



WB6 Electricity Monitoring Report

**Energy Community Secretariat
March 2017**



Executive Summary

Creating a Regional Electricity Market in the Western Balkans

At the 2015 Vienna Western Balkan Summit, the WB6 countries agreed at the highest political level to improve energy connectivity in the Western Balkans. The initiative for creating a regional electricity market continues to deliver results in the lead up to the July 2017 Western Balkan Summit in Trieste.

In order to establish a regional electricity market in the Western Balkans, the WB6 countries agreed to implement a set of soft measures¹, which target the development of the electricity market in different timeframes, tackling capacity allocation and calculation, spot markets, and balancing markets. These measures include regional and national dimensions; the regional measures are tailored to strengthen regional institutions and cooperation, whereas national measures are mainly focused on removing national obstacles to regional electricity market development. The Paris Summit of 4 July 2016 re-emphasised the need for closer cooperation on a regional level and integration of 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 the EU's internal energy market.

The initiative for day-ahead market coupling under the multi-stakeholder Western Balkan 6 Memorandum of Under-

standing on regional electricity market development continued to grow. The initiative now counts eight EU stakeholders from five Member States.

To ensure that the process is backed up by the financial incentives needed to implement these targets, the European Commission and the Energy Community Secretariat concluded a two-year Grant Contract for technical assistance to connectivity in the Western Balkans in June 2016. The contract is implemented based on a Work Programme that identifies the technical assistance services needed to support regional and national measures in those areas where insufficient progress was identified and where financial support is expected to be efficiently delivered.

Finally, continuous monitoring and reporting performed by the Energy Community Secretariat, the body responsible for facilitating the Western Balkan 6 initiative and implementing the Grant Contract, support the overall process.

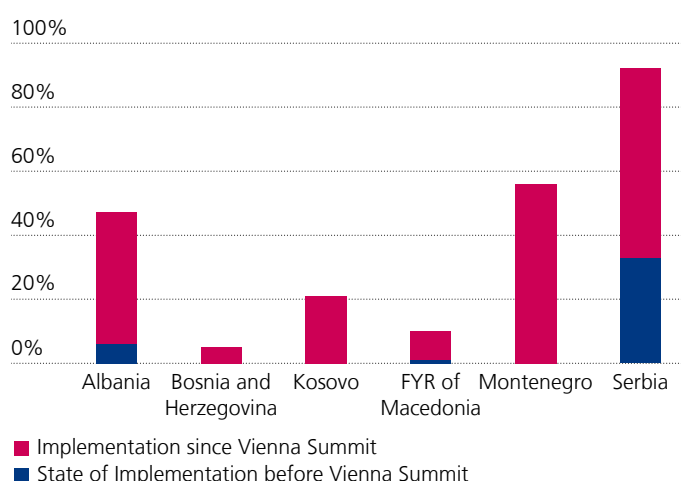
The present Monitoring Report forms part of the deliverables of the said contract and provides an overview of the state of play of implementation of the soft measures and highlights the achievements made in 2017. It also shows where continued implementation efforts are needed most.

¹ Defined as implementation targets of said Grant Contract and based on the Addendum to the Final Declaration of the Western Balkans Summit Vienna 2015

Overall Progress in Soft Measures Implementation since the Vienna Summit

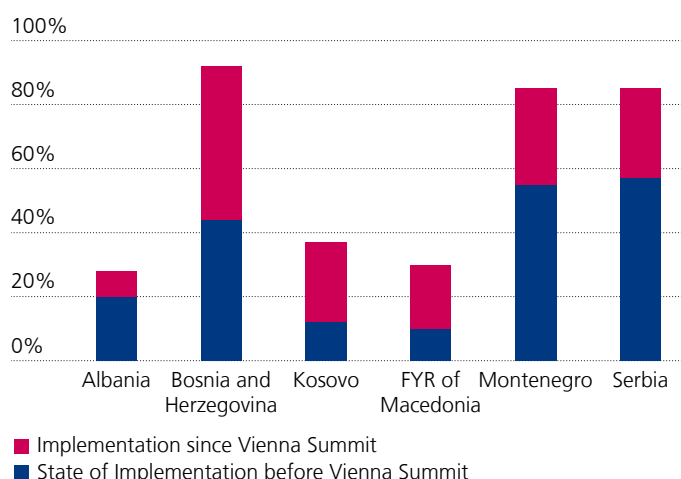
Spot Market Development

A major step forward towards the establishment of the day-ahead market is about to be taken in Montenegro. The market operator, the transmission system operator and the incumbent utility are finalising activities on establishing a company with the task to set-up a day-ahead market and couple Montenegro with neighbouring markets. The new company is expected to be registered in April 2017. This will be the first concrete result with regard to day-ahead market development, since the launch of the Serbian day-ahead market SEEPEX in February 2016. Furthermore, on 22 March 2017, the Government of former Yugoslav Republic of Macedonia adopted a decision on establishment of an organised electricity market, instructing the transmission system operator to submit an action plan to the Government in April 2017. In other WB6 countries, activities towards setting up a legal and institutional framework for establishing and operating an organised day-ahead market were initiated as well. However, substantial legal and institutional reforms are still needed in order to allow for functional day-ahead markets. Despite notable efforts to set-up an Albanian Power Exchange (APEX), the establishment of the company is still pending. Decisions on the model for the day-ahead market in Bosnia and Herzegovina have not been made. Kosovo* is working with Albania on developing a framework for market integration, including a single power exchange servicing these two markets.



