them transposes the relevant articles of Directive 2009/28/EC.

Renewable Energy Facts and Figures

	2014	2015	2016
Total capacities (MW)	6.739	6.794	7.338
Hydropower, out of which:	5.854	5.884	6.311
- small hydropower (<10 MW)	80	87	90
- pumped storage	1.186	1.186	1.510
Wind	426	426	437
Solar	412	432	531
Biogas	47	52	59
Total consumption of energy from renewable sources* (ktoe)	2.152,4	2.333,8	
- out of which biomass (ktoe)	1.408	1.533,7	
Gross final energy consumption (ktoe)	65.400,3	54.614,7	
RES share (%)	3,3%	4,3%	
RES electricity (ktoe)	744,4	800,1	
Total Electricity generated (ktoe)	14.921,6	13.822,7	
RES share in electricity (%)	5,0%	5,8%	
RES in heating and cooling (ktoe)	1.408	1.533,7	
Total energy consumed for heating and cooling (ktoe)	41.767,2	33.541,4	
RES share in heating and cooling (%)	4,8%	5,3%	
RES in transport (ktoe)	351,3	344,6	
Total energy consumed in transport (ktoe)	7.294,1	6.450,8	
RES share in transport (%)	4,8%	5,3%	

Source: National Energy and Utility Regulatory Commission of Ukraine and EUROSTAT

b. State of Compliance

Ukraine still has to complete the legislative and regulatory framework in accordance with Directive 2009/28/EC and regain investor confidence in renewable energy after a period of retro-active changes and uncertainties in the regulatory framework.

1. National Renewable Energy Action Plan

Ukraine submitted an incomplete NREAP to the Secretariat more than one year past the deadline. The binding targets following from Directive 2009/28/EC have not yet been transposed in the legal framework. At the end of 2016, Ukraine submitted the second progress report on the promotion of renewable energy 2014 - 2015 outlining the progress and the challenges of renewable energy development during the reporting period. In spite of all shortcomings, the country increased the renewable energy capacities and the contribution of renewable energy to final energy consumption.

2. Support Schemes

The promotion of renewable energy in Ukraine is in the form of feed-in tariffs based on "green coefficients" for various technologies. The basis for the feed-in tariffs is the Electricity Law of 2009, as amended for the last time in June 2015. It tasks the regulatory authority NEURC to approve a feed-in tariff for each generator of electricity from renewable energy sources

per type of renewable energy source and per power plant until 1 January 2030. Following the removal of non-compliant local content requirements upon infringement action by the Secretariat, a bonus system for renewable energy producers was introduced for supporting the Ukrainian manufactures and service industries.

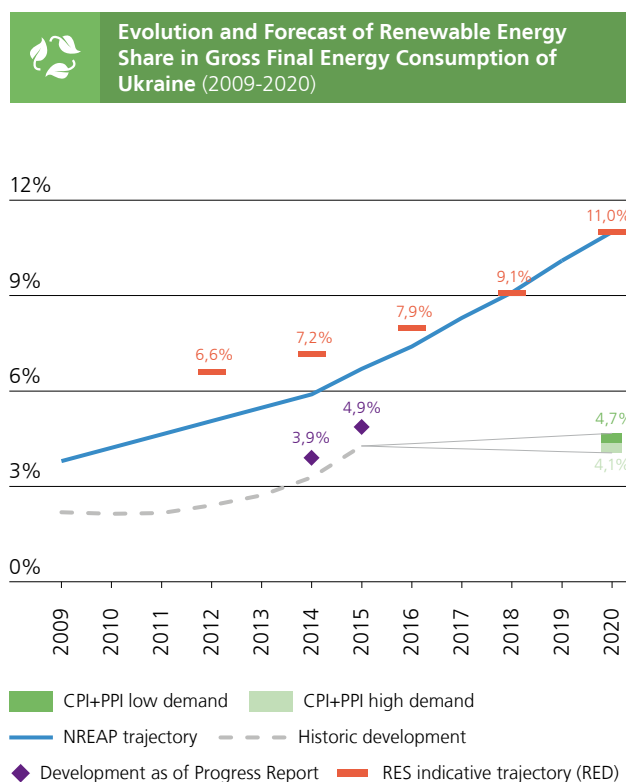
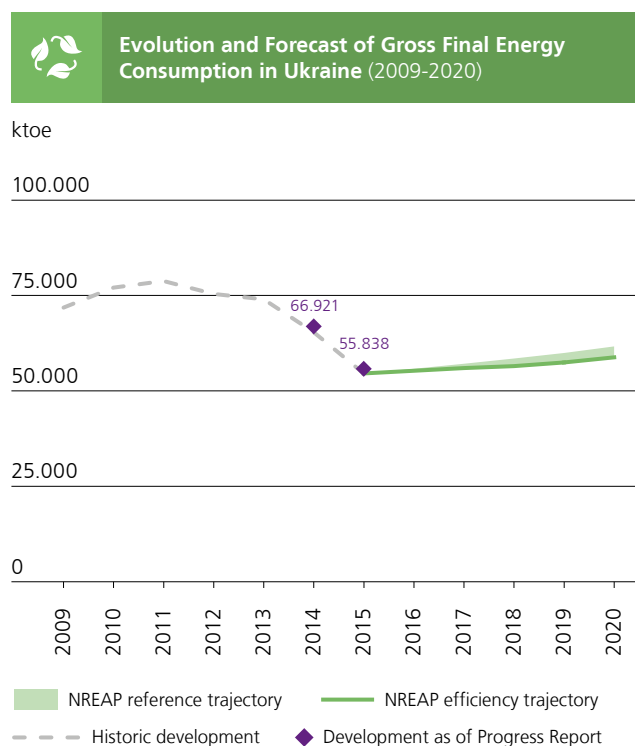
The existing model is not compliant with the Guidelines on State Aid for Environmental Protection and Energy 2014 - 2020 that call for the introduction of market based support to renewable energy and market integration of energy from renewable sources. Ukraine has to bring its primary and secondary legislation in compliance with the guidelines and introduce support in the form of a feed-in premium on top of electricity sold in the market, whereas the premium is to be auctioned.

3. Cooperation Mechanisms

The Directive's provisions on cooperation mechanisms have not been transposed.

4. Administrative Procedures

The existing national measures are partially not in compliance with Article 13 of Directive 2009/28/EC as not all administrative procedures are streamlined and expedited at the appropriate administrative level. This is mainly due to the lack of coordination and communication between the authorities. There is no



Source: Technical University Vienna, Assessment of the Progress in the Promotion and Use of Renewable Energy in the Energy Community, July 2017

one-stop shop for permits and licenses, and pre-construction procedures may be lengthy.

5. Access to and Operation of the Grids

The new Electricity Market Law introduced guaranteed access and gradual balance responsibility for large renewable energy producers in compliance with renewable energy *acquis*. Priority access to the networks and priority dispatch of electricity produced from renewable energy sources applies since 2009. A system of compensating for curtailments remains to be implemented. Transmission and distribution system operators have to adequately clarify the technical specifications for grid connection, which are currently unclear. Network operators must develop network investment plans to be approved by the regulator in order to accommodate future increases of renewable energy. Compliance with Article 16 of Directive 2009/28/EC still remains to be achieved.

6. Guarantees of Origin

Some ambiguities related to the institution in charge of issuing, transfer and cancellation of guarantees of origin persisted during the reporting period. Despite the appointment of SAEE as the issuing body for guarantees of origin and the rules on issuing, transfer and cancellation of guarantees of origin adopted by the government in July 2013, the law concerning provision of competitive conditions for electricity generated from renewables adopted in June 2015 envisages the appointment of the market operator for implementing a system of guarantees of

origin for energy produced from renewable sources. An accurate, reliable and anti-fraud system for the issuing, transfer and cancellation of guarantees of origin remains to be established by the institution in charge.

The standard form of guarantee of origin, approved by the Government of Ukraine, is partially not in compliance with Article 15 of Directive 2009/28/EC, because it does not contain all the information required. Moreover, recognition of guarantees of origin issued by other Energy Community Parties and the obligation of electricity suppliers to make available information to consumers on the amount or share of energy from renewable sources when marketing energy are not provided.

7. Renewable Energy in Heating and Cooling

Despite the introduction of measures for promotion of renewable energy in heating and cooling by private households, sufficient coherence to promote heat production from renewable sources in district heating does not exist yet. The adoption of the Law on Energy Performance of Buildings in June 2017, which includes measures for the promotion of energy from renewable sources in the building sector, is a major success in this reporting period. Nevertheless, Ukraine has to comply with the Renewable Energy Directive further in this respect.

8. Renewable Energy in Transport

The current share of renewables in the transport sector is only at the level of 1%. Vast efforts will be required to reach the

10% renewable energy share by 2020. The NREAP envisages bioethanol and biodiesel production in the long term as well as usage of renewable electricity and biogas.

Articles 17 to 21 of Directive 2009/28/EC have not been transposed. SAEF issues certificates for labelling of alternative fuels, including information on the type of biofuel and blending, but they are not in conformity with the sustainability criteria as defined by Article 17 of Directive 2009/28/EC. Moreover, requirements for monitoring, reporting obligations and information need to be addressed more consistently in the legislation and enforced. Some provisions are expected to be introduced by the amendments to the Law on Alternative Fuels, developed during this reporting period. Nonetheless, compliance can be reached only by the adoption of additional secondary acts.

c. Conclusions and Priorities

Besides the adoption of the Electricity Market Law, the legal framework for the promotion of energy from renewable sources has not been strengthened during this reporting period.

Ukraine has to step up its efforts to create a comprehensive framework for the promotion of energy from renewable sources and to bring it in compliance with the State aid legislation.

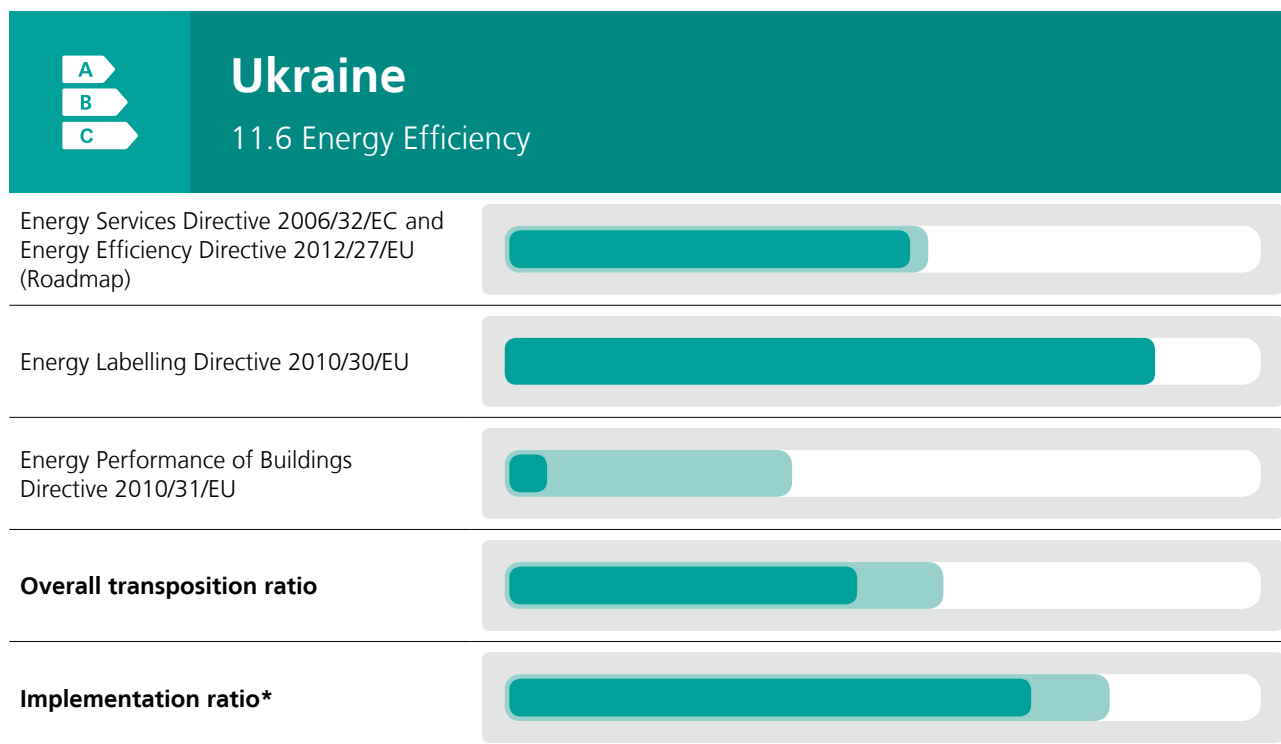
Amendments to legislation and regulations to introduce a market-based process for granting operational or investment

support to renewable energy producers will ensure not only compliance with the competition *acquis* and internal market principles, but also bring the country towards its trajectory to 2020 in a cost-effective way.

