

A close-up photograph of a vibrant green leaf covered in numerous water droplets of various sizes, creating a textured and reflective surface.

REPORT ON THE

**IMPLEMENTATION OF THE
DECLARATION ON ENERGY
SECURITY AND GREEN
TRANSITION IN THE
WESTERN BALKANS**



TABLE OF CONTENTS

| | |
|---|----|
| Introduction..... | 04 |
| 01 Advancing the decarbonization agenda, including by promoting regional cooperation and governance..... | 06 |
| 02 Phasing Out Coal and Paving the Way for an Equitable Transition..... | 12 |
| 03 Making Western Balkan Six fit for CBAM..... | 14 |
| 04 Strengthening energy security and reducing energy demand..... | 16 |
| 05 Implementing “energy efficiency first principle” | 20 |
| 06 Creating an integrated electricity market..... | 22 |
| 07 Creating a better environment..... | 26 |



INTRODUCTION

The Declaration on Energy Security and Green Transition in the Western Balkans, signed by leaders from the Western Balkans Six in Berlin on November 3, 2022, marks a pivotal moment in the region's pursuit of sustainable energy policies and a greener future.

The Declaration acknowledges the urgency of transforming economies and energy sectors to align with international commitments enshrined in the Paris Agreement, the Energy Community Treaty, and the European Green Deal. It reflects the collective determination of the Western Balkan Six to prioritize sustainability, regional cooperation, and the well-being of their citizens. They commit to a series of actions that will shape the region's energy landscape for years to come.

The Declaration was signed at a time when the Western Balkan region faced significant energy challenges, exacerbated by the broader context of global energy crises. The region has been confronted with record-high electricity prices, and the resulting economic and geopolitical uncertainties. The crisis exposed systemic weaknesses in the energy markets and systems in urgent need for investments and further reforms. It also came at a time when the profound transformation towards climate neutrality, known as the Green Deal, has been in full swing in the rest of Europe. There was a risk that the Western Balkan Six could lose touch and be left behind.

By signing the Declaration on Energy Security and Green Transition in the Western Balkans, the leaders of the Western Balkans Six lived up to the manifold challenges. They demonstrated a strong commitment to the green transition and the common goals and objectives under the Energy Community Treaty. At the heart of the Declaration lies the recognition that the answers to the challenges and crises can only be found at the regional level. The rules and initiatives adopted by the Energy Community, and not least its Decarbonization Road Map, adopted by the Ministerial Council in 2021, have proven to be powerful catalysts for advancing green reforms on national and regional level. In December 2022, the Ministerial Council took a momentous

step forward by adopting the largest and most ambitious set of new acquis, complementing the Clean Energy Package already adopted in November 2021. Most notably, this includes the adoption of ambitious 2030 energy and climate targets that align with the EU's ambition level. The ultimate objective remains achieving climate neutrality by 2050, reflecting the region's commitment to playing a crucial role in global efforts to combat climate change.

While commitments to green transition are promising, the Western Balkan Six still face specific challenges during the reporting period. Progress depends on swift and efficient implementation.

The energy sectors in the region, which are comparatively less affluent than their Northern and Western European counterparts, have been exposed to vulnerabilities stemming from inadequate regulation and underinvestment. This challenge is particularly relevant for regions heavily reliant on coal, where holistic solutions addressing governance, environmental, and social issues must be found. The focus on crisis management has, at times, diverted attention from critical systemic reforms. It is paramount that crisis-driven measures do not impede the energy transition. The focus should remain on systemic and regional responses such as the full integration of the Western Balkans' electricity markets with the European one, which in turn will facilitate the deployment of more renewable energy.

In addition, energy efficiency has emerged as a top priority for the Western Balkan Six. They pledged to prioritize and incentivize effective energy efficiency measures to tackle the region's energy challenges. This includes introducing appropriate energy price signals, promoting building renovations, modernizing district heating networks, and implementing highly efficient technologies to optimize energy consumption. By focusing on renewable energy and energy efficiency, the Western Balkan Six will enhance their energy security and sustainability while taking significant steps towards a greener and more equitable future.



Currently, the Secretariat is evaluating the draft integrated national energy and climate plans submitted during the summer months. Through this scrutiny, the Secretariat aims to ensure that these plans are robust, aligned with international commitments, and capable of attracting and streamlining the much-needed investments in a greener and more resilient energy future.

The Electricity Integration Package adopted in 2022 lays the foundation for integrating the Contracting Parties in the Western Balkan Six into the EU's internal electricity market, including the implementation of single day-ahead and single intraday coupling. While the Contracting Parties are still in the process of transposing the Package, set to conclude by the end of 2023, notable progress has been achieved in establishing day-ahead markets in three of the six Western Balkan countries. In 2023, Albania, Montenegro, and North Macedonia successfully launched their respective markets.

The role of a well-functioning electricity market for facilitating the successful deployment of renewable energy sources can hardly be overestimated. The regional and ultimately pan-European market ensures efficient, transparent, and competitive electricity trading, enabling various renewable energy technologies to actively participate. Furthermore, it provides long-term certainty and revenue stability for renewable energy projects, attracting much-needed investments and supporting sustained growth. Additionally, an effective system for guarantees of origin can further support the energy transition and promote investments in renewables within the region. The demand generated by corporate buyers for renewable energy through guarantees of origin-backed Power Purchase Agreements (PPAs) can attract additional investment in the renewable energy sector.

Diversification of gas supplies remains a significant challenge. Only Serbia participated in the EU joint gas purchasing mechanism. There have been some efforts by

other countries to diversify their supplies, North Macedonia taking the lead, which started also purchasing gas in the neighboring Bulgaria from the gas hub. These actions should be accelerated by new infrastructure developments – new LNG terminal in Greece and interconnector SRB-BUL on board late this year. In addition to joint purchase and efficiency measures, the Energy Community adopted important acquis in the field of gas storage last year, which contributed to strengthening winter preparedness also ahead of the next heating season.

Currently, the discussion about carbon pricing in the region takes centre stage in the Energy Community. The recently adopted EU Regulation on the Carbon Border Adjustment Mechanism (CBAM) further emphasizes the need to expedite the energy transition by giving carbon emissions a price, as well as further market integration. The CBAM Regulation imposes administrative and financial costs on importers of CBAM goods, including electricity exported by the Western Balkan Six. There is a possibility of receiving an exemption from CBAM application if specific conditions are met. These conditions include integrating the region's electricity markets with the EU market and implementing an emissions trading system (ETS) by 2030. This underscores the close connection between electricity market integration and decarbonization, necessitating a harmonized approach to policy planning, implementation, and monitoring.

Under the Declaration, the Energy Community Secretariat was assigned the responsibility of reporting on the implementation of these actions at the upcoming summit scheduled for 16 October 2023 in Tirana. The Energy Community framework, aligned with the politically driven Berlin Process, is rooted in the principles of the European Green Deal and the priorities outlined in the Green Agenda for the Western Balkans. It relies on well-defined legal tools for monitoring and insisting on the implementation of crucial policy and legal actions. These actions are necessary at both the national and regional levels to advance the green transition in the region.



