



# **WB6 Electricity Monitoring Report**

**Energy Community Secretariat  
October 2017**



## Introduction



## Creating a Regional Electricity Market in the Western Balkans

The 2015 Summit of the Western Balkan 6 Initiative provided a renewed impetus to the development of the regional electricity market spanning the six Contracting Parties of the Energy Community in Southeast Europe: Albania, Bosnia and Herzegovina, former Yugoslav Republic of Macedonia, Montenegro, Kosovo\* and Serbia. EU Member States participating in the process- Austria, France, Germany, Italy and the United Kingdom - and the six focus countries in cooperation with the European Commission and the Energy Community Secretariat decided to take steps to improve energy connectivity in the region. The Western Balkan 6 (WB6) countries committed to a set of regional and national reform measures, which target the development of the electricity market in different timeframes, tackling capacity allocation and calculation, spot markets and balancing markets. The regional measures are focused on strengthening regional institutions and coopera-

tion, whereas national measures aim at removing national obstacles to regional electricity market development.

Implementation of the regional measures, namely the establishment of regional day-ahead market coupling and cross-border balancing, is ongoing under the Memorandum of Understanding on regional electricity market development (WB6 MoU). The initiative extended beyond the boundaries of the WB6 on the occasion of the Western Balkan 6 Summit on 12 July in Trieste, when the WB6 MoU was for the first time signed by an EU Member State at ministerial level, namely by the Italian Ministry of Economic Development. Furthermore, in the declaration issued following the summit, the WB6 MoU and the Treaty establishing the Energy Community (Title III) are recognised as the cornerstones of the cooperation between WB6 and neighbouring EU Member States. In September 2017, also Hungary signed the MoU at ministerial level.

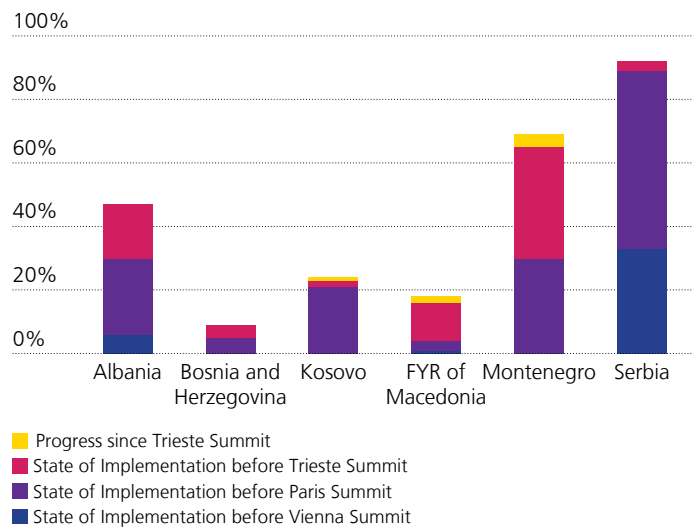
Activities aimed at implementing both national and regional energy soft measures are being reactivated following the appointment of new governments in the majority of the WB6. These actions are reinforced through a set of projects launched recently under the Contract signed between the European Commission and the Energy Community Secretariat to provide technical assistance to connectivity in the Western Balkans in relation to the regional energy market. Projects aimed at facilitating the implementation of the regional day-ahead market and cross-border balancing are about to be commissioned and kicked-off in November 2017. To develop competition and liquidity in the regional market, a regional project dedicated to the establishment of state-owned generation companies as traders in the market is already ongoing. A number of projects to support national institutions, ministries, regulators, transmission and distribution system operators in implementing energy sector reforms in line with the WB6 targets and the Third Energy Package requirements were initiated.

The present Monitoring Report is 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 implement these 'soft measures'". The report provides an overview of the state of play of implementation of the soft measures and highlights the achievements made since the Trieste Summit of 15 July 2017. It presents the progress made at both national and regional level, as well as where continued implementation efforts are needed most.

# Overall progress in Soft Measures implementation

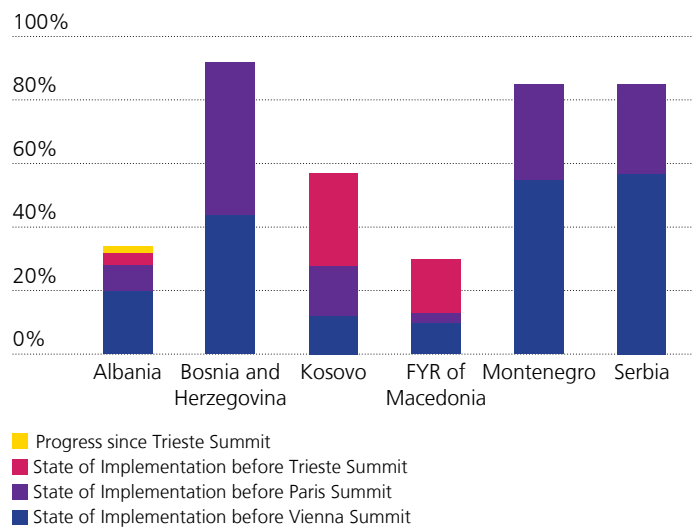
## Spot Market Development

The development of the regional spot market largely depends on the pace in which the WB6 parties will establish their day-ahead markets. At this stage most of them opt for this option, rather than looking for adhering to existing power exchanges or enlarging national bidding zones. To support the process, projects aimed at setting up a day-ahead market were initiated under the WB6 framework and supported under the WB6 regional energy market connectivity programme. Technical assistance to the Ministry of Foreign Trade and Economic Relations of Bosnia and Herzegovina to find a viable solution for the day-ahead market is ongoing. Support to the newly established power exchange company in Montenegro to find the best model of strategic partnership is to be kicked-off in November 2017. Finally, technical assistance aimed at implementing the action plan for the establishment of a day-ahead market in former Yugoslav Republic of Macedonia is under preparation. The new Government of Albania is expected to reactivate the process of establishing a power exchange, originally envisaged to be put into operation by end 2017. In addition, the new governments in Albania and Kosovo reaffirmed their commitments to resume the discussions on integrating the countries' power markets. However, concrete activities are still missing. The power exchange SEEPEX in Serbia represents the only functional day-ahead market in the Western Balkan 6 so far.



