



# Creating a Regional Electricity Market in the Western Balkans

From Paris to Rome

Energy Community Secretariat  
September 2016



## Executive Summary

### Creating a Regional Electricity Market in the Western Balkans

At the Vienna Summit of the Western Balkans 6 Initiative<sup>1</sup> ("Berlin process") on 27 August 2015, six Contracting Parties of the Energy Community in Southeast Europe, namely Albania, Bosnia and Herzegovina, Kosovo\*, former Yugoslav Republic of Macedonia, Montenegro and Serbia decided to take steps to improve energy connectivity in the region by facilitating investments and prioritising market development. The Paris Summit of 4 July 2016 reemphasised the need to cooperate closer on a regional level and to integrate the markets of the Western Balkan 6 into the Pan-European one. Concretely, a dedicated roadmap was agreed for the setting up of a regional market for electricity connecting the Western Balkans to that of the EU. It was also highlighted, that the progress in terms of implementation of these deliverables will be reflected in the EU's future funding decisions.

In this context, the Western Balkan countries committed to implement a priority list of measures at national and regional level, as key preconditions for the development of a truly integrated electricity market. The regional measures consist of establishing spot markets (power exchanges), a regional balancing market and making the best use of the already existing Coordinated Auction Office in

Southeast Europe (SEE CAO) for regional capacity allocation. The national measures mainly focus on removing national obstacles to regional electricity market development by creating the appropriate market and regulatory framework.

The present Monitoring Report prepared by the Energy Community Secretariat, which was tasked by the Western Balkan countries "to take the lead to develop the regional energy market and to help implementing", consists of six country reports and a regional report. A Grant Contract between the European Commission and the Energy Community Secretariat was concluded to facilitate the implementation of so-called soft measures<sup>2</sup> through the provision of targeted technical assistance to connectivity in the Western Balkans related to the regional energy market.

The present report forms part of the deliverables of the said contract and provides an overview of the state of play of implementation of the soft measures since the Vienna Summit and highlights the achievements made as of the Paris Summit. It also shows where continued implementation efforts are needed most.

<sup>1</sup> Final Declaration of the Western Balkans Summit Vienna 2015

<sup>2</sup> Defined as implementation targets of said Grant Contract and based on the Addendum to the Final Declaration of the Western Balkans Summit Vienna 2015

\* 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.



## Spot Market Development

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

The starting point for the implementation of this measure was the adoption of the primary electricity sector law in April 2015, which entered into force in June 2015. The law requires the development and adoption of a very comprehensive set of secondary acts which will enable the removal of all obstacles as required by the soft measures.

The adoption of most secondary legislation depended on the approval of the so-called market model by the Albanian Government. The said act, together with roadmaps for the deregulation of prices at all levels of supply and the establishment of a local Albanian Power Exchange were adopted by the Council of Ministers as a package in July. This established the basis for real market opening, that will, however, have to be followed by the adoption of further acts, like the market rules. The phasing out of the universal service obligations between the incumbent supplier and generator will have to take place, as well as improvements to regulatory acts and

approaches surrounding the purchase and selling of energy governing an interim time period before the go-live of the organised market.

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

A project for the establishment of a national organised day-ahead market and a local power exchange was set up in 2015. It aims at the establishment of an Albanian power exchange operating an organised day-ahead market. The project's steering committee as the main body for stakeholder consultation elaborated implementation milestones based on European best practice examples and succeeded to design a model which, on the one hand, suits the Albanian market conditions and is, on the other hand, in line with the Energy Community target models. The implementation of the project is well on track albeit with a half year delay. The above mentioned package adopted by the Albanian Government in the latest reporting period is the last high-level decision needed for the establishment of the power exchange.

### Spot Market Development

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



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



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



Coupling of organised day-ahead electricity markets with at least one neighbouring country



### Total for spot market development



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

The Albanian electricity sector used to be far away from market structures based on the principles of fair competition, open market participation, and free choice for customers.

Moving from such a foreclosed structure to a liquid market required substantive efforts, institutional improvements, deregulation of pricing strategies and carefully adjusted incentives for creating competition. The future market model includes a strategy for promoting liquidity based on so-called import/export zones and other liquidity promoting measures for an





interim period until market coupling takes place. Another anticipated measure by the Council of Ministers foresees the mandatory participation of certain parts of the market in a phased approach. It will also enable all market participants to enter the future organised market. Moreover, a draft legal act imposing public service obligations contains provisions to ensure liquidity, through temporary market maker provisions for the incumbents.

## Cross-border Balancing

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

The Power Sector Law obliges the transmission system operator to procure balancing services using market-based, non-discriminatory and transparent procedures. Procurement of balancing services through cooperation with neighbouring transmission system operators and in the regional balancing market is also required by the Law. However, secondary legislation has still to be aligned to ensure the Law's implementation.

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

According to the Law, the responsibility to approve the rules and methodology regulating the balancing market lies with the regulatory authority. The development of these secondary legal acts hinged on the decision on the market model.

The transmission system operators of Albania and Kosovo

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

The implementation project for establishing the organised day-ahead market in Albania explicitly envisages the coupling of the Albanian market with neighbouring markets and countries as a first step and the coupling into the pan-European market at a later stage.

Market coupling with Kosovo is one of the first possible actions after consolidation of Albania as a separate market.

have developed and tested a mechanism for the procurement of a reserve for secondary regulation. Implementation of this model of cooperation is pending the entry into force of the Connection Agreement between KOSTT and ENTSO-E. The transmission system operator expressed interest in closer cooperation with the transmission system operators of Montenegro, FYR of Macedonia and Serbia, who cooperate within a single control block. An initial meeting on potential cooperation took place in May 2016.

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

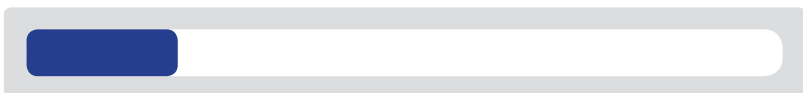
A functional national balancing market does not exist in Albania. No direct actions have yet been taken to remove the obstacles to establishing an operational balancing market. The transmission system operator procures balancing services based on a regulated contract that should cease to exist within one year after the new Power Sector Law's entry into force, namely end-June 2016. The underlying imbalance settlement mechanism is still based on a discriminatory approach which exempts regulated energy undertakings from balance responsibility. The national regulatory authority decided that balance responsibility shall only be applicable to all market participants after the new market model and market rules are adopted.

#### Cross-border Balancing

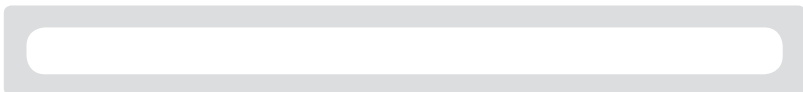
Legal possibility for transmission system operator to acquire balancing services from all operators in the national and in perspective of a regional market under competitive conditions



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



Establishment of a functioning national balancing market based on above model



#### Total for cross-border balancing





## Regional Capacity Allocation

### Introduction of a coordinated capacity calculation process for the allocation of day-ahead capacities based on a regionally coordinated congestion forecast (July 2016)

In October 2015, the transmission system operator signed the Memorandum of Understanding on the establishment of the regional security coordination initiative with the transmission system operators of Bulgaria, Greece, Kosovo, FYR of Mace-

donia and Turkey. This is an initial step towards establishing an entity performing capacity calculation services.

### The Western Balkan countries to support signing of agreements between SEE CAO and relevant EU Member States (July 2017)

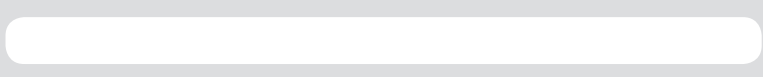
Stronger cooperation between SEE CAO and the relevant EU Member States, supported by the European Commission, is needed.