01

Advancing the decarbonization agenda, including by promoting regional cooperation and governance



- We **will expedite the implementation of the Green Agenda for the Western Balkans**, both at the **national and regional levels**. This includes promoting regional cooperation for the effective implementation of its Action Plan.
- We pledge our support for the European Union's REPowerEU initiative and the European Green Deal. We will take these initiatives into account when we finalize our national energy and climate plans.
- We reaffirm our **commitment to adopting the 2030 energy and climate targets, which were tentatively agreed upon in July 2022**. We also commit to adopting legislative packages that facilitate the integration of electricity markets and enhance monitoring, reporting, and verification of greenhouse gas emissions, as proposed by the European Commission. These commitments will be addressed at the Energy Community Ministerial Council meeting in December 2022.
- We will expedite **the reform of our economies and the transformation of our energy their energy sectors, in alignment with the national energy and climate plans** that have already been adopted or are in the process of adoption. This is in full support of the Green Agenda for the Western Balkans, especially in decarbonization objectives. We call upon all donors and international financial institutions to streamline their financial support for the policies, measures, and actions outlined in these plans, as endorsed by the Energy Community Secretariat.

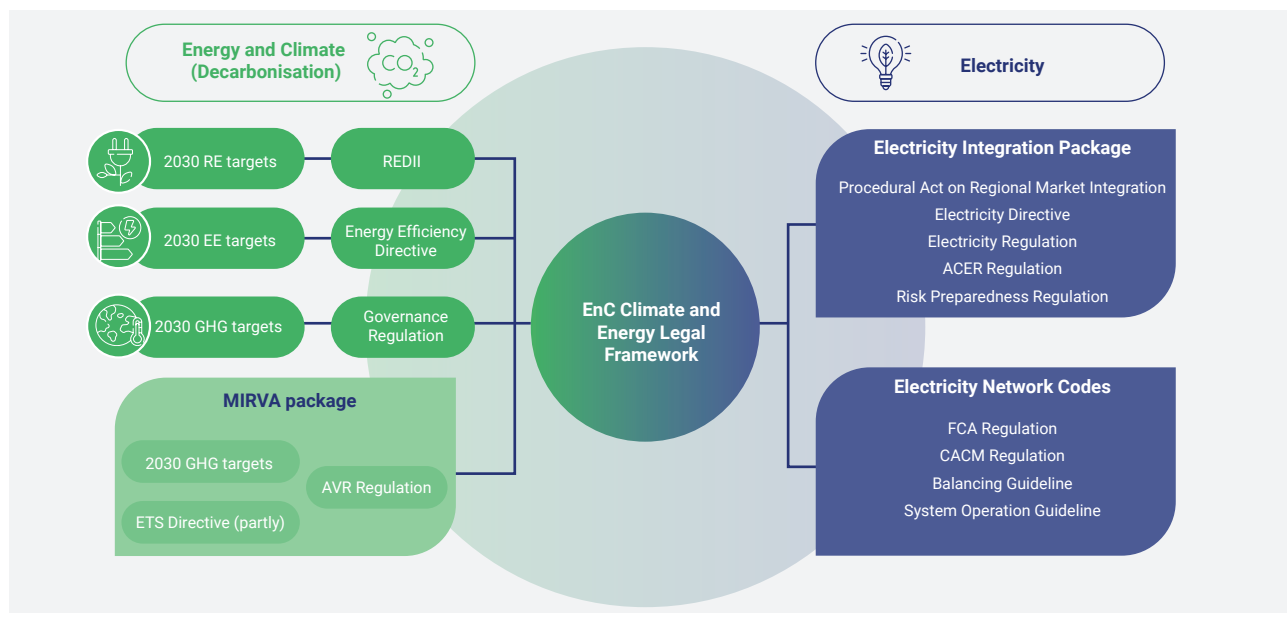


Regional cooperation

- We commit to implementing and utilizing the regional system established within the Energy Community for the issuance and trade of **guarantees of origin**. We also call upon the European Union to remove barriers in the Renewable Energy Directive that hinder the cross-border recognition of such guarantees.
- We will actively pursue the **regionalization of the energy transition and the development of a regional energy and climate plan for the Western Balkans**. This plan will complement our national strategies and harness our individual capabilities and resources to collectively reduce greenhouse gas emissions. This collaborative effort will help lower costs and enhance the resilience of our energy systems.
- We will continue to **strengthen regional cooperation mechanisms as outlined in the Action Plan** for the Implementation of the Sofia Declaration on the Green Agenda for the Western Balkans.
- We declare our strong interest in engaging in a constructive dialogue regarding the establishment of the **Climate Club**.

The Energy Community legal framework provides a highly effective instrument in advancing the decarbonization agenda and ensuring alignment with the EU acquis on energy, environment, and climate within the Contracting Parties in the Western Balkan Six and beyond.

Through promoting a regional exchange of policy decisions and implementing a coordinated approach to governance, we expand the range of available options while reducing costs for each participating economy. This approach also leads to the most efficient reduction in greenhouse gas emissions.



1.1 Key activities and achievements in the reporting period

In December 2022, the Energy Community Ministerial Council formally adopted the 2030 energy and climate targets, which had been provisionally agreed upon in July

2022. The Western Balkans committed to working towards the achievement of the following targets by 2030¹:

| | Target for net Greenhouse Gas Emissions compared to 1990 levels | Target for share of energy from renewable sources in gross final consumption of energy | Maximum Share of Primary Energy Consumption | Maximum Share of Final Energy Consumption |
|------------------------|---|--|---|---|
| Albania | +53,2% 12,00 MtCO ₂ eq | 52,0% | 2,60 | 2,40 |
| Bosnia and Herzegovina | -41,2% 15,65 MtCO ₂ eq | 43,6% | 6,50 | 4,34 |
| Kosovo* | -16,3% 8,95 MtCO ₂ eq [1] | 32,0% | 2,70 | 1,80 |
| Montenegro | -55,0% 2,42 MtCO ₂ eq [2] | 50,0% | 0,92 | 0,73 |
| North Macedonia | -82,0% 2,20 MtCO ₂ eq | 38,0% | 2,30 | 2,00 |
| Serbia | -40,3% 47,82 MtCO ₂ eq | 40,7% | 14,94 | 9,54 |

[1] Target of Kosovo* is compared to 2016 levels

[2] Target of Montenegro excludes LULUCF emissions and removals

The agreed energy and climate targets will serve as the foundation for transforming the economies of the region, aligning with the National Energy and Climate Plans (NECPs) and the commitments to achieve climate neutrality by 2050. With the exception of Montenegro, all Western Balkan parties submitted their draft NECPs to the Energy Community Secretariat by mid-2023.

Until 31 December 2023, the Energy Community Secretariat will review the submitted plans for ambition, feasibility, affordability, fairness, compliance, and transparency. This assessment will also evaluate their alignment with the REPowerEU initiative and the European Green Deal. Based on this, the Secretariat will provide recommendations for each draft NECP, which are crucial for the Western Balkan Six in finalizing their plans, but also for international donors and private investors. Considering the regional perspective is essential, especially given the cross-border impacts of policies. Ideally, these plans should stimulate regional cooperation during the finalization phase, thus enhancing efficiency, promoting market integration, and strengthening the resilience of the energy system. The

Secretariat's assessment will put a significant focus on the regional compatibility and convergence of the draft Plans.

The regional dimension will receive further reinforcement as each draft NECP will be presented at the Energy Community's Technical Working Group meeting in early 2024. These presentations will provide an opportunity for Contracting Parties to gain a comprehensive understanding of neighboring draft NECPs, ask questions, and give feedback. The ultimate deadline for the adoption of final NECPs is June 2024.

Starting on 15 December 2022, initial measures were also taken to establish a comprehensive and precise system for reporting greenhouse gas (GHG) emissions at the individual installation level. On this date, the Energy Community Ministerial Council adopted three legal measures concerning the monitoring, reporting, and verification of GHG emissions. The deadline for transposing these regulations is 31 December 2023, and some progress is already evident through the adoption or proposal of national legislation. The timely implementation

¹ https://www.energy-community.org/dam/jcr:421f0dca-1b16-4bb5-af86-067bc35fe073/Decision_02-2022-MC_CEP_2030targets_15122022.pdf

of the Monitoring, Reporting, and Verification of GHG emissions (MRV) system provides critical data about actual emissions, essential for formulating a carbon pricing framework.