A revised and complete NREAP in accordance with the required template and adequate policy measures in compliance with the Guidelines on State Aid for Environmental Protection and Energy 2014 - 2020 is recommended to ensure that Ukraine is on track to meet the 11% target in 2020. The achievements in tapping the renewable energy potential in the country are contributing to a reduction of energy dependence. Coupling them with energy efficiency measures would make sure that the renewable energy target is met at a lower cost. An energy consumption survey addressing especially biomass used for heating has to be conducted by the country's statistical office to ensure reliability of the energy data.

For the promotion of renewable energy in transport, the utmost priority must be the establishment of a certification system in line with Directive 2009/28/EC. Without meeting the sustainability criteria and having an adequate certification system in place, biofuel production cannot count towards the target and cannot be exported to EU markets. It would be wise to explore in which voluntary schemes national biofuel crop producers are included and adapt the schemes in such a way as to ensure that the sustainability criteria are complied with.





■ Status - Implementation Report 2016 ■ Progress - Implementation Report 2017

* achievement of energy efficiency target and implementation of EEAPs (institutions and coordination, funding, ESCO market, exemplary role of public sector, ongoing programmes)

Source: Compiled by the Energy Community Secretariat

a. Sector Overview

The final energy consumption in Ukraine continued to decline. The energy intensity decreased during 2012 - 2015, along with the contraction of the gross domestic product in 2014 and 2015 due to the economic crisis. Despite this, the Ukrainian economy is still the most energy intensive among all Contracting Parties.

The Ministry for Regional Development, Building and Housing and Utility Services is the authority responsible for the development of state policy in the field of energy efficiency in Ukraine, while its implementation lies with the State Agency on Energy Efficiency and Energy Saving of Ukraine (SAEE).

Joining the Energy Community in 2011, Ukraine committed to transpose the Energy Community *acquis* by the end of 2012. However, energy efficiency in Ukraine is still governed by the obsolete Law on Energy Conservation dated 1994. The Secretariat in close cooperation with Ukrainian authorities developed a new Energy Efficiency Law compliant with Energy Efficiency Directive 2012/27/EU. Its adoption is pending. A draft Law on Commercial Metering of Heat Power and Water Supply aiming to transpose provisions of Articles 9, 10 and 11 of Directive 2012/27/EU was adopted by the Parliament of Ukraine in June 2017.

In March 2017, a law amending the legislation on energy service procurement (ESCO procurement) was adopted by the parliament in order to support the development of an ESCO market in Ukraine. Moreover, the Law on Energy Efficiency Fund to support energy efficiency measures in private households was adopted by the parliament in June 2017.

The draft Law on Energy Performance of Buildings developed by SAEE with assistance of the Secretariat did not pass the first reading in parliament in November 2016. Another version of the draft law, introduced by parliamentary initiative, was subsequently adopted by the Parliament of Ukraine in June 2017. However, the Law contains several provisions which are severely non-compliant with Directive 2010/31/EU.

Ukraine continues to work on secondary legislation needed for implementation of the Energy Performance of Buildings Law.

b. State of Compliance

This reporting period is marked by progress made towards ensuring obligatory heat metering and availability of financial assistance to households for implementation of energy efficiency measures, including an ESCO mechanism for the public sector. Nevertheless, the legislation that currently governs the energy efficiency area in Ukraine still lacks compliance with the Energy Community *acquis*.

Energy Efficiency Facts and Figures

Energy Efficiency Action Plan (EEAP)*					
Period covered by EEAP		2012 - 2020			
Overall energy savings target - Directive 2006/32/EC (ktoe / % / year)		6.501 / 9 / 2020			
EEAP status		1 st EEAP adopted in November 2015			
Achieved energy savings (ktoe / % / year)		Not elaborated (as this is 1 st EEAP)			
Key institution(s) in charge		State Agency on Energy Efficiency and Energy Saving of Ukraine (SAEE); Ministry of Regional Development, Building and Housing and Utility Services			
Main data and energy efficiency indicators**		2012	2013	2014	2015 ***
Total primary energy supply (TPES)	ktoe	122.512	116.140	105.683	88.846
Energy intensity (TPES/GDP)	toe / 1000 USD	0,85	0,81	0,79	0,73
TPES/Population	toe/capita	2,69	2,55	2,33	1,95
Total final energy consumption (TFEC)	ktoe	72.548	70.097	61.460	55.688
Share of TFEC by sector	Residential	32%	33%	33%	30%
	Services	7%	8%	8%	7%
	Industry	33%	31%	33%	38%
	Transport	16%	17%	17%	16%
	Others	3%	3%	3%	3%
	Non-energy use	8%	7%	6%	6%

* Source: 1st EEAP of Ukraine

** Source: International Energy Agency (June 2017)

*** Indicators calculated by the Energy Community Secretariat based on EUROSTAT energy balances for 2015

1. Energy Services Directive 2006/32/EC and Energy Efficiency Directive 2012/27/EU

Transposition of the Energy Services Directive never took place. Only the adoption of the 1st EEAP with an overall national indicative energy savings target of 9% of final energy consumption (6,5 mtoe) by 2020 refers to it. A law aiming to transpose provisions of Directive 2006/32/EC was drafted by Ukrainian authorities but never adopted. An Energy Efficiency Law compliant with Directive 2012/27/EU was drafted with assistance of the Secretariat and is currently being discussed by Ukrainian stakeholders.

2. Energy Labelling Directive 2010/30/EU

The Energy Labelling Directive was transposed in 2013, and is being implemented via secondary legal acts. A number of technical regulations for household tumble driers, vacuum cleaners, televisions, ovens and range hoods were submitted to the government for adoption in March 2017. Their adoption is pending. The technical regulation for air conditioners was developed and submitted for adoption to the Ministry of Regional Development, Building and Housing and Utility Services. The document was not adopted yet. Ukraine is thus not yet compliant.

3. Energy Performance of Buildings Directive 2010/31/EU

Although the draft Law on Energy Performance of Buildings was adopted, it only partially transposes provisions of Direc-

tive 2010/31/EU. The Law neglects the obligation to certify apartments that are sold or rented and regular inspection of bigger heating and air-conditioning systems. As a consequence, Ukraine falls short of compliance with the Energy Performance of Buildings Directive.

c. Conclusions and Priorities

During the reporting period, Ukraine made progress by adopting the Law on Energy Performance of Buildings and the Law on Commercial Metering of Heat Power and Water Supply.

At the same time, not even the necessary inter-service consultations on the draft Energy Efficiency Law were launched despite the upcoming deadline for the Directive's transposition. The adoption of that law in compliance with the *acquis* remains the key priority for Ukraine in the coming period.

Timely adoption of secondary legal acts necessary for the implementation of primary legislation, including missing technical regulations for energy labelling, should follow.

On a more general note, coordination between governmental authorities needs to be improved to ensure seamless cooperation and fulfilment of Ukraine's commitments under the Treaty. SAEE, as an authority responsible for implementation of state policy on energy efficiency, should be empowered to have a stronger position in discussions with other authorities and stakeholders in order to ensure the adoption of drafted legal acts.



Ukraine

11.7 Environment

Environmental Impact Assessment Directive



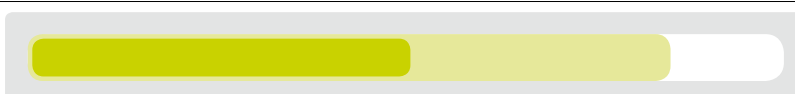
Sulphur in Fuels Directive



Large Combustion Plants Directive and other Acquis on Environment

Deadline not yet expired

Overall transposition ratio



Implementation ratio*



■ Status - Implementation Report 2016 ■ Progress - Implementation Report 2017

* Environmental Performance Indicators (EPI) on air quality, climate and energy; LCPD implementation preparedness

Source: Compiled by the Energy Community Secretariat

a. Sector Overview

On 23 May 2017, the Parliament of Ukraine adopted for the second time a Law on Environmental Impact Assessment which was signed by the president in June 2017 (who previously had vetoed the Law). Environmental impact assessments are carried out by various state and regional authorities, as assigned by the Law on Ecological Expertise.

The Decree on the Requirements for Car Petrol, Diesel, Marine and Boiler Fuel of 2013 governs the issues regulated by the Sulphur in Fuels Directive. Ukraine has six refineries, out of which only one (Kremenchuk) is currently operational and produces heavy fuel oil and gas oil. Domestic consumption of heavy fuel oil amounted to 355.300 tonnes in 2015.

Ukraine has 147 plants falling under the scope of the Large Combustion Plants Directive with a total rated thermal input of 107.778 MW. Most plants are coal-fired while a number of them are run on natural gas. Emissions from large combustion plants are regulated by a 2008 Ministerial Order on the Adoption of New Technological Standards for Permissible Emissions of Pollutants, the emission limit values of which are however not in compliance with the Directive.

The Law on the Red Book and the Law on Wildlife regulates the protection of wild birds in Ukraine and in December 2016, a Ministerial Order on Additional Measures for the Conservation of Endangered Species was adopted. The country currently has 39 sites designated as 'wetlands of international importance'

(Ramsar Sites), with a surface area of 786.321 hectares. In the course of 2017, two new sites have been designated. Ukraine has also proposed to include a large number of sites under the Emerald Network, which were officially adopted recently.

b. State of Compliance

Following the adoption of the new Law on Environmental Impact Assessment, the Secretariat closed the case related to the incorrect transposition of the Directive. With that, Ukraine is currently subject to one dispute settlement case in the environmental area related to the incorrect transposition of the Sulphur in Fuels Directive, which has already been decided by the Ministerial Council.



Non-Compliance with Environmental Impact Assessment Directive

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Following Ukraine's adoption of the Law on Environmental Impact Assessment on 23 May 2017 and its notification to the Secretariat on 17 July 2017, Ukraine complied with its obligations under the Treaty and rectified the breach identified by the Secretariat. The Secretariat withdrew its Reasoned Request in Case ECS-13/16 to the Ministerial Council and closed the case.

1. Environmental Impact Assessment Directive

The new Law on Environmental Impact Assessment transposes the provisions of the Directive into national law. As a consequence, the Secretariat decided to withdraw its Reasoned Request against Ukraine for non-compliance.