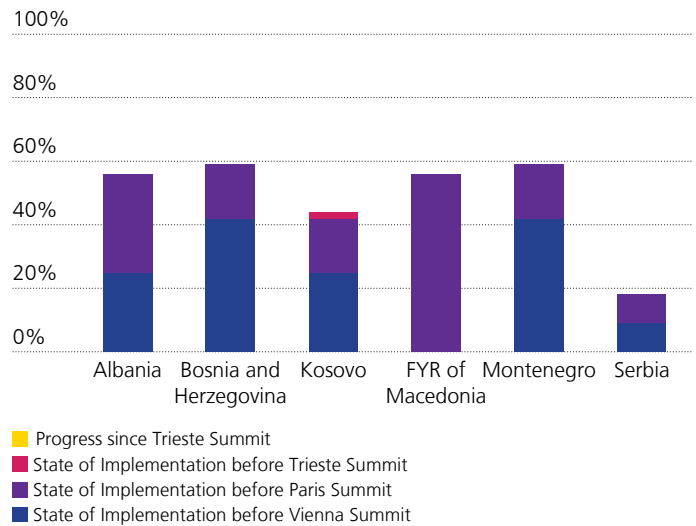
## Cross-border Balancing

The transmission system operators of the Western Balkan countries are in the process of developing models and contractual frameworks for cross-border exchange of balancing energy. However, activities so far are essentially limited to bilateral cooperation, or the cooperation developed within control blocks (such as trilateral cooperation of transmission system operators of Bosnia and Herzegovina, Croatia and Slovenia within the so-called SHB block). Technical assistance for the implementation of the cross-border electricity balancing was launched under the WB6 regional energy market connectivity programme to support truly regional balancing cooperation. As part of the project, regional platforms for imbalance netting and cross-border exchange of balancing energy will be developed as well as the necessary contractual framework. To step up the regional cooperation, removal of the remaining obstacles at national level is essential. This is especially important in Albania and former Yugoslav Republic of Macedonia where regulation of the balancing market combined with exemptions from balance responsibility were prolonged until end 2017. In those countries where balancing mechanisms are functioning, albeit with a single balancing service provider, such as Montenegro and Serbia, cross-border cooperation is urgently needed to open up the markets. Further reform of balancing rules and deregulation of the balancing reserve price are urgently needed to allow for non-discriminatory access of new entrants into the market.



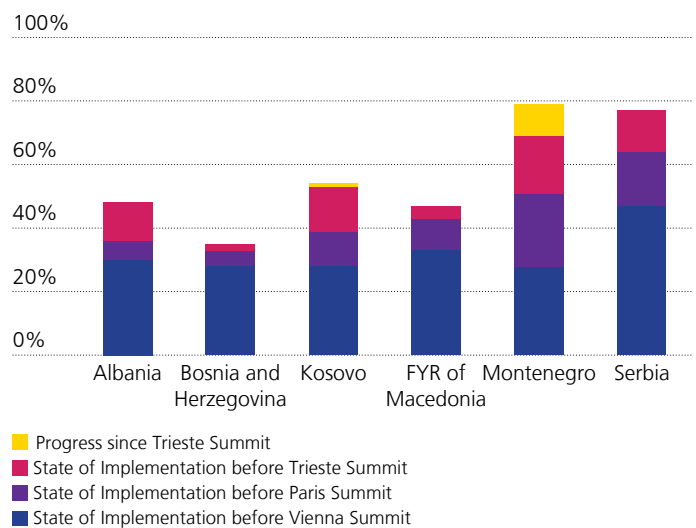
## Regional Capacity Allocation

Following the inclusion of the interconnection between former Yugoslav Republic of Macedonia and Greece into the common regional auctioning performed by SEE CAO, Serbian transmission system operator, EMS, remains the only WB6 transmission system operator that is not allocating any of its cross-border capacities through the regional auction office. During this reporting period, there were once again no activities towards signing of an agreement between EMS and SEE CAO. As regards EU Member States, initiatives towards Bulgaria's membership of SEE CAO, for the purpose of allocation of capacities on the interconnection with former Yugoslav Republic of Macedonia, are still missing. There was also no progress in implementing the bilateral agreements between the transmission system operators of Kosovo and Serbia. The lack of progress with respect to the entry into force of the Connection Agreement between KOSTT and ENTSO-E constitutes the single largest obstacle to regional cooperation in the WB6. To facilitate negotiations between Serbia and Kosovo on this long-standing dispute, the Government of the Federal Republic of Germany requested the Energy Community Dispute Resolution and Negotiation Centre to act as mediator in the dispute, albeit no response was received by Serbia.

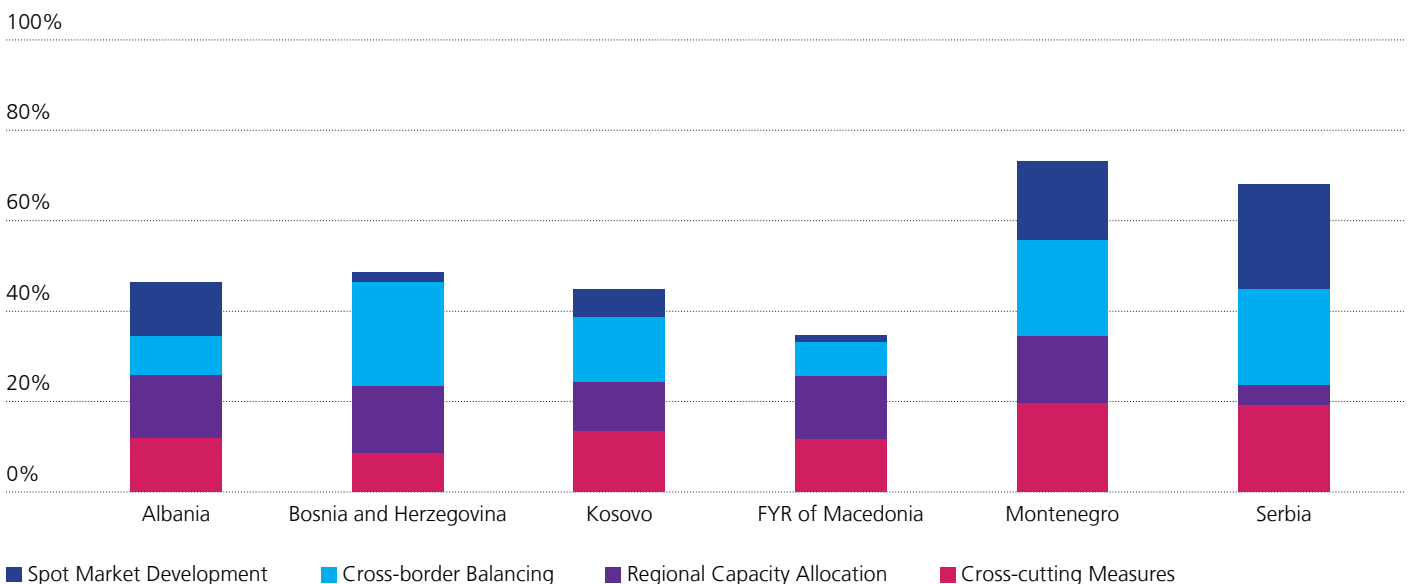


## Cross-cutting measures

The certification of transmission system operators was in focus in all WB6 parties that have already transposed the Third Energy Package. The transmission system operator of Albania was the first certified transmission system operator in WB6. The process of completing the application for certification is ongoing in Kosovo. In Montenegro, the regulator adopted a preliminary decision on certification of the transmission system operator on 20 September 2017. The national regulatory authority of Serbia certified the transmission system operator in August 2017 in breach of Energy Community law. Rectifying this breach will require reopening of the certification process, as requested by the Energy Community Secretariat in September 2017. No activities were taken to legally unbundle distribution system operators in Albania and Bosnia and Herzegovina due to which the Secretariat is preparing infringement actions. Functional unbundling was finalised in Montenegro, whereas the process is still not satisfactory in former Yugoslav Republic of Macedonia and Serbia.



## Overall Implementation of Soft 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)

According to the Ministry's reading of the Power Sector Law, removing obstacles to the establishment of an organised day-ahead market requires amending that Law. In March 2017, amendments to the Law were submitted to the relevant ministries. They have been put forward for approval of the Council of Ministers.

### 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 Council of Ministers adopted the market model which defines an action plan for creating an electricity market. According to the plan, the Minister should have decided on the legal entity and its structure already by 31 March 2017. The power exchange shall be fully operational as of 1 January 2018. Given the delays, this is almost impossible to happen on time.