Cross-border Balancing

Activities at national level to implement a market-based and non-discriminatory balancing mechanism are still without tangible results in Albania, Kosovo and former Yugoslav Republic of Macedonia. New mechanisms are still being tested in Kosovo* and former Yugoslav Republic of Macedonia, while Albania still needs to develop new balancing rules. Terminating the practice of exempting regulated companies from balance responsibility remains a crucial precondition for the development of cross-border balancing in Albania and former Yugoslav Republic of Macedonia. On the other side, those countries that have already put in place a national balancing market moved forward with the development of cross-border balancing cooperation within their control blocks and beyond. The transmission system operator of Bosnia and Herzegovina signed a contract on emergency exchange with Montenegro and Serbia. In addition, the tri-lateral contract for exchange of balancing services signed between transmission system operators of Bosnia and Herzegovina, Croatia and Slovenia was amended to allow also for exchange of downward regulation. Following the launch of a cross-border exchange of balancing energy between transmission system operators of Montenegro and Serbia, a model for imbalance netting within the control block of former Yugoslav Republic of Macedonia, Montenegro and Serbia has been developed and is about to enter into the testing phase.



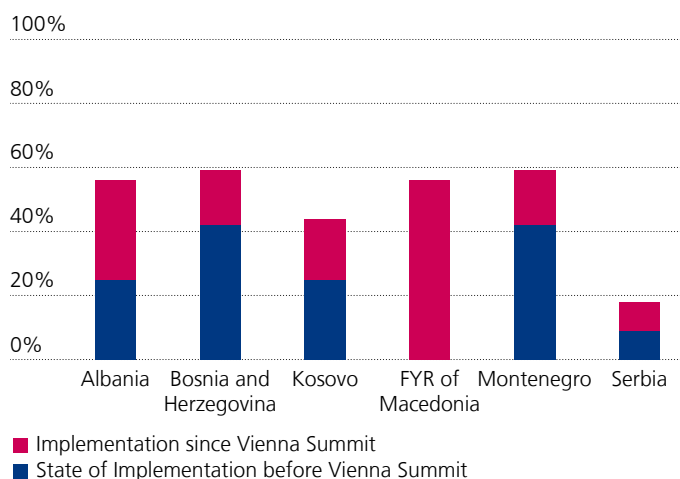
Towards Trieste Summit - Western Balkan 6 more than halfway through creating a regional electricity market

Less than four months to go to the Trieste Summit, the Western Balkan 6 countries have reached the halfway point of meeting the 2015 Vienna Summit targets, which aim to create a regional electricity market. However, the individual country progress is heterogeneous and the speed at which national reforms will continue depends on various factors, hinging mainly on the WB6 governments' decisions expected to be taken before the Trieste Summit. Despite notable progress made in certain areas of market opening, Bosnia and Herzegovina and former Yugoslav Republic of Macedonia will need to adopt Third Energy Package-compliant laws in order to move forward with market reform. In the case of Albania, the country's government is yet to adopt the necessary decisions to amend the Power Sector Law and implement the market model. Kosovo's efforts to develop the market are constrained by the non-implementation of the agreement between the transmission system operators of Kosovo and Serbia, KOSTT and EMS respectively, and the pending market integration with Albania. The unresolved dispute between KOSTT and EMS is also an obstacle to further progress in Serbia, as is the long-standing dispute with SEE CAO. Finally, Montenegro remains the only WB6 country where no major hurdles to slow down the electricity market development process are expected.

* 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

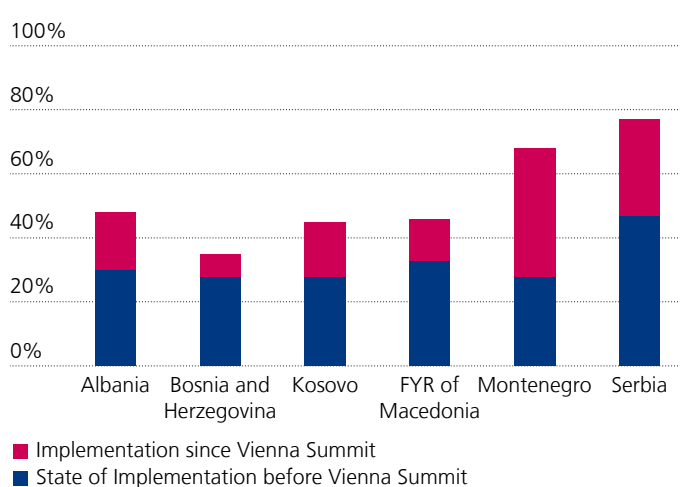
Regional Capacity Allocation

No progress was made in this area during this monitoring period. Since the transmission system operator of former Yugoslav Republic of Macedonia started auctioning the cross-border capacities on the interconnection with Greece for 2017 through SEE CAO, Serbia remains the only WB6 country that still does not participate in a regional allocation office. Serbia submitted an application to join SEE CAO, but an agreement has still not been reached. The transmission system operators of Serbia and of Kosovo have still not implemented the Inter-TSO Agreement on network and system operation management and the Framework Agreement. A proposed technical solution to allow entry into force of the Connection Agreement between ENTSO-E and the transmission system operator of Kosovo was rejected by the transmission system operator of Serbia. New efforts are required to resolve this long-standing dispute.

