



ENERGY COMMUNITY

CBAM-Readiness Tracker

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CBAM-Readiness tracker

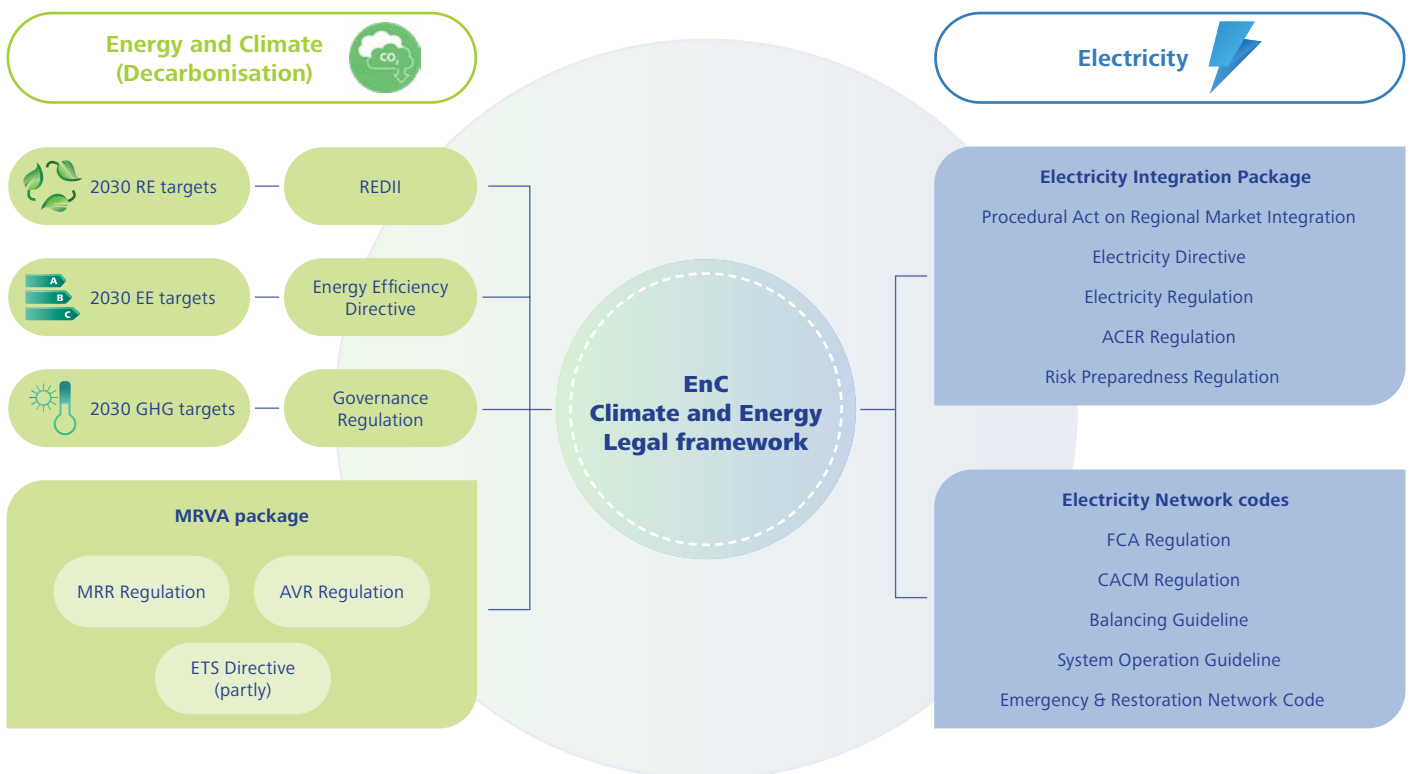
With record-high electricity prices, numerous large-scale attacks on energy infrastructure in Ukraine, and the resulting economic and geopolitical uncertainty from the ongoing war, this period will be remembered as the most challenging in the history of the Energy Community. Despite these difficulties, there has been a strong commitment from the Contracting Parties to pursue the objectives of the Energy Community Treaty. In December 2022, the Ministerial Council adopted the largest and most ambitious set of new acquis, which complements the Clean Energy Package adopted in November 2021. These regulations establish a comprehensive climate and energy framework to achieve the 2030 targets set for both the Energy Community and its Contracting Parties. The targets relate to reducing primary and final energy consumption, increasing the use of renewable energy sources, and decreasing greenhouse gas emissions with the aim of achieving climate neutrality by 2050. Additionally, the new Electricity Integration Package has laid the foundation for the full market integration of the Contracting Parties into the European single electricity market, based on the principle of reciprocity.

While the adopted climate and energy package provides a stable legal framework for the energy transition and market integration, it is essential to accelerate its transposition and implementation. The recently adopted EU Regulation (EU) 2023/956 on the Carbon Border Adjustment Mechanism (CBAM) will serve as a catalyst for this process. It imposes administrative and financial costs on importers of CBAM goods

into the EU from third countries, including the Contracting Parties. Regarding the import of electricity, there is a possibility of exempting it from the application of CBAM if the third country's electricity market is integrated with the EU market and meets certain conditions related to climate and energy legislation. These conditions include implementing an emissions trading system (ETS) by 2030. The close connection between electricity market integration and decarbonization through CBAM calls for a more aligned approach to policy planning, implementation, and monitoring.

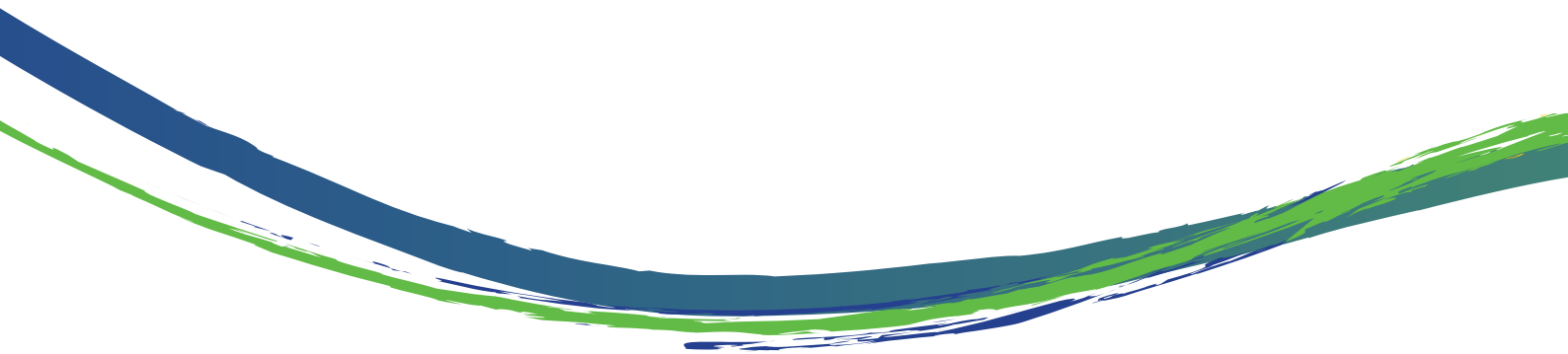
In light of these developments, the CBAM Readiness Tracker continues to provide comprehensive insights into significant developments in the electricity market and the sector's contribution to achieving climate and energy targets. It highlights progress in the area of renewable energy and monitors the "energy efficiency first principle" across the sector. Additionally, this edition of the Tracker assesses the fulfillment of the 2020 targets, as their validity was extended until the end of 2021. Furthermore, after the adoption of CBAM, the Tracker reviews the progress made in meeting the conditions for CBAM exemption.

A dedicated section of the Tracker focuses on the developments in Ukraine. However, due to restrictions on the publication of certain data during the martial law, the full set of relevant data for 2022 is not disclosed.



EU CBAM: Meeting the conditions for exemption from the CBAM application on electricity imports into the EU

<p>Article 2(7) If a third country or territory has an electricity market which is integrated with the Union internal market for electricity through market coupling, and there is no technical solution for the application of the CBAM to the importation of electricity into the customs territory of the Union from that third country or territory, such importation of electricity from that country or territory shall be exempt from the application of the CBAM, provided that the Commission has assessed that all of the following conditions have been fulfilled in accordance with paragraph 8:</p>	<p>Status and prospects of meeting the conditions</p>	
<p>a) concluded an agreement with the Union which sets out an obligation to apply Union law in the field of electricity, including the legislation on the development of renewable energy sources, as well as other rules in the field of energy, environment and competition</p>	<p>The Energy Community Treaty is an agreement signed between the EU and the Contracting Parties that obliges the latter to apply EU acquis on energy, renewables, environment and competition.</p>	
<p>b) implemented the domestic legislation the main provisions of Union electricity market legislation, including on the development of renewable energy sources and the market coupling of electricity markets</p>	<p>Electricity market acquis</p>	<p>The latest EU electricity market acquis is fully incorporated in the Energy Community by Ministerial Council Decisions 2021/13/MC-EnC of November 2021 and 2022/03/MC-EnC of December 2022.</p> <p>The deadline for transposition of these acts is 31 December 2023 and respective activities are ongoing in all Contracting Parties. Apart from Ukraine, which has already submitted a couple of draft Laws for the Secretariat's review. Serbia, Kosovo*, and Moldova are expected to submit draft Laws for the Secretariat's review in July, August, September 2023, respectively. Other Contracting Parties announced delay in drafting, which is expected to result in missing the transposition deadline.</p>
	<p>Renewables acquis</p>	<p>The RED II Directive has been incorporated in the Energy Community by Ministerial Council Decision 2021/14/MC-EnC as amended by Decision 2022//04/MC-EnC. The deadline for transposition expired on 31 December 2022.</p> <p>In April 2023, Albania adopted amendments to its RES Law, partially transposing the Renewable Energy Directive (REDII). In Bosnia and Herzegovina (BiH), Republika Srpska adopted a RES law in early 2022 that partially transposed the REDII, while in the Federation of BiH, a similar law has been drafted and awaits adoption by the Parliament. Kosovo* and Montenegro are in the process of preparing their first stand-alone RES law. In Georgia and Moldova, amendments to the RES Laws are prepared. In North Macedonia, the REDII has been partially transposed in the Energy Law. In 2023, Serbia adopted amendments to its RES law in April and has taken necessary steps to adopt secondary legislation, culminating in the launch of the first auctions for solar and wind projects in June. In Ukraine, amendments to laws, particularly concerning auctions, guarantees of origin, and self-consumption, are currently in Parliament.</p>
	<p>Market coupling of electricity markets</p>	<p>No electricity market coupling between Contracting Parties or with the European Union's internal market for electricity has taken place yet.</p> <p>The newly adopted Electricity Integration Package, namely the Electricity Regulation, the ACER Regulation, the CACM Regulation and the Procedural Act on Regional Market Integration, sets a legal framework for the coupling of the Contracting Parties electricity markets into the European single day-ahead coupling (SDAC) and intraday coupling (SIDC), based on the principle of reciprocity between the energy sector stakeholders from both Contracting Parties and EU Member States.</p> <p>The transposition of these acts by the Contracting Parties by 31 December 2023, will set a legally binding framework for the market coupling.</p> <p>While all Contracting Parties are currently working on the full transposition of the Electricity Integration Package, some Contracting Parties have already partially transposed and started to implement the CACM Regulation, mainly to designate the NEMO(s) for which the deadline was due on 15 June 2023.</p> <p>A plan on integration of NEMOs from Contracting Parties in the EU market coupling operator (MCO) functions and their adherence to the corresponding agreements between NEMOs and with third parties shall be submitted by all Contracting Parties and EU Member States NEMOs by 15 December 2023.</p>
<p>c) Submitted a roadmap to the Commission which contains a timetable for the adoption of measures to implement the conditions set out in points (d) and (e);</p>	<p>The Contracting Parties have yet to develop and submit the roadmap to the European Commission. The Secretariat was invited by the Athens Forum to coordinate the development of a CBAM roadmap and a regional approach to the fulfillment of the exemption conditions.</p>	