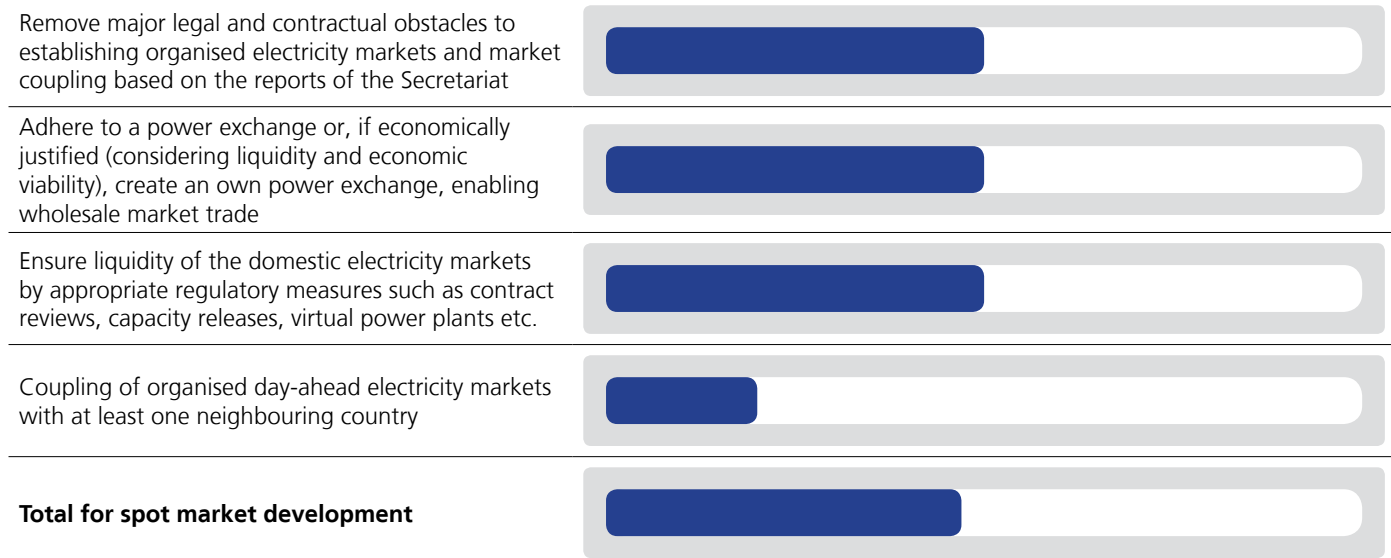
### Ensure liquidity of the domestic electricity markets by appropriate regulatory measures such as contract reviews, capacity releases, virtual power plants etc. (July 2016)

The market model includes a strategy for promoting liquidity based on so-called import/export zones and other measures for an interim period until market coupling takes place. The model also foresees the mandatory participation of the main market players in a phased approach. Its implementation has been stalled. Instead of removing obstacles to market opening, the Council of Minister's Decision imposing public service obligations creates further impediments. A regulation on procedures for procuring electricity to cover losses by the transmission and distribution system operators is in force as of 30 September 2017, however still to be fully implemented. The distribution system operator started to purchase electricity via an organised platform, whereas the transmission system operator continues to purchase electricity for losses from KESh based on the regulated agreement at least until 31 December 2017. The Secretariat will launch infringement action against that practice.

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

A declaration for creating a common electricity market between Albania and Kosovo was signed by the respective Ministers in March 2016. However, no progress has been made since with the implementation of the project. Activities on coupling of Albania with Greece, and with Montenegro, Italy and Serbia are part of the implementation of a road map for regional day-ahead market integration in Western Balkans. No progress can be reported on these borders either.

## 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 legal possibility for the transmission system operator to acquire balancing services under market-based, non-discriminatory and transparent procedures, is envisaged by the Power Sector Law and the market model.

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

New balancing rules drafted with technical assistance from the WB6 regional energy market connectivity programme and submitted by the transmission system operator are pending the regulator's approval. The rules should replace the provisional electricity market rules that are not in compliance with

the Power Sector Law and the market model.

Implementation of a developed mechanism for the cross-border procurement of a reserve for secondary regulation between the transmission system operators of Kosovo and Albania depends on 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 functional national balancing market does not exist in Albania. The transmission system operator still procures balancing services based on a regulated annual contract with the only balancing service provider, the incumbent generation company KESH. This is in breach of the Energy Community *acquis* and the Power Sector Law that ruled out price regulation as from June 2016. The regulator's decision to exempt KESH from balance responsibility is discriminatory. If the new balancing rules will not be adopted the Secretariat will launch infringement action.

#### 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)

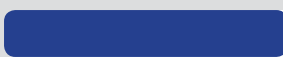
This action is still pending. The transmission system operator is considering the possibility of fulfilling this measure through joining the Security Coordination Centre (SCC).

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

There is no lack of support by WB6 countries. This task depends on the active support from the European Commission.

#### 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. According to the Law, the retail price for customers connected to 35 kV should have been deregulated by 1 July 2016 and for 20 kV by 1 January 2017. This has not happened. Both 35 kV and 20 kV customers continue to be supplied at regulated prices by the supplier with public service obligation, OSHEE. The price at which OSHEE is procuring electricity for the supply of end-users from the incumbent generation company KESH is still regulated contrary to the requirements of Energy Community law. The regulated contract between KESH and OSHEE continues to be in force. The Secretariat will launch infringement action in the near future.

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

Distribution is still legally and functionally bundled with supply within the state-owned joint stock company OSHEE. The unbundling model of OSHEE was approved by the company's

Supervisory Council in December 2016 and by its sole shareholder, the Minister of Energy and Industry, in February 2017. Yet not even legal unbundling has taken place. The Secretariat will launch infringement action.

### 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 too weak sanctioning powers which need to be improved by increasing the penalty levels.

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

ERE has not applied for observer status yet.

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

The transmission system operator of Albania was unbundled and certified by the regulator in line with the Secretariat's Opinion. Following the certification, the transmission system operator became member of ENTSO-E in April 2017. Subsequently, the transmission system operator appointed a compliance officer which was approved by the regulator in September 2017. Other conditions requested by the Secretariat are still to be implemented in the context of the pending amendments to the Power Sector Law.







**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 cooperate well with the Secretariat. They have not yet used the mechanism enshrined in Article 2 of the Energy Dispute Settlement Rules. The effectiveness of the national competition and State

aid authorities in the energy sector is not satisfactory. The independence of the State aid authority remains questionable due to its strong connection to the Ministry of Economy.

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

The country is yet to start activities on transposing the Trans-European Network Regulation.

<b>Cross-cutting Measures</b>	
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)

Bosnia and Herzegovina has still not adopted the State Law on Regulator, Transmission and Power Market and the complementary law on establishment of a transmission system operator. No measures were taken to promote adoption of the Law since it was put to public consultation in May 2017. In October 2017, the Secretariat requested the Ministerial Council to establish a serious and persistent breach under Article 92 of the Treaty.

### 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)

Under the WB6 regional energy market connectivity programme, the Secretariat procured assistance to the Ministry of Foreign Trade and Economic Relations aimed at finding an efficient and viable solution to establish the institutional

set-up for an organised day-ahead market in Bosnia and Herzegovina. This activity is ongoing.