#### Regional Capacity Allocation

Introduction of a coordinated capacity calculation process for the allocation of day ahead capacities based on a regionally coordinated congestion forecast



The Western Balkan Countries to support signing of agreements between SEE CAO and relevant EU Member States



#### Total for regional capacity allocation



## Cross-cutting Measures

### Eliminate price regulation of generation for other than small enterprises and household customers, and adopt national action plans for phasing out price regulation in general (January 2016)

The Power Sector Law deregulated prices of generation and supply to all customers connected to the high voltage grid (110 kV and above) and for those with an annual consumption over 50 million kWh. All other groups of customers are supplied by the incumbent supplier. An action plan for deregulation of supply prices until 31 December 2018 is defined by the law. As of July 2016, customers connected to 35 kV distribution lines should have become free to choose their supplier. This, however, has not taken place and has been further delayed by lengthy procedures for the purchasing of new meters by the incumbent and bundled supply and distribution company. The elimination of retail price regulation requires also the termination of a regulated full supply contract between the state-owned generation and supply companies. The contract covering some 75% of Albanian electricity consumption has been extended until mid-2016 and will only be gradually phased out.

### Legal and functional unbundling of distribution system operators and supply companies (March 2016)

The deadline for unbundling was missed. Distribution is still legally and functionally bundled with supply. The Power Sector Law requires unbundling only by 31 January 2017, which is in contradiction with the Third Package. No concrete steps were taken towards unbundling since the Paris Summit.

### Ensure independence of national energy regulatory authorities based on pre-defined indicators (January 2016)

Third Package compliant independence requirements have been transposed by the Power Sector Law, with the exception of sanctioning powers which need to be improved by increasing the penalty levels. Before the Paris Summit, two central acts on the organisation and operation of the regulatory authority and on penalties were developed but their adoption is pending.

### Apply for observer status in ACER based on a positive opinion of the European Commission (July 2016)

As a prerequisite, all secondary legislation needs to be adopted by the Albanian authorities. This process is still ongoing.





**Unbundle and certify transmission system operator in line with the Third Energy Package (June 2016)**

In December 2015, the regulatory authority approved the rules for certification. The Law on Ownership of the Transmission System Operator, which lays down the legal basis for unbundling, was adopted by the Parliament in January 2016. The Council of Ministers passed a decision in April 2016 according to which the transmission system operator shall be controlled by the Ministry of Economy, whereas the Ministry of Energy shall have control over state-owned production and supply companies. The transmission system operator applied to the national regulatory authority for certification. The finalisation of unbundling is expected to happen within the next six months.

**Increase effectiveness of national administrative authorities, including for competition and State aid, by strengthening their independence and financial means and requiring them to notify the Secretariat of pending proceedings, and take due account of the Secretariat's opinion (July 2016)**

The national competition and State aid authorities regularly notify cases and cooperate closely with the Secretariat.

**Timely implementation of the Trans-European Network Regulation with regard to licensing and permitting as well as one-stop shop procedures (January 2017)**

The TEN-E Regulation was incorporated in the Energy Community in October 2015, implementation activities in Albania have not started yet.

**Cross-cutting Measures**

Eliminate price regulation of generation and for other than small enterprises and household customers, and adopt national action plans for phasing out price regulation in general	
Legal and functional unbundling of distribution system operators and supply companies	
Ensure independence of national energy regulatory authorities based on pre-defined indicators	
Apply for observer status in ACER based on a positive opinion of the European Commission	
Unbundle and certify transmission system operator in line with the Third Energy Package	
Increase effectiveness of national administrative authorities, including for competition and State aid, by strengthening their independence and financial means and requiring them to notify the Secretariat of pending proceedings, and take due account of the Secretariat's opinion	
Timely implementation of the Trans-European Network Regulation with regard to licensing and permitting as well as one-stop shop procedures	
<b>Total for cross-cutting measures</b>	



## Spot Market Development

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

The legal framework necessary for the organization of the electricity market in line with the Third Energy Package is still not in place. An infringement case is pending before the Ministerial Council of the Energy Community. The draft Law on Regulator, Transmission and Power Market has not yet been submitted for approval to the Council of Ministers and further to Parliament. A Law on the Establishment of the Transmission System Operator is being drafted. VAT legislation has not been harmonized with the practice of the neighbouring jurisdictions. Public procurement legislation has not been revisited in order to remove obstacles to the functioning of the electricity market.

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

No concrete progress has been made since the Paris Summit to establish or to adhere to an organised marketplace.

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

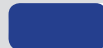
There are three local utilities in the country, each with its own generation portfolio. Their participation in a national or regional organized market would ensure liquidity in a much easier way than in the prevailing markets with concentrated or monopolistic structures. Initiated activities of the local utilities towards joining some of the established neighbouring day-ahead markets have still not been materialised.

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

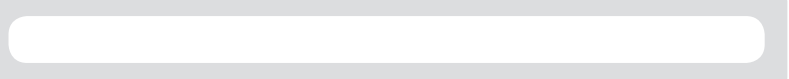
No concrete plans for market coupling have been adopted so far.

#### Spot Market Development

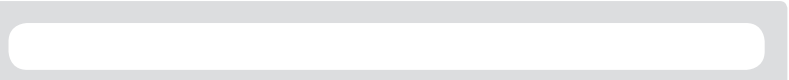
Remove major legal and contractual obstacles to establishing organised electricity markets and market coupling based on the reports of the Secretariat



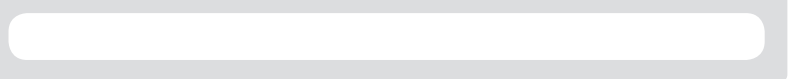
Adhere to a power exchange or, if economically justified (considering liquidity and economic viability), create an own power exchange, enabling wholesale market trade



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



Coupling of organised day-ahead electricity markets with at least one neighbouring country



#### Total for spot market development





## Cross-border Balancing

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

The effective primary legislation is not preventing the transmission system operator from acquiring balancing services in a market-based manner and across borders. Provisions for market-based and cross-border procurement of balancing services are included in the draft Law on Regulator, Transmission and Power Market. No actions were taken since the Paris Summit on amending the VAT and public procurement legislation as required to remove barriers to cross-border access to balancing services.

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

The Market Rules adopted in May 2015, provide a balancing model that ensures market-based and non-discriminatory procurement of balancing capacity and balancing energy by the transmission system operator. Non-discriminatory imbalance settlement was also defined and implemented in practice. A model of cross-border exchange of balancing services with the transmission system operators of Croatia and Slovenia is defined in the trilateral contract signed between them, but it is still not applied in practice. Further efforts are needed in order to implement cross-border balancing cooperation.

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

The transmission system operator established a competitive national balancing market, with both balancing reserve and balancing energy procured in market-based procedures. The mechanism is implemented as of 1 January 2016. This measure was accomplished before the Paris Summit.

Cross-border Balancing	
Legal possibility for transmission system operator to acquire balancing services from all operators in the national and in perspective of a regional market under competitive conditions	
Adoption of a market-based balancing model allowing for the non-discriminatory cross-border exchange of balancing services	
Establishment of a functioning national balancing market based on above model	
<b>Total for cross-border balancing</b>	





## Regional Capacity Allocation

### Introduction of a coordinated capacity calculation process for the allocation of day-ahead capacities based on a regionally coordinated congestion forecast (July 2016)

The transmission system operator, together with those of Montenegro and Serbia, established a Security Coordination Centre (SCC) in August 2015 with the view to perform, inter alia, capacity calculation function. A SCC pilot project for daily capacity calculation is ongoing. The SCC started to submit

values of calculated daily capacities to its shareholders. However, the data are still not practically used by the transmission system operators.