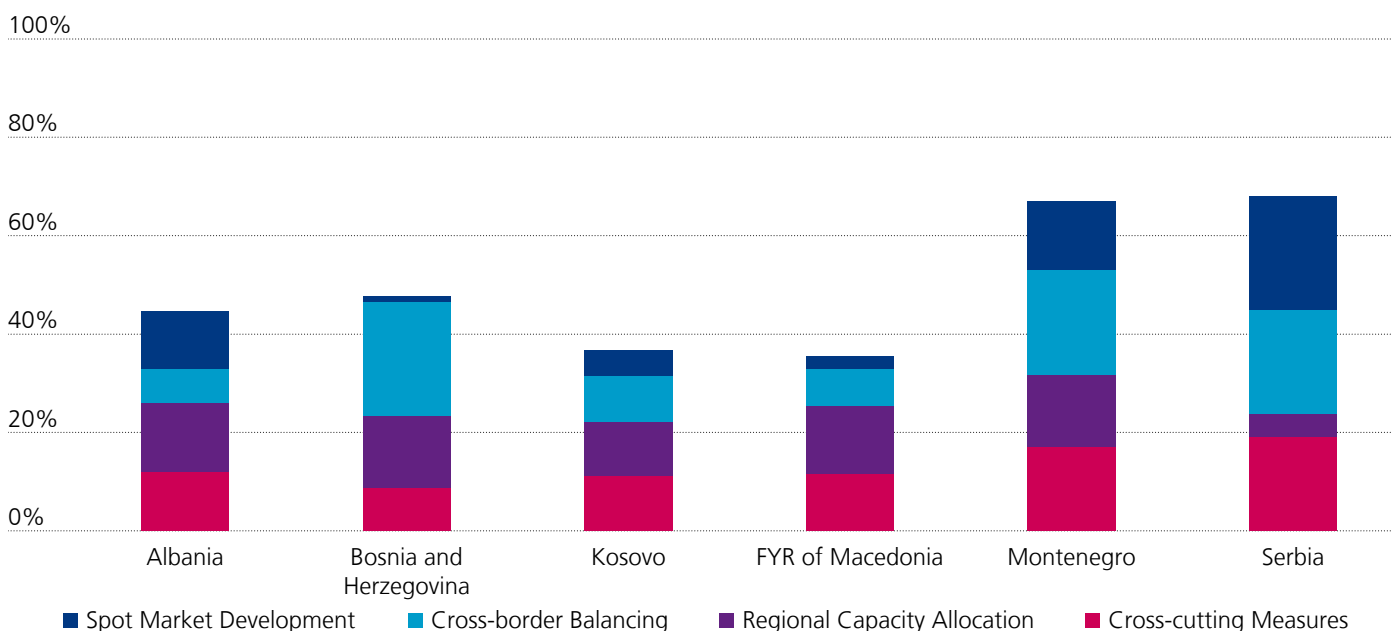


Cross-cutting measures

The most prominent progress during this monitoring period was made in the area of price deregulation and unbundling of system operators. The transmission system operator of Albania was certified in line with the Third Energy Package requirements. On 15 March, the national regulatory authority issued the final decision on certification of the transmission system operator, incorporating the opinion of the Energy Community Secretariat. This is the first completed certification of an electricity transmission system operator in the Western Balkans. A legally unbundled distribution system operator became operational in former Yugoslav Republic of Macedonia as of 1 January 2017. The electricity market of Kosovo, the last fully regulated market, has been liberalised. The national regulatory authority phased-out regulation of the generation price, as well as the supply price for high voltage customers and system operator losses with effect of 1 April 2017. Despite the fact that in most Western Balkan countries customers are eligible to change their supplier (except in former Yugoslav Republic of Macedonia) further efforts are needed to make it effective.



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)

The Market Model, adopted by the Council of Ministers in July 2016, paves the way towards creating the Albanian power exchange. The Market Model will be complemented by market rules that are being drafted by the transmission system operator. Amendments to the Power Sector Law, which lay down detailed requirements for the establishment of the power exchange, depend on the Minister's approval before they can go forward.

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 establishment of a national organised day-ahead market and a local power exchange has been linked to the adoption of the amendments to the Power Sector Law. According to the action plan defined by the Market Model, the Minister should have decided on the legal entity and its structure before 31 March 2017, while the power exchange shall be fully operational as of 1 January 2018. This has not happened.

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 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 make all market participants eligible to enter the future organised market. However, the Council of Ministers' decision imposing public service obligations contains provisions which are detrimental to market opening and its liquidity. Furthermore, the procedure for procuring electricity to cover losses by the transmission and distribution system operator violates Energy Community law as well as the Power Sector Law.