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

Despite a structure of the domestic electricity market - consisting of three incumbent utilities, each with its own generation portfolio - beneficial for opening and liquidity of the domestic market there have been no signs of competition between them. The markets remain split along entity lines. The power utility of Republika Srpska joined the Serbian day-ahead electricity market in March 2017.

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

Along with the establishment of the national day-ahead market, implementation of market coupling of Bosnia and Herzegovina with Croatia, Montenegro and Serbia should be considered in the process of implementing a road map for regional day-ahead market integration in Western Balkans. In practice, no progress is being made.

## Spot Market Development

Remove major legal and contractual obstacles to establishing organized 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)

Legislation is not preventing the transmission system operator from acquiring balancing services in a market-based manner and across borders. Specific provisions for market-based and cross-border procurement of balancing services are included in the draft Law on Regulator, Transmission and Power Market. The transmission system operator proposed amendments to the VAT Law necessary to harmonize taxation on cross-border exchange of balancing services. No further progress can be reported.

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

A balancing model that ensures market-based and non-discriminatory procurement of balancing capacity and balancing energy by the transmission system operator is defined by the market rules adopted already in May 2015. A trilateral contract for the exchange of balancing services (manually activated frequency restoration reserve) with the transmission system operators of Croatia and Slovenia was signed in September 2016. In 2017, the contract was amended to include the possibility of exchanging also downward regulation. An emergency exchange of balancing energy with the transmission system operators of Serbia and Montenegro is implemented based on the bilateral agreements.

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

A competitive state-wide balancing market, with both balancing reserve and balancing energy procured in market-based procedures, is operated by the transmission system operator since 1 January 2016.

#### 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 has still not started allocating day-ahead capacities based on the values of daily capacities calculated and submitted by the Security Coordination

Centre (SCC), which was established by the transmission system operators of Bosnia and Herzegovina, Montenegro and Serbia in August 2015.

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

There is no lack of support by WB6 countries. This task depends on the active support from the European Commission.

#### Regional Capacity Allocation

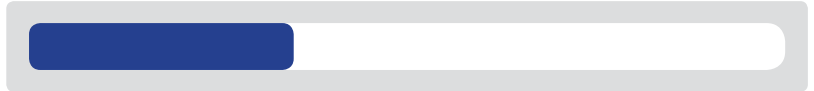
Introduction of a coordinated capacity calculation process for the allocation of day ahead capacities based on a regionally coordinated congestion forecast



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 price of electricity supplied by the incumbent generation companies to public suppliers continue to be regulated in Republika Srpska. This is a breach of Energy Community law. It has not been addressed by the draft energy law of that entity. End-user price regulation also continues for small customers and households. In the Federation of Bosnia and Herzegovina, all prices were deregulated on 1 January 2015, except for households and small customers. There is no national or entity-based action plan for phasing out remaining price regulation. The country and its entities do not respond to Secretariat's requests for improvement.

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

No actions were taken to legally and functionally unbundle distribution from supply throughout Bosnia and Herzegovina and from generation in two utilities in Federation of Bosnia and Herzegovina. No deadlines have been set for the finalisation of the process. The Secretariat is currently preparing infringement action.

### 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 other factors such as unanimity voting rules.

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

The state regulator has not applied yet. As a prerequisite, the Third Package would need 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 in violation of the Energy Community Treaty.

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

The current legal framework on state level does not require the unbundling and certification of the transmission system operator in line with the Third Energy Package. The transmission system operator is not unbundled in line with those rules. This is a clear breach of Energy Community law.

**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 and State aid enforcement authorities do not notify pending energy cases to the Secretariat pursuant to the Energy Community Dispute Settlement Rules. The effectiveness of national competition and State aid authorities is not

at a satisfactory level. The infringement procedure initiated by the Secretariat will be continued due to the lack of any effective State aid enforcement. Furthermore, the independence of the State Aid Council remains 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 country is yet to start activities on transposing the Trans-European Network 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	
<b>Total for cross-cutting measures</b>	



## 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)

This task was fulfilled. A set of primary laws defining the legal and contractual framework for establishing organised spot markets for electricity and market coupling was adopted in June 2016. 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)

Progress in this area depends on the decision to establish 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 to be reinvigorated.

### 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 of the regulatory authority to impose such measures are included in the Energy Law. The regulator's activities towards market opening, namely issuing of two licenses to new suppliers to operate on the Kosovo market and recognition of an EU-based trader as eligible to trade in Kosovo without requiring an additional license, has still not resulted in an improvement of the competition in the market. As of 1 September 2017, the transmission system operator is organising daily auctions for purchasing electricity to cover network losses. The Secretariat will investigate in the specific conditions of and challenges for the Kosovo power market.

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

A declaration for creating a common electricity market between Albania and Kosovo was signed by Ministers in March 2016. Practical progress, however, is lacking.

## 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



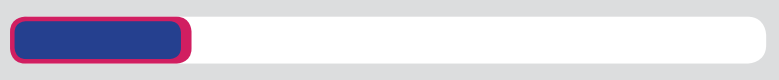
Ensure liquidity of the domestic electricity markets by appropriate regulatory measures such as contract reviews, capacity releases, virtual power plants etc.



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)

This task has been completed. 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. A contractual framework and a non-discriminatory approach to balance responsibility of each market participant have been introduced by the 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)


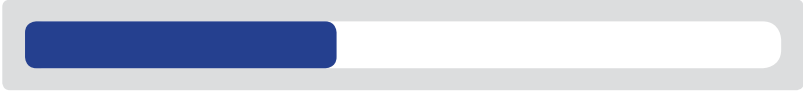


A market-based balancing model, including a methodology for imbalance settlement, is in place.

A mechanism for the cross-border procurement of a reserve for secondary regulation between the transmission system operators of Kosovo and Albania was developed. Implementation 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 market of balancing services is not operational yet. Balance responsible parties' imbalances are settled based on the methodology for determining the imbalance settlement price, applied by the transmission system operator as of 1 June 2017.

## 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

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

The Inter-TSO Agreement on network and system operation management and the Framework Agreement signed by the transmission system operators of Serbia and Kosovo in 2014 are still not implemented. They also failed to make progress in finalising agreements on compensation for past congestion management and ITC for an interim period. In September 2017, the Government of the Federal Republic of Germany requested the Energy Community Dispute Resolution and Negotiation Centre to facilitate negotiations between Serbia and Kosovo on this long-standing dispute. Kosovo has appointed its representative in this process.

### 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 coordinator with the transmission system operators of Albania, Bulgaria, Greece, former Yugoslav Republic of Macedonia and Turkey. Since then, there was no further progress.

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

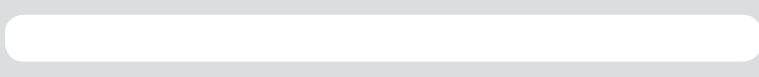
There is no lack of support by WB6 countries. This task depends on the active support from the European Commission.

#### 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)

As of 1 April 2017, wholesale and supply prices for high voltage customers were deregulated. Transmission and distribution system operators are obliged to procure electricity for network losses at non-regulated prices. An action plan for further deregulation of retail prices is defined in a guideline on market liberalisation in Kosovo, issued by the regulator in January 2017. According to the guideline, prices of supply for medium voltage customers shall be deregulated by 31 March 2018. Eventually, price regulation will be limited to supply prices for household and small customers under universal service in line with the *acquis*.