<p>d) committed to climate neutrality by 2050 and, where applicable, has accordingly formally formulated and communicated to the United Nations Framework Convention on Climate Change (UNFCCC) a mid-century, long-term low greenhouse gas emissions development strategy aligned with that objective, and has implemented that commitment in its domestic legislation</p>	<p>Undertaken commitment</p>	<p>According to the Decarbonisation Roadmap adopted by the Ministerial Council in 2021, the Contracting Parties support a path toward climate neutrality by 2050.</p>
	<p>Communicated long-term low GHG emissions development strategy to UNFCCC</p>	<p>For now, North Macedonia and Ukraine remain the only Contracting Parties which have submitted their long-term low GHG emissions development strategy to UNFCCC. Georgia has adopted its strategy in 2023, but it is yet to be communicated to UNFCCC.</p>
	<p>Implemented commitment in national legislation</p>	<p>No Contracting Party has implemented the climate neutrality commitment in its national legislation, except Georgia which has the 2050 climate neutrality target placed in its long-term low emission strategy. Several Contracting Parties are working on upgrading their climate laws.</p>
<p>e) when implementing the roadmap referred to in point (c), demonstrated its fulfilment of the set deadlines and the substantial progress towards the alignment of domestic legislation with Union law in the field of climate action on the basis of that roadmap, including towards carbon pricing at a level equivalent to that in the Union in particular insofar as the generation of electricity is concerned; the implementation of an emissions trading system for electricity, with a price equivalent to the EU ETS, is to be finalised by 1 January 2030</p>	<p>Substantial progress in alignment of domestic legislation with EU climate law</p>	<p>Several Contracting Parties are working on aligning their climate legislation with the EU rules. Albania, Montenegro and Serbia adopted climate laws. North Macedonia is advanced in the process and has a finalized draft already in public consultation. Georgia and Ukraine are also currently developing climate framework legislation.</p>
	<p>Introduction of carbon pricing with the price equivalent to the EU</p>	<p>Only Montenegro and Ukraine have carbon pricing in place but at a level much lower than the price under the EU ETS.</p>
	<p>Implementation of ETS with price equivalent to EU ETS by 2030</p>	<p>At the Energy Community level, the next steps are to be taken within the framework of the Energy Community Decarbonisation Roadmap.</p>
<p>f) put in place an effective system to prevent indirect import of electricity into the Union from other third countries or territories that do not fulfil the conditions set out in points (a) to (e)</p>		<p>No system is designed yet. Its design will depend on the exposure of a Contracting Party to imports from third countries, or from other Contracting Parties that do not fulfil the above conditions, especially if no regional approach with a roadmap at the Energy Community level would be agreed.</p>



Ukraine – staying on the energy transition track

The criminal war of aggression of the Russian Federation against Ukraine affects all sectors of economy, including the energy sector. Nevertheless, Ukraine strives to stay on the track of energy sector reforms. The electricity market, despite many regulatory interventions, has continued to function throughout the war.

Starting from October 2022, Ukraine’s energy infrastructure has been under massive attacks aimed at disrupting access to the electricity supply. Critical electricity network facilities have been destroyed or damaged, more than half of the total power plants installed capacity (56 GW before the aggression) has been unavailable. As a result of the war, consumption of electricity in Ukraine dropped for around 1/3 in average. The war also affects the financial liquidity of the sector, already disturbed by the excessive public service obligations and price caps imposed on the electricity market.

The Secretariat supports Ukraine through its Ukraine Energy Support Fund (with international donations of some EUR 220 mill) and the facilitation of in-kind donations. Relentless efforts by Ukrainian experts, decreased electricity consumption and load-shedding kept the Ukrainian power system operating during these unprecedented conditions. The emergency synchronisation of the Ukraine and Moldova control block with the Continental European Grids, and a continuous increase of available capacity for trade by the ENTSO-E (currently 1050 MW for imports to Ukraine/Moldova and 400 MW for exports to Continental Europe) stabilize the situation further. The Secretariat also supports Ukrainian public companies in holding the Russian Federation legally accountable for the damage inflicted on the energy sector.

Most recently, a bold step was made towards cost-reflectivity of end-user electricity prices by the Ukrainian Government. As of 1 June, the

end-user prices for households consuming less than 250 kWh per month were increased for about 83%, and 57% for the other households. However, the household price, including taxes and levies (2,64 UAH/kWh) is still well below average day-ahead electricity market price of 2,9 to 3,5 UAH/kWh in 2023 in Ukraine.

Ukraine remains the only Contracting Party where both day-ahead and intraday markets are operational, albeit under price caps significantly lower than actual prices in EU Member States, recently adjusted by the regulatory authority’s (NEURC) decision. The caps need to be phased out to comply with the Electricity Integration Package, and to attract imports necessary for security of supply for the coming winter.

To ensure security of supply, the interconnection capacities between Ukraine and neighbouring EU Member States should also be made available for cross-border trade. Currently no cross-border capacity auctions are held on the interconnections with Hungary and Romania and in the direction from Ukraine to Slovakia. On the other borders, unilateral auctions still apply. Following the latest amendments to the Electricity Market Law, NEURC will adopt the procedures under which the TSO can implement joint capacity allocation on all interconnections as soon as possible.

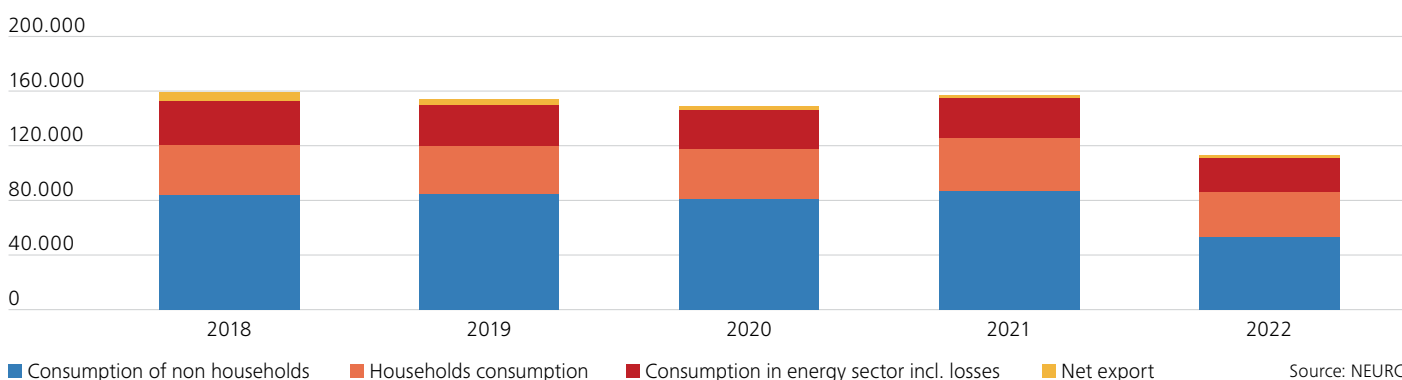
A major step in ensuring transparency of the whole energy markets operation was made by adoption of the Law transposing Regulation (EU) on wholesale energy market integrity and transparency (REMIT Regulation) in May 2023. The implementing regulations of the Law are to be developed in close cooperation with the Secretariat and in the first two years NEURC will be consulting the Secretariat in cases of application of sanctions for abuse in the wholesale energy markets.

Monitoring and assessing the energy market reform

To support the further integration of the Ukrainian energy sector in a transparent and predictable manner during the war and beyond during the post-war recovery, the Secretariat launched the Ukraine Energy Market Observatory in January 2023. The Observatory assesses the developments related to the energy market and corporate governance

in Ukraine and publishes them on a dedicated webpage. This will also serve the monitoring of the reform steps which is envisaged under the Clean Energy Partnership, the instrument on which Ukraine and the G7+ agreed to work in order to help instilling trust for the benefit of private investors.

Supply and consumption of electricity [GWh]



The generation mix

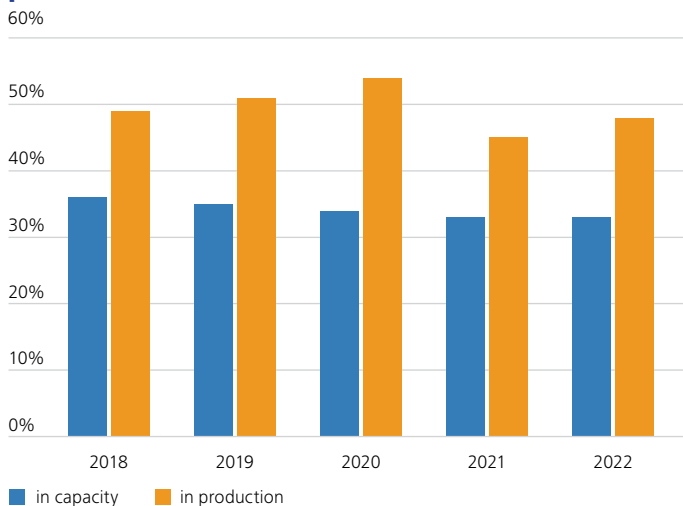
Following a five-year record production reached in the Energy Community in 2021 due to the good hydrology, electricity production in 2022 dropped for 20% hitting the five-year minimum. Most notably, electricity production fell in Ukraine and Moldova, as a result of the war, and in Albania, Bosnia and Herzegovina and Montenegro, mainly due to the poor hydrology in 2022 that affected the whole Western Balkans.

While the data on the structure of production was not available for Ukraine, the data for the rest of the Energy Community shows that production from all fossil fuelled thermal power plants (coal, oil and natural gas) remained stable, with slight increase of total 1,3 TWh. Wind, solar and biofuels increased in 2022 for 0,26 TWh, but it was still insufficient to compensate for the lack of hydro power. Gross electricity consumption also fell, but at a lower rate, resulting in higher net imports to cover the demand.

Despite the stable electricity production from fossil fuelled thermal power plants, the difference in production in 2022 compared to a five-year average (2018-2022) shows significant decline of electricity generation from coal, whereas production from natural gas, fuel oil and non-hydro renewable sources increased. Nevertheless, overall production from combustible fuels (coal, natural gas, oil) in the Energy Community (Ukraine not included) remained at five-year average, as opposed to the EU-27 average¹ which shows the second year of increased production from combustible fuels, exceeding the five-year average.

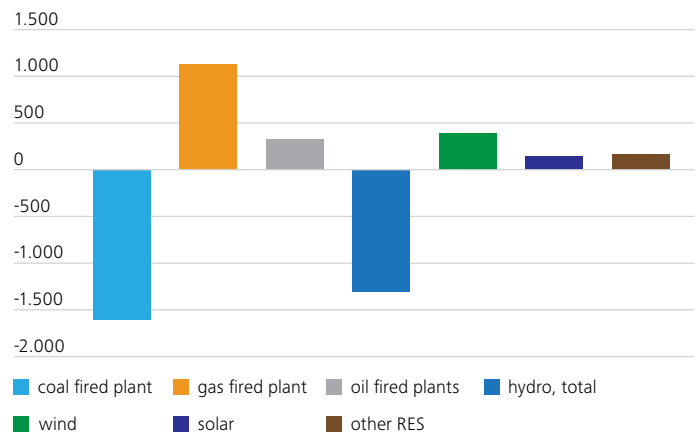
Installed capacities in coal fired plants remains unchanged, but the share of coal-fired capacity in total installed capacity is steadily decreasing for 1% per annum as installed capacity in RES, with small hydro, wind and solar amounting to 10% of total installed capacities in 2022.

Share of coal-based capacity / production in total Energy Community capacity / production (excl. Ukraine)



Source: compiled by the Secretariat based on Contracting Parties reports

Difference in production 2022 to average 2018-2022 for Energy Community (excl. Ukraine) [GWh]



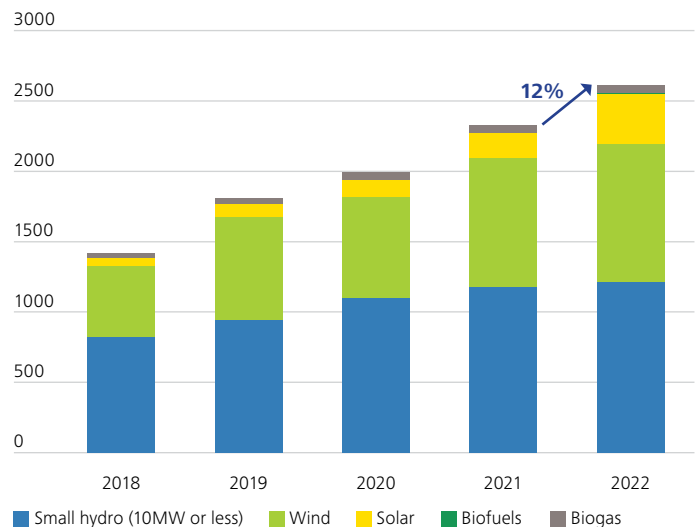
Source: compiled by the Secretariat based on Contracting Parties reports

There was no added new coal fired capacities in the last five years.

Capacities in renewable energy sources are steadily growing and reached 56% of total installed capacities (including large hydro and pumped storage) in 2022.

Installations based on solar, wind and biofuels increased five times in five years, with the share of 1% in 2017 reached 5% of total installed capacities in 2022.

Installed electricity generation capacities from RES (excl. large hydro) [MW]



Source: compiled and calculated by the Energy Community Secretariat.