	Non-compliance with Sulphur in Fuels Directive
I N D I S P U T E	<p>On 14 October 2016, the Ministerial Council adopted Decision 2016/05/MC-EnC in Case ECS-5/13 on the failure of Ukraine to comply with the Sulphur in Fuels Directive's thresholds.</p> <p>Since the breaches have not been rectified to date, the Secretariat – as invited by the Ministerial Council – will request a decision under Article 92 of the Treaty at the next Ministerial Council meeting in 2017.</p>

2. Sulphur in Fuels Directive

The thresholds stipulated by the Resolution on the Sulphur Content of Heavy Fuel Oil and Gas Oil do not comply with those of the Directive. The issue was subject to an infringement case, which was decided by the Ministerial Council in 2016. Subsequently, the Ministry of Energy and Coal Industry drafted amendments to the Decree and submitted those to the government for approval. However, the draft decree was never adopted. A resolution on amending the Decree on the Requirements for Car Petrol, Diesel, Marine and Boiler Fuel, adopted in December 2016, permits the use of fuels with a higher sulphur content than 1,00% in industrial installations temporarily until end 2017, which maintains the breach established by the Ministerial Council.

Since Ukraine does not have any combustion plants that are capable of meeting the emission limit values of the Large Combustion Plants Directive without additional measures being put in place (which would allow for an exemption of combusting heavy fuel oil with higher than 1,00% sulphur content), this resolution is not sufficient to comply with the Decision 2016/05/MC-EnC of the Ministerial Council and Ukraine is still in breach of Sulphur in Fuels Directive.

3. Large Combustion Plants Directive

In 2015, the Ministerial Council adopted a decision allowing certain existing plants in Ukraine to use the opt-out mechanism for not more than 40.000 operational hours starting from 1

January 2018 and ending no later than 31 December 2033. According to the same decision, a National Emission Reduction Plan in Ukraine may be applied up to 31 December 2028 for SO₂ and dust and up to 31 December 2033 for NO_x. At the same time, the ceilings for the year 2028 for SO₂ and dust and the ceiling for the year 2033 for NO_x shall be calculated on the basis of the relevant emission limit values set out in Part 1 of Annex V of the Industrial Emissions Directive. Until then, the ceilings have to provide a linear decrease between 2018 - 2028 for SO₂ and dust and 2018 – 2033 for NO_x.

In its opinion of 13 October 2016 on Ukraine's draft National Emission Reduction Plan (NERP), the Secretariat recommended certain amendments and indicated that in case they are implemented, the NERP prepared by Ukraine will meet the requirements of the Secretariat's Policy Guidelines on NERPs. After Ukraine carried out these amendments, the Secretariat approved the NERP in February 2017 and called upon the Ukrainian authorities to proceed with the formal adoption of the NERP in order to ensure timely implementation by 1 January 2018. The NERP, however, has not been adopted yet.

4. Wild Birds Directive

Ukraine set up a working group for the implementation of Directive 79/409/EEC, which developed draft amendments to the Law on the Red Book and the Law on Wildlife. Despite certain legislative developments such as the Ministerial Order adopted in December 2016, the current legal framework cannot be regarded as compliant with Article 4(2) of the Wild Birds Directive. It is therefore necessary that Ukraine adopts the draft legislation developed with the aim of achieving compliance and to assign special protective areas to ensure its implementation.

c. Conclusions and Priorities

Ukraine has followed up on the priorities identified in last year's Implementation Report related to the adoption of the Environmental Impact Assessment Directive and the submission of its National Emission Reduction Plan to the Secretariat.

The legislative framework must be amended to ensure compliance with the provisions of the Sulphur in Fuels Directive without delay.

Ukraine should align its national law with the provisions of the Large Combustion Plants and Industrial Emissions Directives by the 31 December 2017 deadline. Ukraine shall also adopt the amendments to nature protection legislation in order to ensure compliance with the Wild Birds Directive.



Ukraine

11.8 Climate

a. Sector Overview

Ukraine is an Annex I party to the UNFCCC and ratified the Kyoto Protocol in 2004. However, it did not ratify the second commitment period. The country reported regularly to the UNFCCC, submitting its 6th National Communication in 2013 and the first Biennial Update Report in the same year (the second Update Report is to be finalized in 2017). Its greenhouse gas (GHG) inventory for the year 2014 was submitted in 2016.

Ukraine ratified the Paris Agreement in November 2016 and submitted its Nationally Determined Contribution (NDC) which includes a target of reducing GHG emissions, including via removals from land use, land use change and forestry, by at least 40% below 1990 levels by 2030.

The Ministry of Ecology and Natural Resources is in charge of the development of state environmental policy, including climate change issues, implementation of the provisions of the UNFCCC and development and implementation of mitigation and adaptation policies. The ministry has a dedicated department on climate change, atmospheric air protection and conservation of ozone layer.

b. State of Compliance

Ukraine's climate change provisions are scattered among several laws, resolutions and governmental decrees. The law on the main principles (strategy) of the state environmental policy of Ukraine until 2020 of 21 December 2010 envisages, among other things, the development and phased implementation of a national action plan to mitigate climate change for the period up to 2030.

The Resolution of the Cabinet of Ministers' Environmental Protection Action Plan for the period of 2011 - 2015 of 15 May 2011 calls for the development of legislation for monitoring, reporting and verification system, an emission trading system and performing research on vulnerability assessment.

The Decree of the Cabinet of Ministers dated 21 April 2006 on approval of the order of operation of the system for the estimation of anthropogenic emissions and removals of greenhouse gases not controlled by the Montreal Protocol transposes some of the provisions of Regulation (EU) 525/2013. However, this decree should be revised and aligned with the Monitoring Mechanism Regulation.

1. National Inventory System

Provisions on the creation and maintenance of national inventory systems are included in the Decree of 21 April 2006 as well as in the Decree of the Cabinet of Ministers of 28 May 2008 on the formation and maintenance of the national electronic registry of anthropogenic emissions and removals of greenhouse gases.

The National Center for Greenhouse Gas Emission Inventory - subordinated to the Ministry of Ecology and Natural Resources - is in charge of the preparation of national GHG inventory reports and is the core institution in the national greenhouse gas inventory system. This is in line with Monitoring Mechanism Regulation (EU) 525/2013.

2. Low Carbon-development Strategies

The most recent Resolution of the Cabinet of Ministers on a Concept of the State Policy Implementation in the Field of Climate Change for the Period up to 2030 of 7 December 2016 establishes the main principles of the state policy in the field of climate change and identifies three priority areas in addressing climate change, namely:

1. Institutional capacity building for improved formulation and implementation of the national climate change policy;
2. Climate change mitigation, which will be achieved through a gradual transition to a low-carbon development of the economy; and
3. Adaptation to climate change, increasing resilience and reducing risks associated with climate change.

The Resolution determines the need for the Cabinet of Ministers of Ukraine to develop and approve a plan of measures for the implementation of the concept. It also calls for the development of two national strategic documents: a low emission development strategy and a national adaptation strategy. For the time being, this is not compliant with Regulation (EU) 525/2013.

3. Policies, Measures, Projections

The most important forecasting instrument regarding GHG emissions is the Energy Strategy of Ukraine until 2035. Legislation defining national systems for policies, measures and projections has not been introduced yet; this is not in full compliance with Regulation (EU) 525/2013.

c. Conclusions and Priorities

Ukraine's projected emissions to 2030 are currently not accurate (between 14% higher to 20% lower than the NDC target). The

range is attributed to the uncertainty that surrounds Ukraine's implementation of climate policies.

A low-carbon development strategy with priority actions and a concrete timeframe for their implementation should be adopt-

ed with no delay. In addition, Ukraine should consider merging climate change provisions in one legislative text, as they are currently scattered among several laws, resolutions and governmental decrees.



Ukraine

11.9 Competition

a. Sector Overview

The Antimonopoly Committee of Ukraine (AMCU) is the body in charge of enforcing competition and State aid law.

During the reporting period, AMCU adopted amended guidelines regarding the calculation of fines for competition infringements and on the assessment of horizontal mergers. Furthermore, a new Merger Regulation was adopted.

With regard to the electricity market, AMCU found that PJSC Kyivenergo abused its dominant position on the market for electricity distribution by impeding market access of non-regulated tariff suppliers. Furthermore, AMCU rendered a decision on concerted practices between the main participants of the fuel retail market. Consequently, AMCU imposed a fine and commitments on these companies to stop the infringement.

Ukraine adopted the Law on State Aid for Business Entities in July 2014 after the Secretariat had initiated a dispute settlement case for non-compliance with the Energy Community Treaty. According to the Law on State Aid for Business Entities, the prohibition of State aid entered into force in August 2017. In July 2017, the government approved an Order for Recovery of Illegal State Aid. AMCU is currently also drafting government resolutions which establish the criteria for the assessment of compatibility of certain categories of State aid.

AMCU launched a pilot project on potential State aid measures in the energy sectors. Furthermore, the Department for Monitoring and Control of State Aid was established which actively engages in cooperation with the Secretariat and other national State aid authorities in the framework of the Energy Community State Aid Network.

b. State of Compliance

1. Competition Law

Ukraine's Law on Protection of Economic Competition transposes the competition *acquis*.

AMCU is one of the most active and rigorous enforcers of com-

petition law in the Energy Community. It has mainly focused on investigating abuses of dominance, such as exclusionary conducts, which foreclose the market and harm consumers. However, in the reporting period, it has also applied the competition rules to anti-competitive agreements and practices in the fuel retail market.

With regard to the electricity market, AMCU fined Kyivenergo for abuse of its dominant position on the market for electricity distribution. By imposing unreasonable requirements for distribution contracts, it impeded access of suppliers at non-regulated tariffs such as EK ENOLL and Carbon to the electricity supply market.

Furthermore, AMCU fined several companies active on the fuel retail market for engaging in anti-competitive practices. In particular, they set and maintained similar retail prices for A-95 petrol and diesel fuel on the information boards while selling part of this fuel at lower prices due to discounts, loyalty programmes and special offers, thereby avoiding open price competition between each other. The companies appealed this decision; the judicial proceedings are still pending.

AMCU's cooperation with the Secretariat and other national competition authorities in the framework of the Energy Community Competition Network is rather limited.



Lack of State Aid Legislation

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In Case ECS-8/14, initiated by an Opening Letter on 22 April 2014, the Secretariat takes the view that Ukraine failed to fulfil its obligations under the Energy Community Treaty by not adopting and implementing legislation prohibiting State aid and enforcing that prohibition. The Law on State Aid to Business Entities adopted in July 2014 entered into force in August 2017. In these circumstances, the Secretariat decided not to move ahead the infringement procedure. However, breaches of Energy Community law still persist and need to be addressed in the upcoming period.

2. State Aid Law

As has been pointed out in the previous Implementation Report, several provisions of the Law on State Aid for Business Entities are not in line with the State aid *acquis*. According to its provisions, existing State aid has to be brought into compliance with the law within a timeframe established freely by AMCU in each individual case. This provision does not comply with the *acquis* and will lead to a delay in the enforcement of the State aid *acquis*. The Law on State Aid for Business Entities does not apply to aid granted for investments in infrastructure projects using state procurement procedures. This means that many infrastructure projects in the energy sectors could escape the application of State aid rules, which is also contrary to the *acquis*. Moreover, the Law prevents AMCU from requiring the recovery of State aid after ten years following the effective date of the regulatory and legal instrument or an executive order under which such aid was granted. However, the Law does not provide that action by AMCU will suspend the limitation period. The relevant provision should be brought in line with the *acquis*.

The report on State aid schemes and measures in the energy sectors of December 2016 analyses 26 programmes of state support provided in the years 2014 - 2015. It contains findings

on these measures and recommendations for AMCU and various ministries. It is based on the information provided by the respective ministries, and assesses the character and compatibility of these measures. This report was sent to the Council of Ministers and the respective ministries to raise awareness and induce action with the State aid grantors. Only active enforcement of the State aid *acquis*, i.e. the notification of State aid measures and their assessment by AMCU, will determine the value of this exercise.

c. Conclusions and Priorities

AMCU continues to be a positive exception among the Contracting Parties as a strong enforcer of competition law. With regard to State aid, AMCU will have to actively engage in the enforcement of the Law on State Aid for Business Entities in order not to further delay compliance with Ukraine's obligations under the Treaty. The Secretariat will closely monitor AMCU's enforcement of the Law on State Aid for Business Entities and its compliance with the State aid *acquis*.