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 signed by the Ministers in March 2016 has not resulted in any concrete activities so far. Participation of the transmission system operator of Kosovo as shareholder of the Albanian power exchange has been agreed in principle. The final agreement is subject to the consent of the ministries, upon which a memorandum of understanding between the transmission system operators will be signed.

Spot Market Development

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



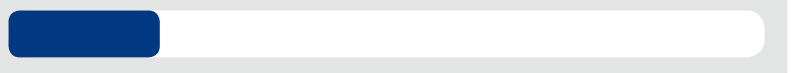
Adhere to a power exchange or, if economically justified (considering liquidity and economic viability), create an own power exchange, enabling wholesale market trade



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 transmission system operator is required by the Power Sector Law to procure balancing services using market-based, non-discriminatory and transparent procedures, including through cooperation with neighbouring transmission system operators. The Market Model further defines obligations of the transmission system operator to procure balancing services and operate a balancing market. However, balancing rules to ensure implementation of these requirements have still not been adopted.

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

The provisional electricity market rules that are currently applied are not in compliance with the Power Sector Law and the Market Model. The transmission system operator has still not submitted new balancing rules to the regulatory authority for approval as required by the Law.

The transmission system operators of Albania and Kosovo

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, former Yugoslav Republic of Macedonia and Serbia, who cooperate within a single control block. An initial meeting on potential cooperation took place in May 2016, however without follow-up actions.

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 Power Sector Law that requires phasing-out of this price by June 2016 at the latest. The imbalance settlement mechanism is still implemented in a discriminatory manner following the regulator's decision to exempt KESh from balance responsibility. The applied dual price system is not in compliance with the Market Model that stipulates a single imbalance settlement price. Implementation of these legal requirements hinges on the removal of regulatory obstacles and adoption of 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

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, former Yugo-

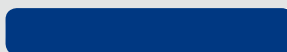
slav Republic of Macedonia and Turkey. This is an initial step towards establishing an entity performing capacity calculation services.

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

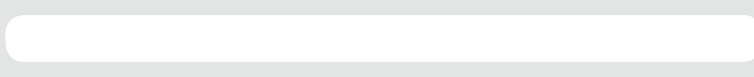
Stronger cooperation between SEE CAO and the relevant EU Member States, and a proactive European Commission, is needed.

Regional Capacity Allocation

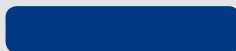
Introduction of a coordinated capacity calculation process for the allocation of day ahead capacities based on a regionally coordinated congestion forecast



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 still supplied at regulated prices by a supplier with a 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. The regulated contract between KESH and OSHEE is still in force. According to the Law, the retail price for customers connected to 35 kV was to be deregulated as of 1 July 2016 and for 20 kV as of 1 January 2017. However, both 35 kV and 20 kV customers

continue to be supplied at regulated prices by the incumbent supplier.

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

Despite the announcements, distribution is still legally and functionally bundled with supply in spite of the March 2016 deadline. The distribution company OSHEE adopted an unbundling plan with a view to finalise legal unbundling within Q1 of 2017. The plan was approved by Minister of Energy and Industry but not yet the Council of Ministers.

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.





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	

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

ERE has not applied yet. As a prerequisite for a positive opinion, compliant secondary legislation still needs to be adopted by the Albanian authorities.

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

The transmission system operator of Albania was certified by the regulator in line with the Secretariat's opinion and subsequently became member of ENTSO-E in April 2017. However, several conditions still need to be fulfilled according to the certification decision.

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 which requires them to notify any pending proceedings and gives them the possibility to ask for the Secretariat's opinion. 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 decision of the Council of Ministers on establishment of the National Competent Authority needs to be adapted in order to transpose all necessary provisions defined under the Trans-European Network Regulation;



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 defining the organization of the electricity market is still not in place. In October 2016, the Ministerial Council declared Bosnia and Herzegovina in breach of the Third Energy Package. According to an Action Plan agreed by State and entity Ministers, the Secretariat and the European Commission in October 2016, a draft State Law on Regulator, Transmission and Power Market should have been submitted to the Council of Ministers by end 2016 and adopted by the Parliament by 31 March 2017. This did not happen. Instead, the Ministry of Foreign Trade and Economic Relations requested the entity Ministries to give their official position on the draft Law. A Law on the Establishment of the Transmission System Operator is currently being drafted by the Ministry. The Indirect Tax Authority has established a working group with the task to analyse the draft Law on VAT in order to align it with the EU acquis and remove barriers to trade of electricity within the Energy Community.

Public procurement legislation still contains obstacles to the functioning of the electricity market. No activities have been undertaken in that respect.

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 decision has been made on whether to establish a power exchange or to adhere to an existing one.

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

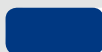
There are three utilities in the country, each with its own generation portfolio. Their participation in a national or regional organized market would ensure liquidity in a much more efficient way than in the current monopolistic structures. The power utility of Republika Srpska joined the Serbian day-ahead electricity market as of 7 March 2017.