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

This task was completed. Legal and functional unbundling was finalised early. Legal unbundling of the distribution sys-

tem operator from supply is in effect as of 1 January 2015. The process of functional unbundling was completed in July 2015.

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

The Law on the Energy Regulator of June 2016 overcomes the previously existing shortcomings related to the lack of independence and competences of the regulator. However, the regulator's effective functioning is blocked since the Board lost its decision-making quorum in April 2017. A precise date for filling the vacant Board positions is still pending. This is a breach of Energy Community law.

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

ERO has not applied for observer status yet.

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

The Electricity Law foresees unbundling in a way that the government controls the generation company KEK, while the transmission system operator KOSTT is controlled by par-







liament. The transmission system operator’s application for certification will be filed once the regulator is effective again.

**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)**

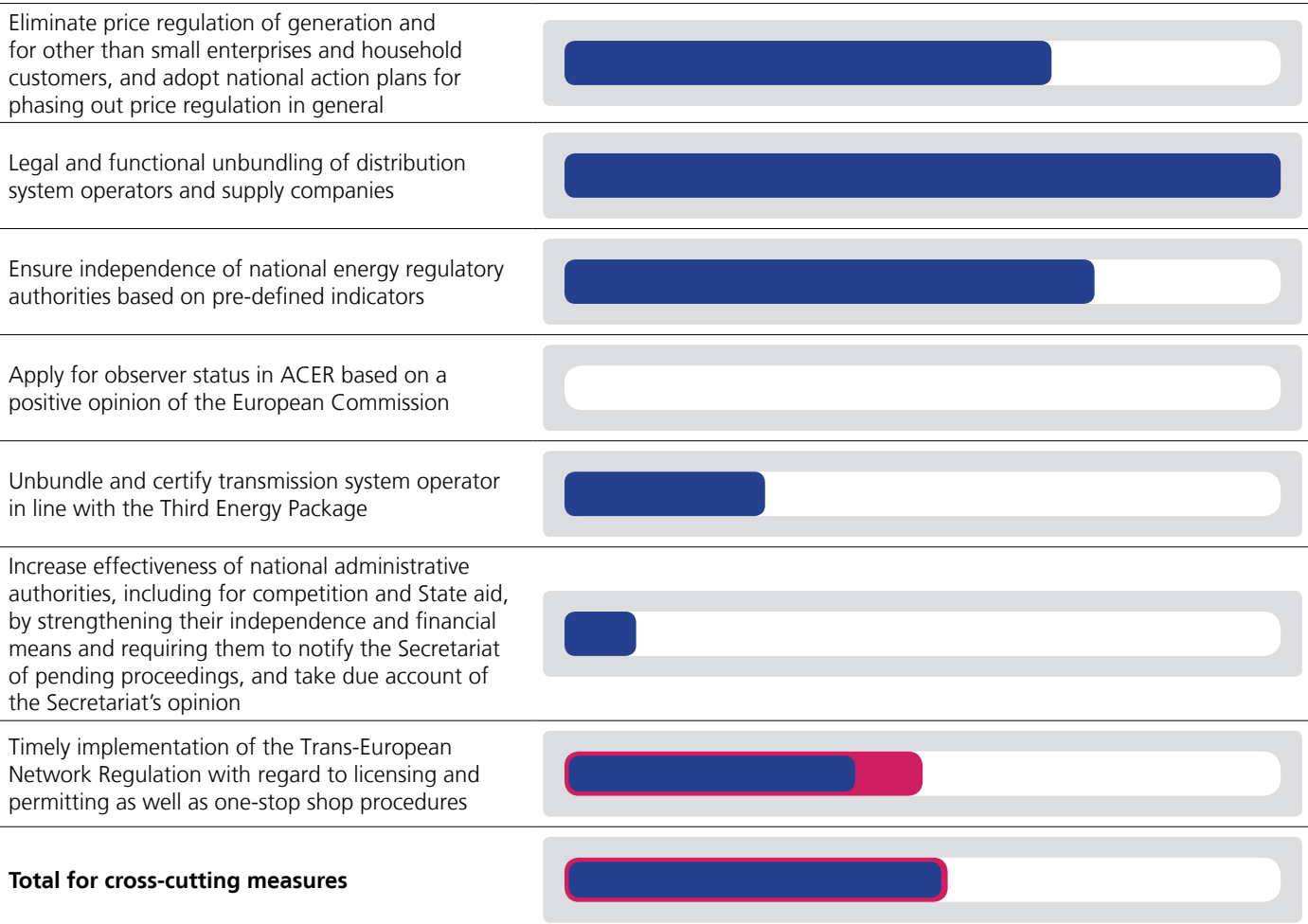
Following several years of not having a functioning competition and State aid authority in place, the missing commissioners were appointed in June 2016. A new law on State aid was adopted in January 2017. According to its provisions, the State Aid Office has been transferred to the Ministry of Finance, but it still has only two employees. Due to the lack of effective State aid enforcement, the Secretariat intends to continue with the next steps in its infringement procedure.

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

Kosovo fulfilled all obligations for which the deadlines have already expired. The Administrative Instruction on the promotion of joint regional investments in the energy sector, which transposed the Trans-European Network Regulation, was signed by the Minister of Economic Development on 20 February 2017. Kosovo has also designated the national competent authority, which shall prepare the manual of procedures by 30 December 2017.

The national regulatory authority shall publish the methodology and criteria to be used for evaluating investment projects by 31 December 2017, and establish and make publicly available a set of indicators and corresponding reference values for the comparison of unit investment costs by 30 June 2018.

**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)

Former Yugoslav Republic of Macedonia has still not adopted a Third Energy Package compliant Energy Law. In October 2016, the Ministerial Council established the failure of former Yugoslav Republic of Macedonia to comply with the Third Energy Package. The Secretariat requested the Ministerial Council to establish a serious and persistent breach under Article 92 of the Treaty. The new government started activities towards rectifying this breach but progress needs to be sped up.

### 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)

In March 2017, the government adopted a decision on establishment of an organised electricity market in former Yugoslav

Republic of Macedonia and an action plan, according to which the power exchange will be operational by the end of 2018. Implementation of the action plan will be supported through technical assistance project under the WB6 regional energy market connectivity programme.

### 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 liquidity measures are envisaged by the draft Energy Law. They are not used in practice.

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

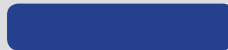
Coupling of day-ahead markets of former Yugoslav Republic of Macedonia and Bulgaria is proposed for implementation as part of a road map for regional day-ahead market integration in the Western Balkans. No tangible progress seems to take place.

## Spot Market Development

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



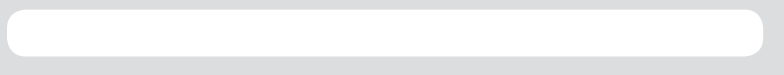
Adhere to a power exchange or, if economically justified (considering liquidity and economic viability), create an own power exchange, enabling wholesale market trade



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 ELEM to provide balancing services at regulated prices until 30 June 2020. In addition, an exemption for regulated energy undertakings from balance responsibility was extended until end 2017 by the regulatory authority. No progress has been made towards the removal of these legal and regulatory obstacles which are in breach of Energy Community law.