Ukraine

11.10 Infrastructure

a. Sector Overview

In Ukraine, the rehabilitation of the 400 kV electricity overhead line Mukacheve (UA) – V.Kapusany (SK) (EL_09) has received the Project of Energy Community Interest label. As concerns gas projects, the development of Poland (Hermanowice) - Ukraine (Bilche Volytsya) reverse flow (Gas_14) and reverse flow and new firm capacity Hungary (Beregdaróc) - Ukraine (Beregovo) (Gas_15) have been designated as Projects of Mutual Interest. The country is yet to start activities on transposing Infrastructure Regulation (EU) 347/2013.

b. State of Compliance

As Ukraine did not transpose Regulation (EU) 347/2013, it fails to meet the general transposition deadline of the Regulation. In addition, the electricity project promoter from Ukraine failed to submit the necessary report/s on the project's progress to the Secretariat by the required deadline.

1. Designation of National Competent Authority

No decision was taken on the designation of the competent authority. Therefore, Ukraine is not compliant with Article 8(1)

of Regulation (EU) 347/2013.

2. Status of Highest National Significance for Energy Community Priority Projects

The status of highest national significance regarding energy facilities of strategic importance does not exist in the current legal framework of Ukraine.

3. Manual of Procedures

There is no manual of procedures on the authorization procedure applicable to the Projects of Energy Community Interest.

4. Transparency and Public Participation

The public participation process is not aligned with Regulation (EU) 347/2013.

5. Project Visibility and Dedicated Websites

A dedicated web page has still not been made available by project promoter/s.

c. Conclusions and Priorities

Ukraine should immediately adopt a law or by-law to ensure the transposition of Regulation (EU) 347/2013 into national legislation.

The electricity project promoter should prepare and submit the necessary project progress reports to the Secretariat as soon as possible.

The national competent authority should be designated and become operational as soon as possible. It should publish a

manual of procedures for the permit granting process, applicable for Projects of Energy Community Interest, following the minimum structure presented in Annex X of Regulation (EU) 347/2013, by 31 December 2017.

The national regulatory authority NEURC should publish the methodology and criteria used to evaluate investment in electricity and gas projects and the higher risks incurred by them by 31 December 2017. NEURC should also establish and make publicly available a set of indicators and corresponding reference values for the comparison of unit investment costs by 30 June 2018.



Ukraine

11.11 Statistics

a. Sector Overview

The Law on State Statistics creates the organizational structure for official statistics and governs relations between the relevant institutions. The State Statistical Service of Ukraine (SSSU) is the central statistical institution responsible for production of energy statistics in accordance with Regulation (EC) 1099/2008. The Law on State Statistics imposes obligations on respondents to submit information in the format as defined in the statistical reporting documentation in a timely manner. A quality management system is established and operational, ensuring the quality control of input data, checking and validation procedures.

Following the government instruction from 2007, SSSU developed a methodological regulation on the design of the statistical surveying of uses of fuel and energy and a methodological regulation on compilation of the energy balance. Programmes and plans are published by SSSU, as well as reports on their implementation. SSSU published its catalogue of statistical publications with a release calendar.

The government adopts the development strategy, multi-annual programmes and annual plans of statistical surveys. Pursuant to the State Statistics Programme until 2017, SSSU has been developing an integrated system of official statistics in order to comply with the Energy Community *acquis*.

b. State of Compliance

Ukraine has achieved significant progress in complying with the statistics *acquis*. Annual data collection and majority of monthly data required by Regulation (EC) 1099/2008 are collected and disseminated. Following the adoption of the Gas Market Law in 2016 and the Electricity Market Law in 2017,

the reporting system for gas and electricity prices in accordance with Directive 2008/92/EC has been implemented, but a lot of work is still ahead.

1. Regulation (EC) 1099/2008 on Energy Statistics

As regards annual energy statistics, SSSU publishes balances per product in December at the latest for the previous year and submits joint questionnaires to IEA. Consolidated data are published in the Statistical Yearbook of Ukraine. In 2016, Ukraine began transmitting the full set of five annual questionnaires to EUROSTAT and the Ukrainian annual energy statistics are now available in the EUROSTAT database.

Data for the energy balance are collected using statistical surveys, administrative information, evidence-based data and expert evaluation. SSSU is planning to obtain more detailed information on production and consumption of solid biofuel and disaggregated data on consumption in households in the course of 2017 and 2018, under the EU4Energy Data initiative.

Having produced and transmitted its annual statistics in the format in line with the *acquis*, Ukraine has implemented the key requirements of Annex B of Regulation (EC) 1099/2008.

SSSU also compiles monthly energy statistics and ensures their timely dissemination. SSSU also compiles monthly Joint Organisations Data Initiative (JODI) questionnaires on oil and gas and submits them to the United Nations Statistics Division (UNSD). Ukraine presents its JODI questionnaires regularly through the UNSD in the world JODI database. SSSU is working on further improving its monthly statistics, especially with respect to short-term collections. Transmission of monthly data to EUROSTAT has not started yet.

Ukraine has complied with the General Policy Guideline on Implementation of Certain Deadlines of the Oil Stocks Directive in the Energy Community and implemented key requirements from Annex C of Regulation (EC) 1099/2008.

2. Directive 2008/92/EC on Transparency of Gas and Electricity Prices for Industrial End-users

SSSU has been establishing a reporting system for electricity and gas prices as required by Directive 2008/92/EC. In April 2017, SSSU compiled the sets of average gas and electricity prices charged to industrial customers and to households, disaggregated per taxation level, from 2013 onward and submitted them to EUROSTAT and the Secretariat for review. The data for 2016 were published by EUROSTAT.

The collection is still not broken down per consumption band. Following the adoption of the Gas Market Law and the new Electricity Market Law, SSSU is in the position to request and provide relevant data for regular electricity and gas price reporting per consumption band in accordance with Directive

2008/92/EC and broken down per price component.

Ukraine still has not achieved full compliance with the *acquis* on electricity and gas prices.

c. Conclusions and Priorities

The system of continuous data collection should be completed and permanently improved to adapt to the changes in the energy sector and in the reporting requirements, such as those imposed by Regulation (EU) 431/2014.

SSSU is expected to transmit monthly data to EUROSTAT and to complete monthly collections in line with Annex D of Regulation (EC) 1099/2008.

The reporting and compilation system for electricity and gas prices has to be implemented without delay, not only in line with Directive 2008/92/EC but also to reflect the expected changes in the reporting requirements and disclose the key cost drivers of end-user prices.





12 | Investment Report



12 Investment Report

In line with Regulation (EU) 347/2013 as adapted and adopted by the Ministerial Council, the Energy Community is bi-annually conducting the Project of Energy Community Interest/Project of Mutual Interest (PECI/PMI) selection process. The process, which is co-chaired by the European Commission (DG Energy) and the Secretariat, is very much in line with the procedure for selection of Projects of Common Interest of the European Union.

Pursuant to Regulation (EU) 347/2013, the Ministerial Council adopted the first list of Projects of Energy Community Interest (PECIs) and Projects of Mutual Interest (PMIs) in October 2016. This includes in total 20 projects, in electricity (8) and gas (11) transmission and oil (1).

The Secretariat, in line with Regulation (EU) 347/2013, is monitoring the implementation of these projects and has requested the project promoters to submit Project Implementation Plans. During the first quarter of 2016, the project promoters submitted this information to the Secretariat, which has also been utilized to set up the Energy Community Infrastructure Transparency Platform (PLIMA).

This report presents the key information submitted by project promoters coupled with the Secretariat's own assessment of project readiness. More detailed information and project schedules are available on the PLIMA Platform³.



3 <https://www.energy-community.org/regionalinitiatives/infrastructure/PLIMA.html>

**Resita (RO) – Pancevo (RS)**

EL01 – I 400 kV OHL

Project Description

The so-called Transbalkan Corridor links Romania to the undersea cable between Montenegro and Italy and represents a strategic investment of regional and pan-European significance. The majority of the Corridor lies in Serbia. Because of its geographical position, Serbia's transmission network represents a vital link among the transmission systems of the region for market creation and increasing efficiencies of the regional system. When completed, the Transbalkan Corridor will significantly strengthen the critical northeast-southwest and east-west regional and pan-European corridors, which are among the most congested in Southeast Europe. The Corridor's realization will result in an increased level of security of electricity supply, integration of renewable generation and integration of Western Balkan markets with those of the neighbouring EU Member States. The Corridor is part of the relevant Ten-Year Network Development and Regional Investment Plans of ENTSO-E and is supported by the European Commission. The first investment item, 400 kV overhead line from Pancevo (Serbia) to Resita (Romania), received the Project of Common Interest label in the EU and its realisation is monitored by the European Commission and Energy Community Secretariat. All infrastructure items that form the Transbalkan Corridor received the Project of Energy Community label.

Energy Community Secretariat's evaluation

The project is under construction on both sides of the border. It is important to continue with the synchronised works in order to finalise the overhead line on both sides of the border at the same time.

Project
Readiness:
70%

PECI

	Serbia	Romania
Promoter	AD Elektromreza Srbije	Transelectrica
Type	400 kV Double circuit	
Planned Commissioning	2018	
Grant received	No	
TYNDP 2016 #	Reference code 144. 238	

**Kragujevac (RS) – Kraljevo (RS)**

EL01 – II 400 kV OHL

Project Description

This investment represents the second section of the Transbalkan Corridor. It connects the substations of Kragujevac and Kraljevo (with a length of 60 km) in central Serbia. This project is a precondition for the construction of the remainder of the Transbalkan Corridor, taking into account the necessity to evacuate energy from the Bajina Basta production nodes and supply the Belgrade region. In March 2017, a loan agreement of EUR 15 million was signed between the Serbian transmission system operator - EMS, the Ministry of Energy and Mining and the German Bank for Development – KfW in order to support the investment. In addition, the European Union, through the Western Balkans Investment Framework (WBIF), granted EUR 6,5 million to this project. As part of the Transbalkan Corridor, this 400kV line is also a Project of Energy Community Interest.

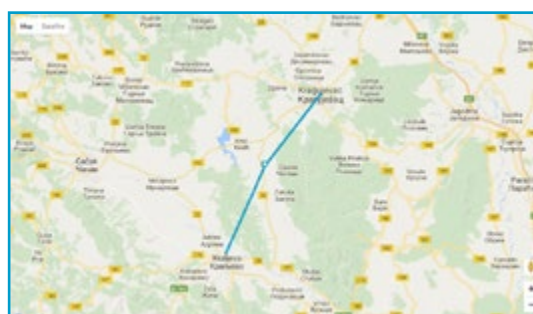
Energy Community Secretariat's evaluation

This project is close to starting the construction phase. Its realisation is a precondition for the construction of the last two sections of the Transbalkan Corridor to begin. Therefore, special attention is required from the project promoter in order to fulfil the planned time schedule and deadlines.