¹ Calculation based on the EUROSTAT database, Net electricity generation by type of fuel - monthly data



Reducing the emission footprint

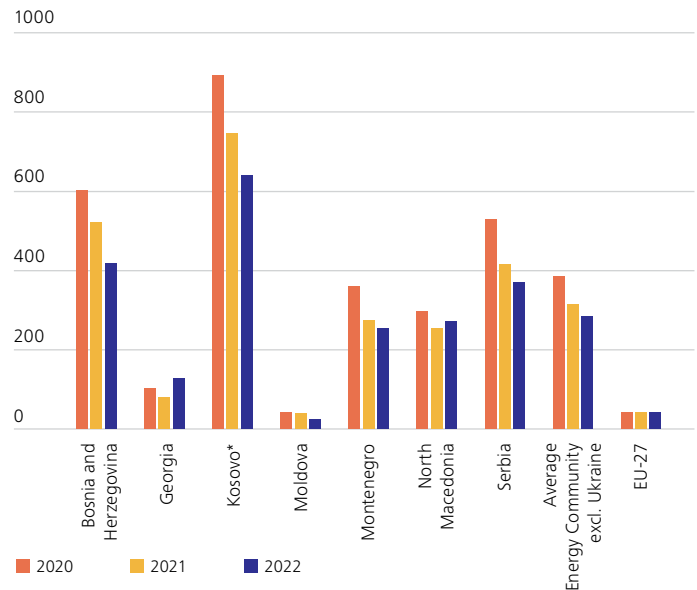
Reducing the carbon footprint

Production of electricity and heat remains the main source of carbon emission in all Contracting Parties, except in Albania and Georgia.

Carbon emissions from power plants in 2022, excluding Ukraine, increased by 2% (0,9 mt) in comparison to 2021, amounting to 45 mt. Despite the increase, the emissions remained below the five-year average 2018-2022.

The carbon intensity of the power production, measured as emitted CO₂ per GDP, continues to be seven times higher than in the EU-27. Namely, for EUR 1000 of GDP, the observed Contracting Parties emitted 285 kg carbon dioxide, compared to 41 kg in the EU in 2022. However, slower improvement of the carbon intensity is observed in most of the Contracting Parties, except in Georgia and North Macedonia where production from fossil fuels, primarily natural gas, increased 42% and 44% respectively.

CO₂ emission from electricity production per GDP [kg CO₂/ kg/1000 EUR]



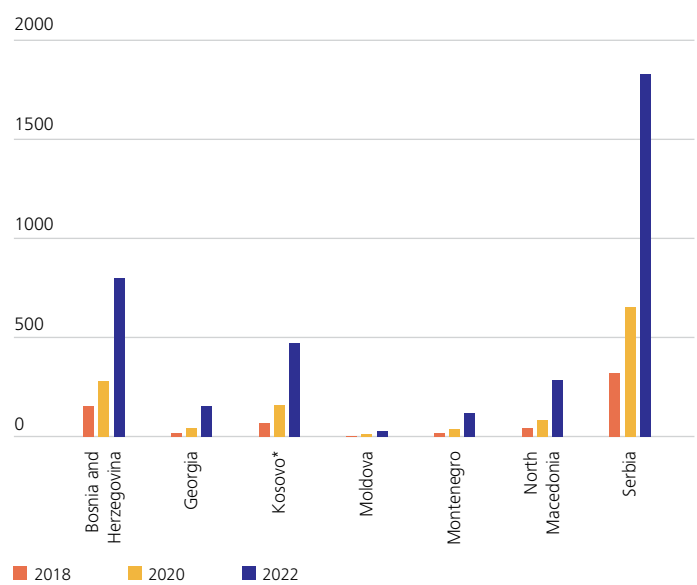
Source: Compiled by the Secretariat based on default emission factor

Putting a price on carbon

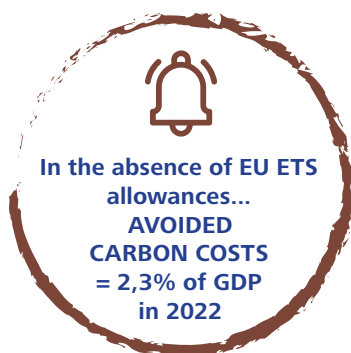
Except in Montenegro, where the domestic power producer is obliged to purchase emission allowances for approximately one third of its emission at a minimum price of 24 EUR/ton, polluters in other Contracting Parties do not internalize the costs for emitted carbon oxides. In Montenegro no payment was made in 2022². Emission credits for the year 2022 were offered for sale in February 2023 when EPCG purchased needed allowances for EUR 9,2 mill.

Based on the price of EU ETS allowances of 82,11 EUR/ton in 2022, the avoided costs exceeds EUR 3,6 bln from power production only (excluding Ukraine), amounting to an average 2,3% of the GDP in 2022 of the observed Contracting Parties.

Avoided costs of emission at EU ETS price [mill EUR]



Source: compiled by the Secretariat



² Costs of CO₂ emission in Montenegro taken from EPCG financial reports

Phasing out coal subsidies

Based on preliminary findings from research of publicly available information, Contracting Parties relying on coal for production of electricity continue to provide different types of support to coal.

Although the total amount of subsidies halved from 2016 when the Secretariat began to monitor, the last two years indicate that, although the amounts in question are decreasing, the policy to support production from coal with public resources still prevails.

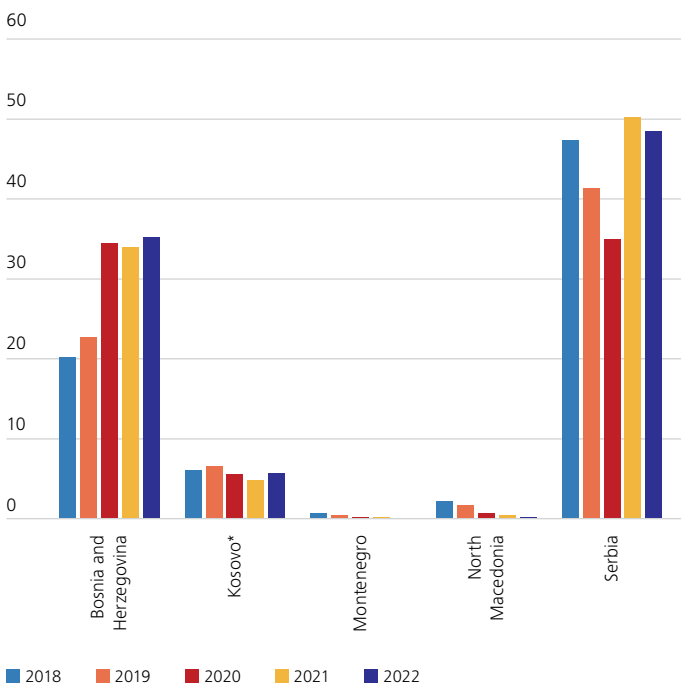
In Bosnia and Herzegovina and Serbia all types of subsidies are implemented. Fiscal support in the form of direct financing from budgets and public funds and public finance support measures are dominant in Bosnia and Herzegovina and Serbia.

Based on preliminary data for 2022³, of a total EUR 88 mill provided in 2022, Serbia contributed EUR 48 mill, followed closely by Bosnia and Herzegovina with EUR 34 mill.

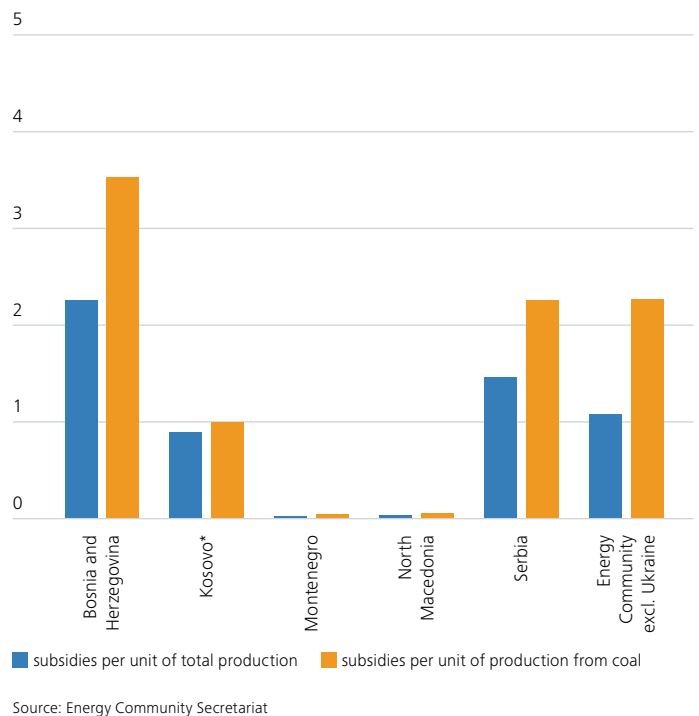
Montenegro and North Macedonia did not provide direct support from the budget in 2022, but instead helped tolerating arrears and debts to public funds. The level and value of subsidies in Montenegro and North Macedonia decreased significantly in the last two years to one third of the values in 2020.

The amount of coal subsidies in 2022 in comparison to 2021 increased only in Kosovo*, although subsidies per unit of production are in the median of observed Contracting Parties, and below the Kosovo* average in the last five years.

Subsidies to coal fired production of electricity 2016-2020 [mill EUR]



Coal subsidies per unit of electricity production [EUR/MWh]



³ Audited financial reports 2022 were not available for all observed producers

Implementing the Large Combustion Plants Directive


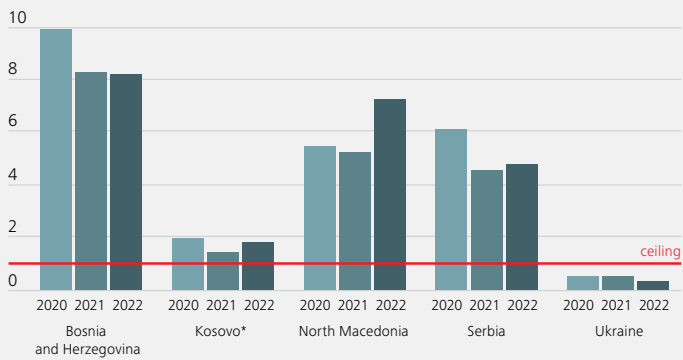

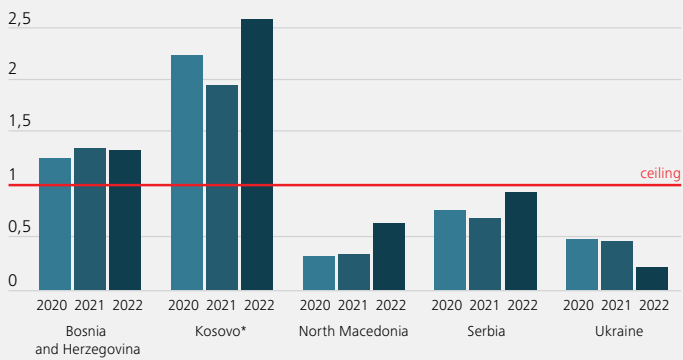

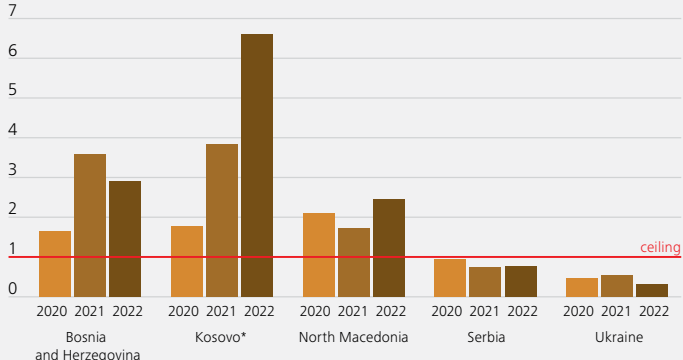
The Large Combustion Plants Directive, in effect in the Energy Community as of 1 January 2018, regulates the emission levels of sulphur dioxide (SO₂), nitrogen oxides (NO_x) and dust from existing thermal power plants. The recorded data for 2022 still show large non-compliance with the emission ceilings for SO₂, NO_x and dust in the Contracting

Parties and with the progressive decrease of the ceilings, the breach is even intensifying in some cases. To address these breaches, the Secretariat started dispute settlement cases in 2021, which are still ongoing and will be addressed by the Ministerial Council.

LCP emissions versus NERP ceilings

The below table presents the comparison of the emissions in 2022 reported by Contracting Parties compared to the ceilings established under their National Emission Reduction Plans (NERPs). Ukraine com-

plied with the ceilings for all three pollutants in the 2022 reporting year, while emissions in other Contracting Parties breached at least one of those.