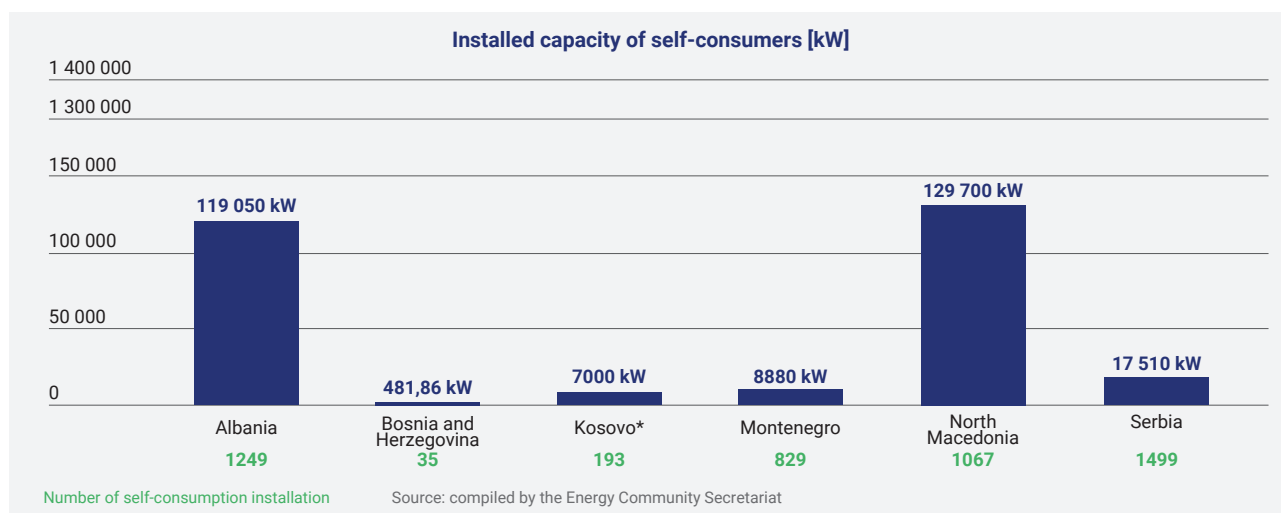
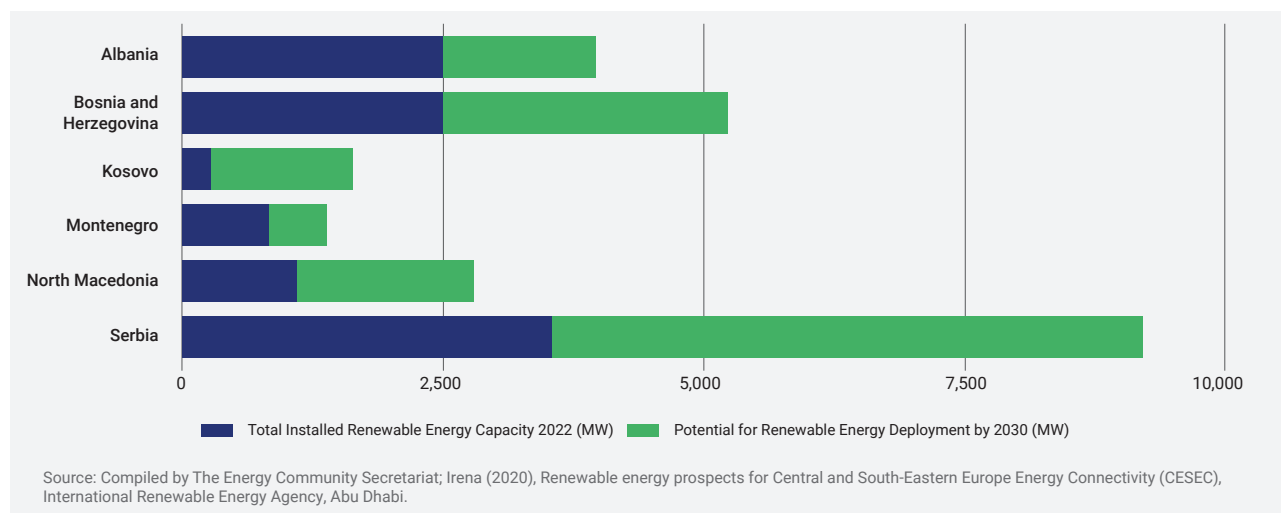
Several Western Balkan parties have taken significant steps to promote competition, cost-effectiveness, and the integration of renewables into electricity markets through their auctions for market-based support schemes.

Albania and North Macedonia have been at the forefront by successfully implementing auctions for solar PV projects, while Kosovo* and Serbia have followed suit with their own inaugural auctions in 2023. Concurrently, the region has witnessed a surge in the adoption of support schemes that incentivize and encourage self-consumption of renewable energy, leading to a remarkable increase in

the number of new installations over the past year. These developments signal a promising and progressive shift towards a more decentralised energy landscape in the Western Balkans.

Western Balkan countries have also made significant progress in implementing energy efficiency measures.

Dedicated efforts have been put into formulating long-term building renovation strategies, which have already been adopted in Serbia. Additionally, there has been a focus on enhancing energy performance in buildings through the introduction of mandatory energy performance certificates in Albania, Kosovo*, and Montenegro. These certificates provide valuable information to consumers about the energy efficiency of their homes.



1.2 Key challenges ahead



While the deadline for transposing the non-electricity related parts of the Clean Energy Package expired in late 2022, Western Balkan parties **are still working to integrate the provisions of the package into national legislation**, with some delays in the transposition and implementation.



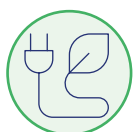
Notably, Serbia has made significant progress in **transposing REDII**² with recent amendments to its renewables law. Albania and Bosnia and Herzegovina have also taken partial steps to transpose REDII through enacted laws. Kosovo* is about to follow suit. Montenegro has faced challenges, with draft laws pending finalization. North Macedonia has partially integrated REDII provisions into its Energy Law, but full transposition is pending.



While notable progress has been made in **enhancing energy efficiency**, several significant challenges persist. These include the need for updates to primary legislation in line with the Energy Efficiency Directive in Bosnia and Herzegovina and Kosovo*, implementation of by-laws, and the establishment of long-term building renovation strategies across all WB6 parties except Serbia. Western Balkan parties should utilize regional funding sources such as REEP, GEF and GGF, and establish effective national mechanisms to attract public and private investments. The public sector must also set an example by implementing measures within its premises and communicating these advantages to the public.



Some progress has been made in **adopting national climate laws that encompass MRV and Governance Regulation obligations**. In 2020 and 2021, Albania and Serbia adopted climate laws, while Kosovo* and North Macedonia are currently in the process. Bosnia and Herzegovina are working on developing a draft, and Montenegro intends to revise its Law on the Protection against Negative Impacts of Climate Change. It remains crucial that the 2030 targets are transposed into national legislation.