Project
Readiness:
50%

PECI

	Serbia
Promoter	AD Elektromreza Srbije
Type	400 kV OHL
Planned Commissioning	2020
Grant received	WBIF investment fund, 2016, EUR 6,5 million
TYNDP 2016 #	Reference code 146



**Obrenovac (RS) – B. Basta (RS)**

EL01 – III 400 kV OHL

Project Description

This investment item represents the third section of the Transbalkan Corridor and has a Project of Energy Community label. The project represents an upgrade of the existing transmission network in Western Serbia at 400 kV voltage level between SS Obrenovac and SS Bajina Basta, which implies a new double 400 kV OHL SS Obrenovac – SS Bajina Basta, reconstruction of existing SS Obrenovac and SS Bajina Basta (length 111 km). The prefeasibility and feasibility studies were completed and a KfW grant was approved to harmonize the feasibility study, preliminary design and an environmental impact assessment with national legislation regarding permitting. A WBIF grant for technical assistance in the amount of EUR 0,8 million was approved for the design for construction.

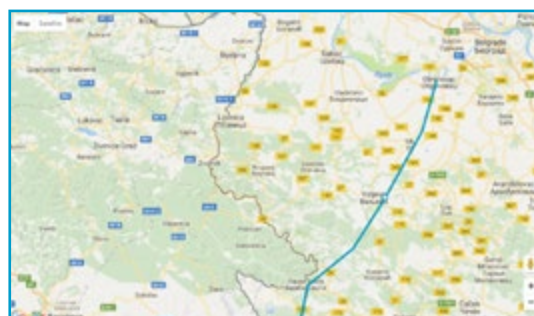
Energy Community Secretariat's evaluation

The project is less advanced than the second section of the Transbalkan Corridor but its realisation is equally a precondition for the construction of the complete Transbalkan Corridor. The loan financing of this section is expected to be signed with KfW and an application for an investment grant from WBIF was put forward by the Serbian transmission system operator, EMS, for the decision of the WBIF Steering Committee at its meeting in December 2017. The Secretariat will monitor closely the progress of this project.

Project
Readiness:
40%

PECI

	Serbia
Promoter	AD Elektromreza Srbije
Type	400 kV Double circuit OHL
Planned Commissioning	2023
Grant received	WBIF's grant approval is pending
TYNDP 2016 #	Reference code 227

**Bajina Basta (RS) – Pljevlja (ME) – Visegrad (BA)**

EL01 – IV 400 kV OHL

Project Description

This project constitutes the fourth section of the Transbalkan Corridor. It connects three countries - Serbia, Montenegro and Bosnia and Herzegovina.

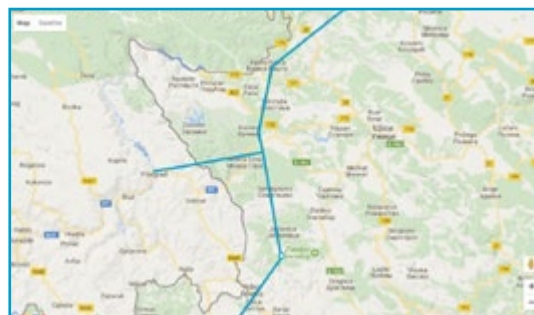
Energy Community Secretariat's evaluation

The construction phase of this segment is not yet ready to begin. The completion of its construction is a precondition for the realisation of the last two sections of the Transbalkan Corridor, and thus it is imperative that the project promoter adheres to the planned time schedule and deadlines.

Project
Readiness:
40%

PECI

	Serbia	Montenegro	Bosnia and Herzegovina
Promoter	AD Elektromreza Srbije	CGES	NOS BiH
Type		400 kV Double circuit	
Grant received	No	N/A	N/A
TYNDP 2016 #		Reference code 227	





Lastva (ME) – Pljevlja (ME)

EL03 400 kV OHL

Project Description

The investment project is the last investment item of the Transbalkan Corridor that has the Project of Energy Community Interest label and includes the following components: construction of 400/110/35 kV Lastva substation and extension of the existing 400/220/110 kV Pljevlja 2 substation; construction of the double circuit line 2 x 400 kV between Lastva Trebinje and Lastva Pljevlja (section Lastva Cevo) and the single circuit line 400 kV Lastva Podgorica (section Lastva Cevo), and construction of the 400 kV Lastva Pljevlja line (section Cevo Pljevlja). The new electricity connection will result in reduced supply disruptions and improved quality of supply to electricity customers. Transmission system losses will be reduced leading to more efficient transmission as well as environmental benefits. The project is financed through a KfW loan of EUR 25 million and an investment grant of EUR 25 million from WBIF.

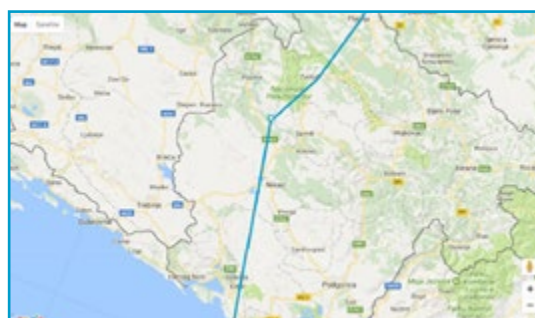
Energy Community Secretariat's evaluation

The project is in the construction phase. The Secretariat will monitor the progress of implementation against the planned schedule of the project promoter.

**Project
Readiness:
70%**

PECI

	Montenegro
Promoter	CGES
Type	400 kV OHL
Grant received	EUR 27,3 million WBIF 2015 investment grant + technical assistance for implementation
TYNDP 2016 #	Reference code 146



Chisinau (MD) – Vulcanesti (MD) – Isaccea (RO)

EL06 400 kV OHL

Project Description

The project consists of installing a back-to-back (B2B) station on the existing 400 kV overhead line between Vulcanesti (Moldova) and Isaccea (Romania), constructing a new overhead line between the Moldovan cities of Vulcanesti and Chisinau, and extending the existing Chisinau and Vulcanesti substations. The investment will strengthen the interconnection between Moldova and the continental European power system, bringing needed energy source diversification and ensuring security of supply. The full feasibility study is expected to be finished by November 2017. The strategic environmental impact assessment for OHL 400 kV Vulcanesti-Chisinau was subject to a public consultation until the end of October 2017. The project has received the label of Project of Mutual Interest of the Energy Community. The final financing model is to be decided by the end of 2017. The financing of the project is being discussed with EBRD and the World Bank.

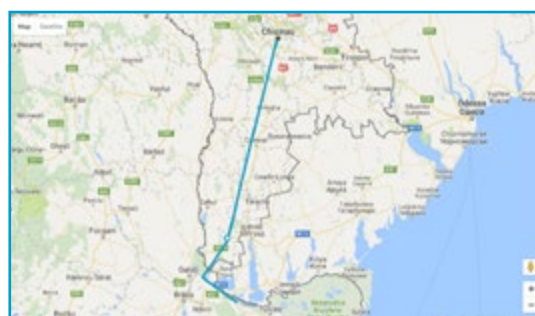
Energy Community Secretariat's evaluation

The project is still in a feasibility study phase, which should be finalised as soon as possible in order to continue with the project's realisation.

**Project
Readiness:
20%**

PMI

	Romania	Moldova
Promoter	Transelectrica	Moldelectrica
Type	400 kV OHL and back to back stations	
Grant received	No	
TYNDP 2016 #	N/A	





Mukacheve (UA) – V.Kapusany (SK)

EL09 400 kV OHL

Project Description

This rehabilitation project consists of the reconstruction/re-equipment of the 400 kV overhead line between Mukacheve (Ukraine) and V.Kapusany (Slovakia) and substations in order to increase transmission capacity.

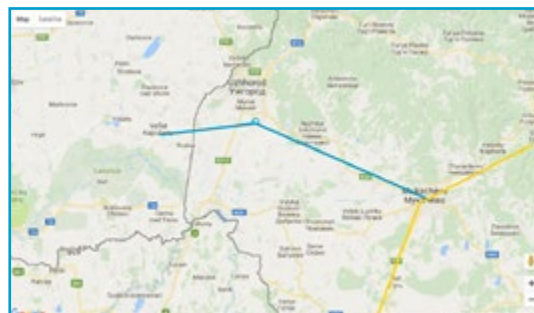
Energy Community Secretariat's evaluation

The project is missing technical documentation and a planned time schedule. The project promoter must provide all necessary information as soon as possible.

Project
Readiness:
0%

PMI

	Slovakia	Ukraine
Promoter	SEPS	UKRENERGO
Type	400 kV OHL	
Grant received	No	
TYNDP 2016 #	N/A	



Bitola (MK) – Elbasan (AL)

EL13 400 kV OHL

Project Description

This project is part of a wider initiative to establish a major East – West electricity transmission corridor between Bulgaria, former Yugoslav Republic of Macedonia, Albania and potentially Italy (via a planned submarine cable). This section of the corridor aims to connect Bitola (former Yugoslav Republic of Macedonia) and Elbasan (Albania) via a 400 kV overhead line with a substation at Ohrid, near the countries' borders. The section between Bulgaria and former Yugoslav Republic of Macedonia has been completed, and the submarine cable between Italy and Montenegro is under construction. In addition, the 400kV connection between Albania and Montenegro is in operation, while the Albania and Kosovo* inter-connection is close to being put into full operation. An agreement between EBRD and MEPSO (former Yugoslav Republic of Macedonia) was signed in December 2015 for a loan of EUR 37 million and with WBIF for an investment grant of EUR 12 million. Albania signed a loan agreement with KfW for EUR 14 million.

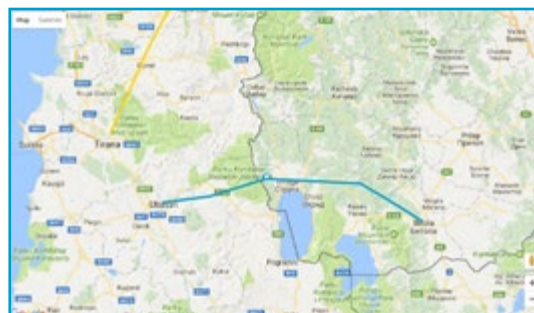
Energy Community Secretariat's evaluation

The project promoters are preparing the tender for works and the land acquisition. The construction phase is expected to start in 2018/2019. Since this is an interconnector, cooperation between the two transmission system operators is essential. The Energy Community Secretariat will monitor closely the implementation of deadlines by both transmission system operators.

Project
Readiness:
60%

PECI

	FYR of Macedonia	Albania
Promoter	MEPSO	OST
Type	400 kV OHL	
Grant received	EUR 12 million from WBIF	
TYNDP 2016 #	Reference code 147	





Bosnia and Herzegovina South – Croatia

Gas_03

Project Description

The objective of the project is to interconnect the natural gas systems of Bosnia and Herzegovina and Croatia via the route Zagvozd (Croatia) – Posušje –Travnik (Bosnia and Hercegovina) with a branch to Mostar. The pipeline will establish a new supply route into Bosnia and Herzegovina, thus ensuring diversified and reliable natural gas supply.

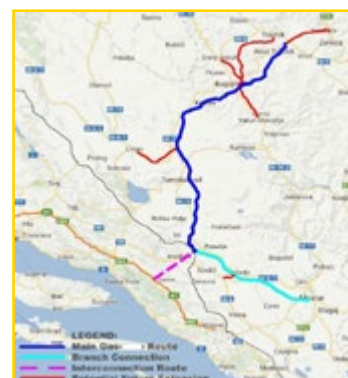
Energy Community Secretariat's evaluation

The project is at a very early stage of development. The next step should be for the (pre-) feasibility study to be commissioned. Once the project's viability is confirmed, the coordination of its implementation plan should be revisited. An agreement between the project promoter companies and if necessary between the participating countries in the form of a development or intergovernmental agreement should be considered. Additionally, Bosnia and Herzegovina shall implement Third Energy Package-compliant legislation without delay.