### The Western Balkan countries to support signing of agreements between SEE CAO and relevant EU Member States (July 2017)

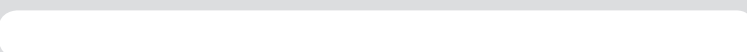
Stronger cooperation between SEE CAO and the relevant EU Member States, supported by the European Commission, is needed.

#### Regional Capacity Allocation

Introduction of a coordinated capacity calculation process for the allocation of day ahead capacities based on a regionally coordinated congestion forecast



The Western Balkan Countries to support signing of agreements between SEE CAO and relevant EU Member States



#### Total for regional capacity allocation



## Cross-cutting Measures

### Eliminate price regulation of generation and for other than small enterprises and household customers, and adopt national action plans for phasing out price regulation in general (January 2016)

In Republika Srpska, the price of electricity supplied by the incumbent generation companies to public suppliers is still regulated. End-user price regulation has been reformed before the Paris Summit and is limited to small customers and households. In Federation of Bosnia and Herzegovina, all prices were deregulated on 1 January 2015, except for households and small customers. No activities have been undertaken towards adopting an action plan for phasing out remaining price regulation.

Paris Summit in both Republika Srpska and Federation of Bosnia and Herzegovina, have not resulted in meeting the unbundling requirements.

### Ensure independence of national energy regulatory authorities based on pre-defined indicators (January 2016)

Existing legislation fails to comply with numerous independence and competence requirements of the Third and even the Second Package, among which the lack of a single nation-wide regulator is the most crucial. Independence is weakened by ethnicity criteria for the appointment of Board members and by its unanimity voting rules. The prepared draft law, once adopted, is expected to address the shortcomings. However, efforts since the Paris Summit were insufficient as the law's adoption is still pending.

### Legal and functional unbundling of distribution system operators and supply companies (March 2016)

The deadline for unbundling was missed. Distribution is still legally and functionally bundled with supply throughout Bosnia and Herzegovina and with generation in two utilities in Federation of Bosnia and Herzegovina. Preparatory activities for the unbundling of distribution, undertaken before the

### Apply for observer status in ACER based on a positive opinion of the European Commission (July 2016)

As a prerequisite, the Third Package needs to be transposed, regulatory independence needs to be ensured and all secondary legislation needs to be adopted. Transposition of the Third Package is still pending.





**Unbundle and certify transmission system operator in line with the Third Energy Package (June 2016)**

The current legal framework on state level does not provide conditions for unbundling of the transmission system operator in line with the Third Energy Package. The model for ownership unbundling is expected to be transposed by the draft Law on Regulator, Transmission and Power Market. As this Law has not been adopted yet, unbundling of the transmission system operator has not been achieved.

**Increase effectiveness of national administrative authorities, including for competition and State aid, by strengthening their independence and financial means and requiring them to notify the Secretariat of pending proceedings, and take due account of the Secretariat's opinion (July 2016)**

Notification of pending proceedings before administrative authorities is envisaged by the amended Energy Community Dispute Settlement Rules. However, the effectiveness of national competition and State aid authorities is not satisfactory and is subject to an infringement procedure by the Energy Community Secretariat. The independence of the State Aid Council is questionable.

**Timely implementation of the Trans-European Network Regulation with regard to licensing and permitting as well as one-stop shop procedures (January 2017)**

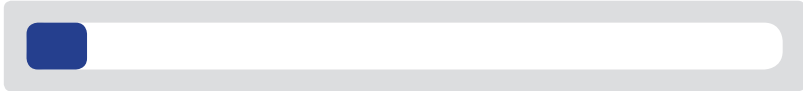
The TEN-E Regulation was incorporated in the Energy Community in October 2015, preparatory activities for the implementation in Bosnia and Herzegovina have started after the Paris Summit.

**Cross-cutting Measures**

Eliminate price regulation of generation and for other than small enterprises and household customers, and adopt national action plans for phasing out price regulation in general



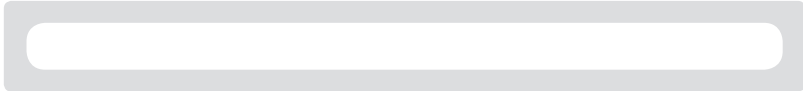
Legal and functional unbundling of distribution system operators and supply companies



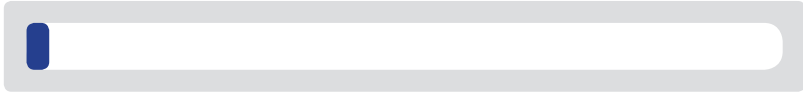
Ensure independence of national energy regulatory authorities based on pre-defined indicators



Apply for observer status in ACER based on a positive opinion of the European Commission



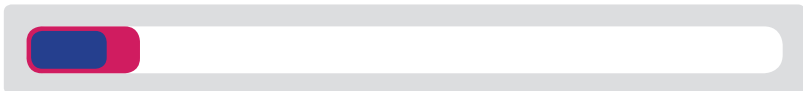
Unbundle and certify transmission system operator in line with the Third Energy Package



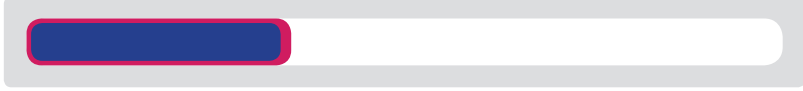
Increase effectiveness of national administrative authorities, including for competition and State aid, by strengthening their independence and financial means and requiring them to notify the Secretariat of pending proceedings, and take due account of the Secretariat's opinion



Timely implementation of the Trans-European Network Regulation with regard to licensing and permitting as well as one-stop shop procedures



**Total for cross-cutting measures**





## Spot Market Development

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

A set of primary laws defining the legal and contractual framework for establishing organised spot markets for electricity and market coupling was adopted before the Paris Summit. The laws passed the Parliament's final reading in June 2016 and imply a significant step forward. Amendments to the Law on Public Procurement were adopted in January 2016. The amendments allow state-owned companies to apply simplified tendering procedures in procuring electricity.

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

Concrete actions in that respect depend on a decision on establishing a power exchange in Albania. Discussions about the servicing of the Kosovo market by the Albanian power exchange and the co-shareholding of the Kosovo transmission system operator are taking place.

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

The competences for the regulatory authority to impose such measures are envisaged by the new Energy Law.

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

Market coupling with Albania is one of the first possible regional achievements but depends on establishing an organised day-ahead market in Albania.

#### Spot Market Development

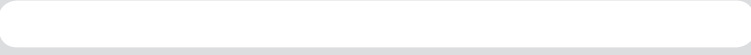
Remove major legal and contractual obstacles to establishing organised electricity markets and market coupling based on the reports of the Secretariat



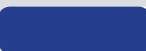
Adhere to a power exchange or, if economically justified (considering liquidity and economic viability), create an own power exchange, enabling wholesale market trade



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



Coupling of organised day-ahead electricity markets with at least one neighbouring country



#### Total for spot market development





## Cross-border Balancing

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

The new Law on Electricity stipulates an obligation of the transmission system operator to procure balancing services in a transparent, market-based and non-discriminatory procedure. A contractual framework and a non-discriminatory approach to balance responsibility of each market participant have been introduced by the new law. In addition, the law defines obligations of the transmission system operator to develop balancing rules, including rules for imbalance settlement, and submit them to the regulator for approval.