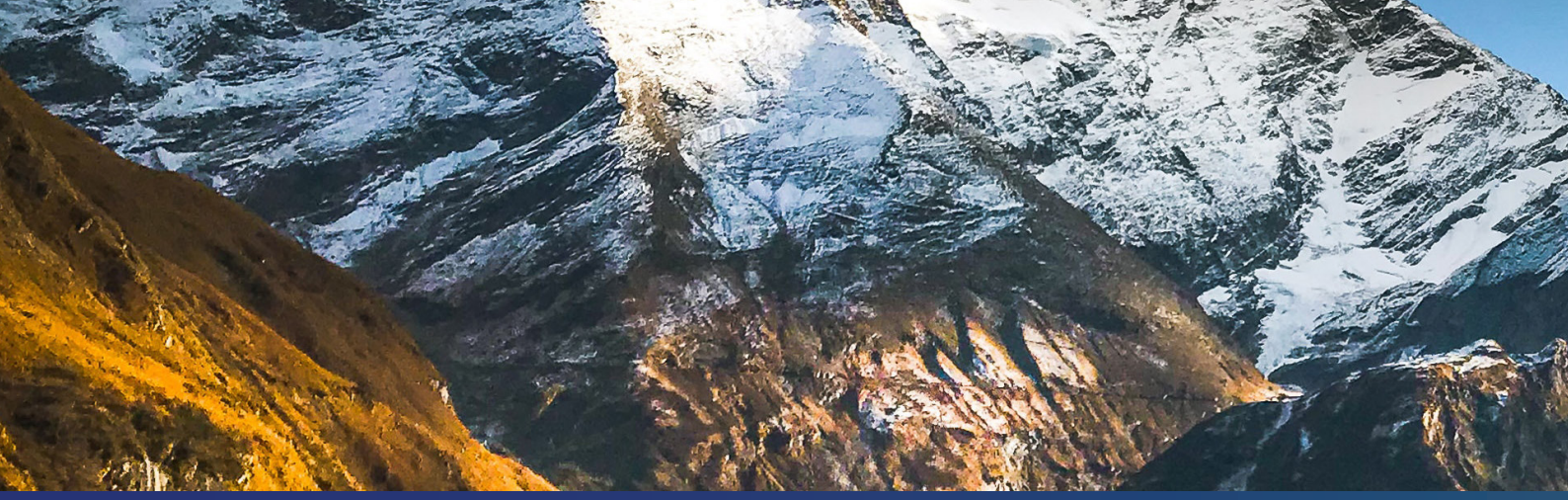
The primary hurdle lies in **the development of ambitious and resilient NECPs** that can serve as fundamental blueprints for the energy transition. Well-crafted NECPs have the potential to act as indispensable transition roadmaps, guiding the shift towards renewable energy by providing clear policy frameworks and investment guidance. These plans should play a pivotal role in attracting financial support by mitigating investment risks, reducing capital expenses, optimizing fund allocation, and aligning diverse funding sources with national and regional priorities. By promoting coordination and collaboration among stakeholders, NECPs can open pathways to international finance mechanisms such as the WBIF, fostering an environment conducive to the progression of renewable energy projects.

Furthermore, the importance of NECPs lies in their role as guiding principles and bridges across the various cycles of government action. Initial experiences in NECP development among Contracting Parties indicate a strong emphasis on internal considerations. This trend persists even when NECP assumptions involve the availability of resources and capacities in neighboring countries. Unfortunately, cross-border dialogues are often limited or entirely absent. To maximize the effectiveness of NECPs, more robust coordination, deeper understanding, and comprehensive assessment of the cross-border implications of policies and measures are necessary.



The implementation of a reliable system for guarantees of origin (GOs) has shown promising progress thanks to the Energy Community regional project. However, several challenges persist. While four out of ten issuing bodies have successfully launched their registries, others are still in the process of doing so. And yet, Western Balkan parties still have substantial concerns about the EU's recognition of GOs. The Contracting Parties on several occasions have extended an invitation to the European Commission to present a set of preconditions for recognition to the Energy Community Ministerial Council in December 2023. Achieving EU recognition through the Energy Community Treaty will not only enhance the credibility of renewable energy sources but will encourage further investments and cross-border trade of renewable energy.

² DIRECTIVE (EU) 2018/2001 of 11 December 2018 on the promotion of the use of energy from renewable sources



02

Phasing Out Coal and Paving the Way for an Equitable Transition

- In the process of transitioning our economies toward green and just practices, we are committed to providing **adequate support to regions, industries, and communities** that heavily rely on fossil fuels or energy-intensive sectors and face the most significant challenges.
- We will **increase the allocation of resources to support the clean and equitable energy transition**. We call upon all partners, especially the EU and its Member States, to continue and enhance their financial and technical support for the measures outlined in this declaration.
- We urge the Energy Community, in collaboration with other relevant regional organizations and initiatives, **to develop and propose coordinated regional approaches for phasing out coal-fired power generation**. We also encourage the exploration of energy security mechanisms (..)

2.1 Key activities and achievements in the reporting period

A green and equitable transition requires comprehensive support from various sources. International support, notably through **the EU Energy Support Package**, has been received by the European Commission's disbursement of €450 million between February and May 2023. This initial segment of the package, designed based on specific action plans from Western Balkan partners, focuses on mitigating energy cost increases for vulnerable families and SMEs. The subsequent €500 million grant segment aims to drive the region's energy transition, improve efficiency, and enhance energy independence. This funding, expected to attract up to €1.4 billion in investments, is complemented by contributions from prominent donors such as the EBRD and World Bank.

The full impact can only be assessed by analyzing disbursed funds and achieved targets³. Presently, a substantial portion of funds is directed toward short-term energy poverty measures, including existing price regulation mechanisms. Some parties, such as North Macedonia and Kosovo*, allocate parts of the funds to renewable energy and energy efficiency measures for vulnerable customers, with others are actively developing new mechanisms to address energy challenges.

The commitment to a green and **equitable transition** remains a top priority, as demonstrated by the ongoing efforts to develop Just Transition Plans. Bosnia and Herzegovina's Just Transition Roadmap, developed with

³ [Protection of vulnerable households in the Western Balkans Contracting Parties in the context of rising energy prices and the EU Energy Support Package](#), Energy Community Secretariat, July 2023



assistance from the World Bank, is currently undergoing a public consultation process. Serbia's draft Just Transition Action Plan, supported by international partners, is currently under review. In North Macedonia, progress is being made on the Just Transition Diagnostics and Action Plan, with the backing of EBRD. Noteworthy advancements include the provision of a €1.5 million grant by bilateral

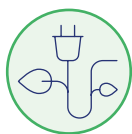
donors associated with the Western Balkans Investment Framework (WBIF) to support North Macedonia's solar plant, which is located at the site of a former coal mine. Additionally, North Macedonia's active involvement in the Climate Investment Fund's Accelerating Coal Transition Investment Program is a significant step forward.

2.2 Key challenges ahead



Energy poverty remains a pressing concern in the region, with high indicators pushing low-income households towards cheaper yet more polluting energy sources for heating. Publicly funded initiatives to replace outdated heating systems are limited, highlighting the need for stronger policies that provide long-term solutions.

Existing policies in the Western Balkan countries fall short in effectively addressing energy poverty. A comprehensive approach encompassing short and long-term measures is needed to improve the financial situation of poor households, encourage energy savings, and enhance protection for vulnerable customers. Efforts aimed at safeguarding the most at-risk groups, such as women, children, and minority populations, from the effects of energy poverty should include incentives for promoting energy savings and demand reduction.



A successful green and just transition hinges on phasing out of coal, which requires strategic guidance aligned with national plans to facilitate this shift. Leveraging NECPs as guiding frameworks can ensure coherent financing and provide a clear trajectory for coal phase-out. So far only North Macedonia has a coal phase out date by 2030 and Montenegro by 2035.