		<p>In 2022, the breach of the SO₂ emission ceiling continued in all WB6 Contracting Parties implementing NERPs. With the exception of Bosnia and Herzegovina where a minor decrease was observed, absolute emissions grew, in the case of Kosovo* and North Macedonia significantly. In combination with the gradual decrease of the ceilings, this means that the breach intensified: Bosnia and Herzegovina still surpassed the ceilings more than eight times, while Serbia close to five times and North Macedonia more than seven times.</p>
		<p>Bosnia and Herzegovina as well as Serbia managed to reduce their total NO_x emissions compared to 2021, while in the case of Kosovo* and North Macedonia, absolute emissions showed a growing trend. In the case of North Macedonia, the level of increase was particularly large (over 60%) which is of concern even if no breach of the ceilings occurred. Bosnia and Herzegovina and Kosovo* did not comply with their ceilings for NO_x emissions. The fact that NO_x ceilings are to decrease gradually by approx. 50% between 2018 and 2023 will make compliance increasingly difficult in the coming years for all parties.</p>
		<p>The breach of the dust ceiling limits continued in Bosnia and Herzegovina, Kosovo* and North Macedonia. Serbia achieved compliance with the dust ceiling also in 2022 despite a minor increase of dust emissions compared to 2021. In the case of Bosnia and Herzegovina, dust emissions were reduced significantly (by more than 20%), yet they surpass the ceilings by almost three times. Despite a minor decrease reported by Kosovo*, emissions are more than six times the limit, which is caused by the decreasing ceiling. In the case of North Macedonia, emissions increased significantly and were approximately two and half times the ceiling in 2022.</p>

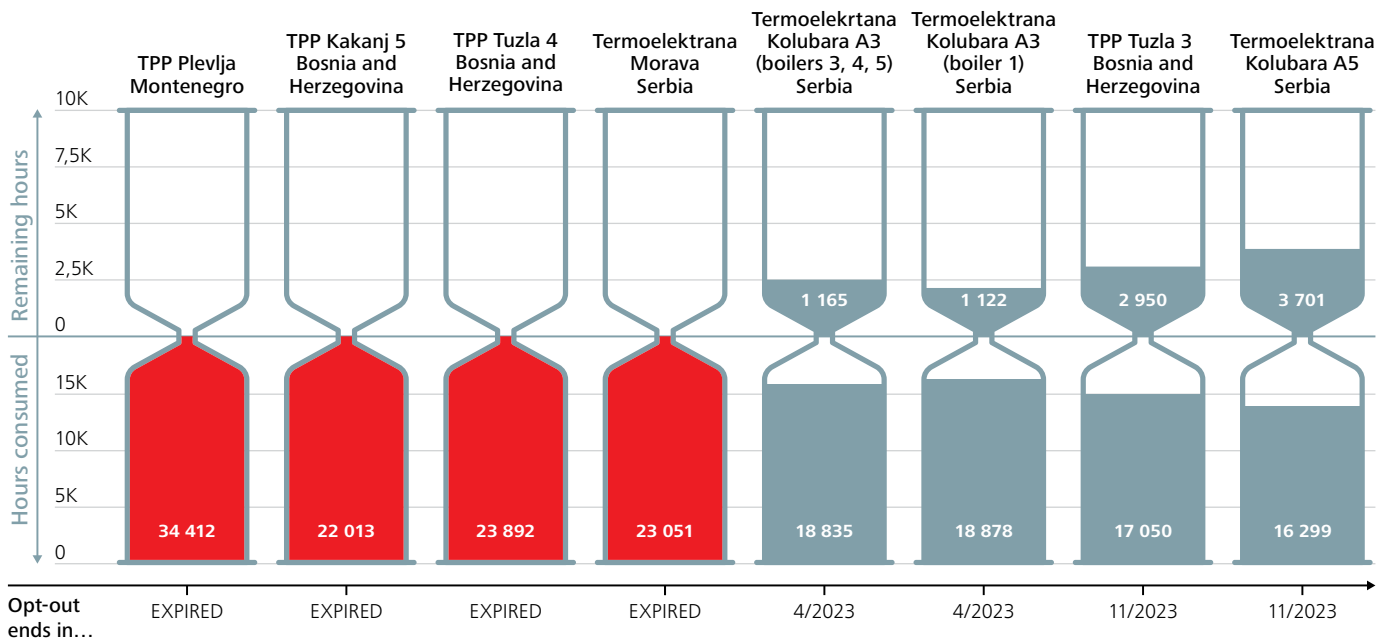
Source: Compiled and calculated by the Energy Community Secretariat.

Limited lifetime derogation (opt-out)

Another implementation alternative of the Large Combustion Plants Directive, known as opt-out, provides the possibility for Contracting Parties to exempt individual plants from the Directive's compliance regime. In exchange, these plants cannot operate for more than 20,000 operational hours between 1 January 2018 and 31 December 2023. The first opted-out plant, TPP Pljevlja in Montenegro, had reached the end of its opt-out period by the end of 2020 and dispute settlement procedures are ongoing since April 2021 to address this breach. In the first half of 2022, TPPs Tuzla 4 and Kakanj 5 in Bosnia and

Herzegovina have also become to the very end of their opt-out timeframes, with dispute settlement procedures also underway since October 2022. In the 2022 reporting year, TPP Morava from Serbia also reached the 20,000 hours limit, and the final deadline of 31 December 2023 is rapidly approaching. In the case of Ukraine, the Ministerial Council is in the process of considering a decision to suspend the calculation of the operational hours of plants under the opt-out regime among concerns over security of supply caused by the targeted destruction of the Ukrainian power system.

Expected closure of opted out plants



Source: compiled and calculated by the Energy Community Secretariat. The calculations are provided by the reported data of the Contracting Parties with a reference date of 31 December 2021.



Making the electricity market fit for the energy transition

Creating an integrated electricity markets

CBAM exemption – shifting market coupling into high gear

The European Commission's CBAM Regulation, which stipulates market coupling as one of the conditions for an exemption from CBAM, further amplified the urgency of setting up short-term markets and completing their integration in the EU's SDAC and SIDC by the end of 2025.

Firstly, the key to successful integration is the timely and complete transposition of the new Electricity Integration Package in the Contracting Parties by the end of 2023, including the ACER Regulation essential to be transposed together with the legal acts on the coupled markets' functioning as it defines the governance of interfaces between the EU Member States and Contracting Parties.

Secondly, the need for immediate and quick action is reflected in the legal deadlines for implementation partly already due during 2023: The Contracting Parties were required to ensure that one or more NEMOs are designated to perform the single day-ahead and intraday coupling by 15 June 2023. However, only North Macedonia and Serbia have informed the Secretariat of a NEMO designation (MEMO, SEEPEx respectively). At the same date, TSOs of the capacity calculation regions (CCRs) established in the Energy Community, including bidding zone borders with neighbouring EU Member States, should have submitted coordinated capacity calculation methodologies along with the conclusion of cooperation agreements between TSOs of the Energy Community and the EU Member States within the Shadow SEE and the EE CCR for which only recently discussions were initiated. By April 2024, further regional terms, conditions and methodologies (TCMs) are to be submitted by TSOs to govern fallback procedures, coordinated redispatch and countertrading

and the respective cost sharing. Having in mind that the legal procedures to adopt such TCMs take at least six months and that after adoption some time is needed by TSOs to complete the technical implementation, delays in TCM submissions bear a significant risk for the entire process. With regards to the upcoming requirement on NEMOs of Contracting Parties and EU Member States to submit a plan setting out a timeline and detailed description of the Contracting Parties' NEMOs integration into MCO functions by 15 December 2023, a joint expert team (JET) was created to coordinate the work of the Contracting Parties and EU Member States stakeholders.

With the goal of completing market integration of Contracting Parties by the end of 2025, it is to be expected that all implementation milestones as well as the Contracting Parties' adherence to the relevant EU contracts would need to be finalised by the end of 2024 to ensure sufficient time for testing and go-live preparations in 2025. In addition, a legal framework to harmonise VAT regimes related to trade in the established markets is still to be adopted in most of the Contracting Parties.

Non-coordinated approach to CBAM exemption in the Energy Community will lead to decoupling of countries and territories subject to CBAM not only from the European market, but also disintegration of the regional electricity market between Contracting Parties, as a consequence of the obligation of CBAM - exempted Contracting Parties to prevent carbon leakage and to put in place an efficient system to prevent indirect import from territories that do not fulfill the conditions for exemption.

A full market integration of Contracting Parties into the single European market is finally enabled by the Ministerial Council's adoption of the legally binding framework, the so-called Electricity Integration Package, on 15 December 2022. The adopted package, encompassing nine pieces of EU electricity acquis underpinned by the Procedural Act on Regional Market Integration, sets the ground for the Contracting Parties' NEMOs and TSOs to join the single day-ahead coupling (SDAC), the single intraday coupling (SIDC) and the European balancing platforms, on the basis of reciprocity between the energy sector stakeholders from both Contracting Parties and EU Member States.

While the Contracting Parties are yet at an early stage of the transposition of the new Electricity Integration Package, which is to be completed by the end of 2023, the establishment of day-ahead markets advanced with several go-lives in 2023. On 11 April 2023, the Albanian day-ahead market was launched by the power exchange ALPEX which is also envisaged to operate the Kosovo* market in the second half of 2023. In Montenegro, MEPX launched the day-ahead market on 27 April 2023. MEMO held its first day-ahead auction on 10 May 2023 in North Macedonia. Both power exchanges also plan to establish intraday markets. In the first month of operation, the volumes at the newly established power exchanges ALPEX, MEPX and MEMO amounted to approximately 20%, 17% and 8% of the Contracting Party's total consumption. The average base load price was 93 EUR/MWh, 86 EUR/

MWh and 81 EUR/MWh respectively. SEPEEX, an already active day-ahead market since 2016, saw an increase in volumes for the months January to May 2023 of around 35% in comparison to last year. SEPEEX is planning to launch its intraday operations on 25 July 2023. With the exception of ALPEX, trading on the power exchanges is voluntary. It should be noted that the gate closure times are 10:15 for MEPX, 10:35 for MEMO, 11:00 SEPEEX and ALPEX at 12:00, same as the gate closure time of the single day-ahead coupling in the EU.

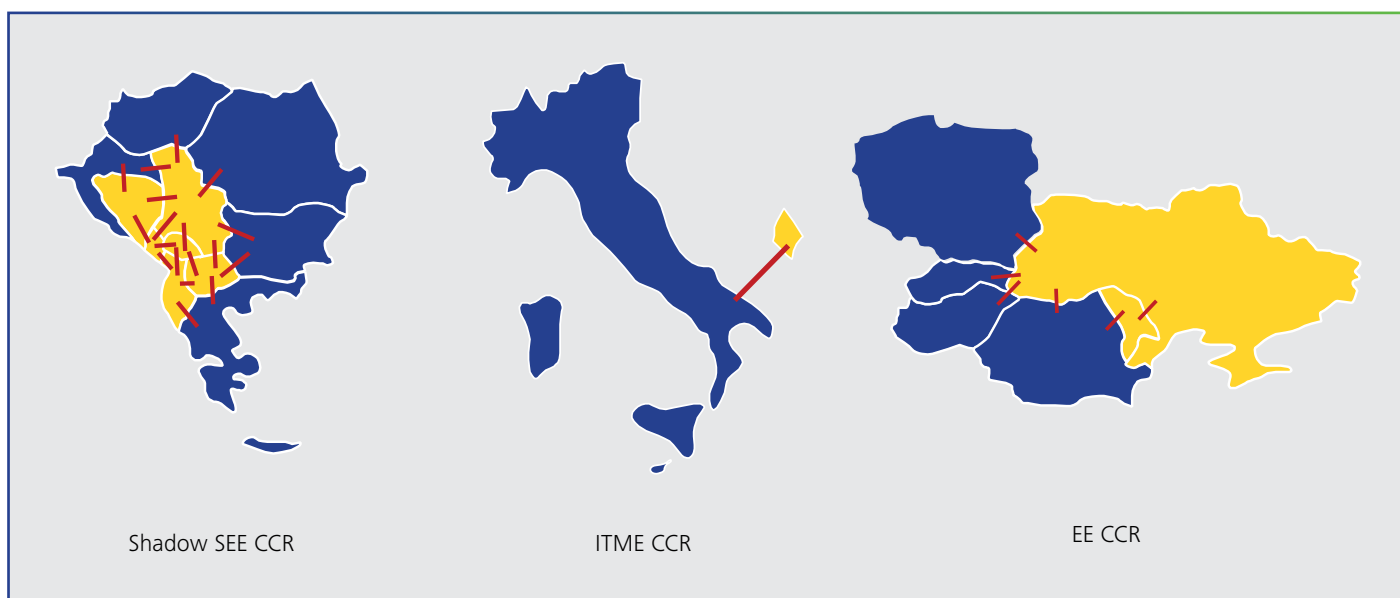
In Georgia, the start of short-term markets has been postponed once again to 1 July 2024. The power exchange GENEX has fulfilled necessary preconditions and market participants declared their technical readiness. All companies with a public service obligation will be obliged to trade in the short-term markets to boost liquidity. In Bosnia and Herzegovina and Moldova, setting up of the short-term markets is still in discussion. As opposed to Bosnia and Herzegovina where a legal framework is still missing, in Moldova the main principles of short-term markets are defined in the Wholesale Market Rules in force as of 1 June 2022.