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

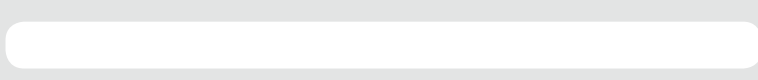
No concrete steps for market coupling have been undertaken so far.

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 on amending the VAT Law necessary to harmonize taxation on cross-border exchange of 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. A model of cross-border exchange of balancing services with the transmission system operators of Croatia and Slovenia is defined in a trilateral contract in force since September 2016. Under the contract, balancing energy from a manually activated frequency res-

toration reserve is exchanged between transmission system operators. In 2017, the contract was amended in order to include the possibility of exchanging also downward regulation and to reflect changes in reserve requirements due to new generation capacity in Bosnia and Herzegovina.

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

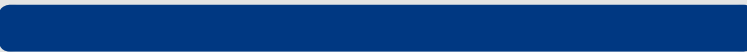
The transmission system operator established a competitive national balancing market, with both balancing reserve and balancing energy procured in market-based procedures. The mechanism was implemented as of 1 January 2016.

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, together with those of Montenegro and Serbia, established a Security Coordination Centre (SCC) in August 2015 with the view to perform, inter alia, coordinated capacity calculation. 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 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, and a proactive 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. Regulation of the generation price is supposed to be abolished by the new energy law, which has not been adopted. End-user price regulation is limited to 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 action plan for phasing out remaining price regulation.

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. No deadlines have been set for the finalisation of the process.

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 are insufficient as the law's adoption is still pending.

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 of the transmission system operator in line with the Third Energy Package. 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)

The competition and State aid enforcement authorities have to notify pending energy cases to the Secretariat pursuant to the Energy Community Dispute Settlement Rules. This does not happen in practice. The effectiveness of national competition and State aid authorities is not at a satisfactory level. The Secretariat initiated an infringement procedure because of the lack of State aid enforcement. Furthermore, 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)

A model which would include designation of State level body along with the two bodies of entities and one body of Brcko District, is being considered currently.

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 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)

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. A final agreement is subject to the consent of the ministries, upon which a memorandum of understanding between the transmission system operators will be signed

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)

A declaration for creating a common electricity market between Albania and Kosovo signed by Ministers in March 2016 has not resulted in concrete activities 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



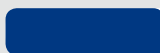
Ensure liquidity of the domestic electricity markets by appropriate regulatory measures such as contract reviews, capacity releases, virtual power plants etc.



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 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 ob-

ligations 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 albeit it is not implemented. Following the regulator's approval, the transmission system operator adopted a methodology for determining the imbalance settlement price in October 2016.

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. The incumbent generation company KEK is not able to provide the needed balancing services. An imbalance settlement mechanism, which is currently in a dry-run phase, is scheduled to become functional as of 1 April 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	
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. A possible technical solution allowing for the entry into force of the Connection Agreement proposed by ENTSO-E has been rejected by EMS of Serbia. 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 coordinator with the transmission system operators of Albania, Bulgaria, Greece, former Yugoslav Republic of Macedonia and Turkey. As a follow up, the transmission system operator has signed an agreement for the establishment of the company with the transmission system operators of Greece and Bulgaria.

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, and a proactive 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)

The Electricity Law limits price regulation to supply prices for household and small customers under universal service. According to the Law, the regulatory authority shall annually reassess the price methodology, the level of prices and the need for further regulation and shall submit it to the Secretariat. As of 1 April 2017 the wholesale prices and supply prices for high voltage customers will be deregulated. In addition, transmission and distribution system operators will have to procure electricity for network losses at non-regulated price. Activities towards market opening the regulatory authority started by adoption of switching rules and issuing two licenses to new suppliers in October 2016. In January 2017, the regulator issued a guideline on market liberalisation in Kosovo, according to which regulation of the generation price shall be terminated by 31 March 2017. An action plan for deregulation of retail prices is also included in the guideline. It envisages that regulation of electricity supply prices for high

voltage customers shall be phased-out by 31 March 2017 and for medium voltage customers by 31 March 2018. The national regulatory authority ERO also adopted new rules for pricing transmission and distribution system use necessary to support the timely implementation of the action plan.

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. The first compliance report was approved and published in 2016. A new compliance report to be submitted to ERO for approval before 31 March 2017 as required by the Law is under preparation.

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

Law on the Energy Regulator of June 2016 overcomes the previously 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 for the subsequent adoption of secondary legislation. A number of secondary acts have been issued by the regulator, however, the full set has not been completed yet.

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

The transmission system operator is preparing an application for certification with a view to notify the national regulatory authority by the end of March 2017. The national regulatory authority is drafting the certification rules. 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 the Parliament.

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. Following several years of not having a functioning competition and State aid authority in place, the missing commissioners were finally appointed in June 2016. Due to the lack of effective State aid enforcement, an infringement procedure by the Secretariat is pending. A new law on State aid is currently in the drafting stage.

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

The Administrative Instruction on the promotion of joint regional investments in the energy sector, which transposed Regulation 347/2013, was signed by the Minister of Economic Development on 20 February 2017.