Sustained support across all paths is vital for a viable green transition, which in turn depends on **synchronized and complementary implementation of national policies**. Concurrently, revising wide-spread fossil fuel subsidies and energy price support measures are imperative to promote energy diversity and encourage investments in efficiency. In the last five years (2018-2022) Western Balkan Parties paid EUR 405,52 million for subsidies to production of electricity from coal, as a measure having equivalent effect to a negative carbon price. Serbia and Bosnia and Herzegovina contributed to 90% of this amount.



03

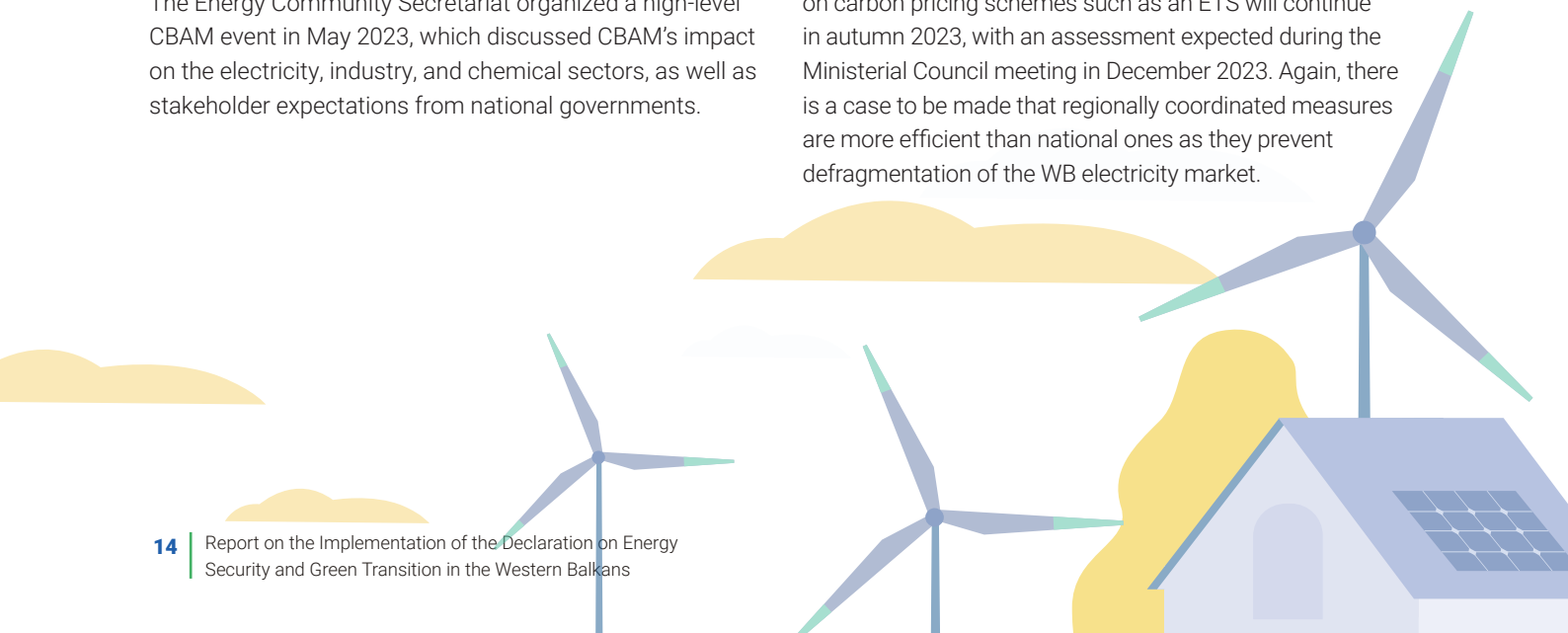
Making Western Balkan Six fit for CBAM

- We call upon the Energy Community, along with other relevant regional organizations and initiatives, to formulate and present regionally coordinated approaches to phasing out coal-fired power generation. Additionally, we encourage the development of energy security mechanisms and carbon pricing schemes with the ultimate goal of joining the European emission trading scheme and averting **the application of the planned carbon border adjustment mechanism (CBAM)** by the European Union.

3.1 Key activities and achievements in the reporting period

On May 10, 2023, the European Union adopted Regulation (EU) 2023/956, which introduces a carbon border adjustment mechanism (CBAM) set to take effect from 1 October 2023. Contracting Parties have been assessing the economic consequences of CBAM through their own resources and receiving support from international donors. The Energy Community Secretariat organized a high-level CBAM event in May 2023, which discussed CBAM's impact on the electricity, industry, and chemical sectors, as well as stakeholder expectations from national governments.

During an open discussion at the Informal Ministerial Council of the Energy Community, considerations were made regarding potential coordinated measures to address the CBAM's effects, including the creation of a regional emission trading scheme (ETS), which is a key condition for exempting the electricity exports from CBAM. Technical discussions on carbon pricing schemes such as an ETS will continue in autumn 2023, with an assessment expected during the Ministerial Council meeting in December 2023. Again, there is a case to be made that regionally coordinated measures are more efficient than national ones as they prevent defragmentation of the WB electricity market.






3.2 Key challenges ahead



The EU's intricate CBAM architecture encompasses various sectors, and the European Commission is continuously developing technical regulations to define implementation details. Despite efforts by the Energy Community Secretariat to raise awareness and provide insights, Contracting Parties' understanding of CBAM, its mechanisms, and its impacts still remains limited. **Capacity building** and trainings initiatives led by the Commission could be valuable tools to enhance the level of preparedness required to make strategic decisions.



The objective of CBAM is to equalize carbon costs for specific imported product categories with EU production. Carbon leakage, especially in the Western Balkans' electricity sector, has led to excessive profits for coal-based exporters. This underscores the need for effective policies to manage economic and social transitions during the process of cost internalization. **Failing to consider the true GHG emission costs incentivizes the use of outdated coal units and poses environmental and security risks.**


In the absence of EU ETS allowances... AVOIDED CARBON COSTS = 2,3% of GDP in 2022



To qualify for an exemption from the application of CBAM on electricity exports to the EU and to maintain a pathway towards coupling with the EU electricity market, one prerequisite is the commitment to the development and advancement of an emission trading system (ETS) in the field of electricity by 2030. Considering these requirements, **it is recommended that Contracting Parties invest significant, coordinated political and technical efforts to discuss and introduce ETS at the regional level over the next seven years** to meet this specific exemption criterion.



Furthermore, the Regulation specifies market coupling as another prerequisite for exemption from CBAM. This has increased the urgency to establish short-term markets and fully integrate them into the EU's Single Day-Ahead Coupling (SDAC) and Single Intraday Coupling (SID) by the end of 2025. **The successful achievement of integration depends on Contracting Parties promptly and comprehensively transposing and applying the recently adopted Electricity Integration Package**, including the crucial transposition of the ACER (Agency for the Cooperation of Energy Regulators) Regulation. This regulation defines the regulatory governance on the interfaces between EU Member States and Contracting Parties in coupled markets. It is essential that transposition is completed before the end of 2023, all necessary entities are properly designated and the contractual and regulatory relations within the wider region are defined.



04 | Strengthening energy security and reducing energy demand

- In our plans and strategies, we will set ambitious targets and actions **to diversify our energy supply sources and reduce the dependence on fossil fuels**, especially of Russian origin. We welcome the openness of the EU platform for **common purchases** to the Western Balkans as a clear signal of support.
- We will join the discussion **on joint purchasing arrangements** developed under the European Union Energy Platform for gas from alternative sources.
- We are committed to **harmonizing our crisis and emergency measures**, including with EU Member States, in the spirit of solidarity. We will provide unconditional third-party access to all pipelines and storage facilities and fully unbundle transmission system operators for gas, including those dominated by companies outside the Energy Community in line with the Energy Community Treaty and any legitimate exemptions thereunder. We will not tolerate capacity hoarding on interconnector pipelines.
- To enhance energy supply security and address high energy prices, we will develop and implement national and regionally coordinated targets and mechanisms for dedicated measures aimed at reducing electricity and gas demand.
- Windfall profits generated by electricity and fuel producers in our jurisdictions will be used to finance support for poor and vulnerable customers and to further the goals of the green and just transition.