However, functional day-ahead markets are only an initial precondition to enable the coupling of the Contracting Parties' markets into SDAC. Further effort is needed to launch intraday markets.

Increased cross-zonal capacities – a prerequisite for integrated markets

To facilitate cross-border trade, the development of market coupling has to go hand in hand with increasing the amount of available cross-border capacities. This will require coordinated capacity calculation by the TSOs within CRRs which are for the Energy Community defined as ITME, Eastern Europe (EE) and Shadow South East Europe (SEE) CCR including both bidding zones between Contracting Parties and between Contracting Parties and EU Member States (see map), and the operationalisation of which is still to be initiated.

Furthermore, with the adoption of the new Electricity Integration Package, all TSOs in the Energy Community became legally obliged to make available a minimum amount of cross-zonal capacity ('70% target') to market participants. To foster the implementation, the Energy Community Secretariat is currently conducting a study which will identify technical and economic optimal ways to satisfy this requirement in the Contracting Parties. The preliminary results indicate that none of the WB6 Contracting Parties currently fulfils the 70% target, and that the flow-based capacity calculation methodology would be able to provide better results compared to the existing practice based on the NTC approach.



Getting the price signal right

As the electricity prices in Europe were steadily growing from April 2021 onward, average day-ahead market price in the spot market SEEPEX of 113,57 EUR/MWh in 2021 reached 272,93 EUR/MWh in 2022, similar to other day-ahead markets in the Southeast Europe.

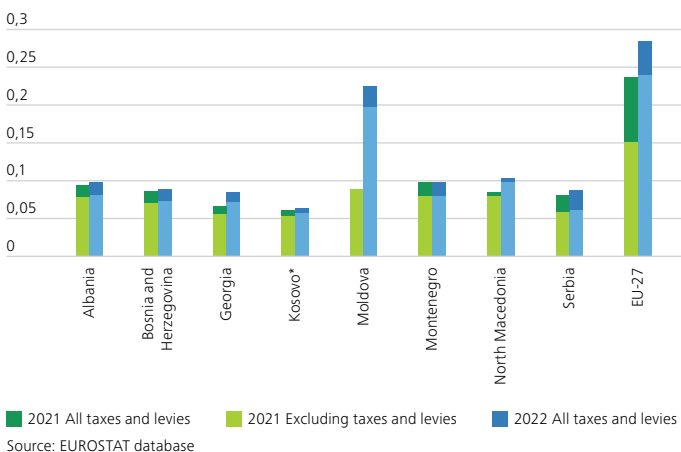
With net import on a five-year maximum, the Contracting Parties' wholesale markets were significantly exposed to the European wholesale prices. However, the price signal from wholesale has not yet been transferred to the retail market, where large share of the consumers was shielded from the high prices through the widely applied public interventions in price setting for the supply of electricity to small and medium-sized enterprises and other emergency measures introduced, especially to households as a response to energy crisis.

Nevertheless, the end user prices in all Contracting Parties in the course of 2022 saw the highest increase in the last five years, except in Bosnia and Herzegovina, a dominant net exporter.

The most affected Contracting Parties were Moldova and North Macedonia. In Moldova, after sharp increase in the first semester 2022, the price peak came in the second semester 2022 with an average price for a consumption band DC (households consuming between 2500 and 4999 kWh per year) exceeding 22 c/kWh. Prices for industrial end users in the second semester 2022 were higher than in the second semester 2021 in all Contracting Parties, with the highest increase in North Macedonia of 162% and Moldova 135%.

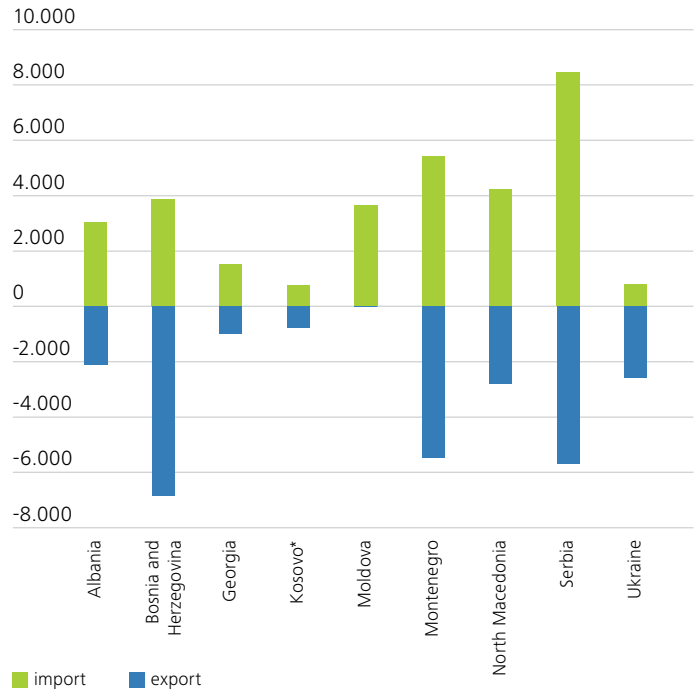
Only Kosovo* alleviated the price increase for end users by a significant reduction of taxes and levies, which was one of the main policy instruments also in the EU.

Household prices in EUR/kWh band DC consumption 2500-5000 kWh



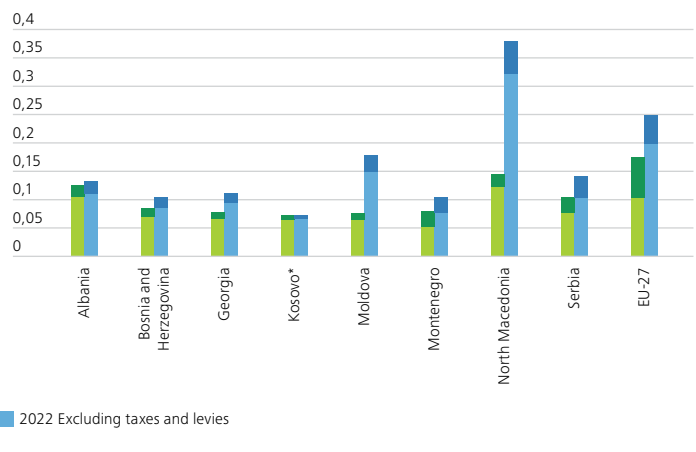
Source: EUROSTAT database

Import export 2022 in GWh



Yet, the average end user prices are still lower than in the EU-27, almost two times for industry and three times for households.

Industry prices in EUR/kWh band IC consumption 500-2000MWh

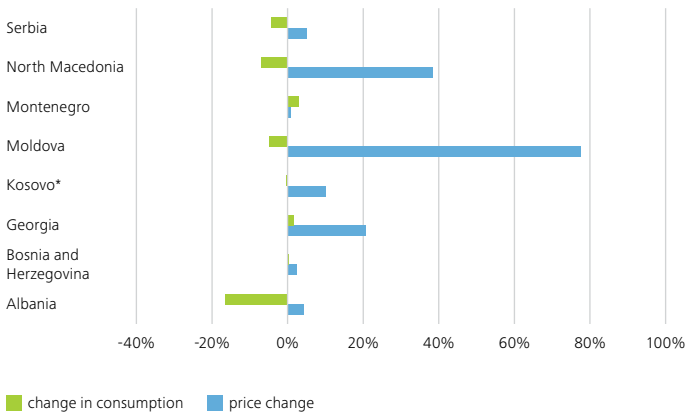


Despite the increase of electricity prices, the final consumption was not significantly affected, especially industry consumption. The total consumption of industrial consumer decreased in Montenegro, North Macedonia and Moldova only.

Consumption of households decreased in Albania, Moldova, North Macedonia and Serbia. The share of consumption band DA consuming less than 1 MWh in the final consumption of households increased in all

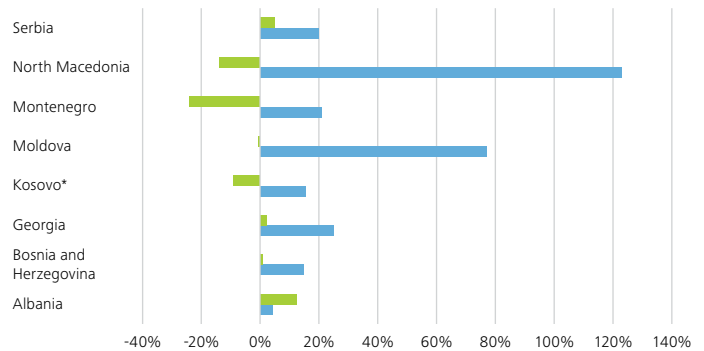
Contracting Parties, except Montenegro, while the share of consumption bands consuming 5 MWh and more decreased in Georgia, Kosovo*, Moldova, North Macedonia and Serbia⁴, especially where incentives for demand reduction were introduced, such as block tariffs and discounts for lower consumption. In Moldova, the greatest share of consumption falls in the lower bands (consuming less than 2500 kWh yearly) increasing further from 77% in 2021 to 80% of total household consumption in 2022, indicating the limited potential for further reduction of demand.

Change in price and consumption in household 2022/2021 [%]



Source: EUROSTAT price database (all bands), Contracting Parties reports for consumption

Change in price and consumption of industry 2022/2021 [%]



The consumption patterns clearly show that price elasticity of electricity consumption in the short term is limited, particularly when prices are low and market prices of any possible substitutes, less subject to restriction and regulation, are not available or price competitive.

Maintaining artificially low or restricted prices for households distorts the price signal from the wholesale market and makes electricity the cheapest substitute for other fuel, leading to inefficient use of resources.

While all Contracting Parties focused on limiting price increase for households during 2022, Moldova and Serbia increased efforts to assist vulnerable consumers by introducing new or amending the existing support measures. In Moldova, the Government established the fund for reducing energy vulnerability that allows providing monthly compensations for the consumption of gas, electricity and heating for vulnerable consumers. In Serbia, the Government adopted the Decree on Energy Vulnerable Customer, providing the subsidies for heating. In addition to

subsidies for electricity and gas that were already provided by previous decrees, and amending conditions for eligibility that should contribute to increasing number of eligible recipients from around 67,000 in 2021 to 191,000 in 2023.

The short-term measures implemented to relieve the financial situation of energy poor households in all Contracting Parties are especially important in the light of the dramatic increases in energy prices. In order to address the root causes of energy poverty, however, it is crucial to develop long-term measures such as those for increasing energy efficiency and to facilitate easy access of poor households to renewable energy sources. Currently, only North Macedonia provides assistance to energy poor through such measures. In 2022, the Secretariat published Policy Guidelines on Identifying and Addressing Energy Poverty in the Energy Community Contracting Parties, with a view to supporting the Contracting Parties in implementing Energy Community legislation.

⁴ Customers consuming 5 MWh or more per year consumed more than 60% of total households consumption in Montenegro, North Macedonia and Serbia, 55% in Bosnia and Herzegovina and 38% in Kosovo*



Boosting the deployment of renewables

Following the extension of the deadline for reaching 2020 targets for renewable energy use in gross final energy consumption until the end of 2021 in the Energy Community, 2021 was marked by the Contracting Parties' efforts to eventually meet 2020 targets. Nevertheless, at the end of 2021 the overall picture remained largely unchanged with

some minor setbacks in the uptake of renewable energy sources in the Contracting Parties. Therefore, despite the granted one-year extension for achieving 2020 targets, most of the Contracting Parties were unable to meet them. Georgia, having joined the Energy Community later, did not have 2020 targets.