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

### balancing services (March 2016)

Amendments to the market rules, which introduced methodologies for market-based procurement of balancing services and non-discriminatory imbalance settlement, were adopted by the national regulatory authority in October 2016. This provides the possibility for the transmission system operator to procure balancing services from domestic providers and across borders. Currently, a model for imbalance netting within the control block of former Yugoslav Republic of Macedonia, Montenegro and Serbia is in the testing phase.

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

This commitment has not been complied with. The establishment of market-based balancing hinges on the adoption of the new Energy Law and phasing out of discriminatory regulation of balance responsibility.

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

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

This task was completed. The transmission system operator signed a shareholder agreement with SEE CAO on 31 May 2016. As of 2017, interconnection capacities between former Yugoslav Republic of Macedonia and Greece are auctioned on a yearly, monthly and daily basis through 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 initiated a procurement procedure for services of a regional security coordinator, in-

cluding coordinated capacity calculation. The procedure shall be finalised before end of 2017. The transmission system operator is signatory to a Memorandum of Understanding on the establishment of a regional security coordinator with the transmission system operators of Bosnia and Herzegovina, Montenegro and Serbia, as well as to a Memorandum of Understanding on the establishment of a regional security coordinator with the transmission system operators of Albania, Bulgaria, Greece, Kosovo and Turkey. No further steps have been taken with respect to any of these two initiatives.

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

There is no lack of support by WB6 countries. This task depends on the active support from the European Commission.

#### Regional Capacity Allocation

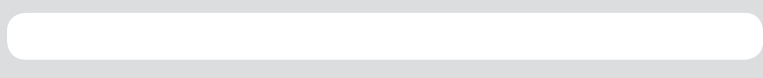
Introduction of a coordinated capacity calculation process for the allocation of day ahead capacities based on a regionally coordinated congestion forecast



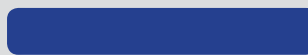
Binding agreements between TSOs from the former Yugoslav Republic of Macedonia, and Serbia with SEECAO on coordinated allocation



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 denies the eligibility right to households and certain categories of small customers. In October 2016, the Ministerial Council of the Energy Community decided on the failure of former Yugoslav Republic of Macedonia to comply with its obligations under the Energy Community Treaty in this respect. The Secretariat requested the Ministerial Council to establish serious and persistent breach under Article 92 of the Treaty. The new government has started activities on drafting a new Energy Law expected to rectify this breach.

### 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)

Retail prices of an additional portion of small customers were deregulated as of 1 July 2017. Customers with an annual consumption greater than 500 MWh in 2016 were obliged to find a supplier based on non-regulated prices. However, regulation of both generation and retail prices for supply for households and small customers, remaining under the consumption threshold, is only envisaged by 30 June 2020 under the existing Energy Law.

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

The distribution system operator was legally unbundled from regulated supply of last resort in the distribution company EVN. On 1 January 2017, a new daughter company established by EVN has been licenced for distribution. This company performs distribution activities with assets leased from the mother company. The compliance programme of EVN Distribution was approved by the regulatory authority in March 2017. A separate identity of the company through rebranding is still to be established.



**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 currently not transposed.

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

The regulatory authority ERC has not yet applied for observer status. As a prerequisite, regulatory independence needs to be ensured and the missing 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 even envisaged by the current and non-compliant Energy Law. The adoption of the new Energy Law to transpose the necessary prerequisites is still pending. This is a clear breach of Energy Community law.

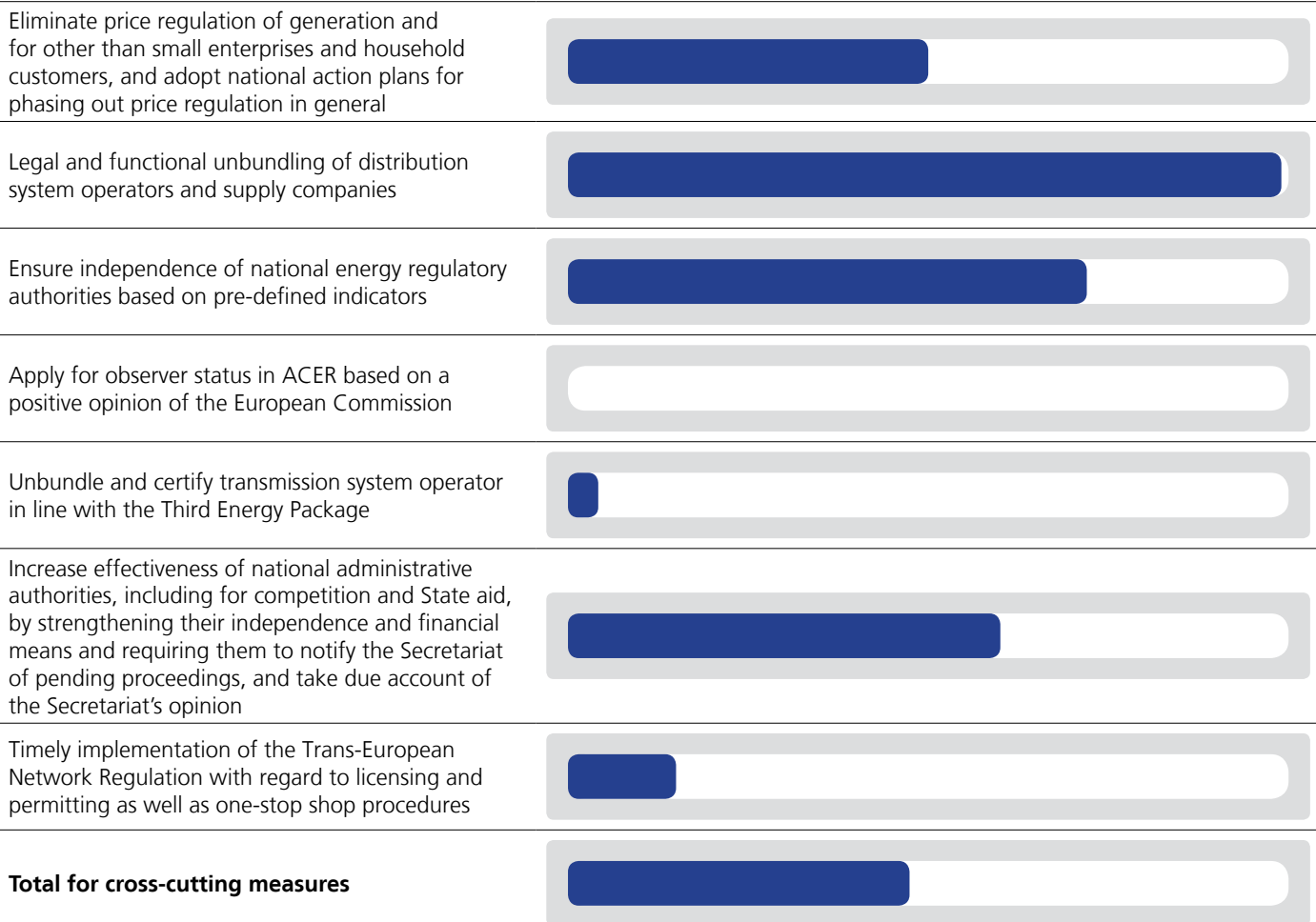
**Increase effectiveness of national administrative authorities, including for competition and State aid, by strengthening their independence and financial means and requiring them to notify the Secretariat of pending proceedings, and take due account of the Secretariat's opinion (July 2016)**

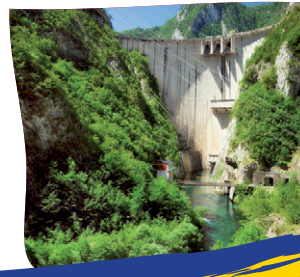
The Commission for Protection of Competition, as competition and State aid enforcement authority, does not notify pending energy cases to the Secretariat pursuant to the Energy Community Dispute Settlement Rules. In practice, there are no enforcement activities related to competition and State aid rules in the energy sector.