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

A market-based balancing model defined by the transmission system operator exists. The transmission system operators of Kosovo and Albania have developed a mechanism for the cross-border procurement of a reserve for secondary regulation. Implementation of this model of cooperation is pending the entry into force of the Connection Agreement between KOSTT and ENTSO-E.

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

A national balancing market is not operational. No actions were taken towards adoption of the rules for imbalance settlement pricing that were developed by the transmission system operator and submitted for regulatory approval before the Paris Summit.

#### Cross-border Balancing

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



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



Establishment of a functioning national balancing market based on above model



**Total for cross-border balancing**



## Regional Capacity Allocation

### EMS (Serbia) and KOSTT (Kosovo) to implement the Framework and Inter-TSO Agreement (September 2015)

The transmission system operators of Serbia and of Kosovo continue to delay the implementation of the Inter-TSO Agreement on network and system operation management and the Framework Agreement signed by both parties in 2014. The entry into force of the Connection Agreement between ENTSO-E and the transmission system operator of Kosovo,

signed in October 2015, was unduly conditioned by a supply license being issued to a Serbian supplier in Kosovo. As Serbia has failed to register a supply company, this long-standing dispute still remains unresolved. The only progress made was the inclusion of the transmission system operator of Kosovo in the Multiyear ITC Agreement as of 1 January 2016. The transmission system operators of Serbia and Kosovo have also failed to make progress in finalising agreements on compensation for past congestion management and ITC for an interim period.



## Introduction of a coordinated capacity calculation process for the allocation of day-ahead capacities based on a regionally coordinated congestion forecast (July 2016)

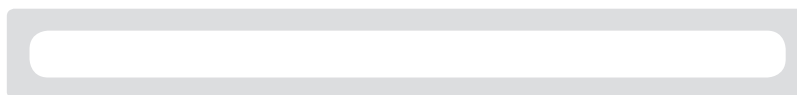
In October 2015, the transmission system operator has signed a Memorandum of Understanding on the establishment of a regional security coordination initiative with the transmission system operators of Albania, Bulgaria, Greece, FYR of Macedonia and Turkey. This is an initial step towards establishing a company performing capacity calculation services.

## The Western Balkan countries to support signing of agreements between SEE CAO and relevant EU Member States (July 2017)

Stronger cooperation between SEE CAO and the relevant EU Member States supported by the European Commission is needed.

### Regional Capacity Allocation

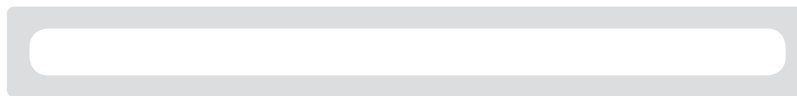
EMS (Serbia) and KOSTT (Kosovo\*) to implement the Framework and Inter-TSO Agreement



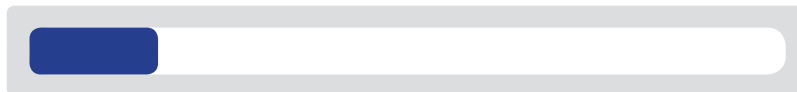
Introduction of a coordinated capacity calculation process for the allocation of day ahead capacities based on a regionally coordinated congestion forecast



The Western Balkan Countries to support signing of agreements between SEE CAO and relevant EU Member States



**Total for regional capacity allocation**



## Cross-cutting Measures

### Eliminate price regulation of generation for other than small enterprises and household customers and adopt national action plans for phasing out price regulation in general (January 2016)

Prices of both generation and supply to all customers continue to be fully regulated, even though the new Electricity Law limits regulation to supply prices for household and small customers under universal service. According to the new law, ERO shall annually reassess the price methodology, the level of prices and the need for further regulation and shall submit it to the Secretariat. The appointment of a supplier of last resort remains to be done in a tendering procedure not later than six months following the adoption of the law. The regulatory authority has not taken any decision to deregulate prices and open the market, including the issuance of licenses to alternative suppliers.

### Legal and functional unbundling of distribution system operators and supply companies (March 2016)

Legal and functional unbundling was finalised. Legal unbundling of the distribution system operator from supply is in effect as of 1 January 2015. The process of functional unbundling was completed by the adoption of a compliance programme and the appointment of a compliance officer in July 2015.

### Ensure independence of national energy regulatory authorities based on pre-defined indicators (January 2016)

A revised Law on the Energy Regulator was adopted on 17 June 2016. The Law overcomes the existing shortcomings related to the lack of independence and competences of the regulator.

### Apply for observer status in ACER based on a positive opinion of the European Commission (July 2016)

The transposition of the Third Package through the newly adopted laws was the prerequisite as the subsequent adoption of secondary legislation. Efforts in this respect were not sufficient since the Paris Summit.





**Unbundle and certify transmission system operator in line with the Third Energy Package (June 2016)**

Activities on certification of the transmission system operator have not started yet. The recently adopted Electricity Law foresees unbundling in a way that the Government controls the generation company KEK, while the transmission system operator KOSTT is controlled by the Parliament.

Notification of pending proceedings before administrative authorities is envisaged by the amended Energy Community Dispute Settlement Rules. Following several years of not having a functioning competition and State aid authority in place, the missing commissioners were finally appointed in June 2016. A new law on State aid is currently in the drafting stage.

**Increase effectiveness of national administrative authorities, including for competition and State aid, by strengthening their independence and financial means and requiring them to notify the Secretariat of pending proceedings, and take due account of the Secretariat's opinion (July 2016)**

**Timely implementation of the Trans-European Network Regulation with regard to licensing and permitting as well as one-stop shop procedures (January 2017)**

The TEN-E Regulation was incorporated in the Energy Community in October 2015. Implementation activities in Kosovo have not started yet.

**Cross-cutting Measures**

Eliminate price regulation of generation and for other than small enterprises and household customers, and adopt national action plans for phasing out price regulation in general



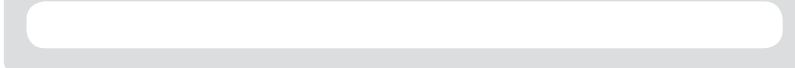
Legal and functional unbundling of distribution system operators and supply companies



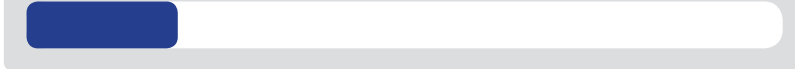
Ensure independence of national energy regulatory authorities based on pre-defined indicators



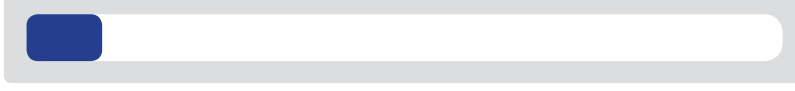
Apply for observer status in ACER based on a positive opinion of the European Commission



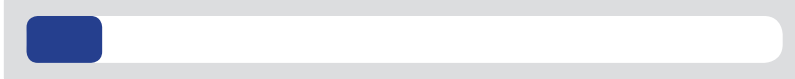
Unbundle and certify transmission system operator in line with the Third Energy Package



Increase effectiveness of national administrative authorities, including for competition and State aid, by strengthening their independence and financial means and requiring them to notify the Secretariat of pending proceedings, and take due account of the Secretariat's opinion



Timely implementation of the Trans-European Network Regulation with regard to licensing and permitting as well as one-stop shop procedures



**Total for cross-cutting measures**





## Spot Market Development

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

The former Yugoslav Republic of Macedonia has still not adopted the Third Energy Package compliant Energy Law drafted by the Ministry before the Paris Summit. An infringement case is pending before the Ministerial Council of the Energy Community. The Energy Law in force recognises the possibility of establishing a power exchange. However, the legal and regulatory framework that would ensure the implementation of this provision is missing. An amendment to the VAT Law, which would allow the place of taxation for access to the electricity and natural gas networks to be the seat of the recipient of the service, was prepared by the Ministry of Finance in March 2016. The Government has commenced the procedure towards adoption of this law after the Paris Summit.