 <p>Overall RES target</p>	 <table border="1"> <thead> <tr> <th>Country</th> <th>2021 Performance (%)</th> <th>2020 Target (%)</th> </tr> </thead> <tbody> <tr><td>AL</td><td>100</td><td>100</td></tr> <tr><td>BA</td><td>85</td><td>100</td></tr> <tr><td>XK</td><td>80</td><td>100</td></tr> <tr><td>MD</td><td>125</td><td>100</td></tr> <tr><td>ME</td><td>115</td><td>100</td></tr> <tr><td>MK</td><td>65</td><td>100</td></tr> <tr><td>RS</td><td>85</td><td>100</td></tr> <tr><td>UA</td><td>75</td><td>100</td></tr> </tbody> </table>	Country	2021 Performance (%)	2020 Target (%)	AL	100	100	BA	85	100	XK	80	100	MD	125	100	ME	115	100	MK	65	100	RS	85	100	UA	75	100	<p>Albania, Moldova, and Montenegro were the only Contracting Parties that managed to reach and further surpass their 2020 RES target. Serbia and Bosnia and Herzegovina came close to reaching it, while North Macedonia and Ukraine remained well below their overall RES target. A decline in performance in 2021 was experienced by Kosovo* only.</p>
Country	2021 Performance (%)	2020 Target (%)																											
AL	100	100																											
BA	85	100																											
XK	80	100																											
MD	125	100																											
ME	115	100																											
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RS	85	100																											
UA	75	100																											
 <p>Electricity</p>	 <table border="1"> <thead> <tr> <th>Country</th> <th>2021 Performance (%)</th> <th>2020 Target (%)</th> </tr> </thead> <tbody> <tr><td>AL</td><td>85</td><td>100</td></tr> <tr><td>BA</td><td>75</td><td>100</td></tr> <tr><td>XK</td><td>30</td><td>100</td></tr> <tr><td>MD</td><td>30</td><td>100</td></tr> <tr><td>ME</td><td>110</td><td>100</td></tr> <tr><td>MK</td><td>75</td><td>100</td></tr> <tr><td>RS</td><td>75</td><td>100</td></tr> <tr><td>UA</td><td>120</td><td>100</td></tr> </tbody> </table>	Country	2021 Performance (%)	2020 Target (%)	AL	85	100	BA	75	100	XK	30	100	MD	30	100	ME	110	100	MK	75	100	RS	75	100	UA	120	100	<p>Montenegro and Ukraine remained the only Contracting Parties to achieve their 2020 indicative target for electricity. Despite that certain progress was made by Albania, Serbia, Bosnia and Herzegovina and North Macedonia, none of them managed to meet their electricity targets. Kosovo* and Moldova fell significantly short of their targets.</p>
Country	2021 Performance (%)	2020 Target (%)																											
AL	85	100																											
BA	75	100																											
XK	30	100																											
MD	30	100																											
ME	110	100																											
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RS	75	100																											
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 <p>Transport</p>	 <table border="1"> <thead> <tr> <th>Country</th> <th>2021 Performance (%)</th> <th>2020 Target (%)</th> </tr> </thead> <tbody> <tr><td>AL</td><td>2</td><td>100</td></tr> <tr><td>BA</td><td>1</td><td>100</td></tr> <tr><td>XK</td><td>0</td><td>100</td></tr> <tr><td>MD</td><td>0</td><td>100</td></tr> <tr><td>ME</td><td>1</td><td>100</td></tr> <tr><td>MK</td><td>0</td><td>100</td></tr> <tr><td>RS</td><td>5</td><td>100</td></tr> <tr><td>UA</td><td>25</td><td>100</td></tr> </tbody> </table>	Country	2021 Performance (%)	2020 Target (%)	AL	2	100	BA	1	100	XK	0	100	MD	0	100	ME	1	100	MK	0	100	RS	5	100	UA	25	100	<p>None of the Contracting Parties was able to meet the mandatory 10% target for renewable energy in the transport sector following the further decline in 2021. Additionally, the establishment of an operational system to verify biofuels sustainability remained unresolved. Achieved shares of renewable energy in transport resulted mainly from the limited implementation of electrified public transport.</p>
Country	2021 Performance (%)	2020 Target (%)																											
AL	2	100																											
BA	1	100																											
XK	0	100																											
MD	0	100																											
ME	1	100																											
MK	0	100																											
RS	5	100																											
UA	25	100																											
 <p>Heating and cooling</p>	 <table border="1"> <thead> <tr> <th>Country</th> <th>2021 Performance (%)</th> <th>2020 Target (%)</th> </tr> </thead> <tbody> <tr><td>AL</td><td>50</td><td>100</td></tr> <tr><td>BA</td><td>90</td><td>100</td></tr> <tr><td>XK</td><td>105</td><td>100</td></tr> <tr><td>MD</td><td>125</td><td>100</td></tr> <tr><td>ME</td><td>155</td><td>100</td></tr> <tr><td>MK</td><td>100</td><td>100</td></tr> <tr><td>RS</td><td>105</td><td>100</td></tr> <tr><td>UA</td><td>65</td><td>100</td></tr> </tbody> </table>	Country	2021 Performance (%)	2020 Target (%)	AL	50	100	BA	90	100	XK	105	100	MD	125	100	ME	155	100	MK	100	100	RS	105	100	UA	65	100	<p>The majority of the Contracting Parties managed to surpass their target, primarily driven by the utilization of solid biomass in the residential sector in preceding years. Data concerning the use of solid biomass will need to be reassessed in light of the introduction of sustainability and greenhouse gas emissions saving criteria following the transposition and implementation of the REDII.</p>
Country	2021 Performance (%)	2020 Target (%)																											
AL	50	100																											
BA	90	100																											
XK	105	100																											
MD	125	100																											
ME	155	100																											
MK	100	100																											
RS	105	100																											
UA	65	100																											

Source: EUROSTAT data, compiled and calculated by the Energy Community Secretariat.

Clearing the way to renewable energy transition through auctions









Renewable energy sectors in Contracting Parties are witnessing a transition from administratively set feed-in tariffs to market-based support schemes. The introduction of auctions is emerging as a pivotal element in the Contracting Parties' renewable energy legislation as they strive to align with the REDII. The implementation of the auctions is also gaining a momentum in most of the Contracting Parties.

While Albania and North Macedonia were the first two Contracting Parties to implement auctions for solar PV projects, notable developments were recently observed also in Georgia, Kosovo* and Serbia, all of which initiated their first auctions in 2023. Georgia and Serbia have chosen CfD models for their renewable energy auctions, while Kosovo* will apply a fixed purchase price mechanism, with the intention of converting it to a CfD once the day-ahead market achieves sufficient liquidity.

The auctions conducted in Georgia yielded successful outcomes, with a total of 10 winning projects in the solar PV category, amounting to an installed capacity of 70,078 MW, 12 winning projects in the run-of-river hydropower segment, with a combined installed capacity of 149,27 MW and two winning projects for onshore wind, totaling an installed capacity of 77 MW. The achieved prices for these projects ranged between 53 and 68,5 USD/MWh (approximately 49-63,4 EUR/MWh).

Auctions in Kosovo* and Serbia are ongoing. The remaining Contracting Parties are yet to catch up and initiate their first auctions.

Following successfully conducted auctions for the procurement of electricity generated from solar PV plants in 2020 and 2021, Albania has initiated its inaugural wind auction in 2022, aimed at allocating a total capacity of 200 MW. The auction process is currently in its second phase.

Contracting Party	Albania	Kosovo*	Serbia		Georgia			
Technology								
Timeline	2022-ongoing	2023-ongoing	2023-ongoing	2023-ongoing	02.2023 - 03.2023	02.2023 - 03.2023	02.2023 - 03.2023	02.2023 - 03.2023
Mechanism	Fixed purchase price with a possibility to convert to Contract for Difference	Fixed purchase price/Contract for Difference	Contract for Difference		Contract for Difference			
Total Capacity (MW)	200	95-105	50	400	70	150	70	10
Ceiling price (EUR/MWh)	75	65	90	105	N/A			
Contract duration (years)	15	15	15	15	15			
Achieved price	N/A	N/A	N/A	N/A	53-59 USD/MWh (49-54,6 EUR/MWh)	59-68,5 USD/MWh (54,6-63,4 EUR/MWh)	57,8-60 USD/MWh (53,5-55,5 EUR/MWh)	No project proposals received - 0

The guarantees of origin system ready for Contracting Parties' utilization

Currently, Serbia is the sole Contracting Party to have successfully implemented a functional guarantees of origin system and become a full member of the Association of Issuing Bodies (AIB). Other Contracting Parties are also preparing themselves for membership. Under the regional project implemented by the Energy Community Secretariat in 2022, electronic registries for guarantees of origin have been created for Albania, two entities in Bosnia and Herzegovina, Georgia, Kosovo*, North Macedonia, Moldova, Montenegro and Ukraine. Georgia was the pioneer in signing the direct agreement between its designated issuing body and the service provider Grexel in January 2023. Issuing bodies from Albania and Republika Srpska (BiH) followed by signing an agreement with Grexel in June 2023. The rest six issuing bodies shall need to sign the respective agreements. The deadline for the service provider to keep the national registries and all configurations on stand-by was prolonged until the end of 2023 to allow time for the agreements to be concluded. If agreements are not signed by the deadline, issuing bodies will face significant costs required for establishing and maintaining the registry. The legal deadline to transpose and implement REDII, including provisions related to guarantees of origin, has expired in December 2022.

At the Ministerial Council's most recent meeting in December 2022, the European Commission was invited to present a proposal on how to address the obstacles caused by the import restriction imposed by Article 19(11) of REDII on Member States' trade of guarantees of origin from third countries. During the June 2023 meeting of the Permanent High Level Group, the Commission urged Contracting Parties to establish a functional regional system as a basis to apply for mutual recognition and integrate their system into the EU system. The next important step for the Contracting Parties is to calculate their national residual mix and adopt disclosure rules. The residual mix plays a critical role in preventing the double counting of electricity from specific energy sources. It provides valuable insights into the sources of electricity supply that are not accounted for by guarantees of origin. Where electricity supply lacks verified certification of origin, the residual mix ensures transparency and upholds the integrity of electricity counting and reporting. This transparency enables suppliers to disclose information about the origins of the electricity they provide to each consumer, which is their obligation arising from the Electricity Directive. Consequently, consumers are empowered to make informed choices about their energy consumption, supporting sustainable and environmentally friendly energy sources, if desired.

Implementation of guarantees of origin obligation

	Nominated issuing body for guarantees of origin for electricity	Electronic registry in line with REDII requirements operational	National residual mix published	Disclosure rules in place
Albania	Energy Regulatory Authority	●	●	●
Bosnia and Herzegovina	Federation of Bosnia and Herzegovina	●	●	●
	Republika Srpska	●	●	●
Georgia	Georgian State Electrosystem	●	●	●
Kosovo*	Energy Regulatory Office	●	●	●
Moldova	Energocom*	●	●	●
Montenegro	COTEE	●	●	●
North Macedonia	MEMO	●	●	●
Serbia	EMS	●	●	●
Ukraine	State Agency for Energy Efficiency and Energy Saving**	●	●	●

● Yes ● No

* Amendments to the Law on promoting the use of energy from renewable sources are currently being prepared, which provide for the appointment of another institution as issuing body for guarantees of origin

**Amendments to the Law on Alternative Energy Sources are currently being prepared, which might provide for the appointment of another institution as issuing body for guarantees of origin

Surge in renewables self-consumption

The introduction of various support schemes aimed at incentivizing and promoting self-consumption of renewable energy took off in the Contracting Parties over the last year, resulting in a notable increase of number of new installations, as presented in the table, together with installation limits for renewables self-consumption. Most of the Contracting Parties limited the installed generation capacity of the renewable self-consumer to the connection capacity of the final customer, justifying it with the need to maintain the stability and reliability of the electricity system.

While net metering schemes, allowing households and businesses to offset their electricity consumption with the excess electricity they generate from renewable sources still prevails, the Contracting Parties started to move towards the introduction of net billing. After 31 December 2026, any new rights granted under the scheme must distinguish between the electricity fed into the grid and the electricity consumed from the grid, according to the Electricity Directive.