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

The country is yet to start activities on transposing the Trans-European Network Regulation. No progress is registered with the preparation of the by-law supposed to transpose the Regulation.

**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)

This task has been completed. The legislative framework needed for establishing the organised electricity market consists in the 2015 Energy Law and the Law on Cross-border Exchanges of Electricity and Natural Gas adopted in 2016.

### 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)

In line with a government decision of June 2016, the market operator COTEE, the transmission system operator CGES and the incumbent utility EPCG set up and registered in August 2017 a limited liability company with the task to establish a power exchange in Montenegro. The company should select a strategic partner among European power exchanges. This task is supported by technical assistance under the WB6 regional energy market connectivity programme.

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

Montenegro is the only WB6 country where a license for wholesale trade is not required, which enhances the potential for competition in the market. The introduction of mandatory participation and selling of electricity from renewable sources in the day-ahead market are being discussed but no concrete progress has been made. As there are no alternative suppliers on the retail market, all customers continue to be supplied by the incumbent supplier.

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

According to the government's decision on the organisation of the day-ahead market, coupling plans will be formalised through a future agreement with a strategic partner. The road map for day-ahead market integration in the Western Balkans includes coupling projects with all neighbouring WB6 parties and with Italy. Concrete progress is yet to be made.

## 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)

There are no legal obstacles for the transmission system operator to procure balancing services from domestic providers and across the border. The Energy Law provides a compliant legal framework for market-based procurement of balancing services and development of the cross-border balancing market. A methodology for provision and pricing of balancing services, adopted by the national regulatory authority, lays the ground for non-discriminatory procurement of balancing services.

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

The regulator adopted new market and balancing rules in July 2017. The balancing model allows for market-based and non-discriminatory balancing with an inter-transmission system operator model for cross-border exchange of balancing

energy. The transmission system operator is in the process of establishing a cross-border bilateral cooperation with the neighbouring transmission system operators.

In addition to the exchange of balancing energy with the transmission system operator of Serbia, a contract for an emergency exchange of balancing energy with the independent transmission system operator of Bosnia and Herzegovina was signed in March 2017. Bilateral cooperation with the Albanian transmission system operator is expected to be launched as of 1 January 2018. A model for imbalance netting within the control block of former Yugoslav Republic of Macedonia, Montenegro and Serbia is in the testing phase.

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

The national balancing market consists only of one balancing service provider, the incumbent generation company EPCG. 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. The possibility for new providers to offer balancing services is not effectively implemented.

#### 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

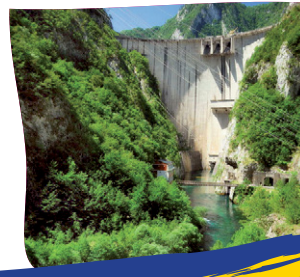


Establishment of a functioning national balancing market based on above model



#### 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 has not started allocating day-ahead capacities based on the values of daily capacities calculated and submitted by the Security Coordination Centre (SCC), which was established by the transmission system

operators of Bosnia and Herzegovina, Montenegro and Serbia in August 2015.

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

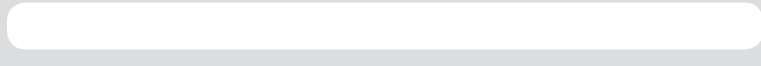
There is no lack of support by WB6 countries. This task depends on the active support from the European Commission.

#### 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 of electricity is not subject to price regulation. The Energy Law sets an action plan for market opening and development of competition in the retail market, according to which the prices of electricity supplied to final customers were to be deregulated as of 1 January 2017. The price of electricity supplied to households and small customers is market based, but subject to a price cap established by the regulator. The supplier of last resort was to be selected by the government in an open competitive procedure within 12 months from the entry into force of the law. The procedure has not been conducted yet. Instead, the government appointed the incumbent supplier.

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

Legal unbundling of the distribution system operator was completed in June 2016 with the establishment of Montenegrin Electricity Distribution System (CEDIS). A compliance programme of CEDIS was adopted and approved by the national regulatory authority. A compliance officer was appointed. Rebranding was done in a compliant manner.

### 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 independence requirements, including full autonomy over its budget, internal organisation and the power to issue penalties. No progress has been made to overcome these remaining shortcomings.

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

The regulatory authority RAE submitted the application for observer status in ACER Working Groups in January 2017. The Secretariat provided a positive assessment of the requirements for such participation in March 2017. ACER currently drafts an agreement on cooperation with RAE.

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

The Energy Law sets requirements for ownership unbundling. The national regulatory authority adopted the preliminary decision on certification of the transmission system operator and submitted to the Secretariat for its opinion in October 2017.





**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 should notify pending energy cases to the Secretariat pursuant to the Energy Community Dispute Settlement Rules. However, there is no enforcement of competition and State aid rules by the national competition authority in the energy sector. The independence of the State Aid Control

Commission is questionable and should be improved with the adoption of the new draft State aid law, which provides for the State Aid Control Commission to be moved under the umbrella of the Agency for Competition Protection.

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

The country is yet to start activities on transposing the Trans-European Network Regulation. The Ministry of Economy prepared a draft for the development of secondary legislation to implement the Regulation.

**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 legal and regulatory framework for the organised electricity market and market coupling is in place.

### 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 by the launch of the Serbian day-ahead electricity market in February 2016. It is operated by the joint stock company South East European Power Exchange (SEEPEX).

### 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. Out of 14 participants in SEEPEX, 11 are foreign companies. As of March 2017, SEEPEX introduced a flexible block order as a new product with a view to increase liquidity. Further measures to increase liquidity should be implemented, such as purchase of network losses, selling of electricity from renewable sources, further deregulation of retail prices and abandoning the licencing regime.

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

There was no progress made towards coupling the Serbian day-ahead market with the markets of Hungary, Czech Republic, Slovakia and Romania (known as 4MMC), for which SEEPEX expressed interest in a letter of intent sent to 4 MMC together with the Serbian regulatory authority and the transmission system operator. Activities on coupling with 4MMC as well as with Montenegro, Albania and Italy are part of the implementation of a road map for regional day-ahead market integration in Western Balkans.

#### 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 and non-discriminatory procedures. Changes to the licensing regime and the VAT Law removed obstacles to the participation of foreign companies in the balancing market.

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

Market rules adopted in November 2016, allow for market-based procurement of balancing energy with an inter-transmission system operator model for cross-border exchange. With the transmission system operator of Montenegro, a model for exchange of balancing energy from a manually activated frequency restoration reserve has been

implemented. Currently, imbalance netting within the control block of former Yugoslav Republic of Macedonia, Montenegro and Serbia is in the testing phase. A contract for emergency exchange of balancing energy was signed with the transmission system operator of Bosnia and Herzegovina, whereas a model for cross-border exchange of balancing energy with the Hungarian transmission system operator is still under discussion.