Project
Readiness:
5%

PMI

	Bosnia and Herzegovina	Croatia
Promoter	BH-Gas Ltd Sarajevo Gas Producing and Transporting Company	Plinacro Ltd.
Type	HR -> BiH 38	
Planned Commissioning	2021	
Grant received	Funds were allocated by WBIF in 2014; however they were subsequently diverted to projects for repairing damages caused by floods in Bosnia and Herzegovina.	
TYNDP 2017 #	TRA-N-851 & TRA-N-302	



Bosnia and Herzegovina West – Croatia

Gas_02

Project Description

The aim of this project is to provide gas supply to the Una Sana Canton in Bosnia and Herzegovina from the Croatian gas supply network.

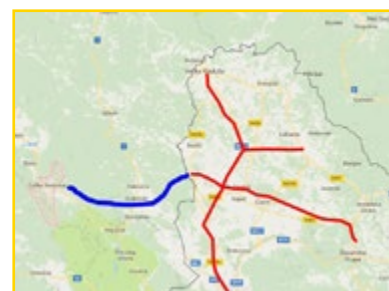
Energy Community Secretariat's evaluation

The project is at a very early stage of development. It is recommended that the project's implementation plan is coordinated and agreed at working level, following which an agreement between the project promoter companies, and if necessary between the participating countries is concluded in the form of a development or an intergovernmental agreement. Additionally, Bosnia and Herzegovina shall implement Third Energy Package-compliant legislation without delay.

Project
Readiness:
5%

PMI

	Bosnia and Herzegovina	Croatia
Promoter	BH-Gas Ltd Sarajevo Gas Producing and Transporting Company	Plinacro Ltd.
Type	HR -> BiH 73	
Planned Commissioning	2026	
Grant received	Croatia has applied for the WBIF Rounds 6 and 7 for feasibility study, environmental and social impact assessment, cost-benefit analysis and conceptual design. These applications were supported by BH-Gas, but grants were not approved.	
TYNDP 2017 #	TRA-N-910 & TRA-N-303	





Macedonia, FYR – Greece Interconnector

Gas_04B

Project Description

The project aims to contribute to the internal gas system development of former Yugoslav Republic of Macedonia and connect the country to the gas transmission system of Greece. The total length of the pipeline is ca. 166 km. The project aims at constructing the Stip-Hamzali-Stojakovo new DN700 pipeline section in former Yugoslav Republic of Macedonia to the border with Greece. The project on the side of former Yugoslav Republic of Macedonia consists of a pipe with 110 km in length, a pig launching-receiving station, valve stations, a new power supply system, etc. The Greek part of the project consist of a DN700 pipeline of ca. 56 km in length, which will link the Nea Mesimvria valve station of the Greek gas transmission system with the Greek/former Yugoslav Republic of Macedonia border.

Energy Community Secretariat's evaluation

The project is at an early stage, although progress has been made in terms of feasibility, design, permitting and regulatory approval. A memorandum of understanding between the cooperating companies was signed in October 2016. Finding a viable funding solution to realize the project seems to pose a challenge. The Secretariat recommends for the project to proceed in line with the memorandum and for the final investment decision to be taken once open questions have been clarified.

Project Readiness: 20%	PMI	
	FYR of Macedonia	Greece
Promoter	Macedonian Energy Resources - MER	HELLENIC GAS TRANSMISSION SYSTEM OPERATOR (DESFA) S.A.
Type	74,6 Reverse Flow	
Planned Commissioning	2022	
Grant received	N/A	
TYNDP 2017 #	TRA-N-980 & TRA-N-967	



Serbia – Bulgaria

Gas_09

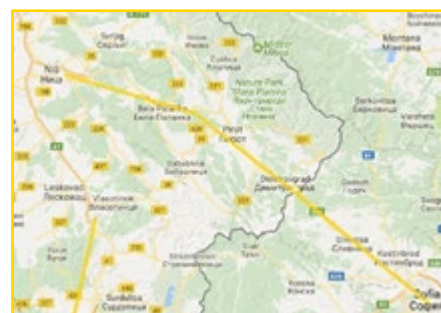
Project Description

The project consists of an onshore gas pipeline, which will interconnect the Serbian and Bulgarian gas transmission networks. The total length of the new pipeline is 170 km.

Energy Community Secretariat's evaluation

The project is at an early stage of development, although actions related to feasibility, spatial planning, design and permitting have been either completed or are in progress. The European Commission has agreed to partial grant financing of the project. The terms of the grant are currently being negotiated with the Serbian and Bulgarian authorities. The realization of the project depends on the political will of the participating countries. A memorandum of understanding regarding the construction of the pipeline was signed by Serbia and Bulgaria in January 2017.

Project Readiness: 30%	PECI	
	Serbia	Bulgaria
Promoter	JP Srbijagas	Ministry of Energy
Type	BG -> SR 39,44	
Planned Commissioning	2022	2021
Grant received	<p>The Bulgarian section of the pipeline has been awarded with a grant from the Operational Programme "Competitiveness" 2017-2013 in the value of EUR 2,26 million and from the Operational Programme "Innovations and Competitiveness" 2014 - 2020 in the value of EUR 45 million.</p> <p>An agreement on a grant to be allocated from funding under the national Instrument for Pre-accession Assistance for the Serbian section of the pipeline has not been signed yet.</p>	
TYNDP 2017 #	TRA-F-137	





Serbia – Croatia

Gas_10

Project Description

The project aims at connecting the existing gas pipeline systems of Serbia and Croatia. The total length of the new pipeline is 140 km.

Energy Community Secretariat's evaluation

Although the project follows the routing of the original South Stream pipeline and (pre-) feasibility studies have been carried out, the project has not advanced recently and is at an early stage of development. It is recommended that the Serbian and Croatian counterparties re-evaluate the status of the project and agree on a workflow leading up to a joint project schedule and eventually a joint project development agreement and/or an intergovernmental agreement.

Project
Readiness:
10%

PMI

	Serbia	Croatia
Promoter	JP Srbijagas	Plinacro Ltd.
Type	32,8 HR -> SR	205 SR -> HR
Planned Commissioning		2023
Grant received		N/A
TYNDP 2017 #		TRA-N-70



Serbia – Macedonia, FYR Interconnector

Gas_11

Project Description

The project aims at interconnecting the existing gas transmission systems of Serbia and former Yugoslav Republic of Macedonia. The length of the planned DN500 pipeline is 65 km with a capacity of 10,4 GWh/d. Two valve stations, one pig launching-receiving station, one pig receiving station, a telemetric system for monitoring and a regulation and measuring station will also be constructed as part of the project in former Yugoslav Republic of Macedonia.

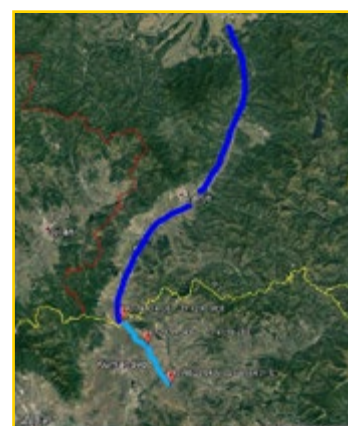
Energy Community Secretariat's evaluation

The project is at an early stage of development and project realization steps, based on the submitted information do not fully converge or are missing. It is recommended that counterparties re-evaluate the status of the project and agree to a workflow leading up to a joint project schedule and project realisation. After that the parties should jointly resubmit the project questionnaire to the Secretariat. The promoters are recommended to coordinate their efforts on project implementation and financing at working level first, eventually leading to the signature of a project development agreement, or if deemed necessary, an intergovernmental agreement.

Project
Readiness:
10%

PECI

	Serbia	FYR of Macedonia
Promoter	JP Srbijagas	Macedonian Energy Resources - MER
Type		10,4 SR -> FYROM
Planned Commissioning	December 2022	2021
Grant received		N/A
TYNDP 2017 #		TRA-N-965





Albania – Kosovo* Interconnector

Gas_13

Project Description

The realization of the gas pipeline project ALKOGAP would further develop the Albanian natural gas market and spur the creation of the gas market in Kosovo*. The pipeline, ca. 255 km in length, is to be supplied by Caspian gas via TAP and IAP. Its capacity is currently estimated at 1,12 Bcm/yr, but could be increased in case ALKOGAP is used to supply other countries in the region with Caspian or Middle East gas.

Energy Community Secretariat's evaluation

The project is at a very early stage of development and its schedule is subject to many uncertainties. This is due to the fact that its construction depends on the realization of other projects, especially the gasification of Albania and the realization of IAP. Once the project's pre-feasibility study has been completed, the project schedule should be updated jointly by the cooperating parties taking into account new developments with respect to Albanian gasification and the IAP project.

Project
Readiness:
5%

PECI

	Albania	Kosovo*
Promoter	Ministry of Energy and Industry	Ministry of Economic Development
Type	35 AL -> KS	
Planned Commissioning	2022	
Grant received	In June 2016, WBIF approved technical assistance for financing the prefeasibility study in the amount of EUR 0,3 million.	
TYNDP 2017 #	TRA-F-1028	



Poland – Ukraine Reverse Flow

Gas_14

Project Description

The project will establish a new bidirectional pipeline connection between the Polish and Ukrainian gas transmission networks. The pipeline will connect the Hermanowice node on the Polish side with the Bilche Volytsia underground gas storage on the Ukrainian side. The main goals of the project are as follows: increase security and stability of cross-border gas transmission between Poland and Ukraine; decrease vulnerability of Poland and Ukraine in case of supply disruptions; diversify gas sources and routes for the Central and Eastern Europe region by enabling access to global LNG markets, unconventional gas and storage in Poland and gas infrastructure in South East Europe; improve regional gas market integration; and enable access to Ukrainian gas storage infrastructure.

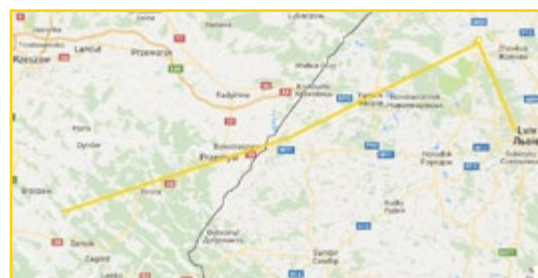
Energy Community Secretariat's evaluation

The project is at an early stage of development, nevertheless steps have been taken in terms of project feasibility assessment, design and permitting. The project is currently on hold due to misalignment between the promoters on whether a market test is necessary for the realisation of the project. The views of the project promoters and the regulators on this issue should be aligned, following which the project schedule should be harmonized and Final Investment Decisions should be taken.

Project
Readiness:
15%

PMI

	Poland	Ukraine
Promoter	GAZ-SYSTEM S.A.	PIJSC UKRTRANSGAZ
Type	153 PL -> UA Exit 153 UA -> PL Entry	245 PL -> UA Entry 215 UA -> PL Entry
Planned Commissioning	2020	
Grant received	N/A	
TYNDP 2017 #	TRA-N-621 & TRA-N-561	





Hungary – Ukraine Firm Reverse Flow

Gas_15

Project Description

The expansion of the existing interconnector aims to ensure non-interruptible capacity at the existing interconnection point Beregdaróc at the Hungarian-Ukrainian border, currently available as interruptible capacity only. The project would increase the security of supply of Ukraine. Furthermore, it would contribute to gas evacuation from the LNG terminal in Krk, Croatia, for which the European Commission has recently approved Connecting Europe Facility financing.

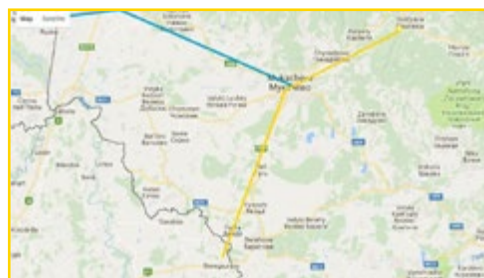
Energy Community Secretariat's evaluation

The Ukrainian section of the investment has been completed. However, the project is currently on hold due to the Hungarian counterparty's inability to take an investment decision without a market signal on the future usage of the interconnector. It is recommended that the project promoters discuss the options at hand, including the possibility of conducting a joint market test/open season, together with the regulators. Depending on the outcome, the project schedule on the Hungarian side should be updated and the project commissioning date should be aligned by both project promoters.