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

Activities towards taking a decision on the organisation of a day-ahead market were initiated. The transmission system operator was tasked to prepare an analysis of the optimal model for the establishment of the day-ahead market and put it forward to the Government. A decision on the day-ahead market may be expected to be passed by the Government before the end of 2016.

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

The competences for the regulatory authority to impose such a measure are envisaged by the draft energy law, which is far from being adopted.

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

Plans for coupling with neighbouring markets have not been under consideration for the time being.

#### Spot Market Development

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



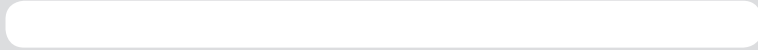
Adhere to a power exchange or, if economically justified (considering liquidity and economic viability), create an own power exchange, enabling wholesale market trade



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



Coupling of organised day-ahead electricity markets with at least one neighbouring country



**Total for spot market development**



## Cross-border Balancing

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

The current Energy Law imposes an obligation on the state-owned generator to provide balancing services at regulated prices until 30 June 2020. In addition, an exemption for regulated energy undertakings from balance responsibility until 30 June 2016 has been imposed by the regulatory authority. These are obstacles for the transmission system operator to procure balancing services under competitive conditions. No progress has been made towards the removal of these legal and regulatory obstacles after the Paris Summit.

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

The Market Rules in force do not define a balancing market model. The transmission system operator drafted and submitted draft balancing market rules to the regulatory authority for approval. Their adoption is still pending.

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

The establishment of a balancing market hinges on the adoption of the balancing rules.

#### Cross-border Balancing

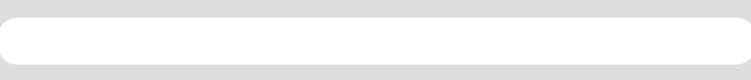
Legal possibility for transmission system operator to acquire balancing services from all operators in the national and in perspective of a regional market under competitive conditions



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



Establishment of a functioning national balancing market based on above model



**Total for cross-border balancing**



## Regional Capacity Allocation

### Binding agreement between TSO from the former Yugoslav Republic of Macedonia with SEE CAO on coordinated allocation (November 2015)

On 15 March 2016, the Government decided that the transmission system operator shall adhere to the SEE CAO no later

than 31 July 2016. Following up on this, the transmission system operator signed a shareholder agreement with SEE CAO on 31 May 2016. It has been announced that yearly auctions for 2017 for the border with Greece will be performed through SEE CAO. In order to avoid double taxation of services provided to foreign market participants, amendments to the VAT Law must be adopted.





## Introduction of a coordinated capacity calculation process for the allocation of day-ahead capacities based on a regionally coordinated congestion forecast (July 2016)

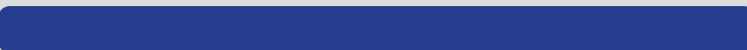
The transmission system operator is signatory to a Memorandum of Understanding on the establishment of a regional service coordinator with the transmission system operators of Albania, Bulgaria, Greece, Kosovo and Turkey. No further steps have been taken in this respect.

## The Western Balkan countries to support signing of agreements between SEE CAO and relevant EU Member States (July 2017)

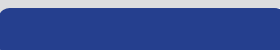
Stronger cooperation between SEE CAO and the relevant EU Member States, supported by the European Commission, is needed.

### Regional Capacity Allocation

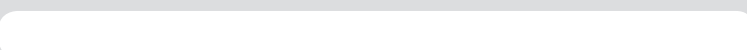
Binding agreement between TSO from the former Yugoslav Republic of Macedonia with SEE CAO on coordinated allocation



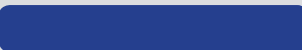
Introduction of a coordinated capacity calculation process for the allocation of day ahead capacities based on a regionally coordinated congestion forecast



The Western Balkan Countries to support signing of agreements between SEE CAO and relevant EU Member States



### Total for regional capacity allocation



## Cross-cutting Measures

### The former Yugoslav Republic of Macedonia to comply with the obligation to grant eligibility to all electricity customers (October 2015)

The Energy Law in force refuses to grant the eligibility right to households and certain categories of small customers. An infringement case is pending before the Ministerial Council of the Energy Community. Since the Paris Summit, no actions have been taken to rectify the violation.

### Eliminate price regulation of generation for other than small enterprises and household customers and adopt national action plans for phasing out price regulation in general (January 2016)

Regulation of both generation and retail prices for supply of last resort for households and small customers applies until 30 June 2020 based on the existing Energy Law. Due to the lack of eligibility rights, regulated retail prices are mandatory for all households and small customers until 30 June 2020. No activities on phasing out price regulation have taken place since the Paris Summit.

### Legal and functional unbundling of distribution system operators and supply companies (March 2016)

Distribution is still legally bundled with regulated supply of last resort in both distribution companies, EVN and ELEM. The regulatory authority approved a compliance programme and the compliance officer of EVN in February 2016. In June 2016, EVN in Austria paved the way for unbundling the distribution system operator in FYR of Macedonia. However, legal separation of the distribution system operator has still not taken place.

### Ensure independence of national energy regulatory authorities based on pre-defined indicators (January 2016)

The regulatory authority's competences need to be expanded and its independence ensured by implementation of the Third Energy Package.

A neutral committee for selecting board members should be introduced and the requirement for applicants to pass a psychological and integrity test be abolished.



**Apply for observer status in ACER based on a positive opinion of the European Commission (July 2016)**

As a prerequisite, regulatory independence needs to be ensured and primary as well as all secondary legislation needs to be adopted.

**Unbundle and certify transmission system operator in line with the Third Energy Package (June 2016)**

Unbundling and certification are not envisaged by the current Energy Law. The adoption of the new Energy Law to transpose the necessary prerequisites is still pending. The lack of a legal basis represents an obstacle for the adoption of certification rules.

**Increase effectiveness of national administrative authorities, including for competition and State aid, by**

**strengthening their independence and financial means and requiring them to notify the Secretariat of pending proceedings, and take due account of the Secretariat's opinion (July 2016)**

The Commission for Protection of Competition, as competition and State aid enforcement authority, can notify pending energy cases to the Secretariat pursuant to the amended Energy Community Dispute Settlement Rules even without transposition at national level. This does not happen in practice.

**Timely implementation of the Trans-European Network Regulation with regard to licensing and permitting as well as one-stop shop procedures (January 2017)**

The TEN-E Regulation was incorporated in the Energy Community in October 2015. Implementation activities in FYR of Macedonia have not been started.