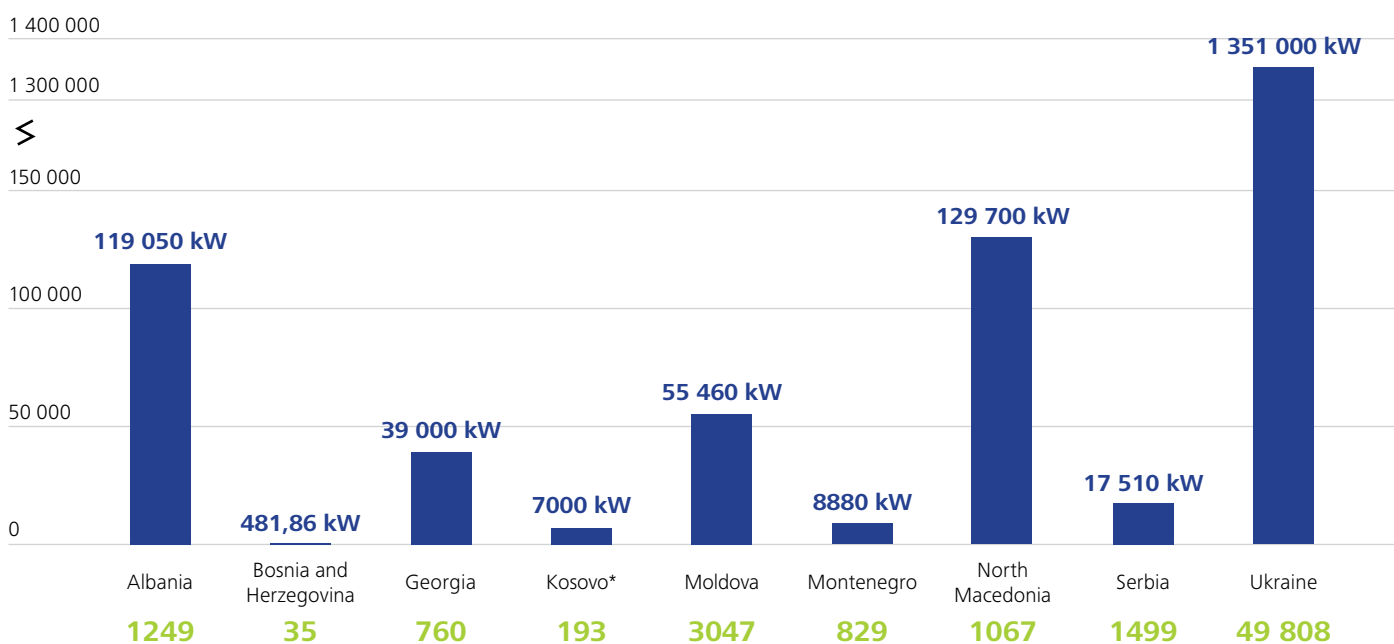
Albania has to switch to net billing⁵ for renewables self-consumption starting from January 1, 2024. Similarly, Moldova is currently in the process of drafting amendments to its renewable energy law and is also considering the introduction of a switch to net billing for self-consumption. The same holds true for Ukraine, which is the only Contracting Party that offers administratively set green tariffs to self-consumers.

Serbia has a combination of net metering for households and net billing for industries. Kosovo* and North Macedonia have adopted a net billing scheme for self-consumption. In Bosnia and Herzegovina, Republika Srpska has enabled self-consumption schemes, including net metering for households and net billing for industries. In the Federation of Bosnia and Herzegovina consumers are not yet allowed to inject excess electricity into the grid and no progress has been made in enabling it.

Installation capacity limit [kW]

	Households	Legal entities
Albania		500 kW
Bosnia and Herzegovina	10,8 kW	50 kW
Georgia		500 kW
Kosovo*		100 kW
Moldova		200 kW
Montenegro		no limit
North Macedonia	6 kW	40 kW
Serbia	10,8 kW	150 kW
Ukraine		50 kW

Installed capacity of self-consumers [kW]



Number of self-consumption installations

Source: compiled by the Energy Community Secretariat

⁵ Net-billing is a billing mechanism that allows a consumer to receive a monetary credit calculated based on the netting of the value of electricity consumed from the grid and the value of electricity fed into the grid within an accounting period. A credit rolls over in the next accounting period, within a certain compensation period.



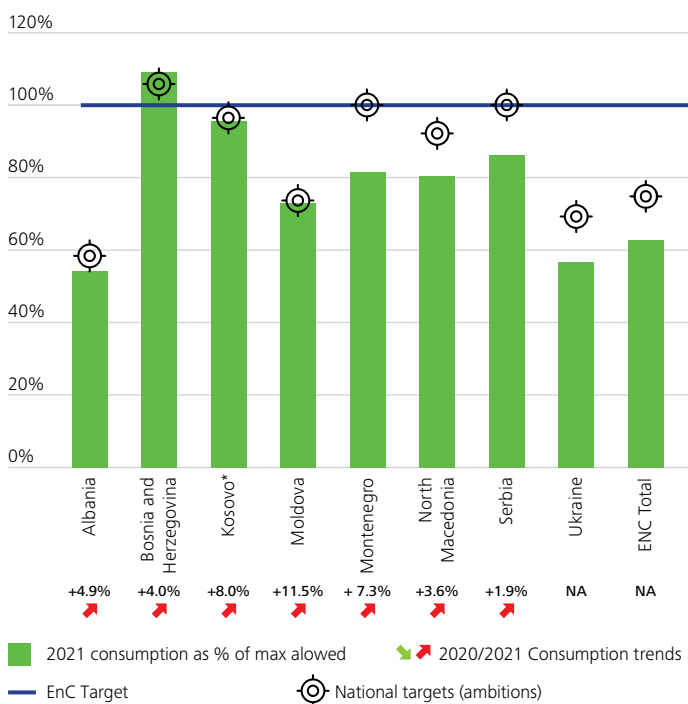
Making energy efficiency the first fuel

Reaching energy efficiency targets

While the Energy Community has achieved the 2020 headline target for energy efficiency, the 2021 energy consumption continued to rise in all Contracting Parties in 2021. Most of Contracting Parties also voluntarily extended energy efficiency targets to cover gap until 2030 targets were officially adopted in December 2022.

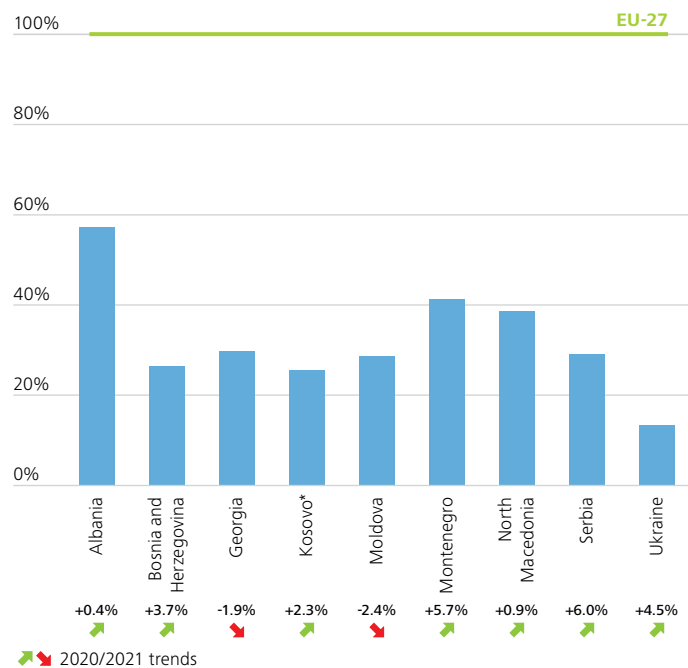
Despite significant energy efficiency potential and certain progress made in most of the Contracting Parties, their energy productivity (indicating the amount of economic output produced per unit of energy) continues to be significantly below the European Union average. This indicates that structural energy efficiency saving measures should be implemented at faster pace and all Contracting Parties will have to use energy more efficiently at all stages, including energy generation, transmission, distribution and end-use of energy.

Energy efficiency targets and consumption trends in 2021



Source: compiled and calculated by the Energy Community Secretariat.

Energy productivity in 2021 [% of EU-27 average]



Source: compiled and calculated by the Energy Community Secretariat.

Delivering on building renovation strategies












Buildings represent the largest final energy consumer with approximately 43% of total energy consumption and an energy saving potential as high as 40%. Thus, they are crucial for the achievement of energy efficiency and decarbonisation goals.


Investments in building renovations are increasing, but yet represent less than 40% of annual investments needs. To foster investments in the renovation of the buildings stock, the Contracting Parties are working on a finalisation of long-term building renovation strategies, which were supposed to be adopted by 10 March 2023. Serbia is the only Contracting Party that has already adopted the strategy. Implementa-

tion of the enabling framework for investments (certification of energy performance of buildings and setting minimal energy performance requirements and nearly zero standards) still needs to be implemented by most Contracting Parties.

The strategy alone is not sufficient. Meeting the strategy's goals depends on effective implementation. The Secretariat is currently working on the development of policy guidelines to deliver building renovation strategies, with the support of EBRD and the "Regional Energy Efficiency Programme".

Buildings Energy Efficiency indicators and status of adoption of building renovation strategies

	ALB	BIH	GEO	KOS	MDA	MNE	MKD	SRB	UKR
 Share of buildings in FEC (%)	50%	54%	43%	50%	60%	48%	38%	50%	42%
 Building renovation strategies									

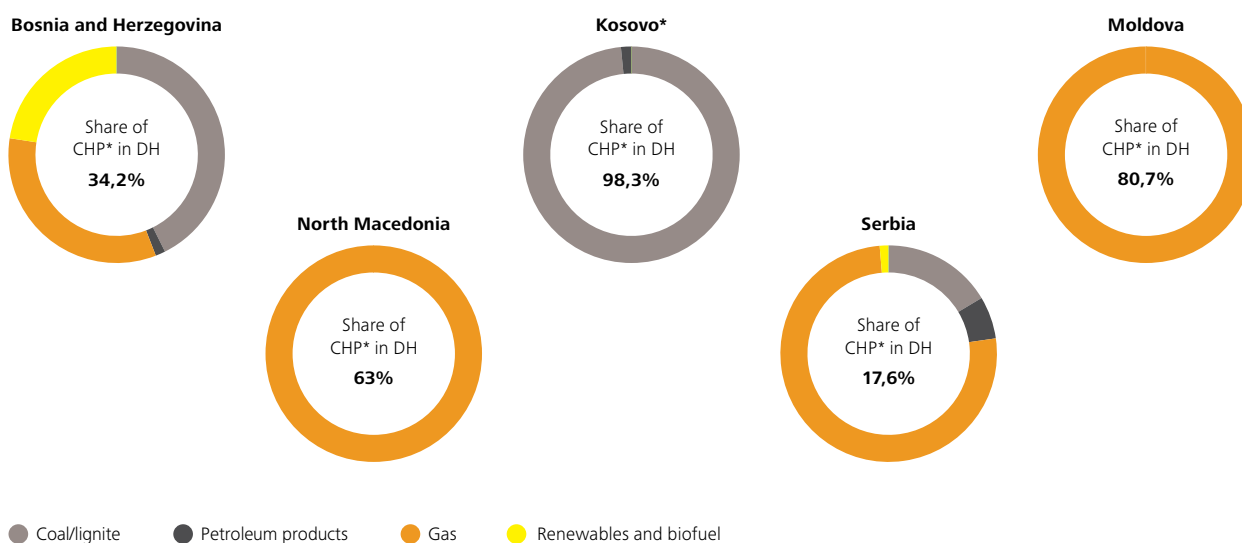
 Adopted  Draft  Work in progress

Introducing renewable energy in district heating systems

District heating supply fuel mix in the Energy Community in 2021⁶ remained almost the same as in 2020, relying predominately on fossil fuels with a share of around 97% and with a negligible share of renewables of 3,5%⁷ despite the sector's potential to integrate renewables and thus facilitate decarbonisation of the heating and cooling.

During the heating season 2021/22, new biomass-based district heating plants in Gjakova, Kosovo* and Mali Zvornik and Priboj, Serbia became operational.

Fuels used and share of co-generation in district heating [%], 2021



*combined heat and power

Source: compiled and calculated by the Energy Community Secretariat.

As most district heating companies failed to invest in the RES projects and few incentives are provided by national and local authorities, a significant uptake of renewable energy sources is missing. Support provided by the European Union and international financial organizations, continues to be the main driver of the development of renewable-based projects. In 2022, Kosovo* received a EUR 54 mill grant under the Western Balkan Investment Framework and from KfW for a Big Solar Pristina, envisaging the construction of a solar collector field of 58.000 m², seasonal heat storage of 410.000 m³, an absorption heat pump, and extension of district heating network by 2028. The EBRD-led Renewable District Energy in the Western Balkans (ReDEWeB) Programme continues to support local authorities in conducting feasibility studies (in Serbia 11 cities; Bosnia and Herzegovina 4 cities; Albania 1 city and Montenegro 1 city).

The Contracting Parties must put additional effort into making the legal and regulatory framework conducive for the new investments. First and foremost, Contracting Parties should implement the requirements from the acquis, starting with the assessment of the potential for the

development of efficient heating and cooling systems, reflecting this potential in national energy and climate plans and adopting appropriate objectives, policy, and measures for the uptake of sustainable sources into the systems. Additionally, a regulatory framework should ensure the financial viability of companies by allowing cost-reflective tariffs and their timely adjustments.

Serbia and Montenegro have made significant progress in this direction by preparing drafts of comprehensive assessments of the potential for the development of high-efficiency cogeneration and efficient district heating.