4.1 Key activities and achievements in the reporting period

In terms of **electricity supply security**, the Western Balkan parties faced predominantly moderate risks during the winter of 2022/23. These risks were attributed to their reliance on aging coal-based power generation facilities, resulting in decreased reliability and a substantial dependence on hydrological factors. Fortunately, hydrology improved significantly in January 2023, and the mild winter helped keeping electricity consumption in check. While supply security remained intact, financial challenges emerged in the electricity sector. Notably, net-importing countries experienced increases in wholesale electricity prices. Although end-user prices rose more slowly and with a delay, companies obligated to provide public service, for instance in North Macedonia and Serbia, faced financial difficulties. Some transmission and distribution operators, especially in Kosovo* and North Macedonia, also encountered financial problems because regulated tariffs did not align with the high electricity prices, resulting in losses.

In contrast, net-exporting parties generated profits during the period of elevated prices. Windfall profits generated by electricity producers were not directed towards providing assistance to poor and vulnerable consumers or promoting an environmentally sustainable and just transition. Instead, in certain cases, these profits were used to sustain reduced retail tariffs through Public Service Obligations (PSOs).

Additionally, national guidance documents aimed at reducing demand, including public appeals for consumers to voluntarily decrease their electricity usage in response to the crisis and high wholesale market prices, led to decreased demand across most of the Contracting Parties. Several parties, such as North Macedonia, Kosovo*, and Serbia, raised tariffs or adjusted their tariff structures to incentivize reduced consumer spending. For example, North Macedonia and Kosovo* implemented a block tariff system with varying rates based on electricity consumption.

While most end-customers enjoyed regulated tariffs below market rates, affordability remained a persistent issue. The majority of the Contracting Parties focused on limiting price increases for all households rather than introducing new measures to assist vulnerable consumers. An exception to this trend is Serbia, where the government enacted a new Decree on Energy Vulnerable Customers in December 2022. This decree not only provided subsidies for electricity and gas, as previously decreed, but also extended support to cover heating. Moreover, eligibility conditions were revised with the aim of increasing the number of eligible recipients, from approximately 67,000 in 2021 to 191,000 in 2023.

In response to a gas crisis, Western Balkan parties identified issues affecting regional infrastructure use and initiated actions to mitigate supply risks, including new

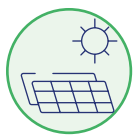
infrastructure projects and negotiations with alternative gas partners. In this context, the EU's initiative for joint gas purchase is critical. The mechanism operated by the European Commission, envisages the involvement of the Contracting Parties, notably Serbia in the Western Balkans.

In contrast to the European Union, the Energy Community has not adopted Regulation (EU) 2022/1369 concerning coordinated gas demand reduction measures. Nonetheless, several Contracting Parties implemented gas reduction and energy efficiency measures. The impact of these measures on consumption clusters is yet to be determined. North Macedonia notably reduced gas consumption by a third. The Energy Community Secretariat just recently adopted Guidelines on lessons learned and best practices for reducing energy demand.

4.2 Key challenges ahead



Looking **ahead to the winter of 2023/24**, the Contracting Parties in the Western Balkans will face familiar risks that threaten the security of their electricity supply. Stability will depend on factors such as electricity consumption, especially during cold spells, hydrological conditions (potential imbalances in countries like Albania, Bosnia and Herzegovina, Montenegro, North Macedonia, and Serbia if hydrology is dry), and the availability of existing thermal capacities to ensure high availability and reduce risk.



The Energy Community Contracting Parties continue to demonstrate **vulnerability and reduced resilience in extreme scenarios**, highlighting the urgency of accelerating energy transition and decarbonization by integrating more renewable energy. High investor interest, reaching approximately 20 GW in Serbia, around 7 GW in Bosnia and Herzegovina, over 4 GW in North Macedonia, and gigawatt-scale investments in Albania and Montenegro, suggest the possibility of rapid capacity development (2-3 years). However, obstacles tied to permitting procedures, grid connections, and power system balancing due to limited flexibility resources need to be urgently addressed.



To mitigate these challenges, the Secretariat recommends **speeding up the integration of renewables, establishing liquid electricity markets (particularly intraday and balancing markets), enhancing cross-border exchanges, and aligning retail electricity prices with wholesale rates while offering necessary support to vulnerable consumers**, particularly women, children, and minorities, who are most vulnerable to energy poverty. Energy efficiency measures are also recommended for mid-term risk reduction, with the Secretariat's support. Complete electricity spot market opening, market coupling, forward market development, participation in emissions trading systems (ETS) to facilitate coal phase-out, renewables integration, and regional cooperation remain pivotal actions for sustainable power systems and risk mitigation.



The Western Balkan parties will encounter similar **risk patterns related to gas** in the upcoming winter, with North Macedonia showing more flexibility due to market progress and diversification efforts. Serbia's market opening, interconnection completion with Bulgaria, and supply diversification are crucial. All parties must expedite efforts to implement Regulation 2017/1938 on gas supply security, conduct risk assessments by year-end, and adopt preventive and emergency plans. Compliance with Storage Regulation targets, certification of storage operators (such as Serbia), and arrangements for meeting minimum stock requirements in Bosnia and Herzegovina and North Macedonia are essential.





05 | Implementing “energy efficiency first principle”

- We will continue to prioritize and incentivize effective energy efficiency measures. This includes introducing appropriate energy price signals that reflect scarcity, externalities, and costs, as well as implementing a deep renovation wave.
- In this context, we will revise and improve the requirements for the construction of **energy-efficient new buildings**. We will also develop frameworks for the renovation of existing buildings, including the creation of **long-term building renovation strategies** and investment programs.
- Additionally, we will **accelerate the work on decarbonization of the heating and cooling sector**. This will involve the modernization of district heating and cooling networks, the utilization of renewable sources and the adoption of high-efficiency technologies.

5.1 Key activities and achievements in the reporting period

The Western Balkan parties are **committed to advancing energy efficiency**. They have made significant progress in prioritizing and incentivizing effective energy efficiency measures. Notably, these parties are updating their energy efficiency strategic and legislative frameworks to align with the Clean Energy package, meeting their 2020 energy efficiency targets, and adopting ambitious 2030 targets as of December 2022.

Furthermore, their **commitment to a “deep renovation wave”** is becoming a reality through ongoing efforts to establish long-term strategies and enhance existing legislation for buildings and appliances. These efforts are aligned with higher energy efficiency standards. All Western Balkan countries have programs for retrofitting public buildings and incentivizing private property owners to undertake energy-efficient renovations. These initiatives have resulted in significant reductions in energy consumption and greenhouse gas emissions.

Progress is also being made in improving **energy-efficient requirement for new building and developing frameworks**

for building renovation. Energy performance prerequisites for new constructions are now integrated within the building codes of Western Balkan countries. To address existing buildings, there is growing momentum in the implementation of long-term renovation strategies and investment programs. These strategies are increasingly featured in their draft National Energy and Climate Plans (NECPs), with a focus on both public and private structures. Ideally, these strategies should outline step-by-step approaches to energy-efficient retrofits while offering clear funding guidance.