**Cross-cutting Measures**

Eliminate price regulation of generation and for other than small enterprises and household customers, and adopt national action plans for phasing out price regulation in general



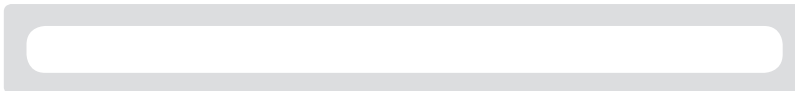
Legal and functional unbundling of distribution system operators and supply companies



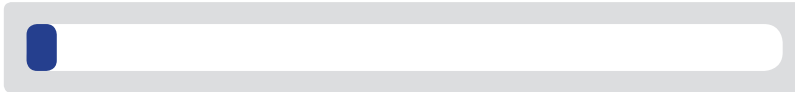
Ensure independence of national energy regulatory authorities based on pre-defined indicators



Apply for observer status in ACER based on a positive opinion of the European Commission



Unbundle and certify transmission system operator in line with the Third Energy Package



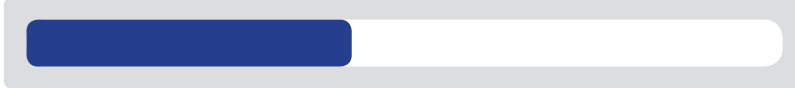
Increase effectiveness of national administrative authorities, including for competition and State aid, by strengthening their independence and financial means and requiring them to notify the Secretariat of pending proceedings, and take due account of the Secretariat's opinion

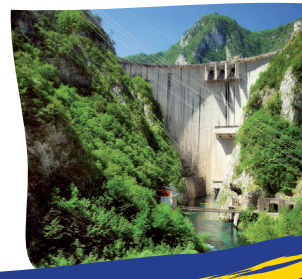


Timely implementation of the Trans-European Network Regulation with regard to licensing and permitting as well as one-stop shop procedures



**Total for cross-cutting measures**





## Spot Market Development

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

The primary legislative framework needed for establishing the organised electricity market was completed. In addition to the Energy Law, adopted in 2015, the Law on Transmission Systems for Cross-border Exchanges of Electricity and Natural Gas and the Law amending the VAT Law which includes a definition of the place of taxable transactions for providing access to the transmission system –were adopted by Parliament after the Paris Summit.

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

The legal basis for designating a nominated electricity market operator is established through the Law on Transmission Systems for Cross-border Exchanges of Electricity and Natural Gas. In accordance with the Government's instruction as

of June 2016, the market operator COTEE, the transmission system operator CGES and the incumbent company EPCG shall sign a contract on establishing a limited liability company with a task to establish a power exchange in Montenegro. The company shall be operational by 1 October 2016 and shall enter into a strategic partnership with a European power exchange by 1 November 2016. However, concrete steps towards setting up the company have still not taken place.

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

A regulatory approach for ensuring liquidity hinges on the model for establishing an organised day-ahead market and its coupling.

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

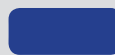
Concrete plans are not formalised yet, as they will be subject to a future agreement with a strategic partner according to the Government's decision on the organisation of a day-ahead market.

#### Spot Market Development

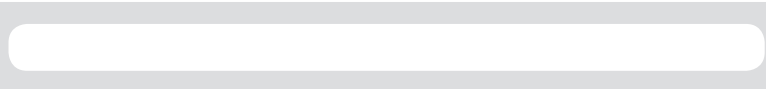
Remove major legal and contractual obstacles to establishing organised electricity markets and market coupling based on the reports of the Secretariat



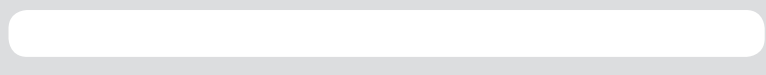
Adhere to a power exchange or, if economically justified (considering liquidity and economic viability), create an own power exchange, enabling wholesale market trade



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



Coupling of organised day-ahead electricity markets with at least one neighbouring country



#### Total for spot market development





## Cross-border Balancing

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

The Energy Law provides a substantial legal framework for development of the cross-border balancing market. Rules for the operation of the balancing market and a methodology for pricing of balancing services, to be developed within one year of the Law's entry into force, are required for creating competition in the balancing market.

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

The balancing model defined by the market rules allows for market-based and non-discriminatory balancing with an in-

ter-transmission system operator model for cross-border exchange of balancing energy. Based on this, the transmission system operators of Serbia and Montenegro started developing a model for exchange of balancing energy from a manually activated frequency restoration reserve. As of May 2016, this model is fully implemented. However, the cross-border exchange of all balancing services will require deregulation of balancing reserve prices in both jurisdictions.

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

A national balancing market exists, but only with one balancing service provider for the time being. Imbalance settlement is applied to all market participants in a non-discriminatory manner. According to the current methodology, prices of balancing reserves are regulated until a competitive balancing market is in place and depend on the adoption of the new secondary legislation. Further efforts are needed to create competition in the balancing market.

#### Cross-border Balancing

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



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

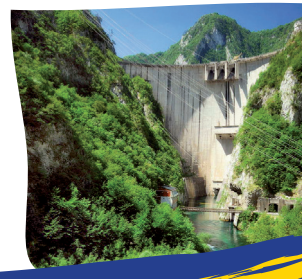


Establishment of a functioning national balancing market based on above model



#### Total for cross-border balancing





## Regional Capacity Allocation

### Introduction of a coordinated capacity calculation process for the allocation of day-ahead capacities based on a regionally coordinated congestion forecast (July 2016)

The transmission system operator, together with those of Bosnia and Herzegovina and Serbia, established a Security Coordination Centre (SCC) in August 2015 with the view to perform, inter alia, a capacity calculation function. A SCC pilot project for daily capacity calculation is ongoing. The SCC

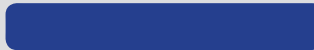
started to submit values of calculated daily capacities to its shareholders. However, the data are still not practically used by the transmission system operators.

### The Western Balkan countries to support signing of agreements between SEE CAO and relevant EU Member States (July 2017)

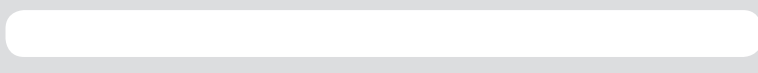
Stronger cooperation between SEE CAO and the relevant EU Member States, supported by the European Commission, is needed.

#### Regional Capacity Allocation

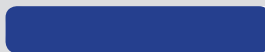
Introduction of a coordinated capacity calculation process for the allocation of day ahead capacities based on a regionally coordinated congestion forecast



The Western Balkan Countries to support signing of agreements between SEE CAO and relevant EU Member States



#### Total for regional capacity allocation



## Cross-cutting Measures

### Eliminate price regulation of generation and for other than small enterprises and household customers, and adopt national action plans for phasing out price regulation in general (January 2016)

The generation price of electricity is not regulated. All customers, except those connected to high voltage lines, still have access to regulated end-user prices. The new Energy Law sets an action plan for market opening and development of competition in the retail market. As of 1 January 2017, suppliers of households and small customers will be allowed to adjust their prices to a market price up to a defined cap. Until then, the prices that applied on the day the Energy Law was enacted continue to be available to all customers connected to the distribution network.

The Energy Law requires unbundling of distribution to be finalised by 28 April 2016. Legal unbundling of the distribution system operator was completed on 30 June 2016 by establishing a new company Montenegrin Electricity Distribution System (CEDIS). Functional unbundling is still to be completed.

### Ensure independence of national energy regulatory authorities based on pre-defined indicators (January 2016)

With the adoption of the new Energy Law, important improvements have been made in terms of regulatory independence. Still, the regulator lacks the full set of Third Energy Package competences, including having full autonomy over its budget, internal organisation and the power to issue penalties. No progress has been made to overcome these remaining shortcomings.

### Legal and functional unbundling of distribution system operators and supply companies (March 2016)

### Apply for observer status in ACER based on a positive opinion of the European Commission (July 2016)

As a prerequisite, regulatory independence needs to be ensured and all secondary legislation needs to be adopted.





**Unbundle and certify transmission system operator in line with the Third Energy Package (June 2016)**

Unbundling of the transmission system operator has not yet happened. The Energy Law and the Law on Transmission Systems for Cross-border Exchanges of Electricity and Natural Gas define requirements for unbundling and certification of the transmission system operator. The transmission system operator will be controlled by the Ministry of Finance. Certification rules were adopted by the regulator after the Paris Summit.