Project
Readiness:
50%

PMI

	Hungary	Ukraine
Promoter	FGSZ Földgázszállító Zrt.	PJSC UKRTRANSGAZ
Type	180 HU -> UA	
Planned Commissioning	2018	
Grant received	N/A	
TYNDP 2017 #	TRA-N-586 & TRA-N-645	



Ionian Adriatic Pipeline – IAP

Gas_16

Project Description

The Ionian Adriatic Pipeline (IAP) project aims to connect the existing Croatian gas transmission system, via Montenegro and Albania with the Trans Adriatic Pipeline system (TAP). The total length of the gas pipeline from the Croatian town of Split to the Albanian town of Fier is 511 km. Its 5 Bcm/y capacity would provide natural gas supply to Albania (1 Bcm), Montenegro (0,5 Bcm), the south of Bosnia and Herzegovina (1 Bcm) and Croatia (2,5 Bcm). The implementation of the entire Ionian Adriatic Pipeline project would enable the opening of a new energy corridor for the South East Europe region and its integration into the Southern EU transmission corridor. It also has the potential to establish a new natural gas supply direction from the Middle East and the Caspian region. The IAP will have reverse flow capability, i.e. it will be able to provide natural gas supply to South East Europe from other sources; one of them being the future LNG terminal in Krk. A comprehensive feasibility study financed by the WBIF was completed in April 2014.

Energy Community Secretariat's evaluation

The project has matured in recent years. The Albanian and Montenegrin Gas Master Plans have been concluded as well as the necessary permitting actions. A joint Project Management Unit has also been set up. In order to develop the project further, the project promoters should set up a project company and assess and enhance the financial viability of the project, taking into account a detailed assessment of regional gas market scenarios, all possible project scale scenarios and financing options. It is recommended for the project schedule to be updated jointly by the parties. The new schedule should reflect the current schedule of the Albanian and Montenegrin gasification plans and new market developments.

Project
Readiness:
20%

PMI

	Croatia	Montenegro	Albania
Promoter	Plinacro Ltd	Montenegro Bonus d.o.o.	ALBGAS Sh.A.
Type	150 – Reverse Flow		
Planned Commissioning	2023		
Grant received	WBIF has awarded grants for the comprehensive feasibility study including ESIA and Business Plan in 2011, with the value of mEUR 3,5; for the Gas Master Plan of Montenegro in 2014, with the value of mEUR 0,55 and for the Gas Master Plan Albania in 2014 in the value of mEUR 1,1.		
TYNDP 2017 #	TRA-N-068		





Romania – Moldova

Gas_18

Project Description

The overall objective of the interconnection gas pipeline project between Romania and Moldova on the Iasi-Ungheni-Chisinau section is to ensure a high level of energy security of Moldova and North-Eastern Romania by diversifying the sources of natural gas. The construction of the first phase of the project, a segment of about 33 km in length, 10 km of which are in Romania, from Iasi to Ungheni, was finalized in 2014. The interconnector Iasi – Ungheni has been constructed and put into operation with low throughput in March 2015. The segment Ungheni-Chisinau (the second phase of the project) will tie-in into the existing interconnector, close to Ungheni, and transport the gas to Chisinau, Moldova's capital and biggest consumption area.

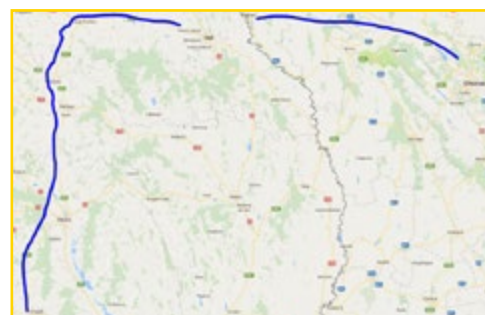
Energy Community Secretariat's evaluation

The project is moving ahead, as steps in feasibility assessment, design and permitting were taken. The project's progress is being followed by the European Investment Bank (EIB) and EBRD due to the loan assigned to Moldova for the development of the project, along with a grant from the European Commission. It is recommended to carry on with the project's implementation in Moldova and continue with the implementation of the country's Energy Reform Action Plan and cooperation between the Secretariat and the Moldavian authorities. The project schedule should also be updated together with the Romanian authorities and the missing information should be provided to the Secretariat.

Project Readiness:
15%

PMI

	Romania	Moldova
Promoter	SNTGN Transgaz SA	Ministry of Economy of Moldova
Type	47,3 RO -> MD	
Planned Commissioning	2021	
Grant received	A grant agreement with the European Commission and loan agreements with EIB and EBRD were signed in December 2016.	
TYNDP 2017 #	N/A	



Adamowo-Brody PL – UA Oil Pipeline

Oil_01

Project Description

The pipeline project would connect the main oil transfer pumping station Brody in Ukraine with the oil tank farm in Adamowo in Poland and form an integral part of the future Euro-Asian Oil Transportation Corridor (EAOTC), by which Caspian and Central Asian crude will be delivered to customers in Poland and other EU countries. The pipeline would enable reverse mode – from the Baltic Sea to customers in Ukraine, Slovakia and Czech Republic. Total length of the DN800, 10MTA capacity pipeline is 396,3 km.

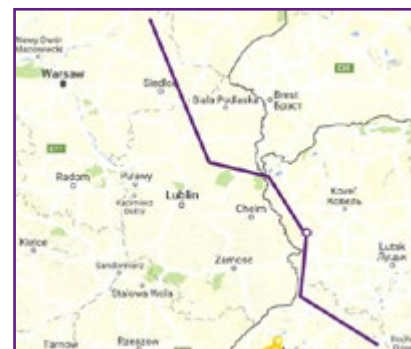
Energy Community Secretariat's evaluation

The project is at an early stage of development, although a feasibility study, which is currently being updated, has been carried out. Permitting procedures and public consultations have also been conducted. It is recommended to further assess the viability of the project taking into consideration the interests of market players along the oil supply chain. Currently, the diversity of market players and their interests, permitting bottlenecks, political instability and uncertainty over financial viability due to the volatility of the oil price all seem to have slowed down the project's implementation.

Project Readiness:
15%

PECI

	Poland	Ukraine
Promoter	MPR Sarmatia Sp. z o.o.	PSC Ukrtransnafta
Type	10 PL -> UA 10 UA -> PL	
Planned Commissioning	2022	
Grant received	N/A	



Glossary

The report makes a reference to the following institutions, treaties, support programmes and energy policy related concepts and measurement units.

1. Methodology Used for Calculating Implementation Indicators

Background

The implementation indicator graphs that are found throughout this Report are based on a methodology quantifying the Contracting Parties' success in transposing and implementing the *acquis*; following, applying and establishing rule of law; and having in place effective institutions. It is based on standardised assumptions and evaluations, indicators provided by other international organisations, cases under the Energy Community's dispute settlement mechanism, country missions, review of legislation, market analysis, expert interviews, and desk research. The quantification of all figures used to measure implementation was performed by experts of the Energy Community Secretariat.

In addition, the Energy Community Secretariat made use of other well-established methodologies and indicators, like the Western Balkan 6 project's logical framework, or other organisations' measures for rule of law (including the EBRD, the World Justice Project, or the World Bank), infrastructure adequacy or market concentration indexes, and followed the OECD's Handbook on Constructing Composite Indicators as best practice guidelines. Most of the indicators, however, were newly developed by the experts of the Energy Community Secretariat. The data set of the implementation indicators entailed more than 10.000 individual figures that were aggregated into the results displayed.

Approach

Each indicator consists of a variety of other indicators that were aggregated using weighing factors taking into account regional comparative approaches (relative weighs) and/or absolute scoring approaches, where appropriate. All of the values are normalised to percentages between 0 and 100, where 100% implies e.g. full implementation or full transposition. Where a comparative approach is used, the ratio displays the relative ranking compared to the best scoring Contracting Party in a given dimension. In some duly justified areas, a bonus/malus system was used to reflect individual incidences impacting on the quantified implementation dimension.

The scoring and progress of each Contracting Party is displayed in two dimensions, a performance dimension and a sectoral dimension.

The performance dimension (via radar charts) sorts the implementation indicators along the indicator groups (rule of law, institutions, transposition, implementation) and display progress in reporting period (September 2016 - August 2017).

Sectoral dimension was used to produce progress charts (for electricity, gas, renewable energy, energy efficiency and environment) revealing more information on transposition sub-indicators, as well as overall transposition and implementation progress.

For Contracting Parties where certain indicators are not applicable, for example due to the lack of gas infrastructure, no fall-back values were used, but the remaining indicators were increased in their weight, where justifiable.

2. Definitions on Energy, Electricity, Gas, Renewable Energy and Energy Efficiency (Facts and Figures Tables)

Energy Definitions

Primary production of energy	Indigenous production of fuel and energy captured directly from natural sources in a usable form.
Fuel mix in primary production	Primary production of fuel and energy extracted or produced, including quantities captured directly from natural sources, and quantities of recovered, received and recycled products used as primary energy.
Final consumption of energy	Total energy delivered to the final consumer's door and consumed in the industry, transport, households and other sectors for all energy uses. It excludes deliveries for transformation and/or own use of the energy producing industries, as well as network losses.
Energy dependency	The extent to which an economy relies upon imports in order to meet its energy needs, calculated as net imports divided by the sum of gross inland energy consumption plus bunkers.
Energy intensity of the economy	The ratio between the gross inland consumption of energy measured in kilogram of oil equivalent (kgoe) and the gross domestic product (GDP) in 1000 EUR at constant prices with reference year 2005.
Tariff customers	Non-eligible customers and those eligible customers who are entitled to and have entered into a contract for supply of electricity and/or gas under regulated terms and conditions including regulated tariffs and prices of supplied electricity and/or gas.

Electricity Definitions

Electricity production [GWh]	Annual domestic electricity production of all generation sets including pumped storage, measured at the outlet of the power plant to the transmission or distribution networks, excluding own consumption of electricity absorbed by the generating auxiliaries and the losses in the generator transformers of power plants.
Net imports [GWh]	Amount of electricity that has crossed political boundaries of the territory, whether customs clearance has taken place or not. Transit shall be reported as both an import and an export.
Net exports [GWh]	Amount of electricity that has crossed political boundaries of the territory, whether customs clearance has taken place or not.
Gross electricity consumption [GWh]	Total amounts of electricity consumed by all customers connected to transmission or distribution network, including network losses and electricity consumed by power stations, if supplied from the network. It is equal to total amount of electricity supplied by all power stations to the network, reduced for export and increased for imports from abroad.
Losses in transmission [GWh]	The difference between the amount of electricity entering the transmission network and the aggregated amount of electricity taken from the transmission network, registered at all customer meter points.
Losses in transmission [%]	Percentage of total losses in the transmission system (relative to the total electricity injected into the transmission network).
Losses in distribution [GWh]	The difference between the amount of electricity entering the distribution system and the aggregated consumption registered at customer meter points.
Losses in distribution [%]	Percentage of total losses in the distribution system (relative to the total electricity injected into the distribution system).
Consumption of the energy sector [GWh]	Amount of electricity taken from the power network and consumed by the energy industry to support power plant operation.
Final consumption of electricity [GWh]	Total consumption of end-users in industry, transport, commercial and public services, agriculture and residential sector.
Consumption of industrial, transport, services and other non-residential sectors [GWh]	Electricity consumed by industry, commercial customers (including small enterprises), governmental institutions and transport sector (public transportation services, transport utilities, private vehicles) including public lighting, excluding network losses.