The Western Balkan parties are **actively advancing the decarbonization of the heating and cooling sector**. They are currently modernizing district heating and cooling networks in several cities, which leads to reduced heat losses and optimized distribution networks. Additionally, they are exploring the integration of renewable energy sources like solar and biomass, to either replace or supplement conventional fossil fuels.



Moreover, there is a strong push to promote **high-efficiency technologies within the buildings sector**. These technologies include heat pumps and rooftop solar systems, which play a pivotal role in harnessing renewable

energy for heating and cooling purposes. This not only enhances overall energy efficiency but also significantly reduces greenhouse gas emissions.

Building Energy Efficiency indicators and status of adoption on building renovation strategies

| | ALB | BIH | KOS | MNE | MKD | SRB |
|---|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|--------------------------------------|
|  Share of buildings in FEC (%) | 50% | 54% | 50% | 48% | 38% | 50% |
|  Building renovation strategies | ● | ● | ● | ● | ● | ● |
| ● Adopted ● Draft ● Work in progress | | | | | | |

5.2 Key challenges ahead



Despite significant improvements in energy efficiency, the Western Balkan parties still face key challenges. Aligning national legislation and policies with the Clean Energy Package is a complex yet crucial task for achieving efficiency targets. This includes **updating energy efficiency laws, implementing by-laws, and adopting long-term building renovation strategies**.



Financial resources for efficiency measures and large-scale renovations are also essential. To attract public and private investment, effective regional and national funding mechanisms need to be established. Strengthening the technical capacity of stakeholders is vital, and providing training to professionals such as architects and engineers is essential for successful implementation of energy efficiency projects. Furthermore, the public sector must lead by example by implementing energy-efficient measures in public buildings and effectively communicating the benefits of energy efficiency to the public. By addressing these challenges innovatively, the Western Balkans can take significant steps toward a greener and more energy-efficient future.

06

Creating an integrated electricity market

- We will integrate our day-ahead and intra-day markets, coupling them with the balancing and forward markets in Europe. This integration will serve as an instrument to stimulate investments in green energy and ensure affordable energy prices, while maintaining security of our energy supply.
- To enhance the flexibility of our electricity systems, we will maximize the utilization of all available interconnection capacities by optimizing calculation and allocation of capacity in accordance with the targets applicable under the European rules. We will gradually open and expand cross-zonal capacities, thereby increasing the volumes of energy exchanges and improving the liquidity of our energy markets.

6.1 Key activities and achievements in the reporting period

During the reporting period, there were significant developments related to the **day-ahead markets in 2023**. On 11 April 2023, ALPEX inaugurated the Albanian day-ahead market and is also expected to operate the Kosovo* market starting in the second half of 2023. MEPX introduced the day-ahead market in Montenegro on 27 April, 2023. North Macedonia's MEMO conducted its inaugural day-ahead auction on 10 May 2023. Both MEPX and MEMO have plans to establish intraday markets, a goal that SEEPEX achieved on 25 July 2023. The setup of a short-term market in Bosnia and Herzegovina is still under discussion, and serious delays are to be expected.

In their first operating month, **the newly established exchanges—ALPEX, MEPX, and MEMO**—accounted for

about 20%, 17% and 8%, respectively, of the Contracting Party's total consumption. The Serbian SEPEEX, which has been an active day-ahead market since 2016, experienced a volume increase of approximately 35% from January to May 2023 compared to the previous year.

As the WB6 Contracting Parties **work on transposing the Electricity Integration Package**, some have partially transposed and begun implementing Regulation 2015/1222 (CACM Regulation). Notably, North Macedonia and Serbia have notified the Secretariat of their NEMO designations (MEMO and SEEPEX, respectively). By June 15, 2023, all WB6 transmission system operators (TSOs) in the Shadow SEE capacity calculation region (CCR) should have submitted coordinated capacity calculation methodologies,



including cooperation agreements between TSOs of the Energy Community and neighboring EU Member States. The submission of these methodologies occurred still outstanding.

While market coupling efforts aim to boost trade, there has not been any improvement in cross-zonal capacities. Net Transfer Capacity (NTC) values remain unchanged, constraining market activities in the WB6 region. TSOs are collecting higher congestion revenues but allocating them to national tariff reductions rather than addressing congestion. There has been no substantial enhancement

in interconnection capacities for trading observed in the past year.

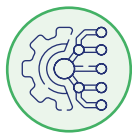
EU Regulation 2019/943 sets a mandatory target of at least 70% target for cross-zonal trading electricity interconnector capacity, and this requirement applies to all TSOs. In situations where there are structural congestions and actions plans needed, national regulatory authorities (NRAs) have the authority to grant different roles to the Energy Community Regulatory Board (ECRB) and ACER for internal CPs borders and borders between EU and CPs respectively.



6.2 Key challenges ahead



In addition to the mandatory full transposition of the new Electricity Integration Package, **the swift establishment of day-ahead and intraday markets across WB6 Contracting Parties is crucial**. Each Contracting Party should designate at least one NEMO for day-ahead and intraday trading, which is a prerequisite for progressing towards integration with the EU's SDAC and SIDC. Bosnia and Herzegovina as well as Montenegro are in delay in this respect.



The package requires EU and EnC NEMOs to collaborate in formulating a plan that outlines the timeline and Contracting Parties' NEMOs into MCO functions by 15 December 2023. A joint expert team (JET) has been established to oversee this process, involving Contracting Parties and stakeholders from EU Member States. **The integration into market coupling for WB6 parties must be achieved by the end of 2025**. Efforts towards liberalizing wholesale and retail markets and adhering to the new legal framework that enables free price formation remain also important.