**Increase effectiveness of national administrative authorities, including for competition and State aid, by strengthening their independence and financial means and requiring them to notify the Secretariat of pending proceedings, and take due account of the Secretariat's**

**opinion (July 2016)**

The Competition Authority and the State Aid Commission of Montenegro can notify pending energy cases to the Secretariat pursuant to the amended Energy Community Dispute Settlement Rules even without transposition at national level. However, the effectiveness of the national competition and State aid authorities in the energy sector is not satisfactory. The independence of the State Aid Control Commission is questionable and should be improved.

**Timely implementation of the Trans-European Network Regulation with regard to licensing and permitting as well as one-stop shop procedures (January 2017)**

The TEN-E Regulation was incorporated in the Energy Community in October 2015. Activities for the transposition of the regulation started in May 2016.

**Cross-cutting Measures**

Eliminate price regulation of generation and for other than small enterprises and household customers, and adopt national action plans for phasing out price regulation in general



Legal and functional unbundling of distribution system operators and supply companies



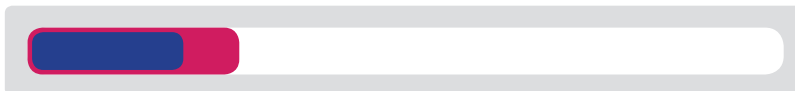
Ensure independence of national energy regulatory authorities based on pre-defined indicators



Apply for observer status in ACER based on a positive opinion of the European Commission



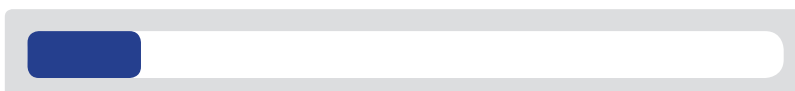
Unbundle and certify transmission system operator in line with the Third Energy Package



Increase effectiveness of national administrative authorities, including for competition and State aid, by strengthening their independence and financial means and requiring them to notify the Secretariat of pending proceedings, and take due account of the Secretariat's opinion



Timely implementation of the Trans-European Network Regulation with regard to licensing and permitting as well as one-stop shop procedures



**Total for cross-cutting measures**





## Spot Market Development

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

The Energy Law adopted in December 2014 is the foundation for the establishment of the organised electricity market in Serbia. On this basis, new licensing rules and amendments to the VAT Law entered into force in October 2015, allowing foreign companies to participate in the Serbian electricity market without restrictions. In particular, the previously existing seat requirements for trading were removed. In addition, the financial legislation was changed to remove obstacles to clearing and settlement. Amendments to the Grid Code were adopted in November 2015. In sum, all activities for completing the legal and regulatory framework have been finalised before the Paris Summit.

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

This task was completed before the Paris Summit. The joint stock company South East European Power Exchange (SEEPEX)

was established in July 2015 and licensed in December 2015. SEEPEX launched the Serbian day-ahead electricity market in February 2016.

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

Trading on SEEPEX is voluntary and no regulatory measures promoting liquidity have been taken. SEEPEX is working on increasing liquidity and the number of participants by attracting foreign companies to join the market. So far it has resulted in 8 foreign traders, out of 10 participants registered at SEEPEX. Further efforts will be needed to unlock the liquidity potential of the national market.

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

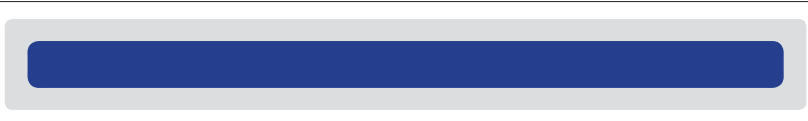
The Serbian day-ahead market operator SEEPEX, together with the regulatory authority and the transmission system operator, expressed interest to couple with the markets of Hungary, Czech Republic, Slovakia and Romania (known as 4MMC) by a letter of intent for market coupling sent before the Paris Summit. No concrete steps on launching the coupling project were made yet.

#### Spot Market Development

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



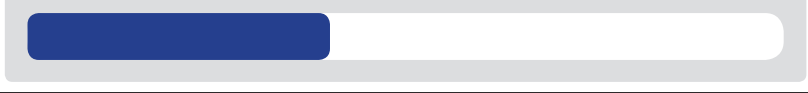
Adhere to a power exchange or, if economically justified (considering liquidity and economic viability), create an own power exchange, enabling wholesale market trade



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



Coupling of organised day-ahead electricity markets with at least one neighbouring country



#### Total for spot market development



## Cross-border Balancing

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

The legislation in force allows the transmission system operator to procure balancing services across borders using market-based procedures. The changes to the licensing regime and the VAT Law, introduced before the Paris Summit, removed obstacles to the participation of foreign companies in the balancing market. This is expected to contribute to the development of competition in the balancing market, which is currently operated with only one active balancing service provider.

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

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. Based on this, the transmission system operators of Serbia and Montenegro developed a model for exchange of balancing energy from a manually activated frequency restoration reserve. As of May 2016, this model is fully implemented. However, the cross-border exchange of all balancing services will require deregulation of balancing reserve prices in both jurisdictions.

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

A functional national balancing market based on market rules exists since 2013, however with only one balancing service provider by now. Imbalance settlement is applied to all market participants in a non-discriminatory manner. The price of balancing reserve is still regulated. Deregulation of this price depends on an assessment of the level of competition to be made by the regulatory authority before 1 May 2017 under the Energy Law. Further efforts are needed to facilitate competition in the balancing market.

#### Cross-border Balancing

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



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



Establishment of a functioning national balancing market based on above model



#### Total for cross-border balancing



## Regional Capacity Allocation

### EMS (Serbia) and KOSTT (Kosovo) to implement the Framework and Inter-TSO Agreement (September 2015)

The transmission system operators of Serbia and of Kosovo have further delayed the implementation of the Inter-TSO Agreement on network and system operation management and the Framework Agreement signed by both parties in 2014. The entry into force of the Connection Agreement between ENTSO-E and the transmission system operator of Kosovo, signed in October 2015, was unduly conditioned by a supply license being issued to a Serbian supplier in Kosovo. As Serbia has failed to register a supply company,

this long-standing dispute still remains unresolved. The only progress made until the Paris Summit was the inclusion of the transmission system operator of Kosovo in the Multiyear ITC Agreement as of 1 January 2016. The transmission system operators of Serbia and Kosovo have also failed to make progress in finalising agreements on compensation for past congestion management and ITC for an interim period.

### Binding agreement between TSO from Serbia with SEE CAO on coordinated allocation (November 2015)

Before the Paris Summit, the transmission system operator submitted an application for becoming a new shareholder to SEE CAO. However, it has still not resulted in an agreement between EMS and SEE CAO.





## Introduction of a coordinated capacity calculation process for the allocation of day-ahead capacities based on a regionally coordinated congestion forecast (July 2016)

The transmission system operator, together with those of Bosnia and Herzegovina and Montenegro, established a Security Coordination Centre (SCC) in August 2015 with the view to perform, inter alia, capacity calculation function. A SCC pilot project for daily capacity calculation is ongoing. The SCC started to submit values of calculated daily capacities to its

shareholders. However, the data are still not practically used by the transmission system operators.

## The Western Balkan countries to support signing of agreements between SEE CAO and relevant EU Member States (July 2017)

Stronger cooperation between SEE CAO and the relevant EU Member States, supported by the European Commission, is needed.