Consumption of households [GWh]	Electricity consumed by the residential customers (households).	
Net maximum electrical capacity of power plants [MW]	Sum of net maximum capacities of all stations taken individually throughout a period of operation of 15 hours of continuous running, at the power plant outlet to the network, assuming the power to be solely active power.	
Net maximum electrical capacity of power plants [MW] per type:	Coal-fired	Sum of net maximum capacities of all stations powered on solid fossil fuels (coal, lignite, coke, peat), including multi-fired stations (stations using combined solid and liquid fuel or solid fuel and gas. (Multi-fired are units which can burn more than one type of fuel on a continuous basis).
	Gas-fired	Sum of net maximum capacities of all stations using natural gas as a fuel, including multi-fired stations using combined gas and oil fuels.
	Oil-fired	Sum of net maximum capacities of all stations using oil or oil product as a fuel, excluding multi-fired stations using combined oil and gas or oil and solid fuels.
	Nuclear	Sum of net maximum capacities of all stations using nuclear energy.
	Hydro, total	Sum of net maximum capacities of all stations using hydropower sources including storage, pumped storage and run-of-river plants of all types and sizes.
	Renewable energy sources	Sum of net maximum capacities of all stations using renewable energy sources, other than hydropower.
Transmission network	Substation capacity [MVA]	Sum of the nominal capacities of all substations in the transmission network (working on 380 kV, 220 kV and 110 kV) and HVDC convertors.
	Number of interconnectors	The number of all interconnection points between the national transmission system and neighbouring systems.
Electricity customers	Total number of customers	Number of all final customers of electricity who purchase electricity for their own use.
	Of which Non-households	Number of all non-household customers, i.e. natural or legal persons purchasing electricity for their business operation, including industrial, commercial and professional activities and public services.
	Eligible customers under national legislation	Number of customers eligible to choose supplier, according to the legislation in force, regardless of how many have exercised eligibility.
	Active eligible customers	Number of all customers which are supplied from the competitive retail market at non-regulated prices.
Internal market	Electricity supplied to active eligible customers [MWh]	Quantity of electricity supplied to active eligible customers.
	Share of final consumption [%]	Electricity supplied to active eligible customers as a part of final consumption.

Renewable Energy Definitions

Renewable energy sources	Renewable non-fossil energy sources namely wind, solar, geothermal, wave, tidal, hydropower, biomass, landfill gas, sewage treatment plant gas and biogases.
Energy from renewable sources	Energy from renewable non-fossil sources, namely wind, solar, aerothermal, geothermal, hydrothermal and ocean energy, hydropower, biomass, landfill gas, sewage treatment plant gas and biogases.
Gross final energy consumption	The energy commodities delivered for energy purposes to industry, transport, households, services including public services, agriculture, forestry and fisheries, including the consumption of electricity and heat by the energy branch for electricity and heat production and including losses of electricity and heat in distribution and transmission.
Share of energy from renewable sources	The sum of the gross final consumption of energy from renewable sources in electricity, heating and cooling and final energy consumption in transport divided by the gross final consumption of energy from all energy sources, expressed as a percentage.
Binding target	The mandatory share of energy from renewable sources Contracting Parties committed to reach in 2020.
Indicative trajectory	The tracing path towards the achievement of Contracting Party final mandatory targets in 2020 calculated as in Annex I B. of Directive 2009/28/EC.

Gas Definitions

Natural gas production [Bcm]	Amount of indigenous annual production of natural gas (all dry marketable production within national boundaries, including offshore production, measured after purification and extraction of NGLs and sulphur, excluding extraction losses and quantities reinjected, vented or flared).	
Imports [Bcm]	Amount of natural gas produced outside the national territory that has crossed the political boundaries of the territory for ultimate consumption.	
Stock changes [Bcm]	The difference between the opening stock level and closing stock level for stocks held on national territory. A stock build is shown as a negative number and a stock draw is shown as a positive number.	
Total supply [Bcm]	Amount of natural gas available for consumption calculated as indigenous production plus imports minus exports plus stock changes.	
Consumption in energy sector [Bcm]	Amounts of natural gas used for own consumption of gas sector for operation and for network losses, and for the transformation to derived energy products (heat and electricity).	
Available for final consumption of natural gas [Bcm]	The quantity of recorded consumption in surveys of end-use sectors (including energy and non-energy use and excluding transformation inputs and consumption of energy sector).	
Interconnector capacity [Bcm]	Total	Total annual capacity of all interconnectors.
	out of which bidirectional	Capacity of bidirectional flow, if possible.
Storage working capacity [Bcm]	Total working capacity of underground storages (without cushion gas).	
Length of transmission network [km]	Total length of transport network(s).	
Length of distribution network [km]	Total length of distribution networks.	

Natural gas customers	Total	Total number of final customers connected to transmission and distribution networks.
	out of which: Non-households	Number of all customers except households, i.e. customers eligible to choose supplier according to the <i>acquis</i> .
	Eligible customers under national legislation	Number of customers eligible to choose supplier, according to the legislation in force, regardless of how many have exercised eligibility.
	Active eligible customers	Number of customers who have switched their supplier and are being supplied under market conditions.
	Households	Number of households customers.
Internal market	Gas supplied to active eligible customers [Bcm]	Quantity of natural gas supplied to eligible customers from competitive market under market conditions.
	Share of total consumption [%]	Natural gas supplied from competitive market to eligible customers as a part of total consumption.
Consumption of natural gas per sector [Bcm]	Total annual consumption of natural gas for energy purposes.	
Consumption structure [Bcm]	Energy transformation	Amount of natural gas used for production of electricity. Amount of natural gas used for production of heat.
	Industry and commercial customers	Amount of natural gas consumed by industry, commercial customers (including small enterprises), governmental institutions and transport sector (public transportation services, transport utilities, private vehicles) excluding network losses.
	Households	Natural gas consumed by the residential customers (households).

Energy Efficiency Definitions

Period covered by EEAP	year - year	Period set for implementation of the Energy Efficiency Action Plan and achievement of the overall energy savings target, as defined by Directive 2006/32/EC on Energy End-Use Efficiency and Energy Services.
Overall energy savings target - Directive 2006/32/EC	ktoe / % / year	National energy savings target calculated in line with Annex I of Directive 2006/32/EC on Energy End-Use Efficiency and Energy Services.
EEAP status	Status of adoption of the Energy Efficiency Action Plan (in development/drafted/adopted).	
Achieved energy savings	ktoe / % / year	Achieved intermediate national energy savings target for the first three-year implementation period.
Total primary energy supply (TPES)	ktoe	Amount of total energy necessary to satisfy inland consumption, made up of indigenous production, plus imports, minus exports, minus international marine bunkers and stock changes.
Energy intensity (TPES/GDP)	toe / 1000 USD	Energy efficiency indicator representing ratio of the total primary energy supply divided by the gross domestic product of the country.
TPES/Population	toe/capita	Energy efficiency indicator representing ratio of the primary energy supply per head of population.
Total final energy consumption (TFEC)	ktoe	Sum of consumption in the end-use sectors: residential, services, industry (including manufacturing and mining), transport, non-energy consumption, and others (including agriculture).
Share of TFEC by sector	Residential	Residential sector share of total final energy consumption (in %).
	Services	Services sector share of total final energy consumption (in %).
	Industry	Industry sector share of total final energy consumption (in %).
	Transport	Transport sector share of total final energy consumption (in %).
	Non-energy use	Non-energy use sector share of total final energy consumption (in %).

Environment / Climate Definitions

Ramsar site	A wetland site designated as having international importance under the Ramsar Convention on Wetlands of International Importance especially as Waterfowl Habitat.
Emerald site	A site part of the Emerald Network - an ecological network made up of Areas of Special Conservation Interest under the Bern Convention, a binding international legal instrument under the auspices of the Council of Europe in the field of nature conservation.
Paris Agreement	The first-ever universal, legally binding global climate deal. It was adopted on 12 December 2015 at the twenty-first session of the Conference of the Parties to the United Nations Framework Convention on Climate Change held in Paris from 30 November to 13 December 2015.
Annex I Parties	The United Nations Framework Convention on Climate Change includes in this group industrialized countries that were members of the OECD (Organisation for Economic Co-operation and Development) in 1992, plus countries with economies in transition (the EIT Parties), including the Russian Federation, the Baltic countries, and several Central and Eastern European countries.
Nationally Determined Contributions (NDCs)	NDCs spell out the actions countries intend to take to address climate change – both in terms of adaptation and mitigation. Originally submitted as Intended Nationally Determined Contributions, or INDCs, these become binding Nationally Determined Contributions when a country ratifies the Paris Agreement.
Non-Annex I Parties	The United Nations Framework Convention on Climate Change includes in this group mostly developing countries.

3. Abbreviations

ACER	Agency for the Cooperation of Energy Regulators
CSE	central stockholding entity
CESEC	Central and South-Eastern European Gas Connectivity initiative
CHP	combined heat and power
DSO	distribution system operator
EBRD	European Bank for Reconstruction and Development
EC	European Community
ECRB	Energy Community Regulatory Board
EEAG	Communication from the Commission, Guidelines on State aid for Environmental Protection and Energy 2014-2020
EEAP	Energy Efficiency Action Plan
EIB	European Investment Bank
EnC	Energy Community
ENTSO-E	European Network of Transmission System Operators for Electricity
ESCOs	Energy Service Companies
EU	European Union
EUROSTAT	Statistical Office of the European Union
EU4ENERGY	Governance component is a new EU programme for the Eastern Partnership countries. It is part of the wider EU4ENERGY initiative, which also includes Central Asian countries
GDP	gross domestic product
HPP	hydro power plant
HVDC	high-voltage direct current
IEA	International Energy Agency
IPA	EU's Instrument for Pre-Accession Assistance for countries engaged in the accession process
ITO	independent transmission operator
JODI	Joint Organisations Data Initiative (APEC, EUROSTAT, IEA, OLADE, OPEC, UNSD)
KfW	Kreditanstalt für Wiederaufbau
LNG	liquefied natural gas
MC	Energy Community Ministerial Council
MVP	Monitoring and Verification Platform
n/a	not available
NDC	National Determined Contribution
NREAP	National Renewable Energy Action Plan
NIF	Neighbourhood Investment Facility
OHL	overhead electric line
PECI	Project of Energy Community Interest (EnC)
PHLG	Energy Community Permanent High Level Group
PLIMA	Energy Community Infrastructure Transparency Platform
PMI	Projects of Mutual Interest (EU)
PPA	power purchase agreement
PV	photovoltaic
SEE CAO	Coordination Auction Office in South East Europe
SEEPEX	South East European Power Exchange
SS	substation
security of supply?	?

UNFCCC	United Nations Framework Convention on Climate Change
UNSD	United Nations Statistics Division
UPS	Unified Power System
TAP	Trans Adriatic Pipeline AG
TFEU	Treaty on the Functioning of the European Union
TPP	thermal power plant
VAT	value added tax
WBIF	Western Balkans Investment Framework
WB6	Western Balkan 6 process

4. Measurement Units

kilovolt	kV	joule	J
kilovolt-ampere	kVA	terajoule	TJ
kilowatt	kW	tonne (metric ton)	t
megawatt	MW	kilotonne	kt
megavolt-ampere	MVA	meter	m
gigawatt	GW	cubic meter	cm
terawatt	TW	million cubic meters	mcm
kilowatt hour	kWh	billion cubic meters	Bcm
megawatt hour	MWh	kilogram of oil equivalent	kgoe
gigawatt hour	GWh	tonne of oil equivalent	toe
terawatt hour	TWh		

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