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 in force recognises the possibility of establishing a power exchange. However, former Yugoslav Republic of Macedonia has still not adopted a Third Energy Package compliant Energy Law. In October 2016, the Ministerial Council of the Energy Community adopted a decision on the failure of former Yugoslav Republic of Macedonia to comply with the Third Energy Package.

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 transmission system operator drafted an analysis of the optimal model for the establishment of the day-ahead market and put it forward to the working body established by the

Government. On 22 March 2017, the Government adopted a decision on establishment of an organised electricity market in former Yugoslav Republic of Macedonia, instructing the transmission system operator to develop an action plan and submit to the Government within 15 days.

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. The analysis of the optimal model for the establishment of the day-ahead market considers possibilities for increasing liquidity by introduction of new models for procuring losses and selling electricity from renewable energy sources.

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

No steps towards coupling with neighbouring markets have been undertaken.

Spot Market Development

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



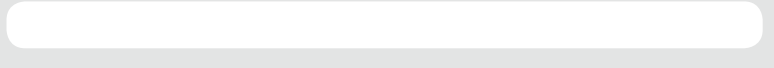
Adhere to a power exchange or, if economically justified (considering liquidity and economic viability), create an own power exchange, enabling wholesale market trade



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 reg-

ulated energy undertakings from balance responsibility until 30 June 2016 has been imposed by the regulatory authority. No progress has been made towards the removal of these legal and regulatory obstacles.

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 were adopted by the national regulatory authority in October 2016 which introduced methodologies for market-based procurement of balancing



services and non-discriminatory imbalance settlement. They will be applicable as of 1 July 2017. In 2017, a model for imbalance netting within the control block of former Yugoslav Republic of Macedonia, Montenegro and Serbia has been developed and is about to enter into the testing phase.

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

The establishment of a balancing market requires the implementation of the amendments to the market rules adopted in October 2016 and the phasing-out of the regulatory decision on the exemptions from 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



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)

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. This closed the infringement case opened by the Secretariat.

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 security coordinator with the transmission system operators of Albania, Bulgaria, Greece, Kosovo and Turkey. No further steps have been taken, however. The transmission system operator is expected to procure services of the regional security coordinator in an open procurement procedure in line with the national legislation.

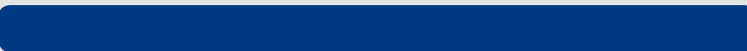
The Western Balkan countries to support signing of agreements between SEE CAO and relevant EU Member States (July 2017)

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

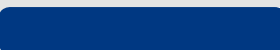


Regional Capacity Allocation

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



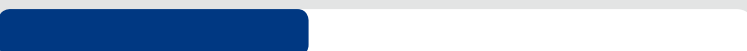
Introduction of a coordinated capacity calculation process for the allocation of day ahead capacities based on a regionally coordinated congestion forecast



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 denies the eligibility right to households and certain categories of small customers. In October 2016, the Ministerial Council of the Energy Community confirmed the failure of former Yugoslav Republic of Macedonia to comply with its obligations under the Energy Community Treaty in this respect. 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 is envisaged until 30 June 2020 under the existing Energy Law. Due to the lack of eligibility, regulated retail prices apply to all households and small customers until 30 June 2020. Small customers with an annual consumption greater than 1000 MWh in 2015 were obliged to find their supplier in the non-regulated market as of 1 July 2016.

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. In September 2016, EVN established a new daughter company to perform distribution activities with assets leased from the mother company. A distribution license issued to the new company in December 2016 is valid as of 1 January 2017. The new compliance programme of EVN, drafted in light of the completed legal unbundling, was submitted to the

regulatory authority for approval. A separate identity of the new company through rebranding has not been established, as it is awaiting adoption of the new law.

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 that have been finalised by the regulator in May 2016.

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, has to notify pending energy cases to the Secretariat pursuant to the Energy

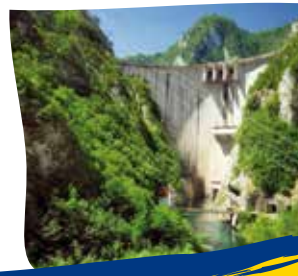


Community Dispute Settlement Rules. This does not happen in practice. The effectiveness of the Commission’s enforcement activities is not at a satisfactory level.

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

No progress is registered with the preparation of the by-law transposing the Regulation. While unified procedures already exist, they are not fully compliant with the provisions defined by the Regulation. The Government considers the collaborative permit granting scheme as the most feasible option for the comprehensive decision.

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. The Energy Law of 2015, and the Law on Transmission Systems for Cross-border Exchanges of Electricity and Natural Gas, of June 2016, set a legal basis for designating a nominated electricity market operator. Montenegro is the only WB6 country where a license is not required for wholesale trade. The Law amending the VAT Law, which includes a definition of the place of taxable transactions for providing transmission services as the place where the recipient of service is established, was adopted in August 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)

The process of setting up a limited liability company with the

task to establish a power exchange in Montenegro is ongoing. The market operator COTEE, the transmission system operator CGES and the incumbent utility EPCG will be shareholders of the company, in accordance with the Government's instruction. The contract on establishing the company as well as its statute have been drafted. EPCG and COTEE approved the documents and appointed their members in the company's Supervisory Board. CGES is expected to finalise this process in early April 2017, upon which a company will be established..