While Ukraine is focused on ensuring the security of supply for the next winter season and activities are directed towards the refurbishment of damaged district heating infrastructure with the support of the international community, Ukrainian cities, and municipalities are putting additional efforts into creating sustainable long-term heat supply schemes.

⁶ Data on the district heating fuel mix in 2021 in Ukraine are not taken into account for calculating shares of fossil fuels and renewable energy sources in the district heat supply fuel mix in the Energy Community (only for Bosnia and Herzegovina, Kosovo*, Moldova, North Macedonia and Serbia), since data are not publicly available.

⁷ The share is higher by 3 percentage points than in the previous version of Tracker 2022, where the share of renewable energy sources (biomass) in district heat fuel mix, including Ukraine was 0,46%. This change reflects the exclusion of Ukraine from the calculation in the current version, due to the unavailability of data for 2021.



Transitioning to a decarbonised energy future

Contributing to global climate change efforts - towards reaching climate neutrality by 2050

Nationally Determined Contributions (NDCs) summarise countries' plans to reduce greenhouse gas (GHG) emissions under the Paris Agreement. All Contracting Parties, with the exception of Kosovo*, ratified the Agreement and submitted their initial NDCs to the UNFCCC. All signatories have already submitted their updated NDC (NDC2) to the UNFCCC.

The actions contained in the NDC2, together with the Energy Community energy and climate targets for 2030, should pave the way towards meeting the political pledges under the Sofia Declaration on the Green Agenda for the Western Balkans and the commitments made at the 2021 Third Eastern Partnership (EaP) meeting on environment and climate change in Lisbon, where countries expressed their willingness to work together towards a 2050 climate-neutral continent.

During the last 12 months Serbia has submitted its NDC2 to the UNFCCC Secretariat which closed the list of ambition increases among the Contracting Parties. Finally, the Energy Community made a significant step to reach its goal of climate neutrality by 2050 through

the establishment in December 2022 of its energy and climate targets for 2030. The 60,9% emission reduction target, compared to 1990, caps the total greenhouse gas emissions for the Energy Community at 427.64 million metric tons of carbon dioxide equivalent by 2030. This presents an increase of ambition compared to the submitted NDC updates and provides the basis for further ambition increase under the UNFCCC process.

The planned round of new NDC submissions after the Global Stocktake will be a great opportunity to further strengthen the 2030 NDCs, by translating the 2030 Energy Community targets, as agreed in 2022, into new NDC updates. This will not only ensure consistency but provide a credible path for implementation of emission reductions by 2030.

Increased ambition expressed through NDC updates will complement the climate neutrality goal, which should be transposed into domestic legislation, and long-term low-emission development strategies that are to be submitted to the UNFCCC Secretariat in order to put Contracting Parties on the road to a CBAM exemption.

State of Enhanced Nationally Determined Contributions (NDC2) preparation

	GHG other than CO ₂ covered	All emission sectors covered	Adaptation strategy	Participatory process	Gender sensitivity	NDC2 submitted to the UNFCCC
Albania	●	●	●	●	●	●
Bosnia and Herzegovina	●	●	●	●	●	●
Georgia	●	●	●	●	●	●
Moldova	●	●	●	●	●	●
Montenegro	●	●	●	●	●	●
North Macedonia	●	●	●	●	●	●
Serbia	●	●	●	●	●	●
Ukraine	●	●	●	●	●	●

● In place

● In progress

● Not in place

Source: compiled by the Energy Community Secretariat.

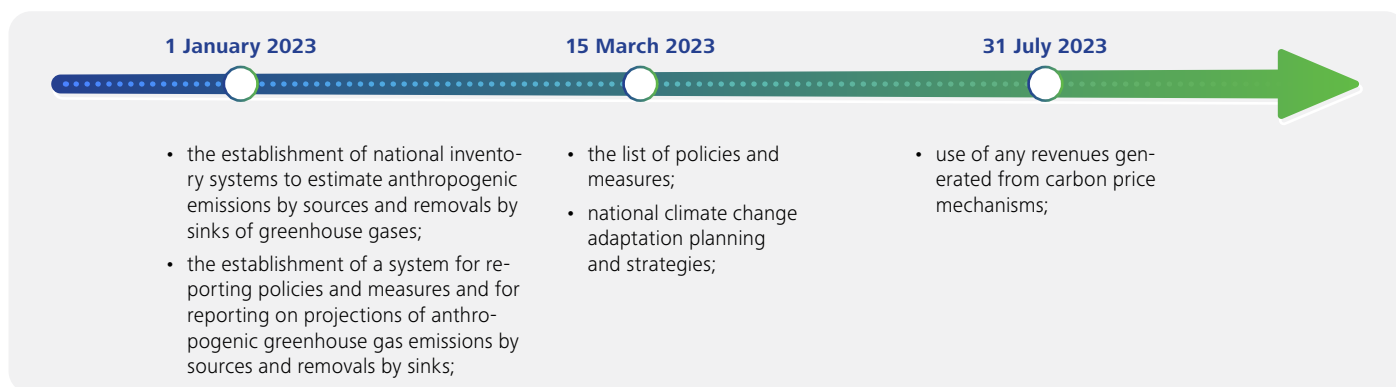
Energy and climate governance towards the achievement of energy and climate targets

The Governance Regulation is the cornerstone of ensuring that Contracting Parties are on track to meet their 2030 energy and climate targets and are on a pathway to climate neutrality.

Serbia has adopted laws on energy and on climate change in 2021, including the rulebook on closer contents and guidelines for determining the national goals of the integrated national energy and climate plans (NECP), the manner of its development and reporting on its implementation. The draft climate laws have stalled in Georgia, North

Macedonia, Kosovo* and Ukraine, albeit all plan to have the draft law submitted to their Parliaments by the end of 2023 the latest. In other cases, such as in Albania and Montenegro the already adopted climate laws need to be updated to reflect the Governance Regulation. In Bosnia and Herzegovina and in Moldova, the drafting of climate laws is still at the concept stage. The secondary acts transposing the technical parts of the Governance Regulation cannot be adopted without an appropriate legal base. Provisions related the climate reporting are in place in Albania, Moldova and Kosovo*.

1. Climate action



With the support of the European Commission, the European Environmental Agency provides assistance to the Secretariat in climate-related monitoring activities. This assistance includes collecting the information via its infrastructure – ReportNET – and the clarification and verification of the received information before it is submitted to the Secretariat.

To date, Contracting Parties have nominated their lead reporters for this exercise except for Serbia, Moldova and Ukraine. However, so far only Georgia has submitted a comprehensive report⁸.

The establishment of national inventory systems to estimate anthropogenic emissions by sources and removals by sinks of greenhouse gases is still lacking in numerous Contracting Parties.

Status of reporting to ReportNET:

Nomination of lead reporters and submission of comprehensive report

	Albania	Bosnia and Herzegovina	Georgia	Kosovo	Moldova	Montenegro	North Macedonia	Serbia	Ukraine
reporter nominated	●	●	●	●	●	●	●	●	●
report submitted	●	●	●	●	●	●	●	●	●






● In place ● In progress

Progress has also been made with regard to the long-term low-emission strategies as Georgia has adopted its strategy this year, along with a climate neutrality target by 2050. Therefore, Georgia joins North Macedonia and Ukraine in finalising the legally required Long-term

low emissions strategy. Further action is needed in the remaining Contracting Parties to implement the 2050 climate neutrality commitment in domestic legislation.

⁸ According to Article 18 of the adapted Governance Regulation, Contracting Parties shall report to the Secretariat information on: (a) their national policies and measures or group of measures as set out in Annex VI by 15 March 2023. In addition, following Article 19 by 15 March 2023 Contracting Parties shall report to the Secretariat information on their national climate change adaptation planning and strategies, outlining their implemented and planned actions to facilitate adaptation to climate change. Moreover, in accordance with Article 26, by 15 March 2023 Contracting Parties shall report to the Secretariat: (a) the information referred to in Article 6(2) of Directive 2009/119/EC, as adapted and adopted by Ministerial Council Decision 2012/03/MC-EnC.

State of development of long-term low-emission strategies

	Drafting started	Adopted	Communicated to UNFCC	Covers period up to 2050	2050 Climate neutrality goal reflected
					
Albania	●	●	●	●	●
Bosnia and Herzegovina	●	●	●	●	●
Georgia	●	●	●	●	●
Kosovo*	●	●	●	●	●
Montenegro	●	●	●	●	●
Moldova	●	●	●	●	●
North Macedonia	●	●	●	●	●
Serbia	●	●	●	●	●
Ukraine	●	●	●	●	●

● Yes ● No

Source: compiled by the Energy Community Secretariat.

Moreover, the targets for 2030 for emission reductions, renewable energy and energy efficiency are currently being transposed into the draft NECPs. The transposition of agreed targets is a legal requirement. Further progress needs to be made in this regard.

2. Integrated national energy and climate plans (NECPs)

Contracting Parties are obliged by the Energy Community Governance Regulation to submit a draft NECP to the Secretariat by 30 June 2023. While Albania and North Macedonia have already adopted their NECPs – which are expected to be updated before June 2024 – the remaining Contracting Parties, with the exception of Bosnia and Herzegovina and Serbia, are still to submit their draft NECPs.

Following the adoption of the Energy Community 2030 targets in December 2022, the Contracting Parties have been focusing on updating their existing draft NECPs accordingly. Contracting Parties should submit their draft NECPs by the deadline, after which the Secretariat will have six months to evaluate the drafts and provide its recommendations. When providing its assessment, the Secretariat will apply an integrated view to see whether the plans are:

- complete, coherent and consistent;
- in line with the individual Contracting Parties' 2030 targets in greenhouse gas emissions reductions, share of renewable energy and energy efficiency;
- reflect the legal obligations under the latest developments of the Energy Community acquis;
- based on the latest sectoral strategies;
- positioned as the main policy planning document across sectors;
- in line with the outcome of the public and regional consultations.

3. Monitoring, reporting and verification (MRVA) of GHG emissions on installation level

The Ministerial Council of December 2022, adopted the MRVA Package⁹ in the Energy Community, which establishes a robust and verified information database for GHG emissions from individual installations covered by the activities subject to the ETS Directive (power plants, industrial and combined heat and power facilities and airlines). The largely technical set of rules applies to stakeholders including public authorities, operators of installations, verifiers and national accreditation bodies and should be transposed by the end of 2023. A well-functioning MRVA will be instrumental in better preparing for CBAM requirements.

There is a substantial divergence among Contracting Parties in terms of transposition. Ukraine has an elaborated MRVA system based on national legislation in place, which is in an early stage of implementation. Montenegro put in place rules on reporting, which were set up together with its ETS, however, additional provisions are currently planned to be transposed. Serbia set up the legal base for MRVA in its Law on Climate Change in 2021 and adopted two secondary acts in 2023 related to the types of activities and GHGs to be subject to the MRVA and to the verification and accreditation of verifiers of reports on greenhouse gas emissions. Other Contracting Parties also started to lay the groundwork for transposing the MRVA in draft climate laws and secondary legislation.

⁹ The MRVA Package includes three legislative acts: 1.) MRR regulation (Commission Implementing Regulation (EU) 2018/2066 on the monitoring and reporting of greenhouse gas emissions amended by Commission Implementing Regulation (EU) 2020/2085); 2.) AVR regulation (Regulation (EU) 2018/2067 on the verification of data and on the accreditation of verifiers amended by Commission Implementing Regulation (EU) 2020/2084) and Relevant parts of the ETS Directive (Directive 2003/87/EC of the European Parliament and of the Council)



The next step – carbon pricing in the Energy Community!

CBAM locks the discussions on carbon pricing in the Energy Community within very short timeframes needed for decisions. Given the established conditions for the electricity sector, a possible design of the system resulting in prices equivalent to those of the EU ETS by 2030, should be in line with the cap-and-trade scheme gradually leading to convergence with the EU ETS.

The development of a regional system for emissions trading in the Energy Community has advantages compared to the development of separate national systems. A regional system would ensure that emissions are reduced where it is cheapest to do so in the entire region i.e. where the cheapest abatement options are available, ensuring economic efficiency.

Furthermore, a regional ETS would avoid issues of low liquidity in the markets where allowances would be traded, which smaller Contracting Parties might encounter. It would significantly reduce the administrative costs for Contracting Parties of setting up and implementing the ETS, following the same economies of scale logic.

The Secretariat, together with the European Commission and the Contracting Parties, will closely cooperate and engage in technical level discussions in the second half of 2023, focusing on the feasibility and benefits of a regional approach to ETS, with a particular focus on defining the building blocks of and the possible flexibilities in the design of such system.