### Regional Capacity Allocation

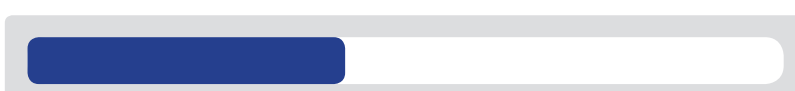
EMS (Serbia) and KOSTT (Kosovo) to implement the Framework and Inter-TSO Agreement



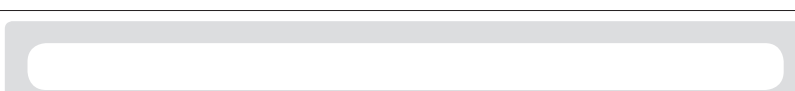
Binding agreement between TSO from Serbia with SEE CAO on coordinated allocation



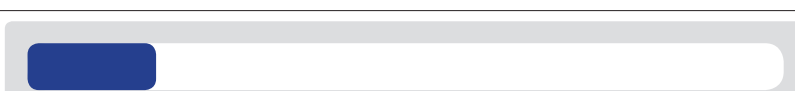
Introduction of a coordinated capacity calculation process for the allocation of day ahead capacities based on a regionally coordinated congestion forecast



The Western Balkan Countries to support signing of agreements between SEE CAO and relevant EU Member States



**Total for regional capacity allocation**



## Cross-cutting Measures

### Eliminate price regulation of generation and for other than small enterprises and household customers, and adopt national action plans for phasing out price regulation in general (January 2016)

Prices of generation and supply were deregulated as of 1 January 2015, except the price of universal supply to households and small customers. The regulatory authority is obliged to publish the first report on the need for its continued regulation until 1 May 2017 based on its assessment of competition development. To complete this task, the regulatory authority, in cooperation with the ministry, developed an action plan for phasing out remaining price regulation based on the Energy Law.

### Legal and functional unbundling of distribution system operators and supply companies (March 2016)

Legal unbundling of distribution system operators from supply was completed in July 2013. The requirements for unbun-

dling of the distribution system operator were transposed in the new Energy Law. Functional unbundling, which was to be finalised within one year upon entry into force of the new Energy Law, has been delayed. On 10 June 2016, the regulatory authority approved the compliance programme and a compliance officer for the distribution system operator.

### Ensure independence of national energy regulatory authorities based on pre-defined indicators (January 2016)

Insufficient autonomy and uncertainty over its budget and internal organisation due to limitations stemming from the Law on Maximum Number of Employees in the Public Sector are jeopardizing the authority's independence. In terms of performance, the regulatory authority failed to ensure participation of the transmission system operator in a coordinated capacity allocation process.

### Apply for observer status in ACER based on a positive opinion of the European Commission (July 2016)

The regulatory authority AERS submitted the application for





observer status in ACER in May 2016. The Secretariat provided ACER with an analysis related to the requirements for ACER Working Group participation of AERS in August 2016.

**Unbundle and certify transmission system operator in line with the Third Energy Package (June 2016)**

The requirement for ownership unbundling of the transmission system operator was transposed by the Energy Law. Before the Paris Summit, the Ministry of Mining and Energy adopted rules for certification. . No amendments to the primary legislation were adopted in order to ensure the separation of control in line with the unbundling requirements.

**Increase effectiveness of national administrative authorities, including for competition and State aid, by strengthening their independence and financial means and requiring them to notify the Secretariat of pending proceedings, and take due account of the Secretariat's**

**opinion (July 2016)**

The national legal framework is not in line with the requirement for notification of pending proceedings before administrative authorities as envisaged by the amended Energy Community Dispute Settlement Rules. Moreover, the effectiveness of the national competition and State aid authorities in the energy sector is not yet satisfactory. The independence of the Commission for State Aid Control should be improved by separating it from the Ministry of Finance.

**Timely implementation of the Trans-European Network Regulation with regard to licensing and permitting as well as one-stop shop procedures (January 2017)**

The TEN-E Regulation was incorporated in the Energy Community in October 2015. In May 2016, a working group was established by the ministry to steer the implementation of the Regulation.

**Cross-cutting Measures**

Eliminate price regulation of generation and for other than small enterprises and household customers, and adopt national action plans for phasing out price regulation in general



Legal and functional unbundling of distribution system operators and supply companies



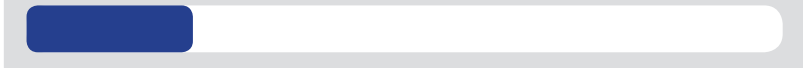
Ensure independence of national energy regulatory authorities based on pre-defined indicators



Apply for observer status in ACER based on a positive opinion of the European Commission



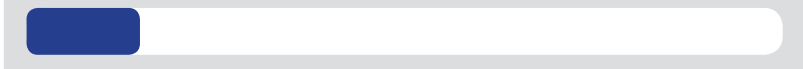
Unbundle and certify transmission system operator in line with the Third Energy Package



Increase effectiveness of national administrative authorities, including for competition and State aid, by strengthening their independence and financial means and requiring them to notify the Secretariat of pending proceedings, and take due account of the Secretariat's opinion



Timely implementation of the Trans-European Network Regulation with regard to licensing and permitting as well as one-stop shop procedures



**Total for cross-cutting measures**





## The Regional Soft Measures

On a regional level, the Western Balkan 6 countries committed to implement the following regional soft measures:

1. Development of an agreement for market coupling open to all operators of power exchanges in the WB6 states and neighbouring countries;
2. Development, between transmission system operators (of the WB6 states in a first stage), of a coordinated integration path towards a regional balancing market with the implementation of regional imbalance netting as one of the key elements for cross-border balancing; and
3. Agreement between all system operators of the region to establish a regionally coordinated calculator of available capacity.

## The Memorandum of Understanding

Activities towards establishing a regional electricity market have been initiated by the Western Balkan 6 countries already since the Vienna Summit. A Memorandum of Understanding of Western Balkan 6 on Regional Electricity Market Development and Establishing a Framework for future cooperation (WB6 MoU) was signed by representatives of transmission system operators, national regulatory authorities, ministries of energy and power exchanges of the Western Balkans 6 countries on 27 April 2016 in Vienna. It marks a milestone towards regional electricity market integration by setting out general principles of cooperation as well as concrete actions to develop the regional electricity market, governance of its implementation projects, and details of important technical solutions.

The Memorandum sets out the way forward for reaching both market coupling and cross-border balancing. In that respect, it can be seen as having fulfilled the regional soft measures 1 and 2. Concretely, the MoU aims to implement the coupling of national organised day-ahead markets with at least one

neighbouring WB6 or EU country by July 2018 and cross-border balancing cooperation between the WB6 countries by December 2018. The MoU also commits its signatories to follow up with legally binding agreements between the concerned parties. The signature of the Memorandum of Understanding by Kosovo representatives was made conditional on the entry into force of the Connection Agreement between KOSTT and the ENTSO-E. This highlights the need to resolve the pending issues between Serbia and Kosovo in energy matters.

Closer cooperation between Western Balkan 6 countries and EU Member States can be achieved through the joining of the relevant neighbouring EU Member States' entities to the governance and implementation projects resulting from the signing of the said Memorandum. The MoU is open for signature to EU neighbouring stakeholders which are willing to assume a role in the market integration projects.

A milestone for widening and deepening the scope of the regional electricity market integration endeavours was that the Italian regulator has joined the WB6 MoU as signatory. Other EU Member State entities are considering becoming signatories as well.

Since the Paris Summit, the WB6 MoU Programme Steering Committee of the implementation programme was constituted and governance structures are about to be finalised. The next step will be to identify projects to be subsumed within the programme and finalise programme implementation agreements between all relevant entities.

As regards the third regional soft measure, no coordinated activities by the Western Balkan 6 countries have been initiated since the Vienna Summit to establish a single regionally coordinated calculator of available capacity. The proposal to cover this measure under an additional annex to the MoU on security of supply issues is still under discussion.



This project is supported by the European Union. The contents of this publication are the sole responsibility of the Energy Community Secretariat and can in no way be taken to reflect the views of the European Union.