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

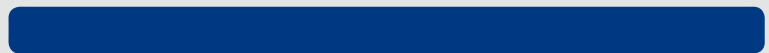
A regulatory approach for ensuring liquidity hinges on the model for establishing an organised day-ahead market and its coupling.

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



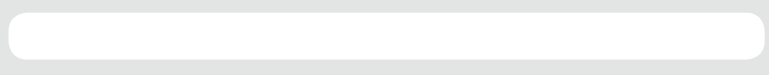
Adhere to a power exchange or, if economically justified (considering liquidity and economic viability), create an own power exchange, enabling wholesale market trade



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 inter-transmission system operator model for cross-border exchange of balancing energy. The transmission system opera-

tors of Serbia and Montenegro developed and implemented a model for exchange of balancing energy from a manually activated frequency restoration reserve. A model for imbalance netting within the control block of former Yugoslav Republic of Macedonia, Montenegro and Serbia is about to enter into the testing phase. A contract for an emergency exchange of balancing energy with the independent transmission system operator of Bosnia and Herzegovina is in force as of March 2017. The cross-border exchange of all balancing services will require deregulation of balancing reserve prices.

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. 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. Deregulation of these prices is subject to the adoption of secondary legislation.

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

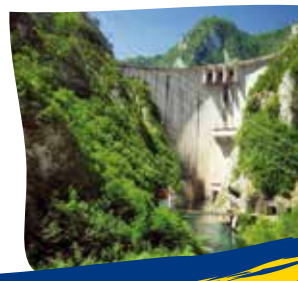
Introduction of a coordinated capacity calculation process for the allocation of day-ahead capacities based on a regionally coordinated congestion forecast (July 2016)

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, capacity calculation. 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 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, and a proactive 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 of electricity is not regulated. The Energy Law sets an action plan for market opening and development of competition in the retail market. As of 1 January 2017, the supply price for end-customers is not regulated any more. Until a supplier of last resort is appointed following a tendering procedure, suppliers of households and small customers, as well as of other end-users when left without a supplier, are subject to a price cap established by the regulator.

New suppliers will be able to offer contracts to end-customers once they have contracts on access to the distribution network.

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

Legal unbundling of the distribution system operator was completed on 30 June 2016 when a new company, Montenegrin Electricity Distribution System (CEDIS), was established. CEDIS is independent in decision-making from the parent company EPCG, except for investments above 10% of its capital. CEDIS and EPCG have no shared services except IT which is currently provided by EPCG. According to the Law, a compliance programme had to be adopted by 28 January 2017. It has been submitted to the national regulatory authority for approval. A compliance officer has still not been 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.

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

The Energy Law sets requirements for ownership unbundling. The transmission system operator is preparing an application for certification by the national regulatory authority envisaged for the end of March 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 have to notify pending energy cases to the Secretariat pursuant to the Energy Community Dispute Settlement Rules. However, the national competition authority's effectiveness in the energy sector in terms of enforcement is not satisfactory. The independence of the State Aid Control Commission is questionable and should be improved with the adoption of the new draft State aid law.



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

The Ministry of Economy prepared a draft for the development of secondary legislation to implement the Trans-Eu-

ropean Energy Infrastructure Guidelines., The next step will be the selection of the most suitable option for conducting the permitting procedure for Projects of Energy Community Interest and other major infrastructure projects.

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 legal and regulatory framework needed for operating an organised electricity market and market coupling is in place. A power exchange is operating. Foreign companies can participate in the Serbian electricity market without a seat requirement.

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 the 12 participants registered at SEEPEX nine are foreign traders. In September 2016, the transmission system operator EMS registered at SEEPEX with a view to procure a portion of losses in the day-head market. As of March 2017, SEEPEX introduced a flexible block order as a new product that is expected to increase liquidity.

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

The Serbian day-ahead market operator SEEPEX expressed an interest to couple with the markets of Hungary, Czech Republic, Slovakia and Romania (known as 4MMC) in a letter of intent together with the Serbian regulatory authority and the transmission system operator. The response received from 4MMC has not resulted in a concrete decision on launching the coupling project.

Spot Market Development

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



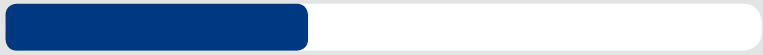
Adhere to a power exchange or, if economically justified (considering liquidity and economic viability), create an own power exchange, enabling wholesale market trade



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 introduced changes to the licensing regime and the VAT Law 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. In 2017, a model for imbalance netting within the control block of former Yugoslav Republic of Macedonia, Montenegro and Serbia has been developed and is about to enter into the testing phase. A model for cross-border exchange of balancing energy with the Hungarian transmission system operator is under development. A contract for emergency exchange of balancing energy was signed with the transmission system operator of Bosnia and Herzegovina and is in force as of February 2017. The cross-border exchange of all balancing services will require deregulation of balancing reserve prices.