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

The national balancing market features only one balancing service provider, the incumbent generation company EPS. The price of balancing reserve is still regulated on an annual basis. According to the first report on the need for further regulation of the balancing reserve price, published by the national regulatory authority in May 2017, the price shall continue to be regulated in order to prevent abuse of dominant position of the single reserve provider, EPS. This argumentation amounts to a vicious circle. Instead, measures enabling more competition are needed. The introduction of a level playing field for new balancing service providers to enter the market will require further changes to the market 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

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

The Inter-TSO Agreement on network and system operation management and the Framework Agreement signed by the transmission system operators of Kosovo and Serbia in 2014 are still not implemented. They also failed to make progress in finalising agreements on compensation for past congestion management and ITC for an interim period. In September 2017, the Government of the Federal Republic of Germany requested the Energy Community Dispute Resolution and

Negotiation Centre to facilitate negotiations between Serbia and Kosovo on this long-standing dispute. Serbia did not react to the request to nominate a representative for these negotiations.

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

There was no progress towards accession of the transmission system operator EMS to SEE CAO. An agreement with SEE CAO has still not been reached and EMS continues to fail to participate in a regionally coordinated capacity allocation mechanism.



## 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 has still not started allocating day-ahead capacities based on the values of daily capacities calculated and submitted by the Security Coordination Centre (SCC), which was established by the transmission system operators of Bosnia and Herzegovina, Montenegro and

Serbia in August 2015.

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

There is no lack of support by WB6 countries. This task needs the active support from the European Commission.

### 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



Binding agreements between TSOs from the former Yugoslav Republic of Macedonia, and Serbia with SEECAO on coordinated allocation



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 supply to households and small customers. Since the regulatory authority concluded in its report on the need for continuing regulation of these prices that the price of universal service shall continue to be regulated, according to the Energy Law conditions to select a provider of universal service in a competitive procedure have not been fulfilled yet. To facilitate the process of switching supplier, the regulator adopted changes to the switching rules in February 2017.

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

Legal unbundling of distribution system operators from supply is completed, however functional unbundling is missing. The regulatory authority in June 2016 approved the compliance programme and appointment of the compliance officer. It also imposed the obligation on the distribution system operator

to bring its acts of establishment in line with the conditions for functional unbundling by 4 September 2016 at the latest. The first compliance report of 30 June 2017 concludes that independence of the company in terms of organisation and decision-making does still not exist and that the adopted compliance programme is still not implemented. No enforcement actions were taken.

### 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.

### 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 Working Groups in May 2016 but was rejected. The Secretariat provided ACER with an analysis related to the requirements for ACER Working Group participation of AERS that did not confirm compliance with the necessary conditions established by ACER.

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

On 4 August 2017, the regulator certified the transmission system operator as compliant with ownership unbundling rules of the Third Energy Package. In its Opinion issued on 15 June 2017, the Secretariat concluded that EMS is not unbundled in line with the ownership unbundling model. As the Law on Ministries was changed after the Secretariat issued its Opinion, the Secretariat formally requested the regulator to reopen the certification procedure on 15 September 2017. AERS has not complied with this request.

### 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)

Cooperation with the Commission for State Aid Control is

not effective; an infringement procedure and an investigation regarding non-compliance with State aid rules through actions taken by that Commission are ongoing. The Secretariat submitted a request to the Ministerial Council to establish a failure by Serbia to comply with the Energy Community State aid *acquis* in relation to aid granted to the Kolubara B power plant project. The structure of the Commission for State Aid Control that is closely linked to the Ministry of Finance prevents the Commission from functioning and applying the State aid rules independently.

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

The government is currently preparing the implementation of the regulation, and a draft implementation roadmap has been elaborated. In addition, an initiative to amend the Law on Planning and Construction has been sent to the Ministry responsible for construction.

#### 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



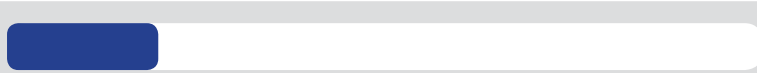
Unbundle and certify transmission system operator in line with the Third Energy Package



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 Activities

The initiative to create a regional electricity market in the Western Balkans through the development of market coupling, cross-border balancing and regionally coordinated capacity calculation continues to grow. Starting from the commitments made at the 2015 and 2016 Western Balkan Summits, the 2017 Trieste Summit emphasised the need to couple WB6 markets with those of EU Member States in order to make the best use of transmission infrastructure. The Trieste Summit highlighted the opportunities for cooperation between the WB6 and neighbouring EU Member States building on the WB6 Memorandum of Understanding on Regional Electricity Market Development (WB6 MoU) and the Treaty establishing the Energy Community (Title III).

To support these political commitments, the WB6 MoU, initially signed by WB6 ministries, transmission system operators, national regulatory authorities and power exchanges, was reinforced by 15 signatories from the neighbouring EU MSs. Most recently, it was signed by two ministries of neighbouring EU MSs, namely the Italian Ministry of Economic Development and the Hungarian Ministry of National Development. Previous signatories are the Italian energy regulator, power exchange GME 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. WB6 MoU signatories agreed on the market integration process starting with market coupling of national organised day-ahead markets with at least one neighbouring WB6 or EU Member States by July 2018 and the development of cross-border balancing cooperation among WB6 countries by December 2018.

Under the WB6 MoU platform, the Programme Steering Committee for day-ahead market integration (WB6 DA MI PSC) developed a roadmap for day-ahead market integration among the WB6 and with EU Member States in line with the CACM Regulation, which is supposed to ultimately lead to the

coupling of the WB6 region with the Multi-Regional Coupling (MRC). The roadmap identifies national and regional projects that should lead to the market coupling between the WB6 and with EU Member States. Seven market coupling projects were proposed so far, including interconnections with all neighbouring EU Member States.

The Programme Steering Committee for cross-border balancing aims to develop a roadmap towards creating a regional balancing market, including pilot projects for imbalance netting and exchange of balancing energy with common merit order lists.

Implementation of WB6 MoU objectives is financially backed-up by the contract for technical assistance to regional energy market connectivity in the Western Balkans, signed between the European Commission and the Energy Community Secretariat. Activities on implementing the regional targets will be facilitated through the projects for the implementation of a regional day-ahead market and cross-border electricity balancing. These projects are expected to be kicked-off in November 2017 following the finalisation of the ongoing tendering procedure.

The WB6 roadmap pushes for market coupling on all borders between the WB6 and neighbouring EU MSs.

The roadmap for day-ahead market coupling proposed by the WB6 MoU DA MI PSC envisages seven market coupling projects, five of which aim at the implementation of market coupling with all neighbouring EU Member States. These projects include the coupling of:

1. Serbia and Hungary, Czech Republic, Slovakia and Romania (4MMC), which depends on support by all 4MMC parties;
2. Albania, Italy, Montenegro and Serbia, launched in May 2017 with the aim to couple WB6 markets into the MRC after a submarine cable between Italy and Montenegro is in place;
3. Former Yugoslav Republic of Macedonia and Bulgaria, following the establishment of a day-ahead market in the former;
4. Bosnia and Herzegovina with Croatia, Montenegro and Serbia, depending on the creation of a day-ahead market in Bosnia and Herzegovina; and
5. Albania and Greece, following the operationalisation of a day-ahead market in Albania.



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