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. Imbalance settlement is applied to all market participants in a non-discriminatory manner. The price of balancing reserve is still regulated on an annual basis. The procurement of balancing reserves in market-based procedures hinges on the regulator’s decision to deregulate prices of balancing reserves. According to the Energy Law, the decision shall be adopted before 1 May 2017 based on an assessment of the level of competition. The introduction of market-based procedure for procurement of balancing reserves requires amendments to the market rules. They were adopted by the transmission system operator in November 2016 and passed to the regulator for approval.

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. A possible technical solution to allowing for the entry into force of the Connection Agreement proposed by ENTSO-E has been rejected by EMS. 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)

The transmission system operator EMS submitted an application for becoming a new shareholder of SEE CAO in May 2016. For the purpose of submitting a financial offer for acquiring ownership share in SEE CAO, the transmission system operator submitted a due diligence analysis and business value estimation of SEE CAO in October 2016. However, an agreement with SEE CAO has still not been reached and the deadline for participation in yearly auctions for 2017 was again missed.

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. 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 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, and a proactive 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 should publish the first report on the need for its continued regulation until 1 May 2017 based on its assessment of competition development. The regulatory authority, in cooperation with the ministry, developed an action plan for phasing out remaining price regulation based on the Energy Law. 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. The regulatory authority in June 2016 approved the compliance programme and appointment of the compliance officer. With the same decision, the regulatory authority imposed the obligation on the distribution system

operator to bring its acts of establishment in line with the conditions for functional unbundling defined in the Energy Law by 4 September 2016 at the latest. To which extent the company implemented the adopted compliance programme is monitored by the compliance officer. His first report has to be submitted to the regulator and published by 1 July 2017 at the latest.

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 inter alia 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 AER S submitted the application for observer status in ACER Working Groups 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)

By a Government decision of October 2016, the transmission system operator has been transformed into a joint-stock company. The transmission system operator subsequently submitted a request for certification to the national regulatory authority. The regulator issued a preliminary decision on certification on 26 January 2017. EMS was certified under the condition that compliance with the requirements for ownership unbundling in line with the Energy Law is ensured within 12 months from the adoption of the final decision on certification. On 15 February 2017, the decision was notified to the Energy Community Secretariat, which has four months to deliver its opinion.

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 allows the Commission for the Protection of Competition to notify the Secretariat of any pending cases in the field of energy, as envisaged by the Energy Community Dispute Settlement Rules. It is unclear whether the State Aid Commission has the same competence. Moreover, the effectiveness of the national competition and State aid authorities in the energy sector is not satisfactory; an infringement procedure regarding non-compliance with State aid rules is pending. 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 Government currently prepares the implementation of Regulation 347/2013. A draft implementation roadmap has been elaborated. The Government considers extending the competences of the existing one-stop shop within the Ministry of Constructions, Transport and Infrastructure.

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

At the Vienna Summit, the Western Balkan 6 countries committed to establish a regional electricity market through:

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 for available capacity.

To underpin the implementation of these measures, representatives of transmission system operators, national regulatory authorities, ministries of energy and power exchanges of the Western Balkan 6 countries signed a Memorandum of Understanding on Regional Electricity Market Development and Establishing a Framework for Future Cooperation (WB6 MoU) on 27 April 2016 in Vienna. It sets out the general principles of cooperation as well as concrete actions to develop the regional electricity market, governance of its implementation projects and details of key technical solutions. 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 signature of the Memorandum of Understanding by Kosovo representatives was made conditional on the entry into force of the Connection Agreement between KOSTT and ENTSO-E.

Following the MoU's signature, the WB6 MoU Programme Steering Committee for Day-ahead Market Integration (DA

MI PSC) was constituted and met two times - in September and November 2016. On this occasion, a set of documents to support the governance structure of the project, namely a WB6 Programme Management Manual and DA MI PSC Terms of Reference, were adopted. The process of appointing members of the Programme Steering Committee for Cross-border Balancing was finalised and the first meeting is expected to take place in April 2017. As the next step, a set of projects to be implemented under the WB6 MoU is expected to be selected and subsequently kicked-off.

The WB6 MoU represents also a platform for cooperation on early implementation of market coupling and cross-border balancing between WB6 countries and EU Member States. The opportunity of using already established WB6 structures for implementing market coupling was so far recognised by the Italian national energy regulator, Autorità per l'energia elettrica, il gas e il sistema idrico, Romanian transmission system operator CNTEE Transelectrica SA, Croatian Power Exchange CROPEX, Greek transmission system operator IPTO SA and Greek market operator LAGIE SA, Hungarian Energy and Public Utility Regulatory Authority, MAVIR Hungarian Independent Transmission Operator Company Ltd. and HUPX Hungarian Power Exchange Ltd. They all signed the WB6 MoU. Other EU MS stakeholders neighbouring the WB6 countries, namely ministries, transmission system operators, regulators and power exchanges, are currently considering to join the Western Balkan 6 initiative.

The forthcoming Western Balkan Summit that will take place in Trieste on 12 July 2017 is expected to further elevate the importance of creating a regional electricity market and to deliver on the commitments of both EU Member States and WB6 countries to couple their markets on the basis of the WB6 MoU.



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