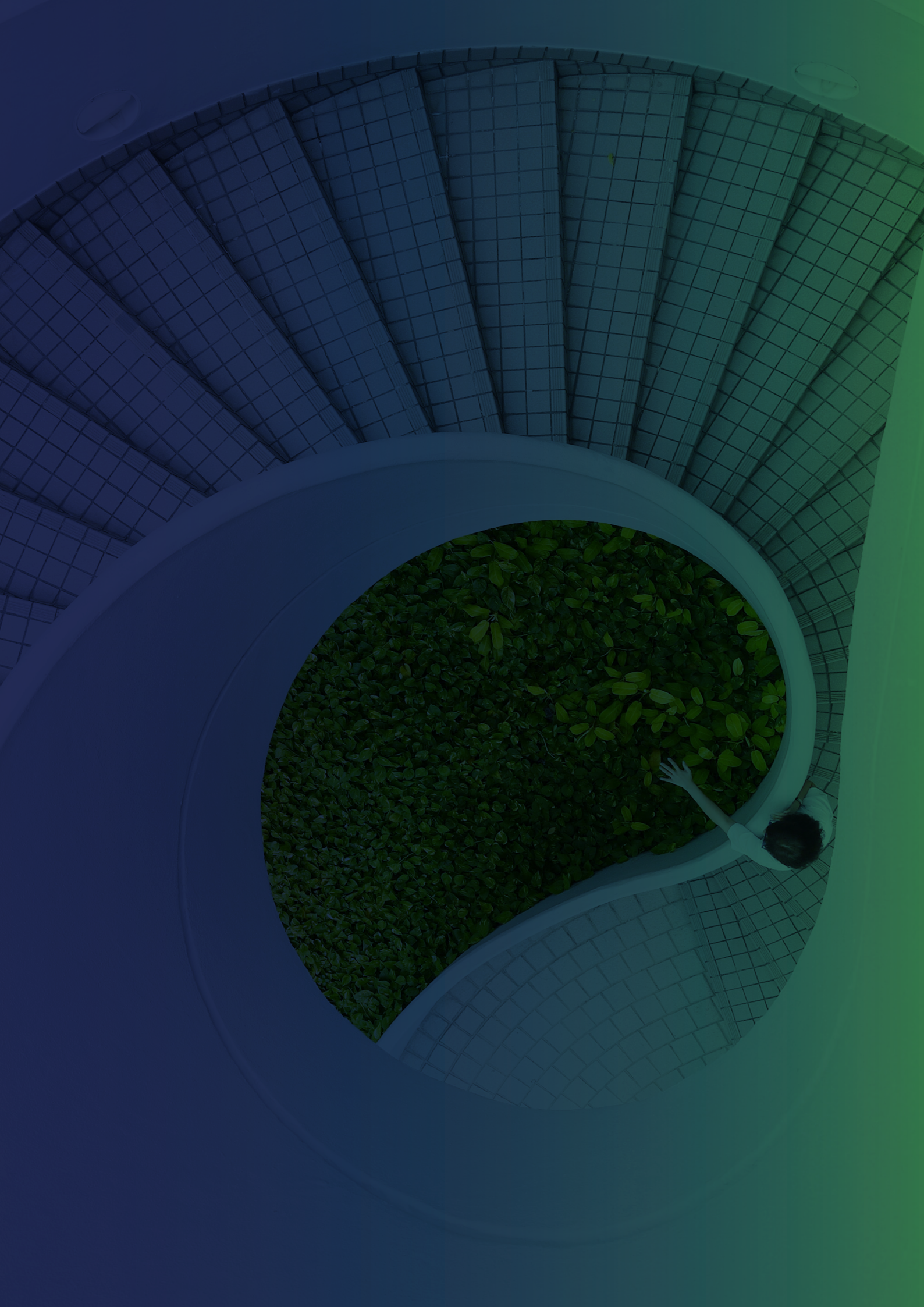
Enhanced regional cooperation is central, and national regulatory authorities and WB6 transmission system operators (TSOs), often in collaboration with neighboring EU Member State TSOs, need to harmonize terms, conditions, and methodologies as outlined in Network Codes and Guidelines. This alignment is crucial for coordinated capacity calculation across various market timeframes. Additionally, the establishment of Regional Coordination Centers (RCCs) for cross-zonal capacity calculation and integration into European balancing energy platforms must be achieved within challenging deadlines, requiring improved coordination between national markets and TSOs.



Regulation (EU) 2019/943 requires a progressive increase in cross-zonal trade capacity, targeting a minimum of 70% by 31 December 2027. Fulfillment of this mandate is contingent upon addressing structural congestions and implementing action plans. The Secretariat assists TSOs in this endeavor by preparing a study on the 70% target for electricity interconnection capacities and organizing relevant workshops. Initial findings indicate that none of the WB6 parties presently meets the 70% target, and that the flow-based capacity calculation method could yield superior results compared to the existing NTC approach.



Achieving the 70% target is expected to significantly boost cross-zonal transmission capacities in the Energy Community, optimizing interconnectors. The subsequent increase in cross-border capacities is anticipated to drive the integration of renewable energy sources, reducing reliance on carbon-intensive power generation. Elevation of NTC values and market coupling will narrow price differentials between neighboring nations, incentivizing the flexibility of resources and promoting investments in new resources.





07

Creating a better environment



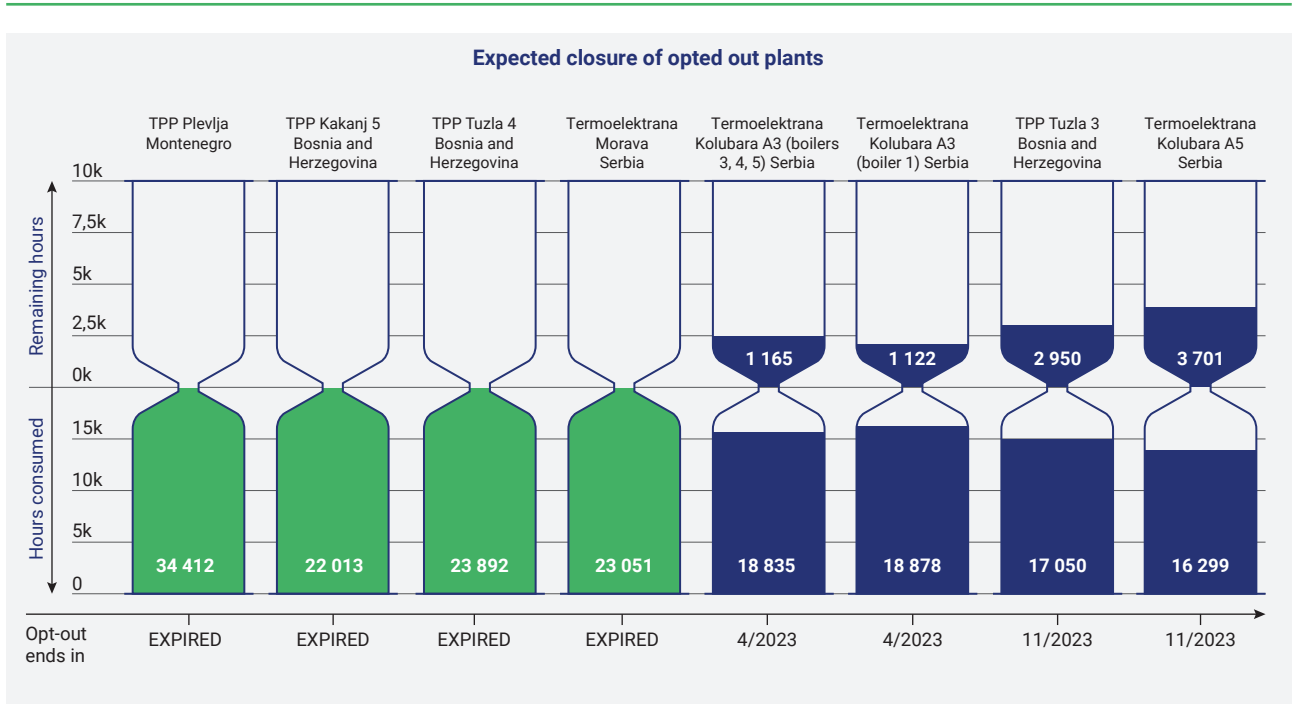
- We reaffirm our commitment to implementing the mechanisms outlined in the **Large Combustion Plants Directive** (national emission reduction plan, opt-out), and we are committed to complying with the deadlines therein.
- We will encourage our municipalities and regions to actively participate in the Covenant of Mayors for Climate and Energy and the Energy Community Secretariat's **Clean Air Regions Initiative**. Our aim is to prioritize and implement the most efficient climate and energy measures, with a focus on significantly reducing pollution at the local level.
- We pledge to conduct **comprehensive social and environmental impact assessments** for energy installations within our jurisdictions. We will address adverse impacts on climate, biodiversity, pollution (including air and soil pollution), and public health adequately. We will also assess vulnerability to the impacts of climate change. This commitment extends to hydropower installations, where our primary focus will be on the rehabilitation of large installations. We will phase out financial incentives for small hydropower projects that are detrimental to the biodiversity, with immediate attention given to protected areas.

7.1 Key activities and achievements in the reporting period

The Large Combustion Plants Directive, a crucial component of the Energy Community Treaty, aims to reduce air pollution by regulating emissions from thermal power plants. Despite the adoption of National Emission Reduction Plans (NERPs) by various parties, breaches of emission limits persist and have in some instances, worsened due to lowered allowable emission levels. To address these issues, the Secretariat has referred cases of non-compliance with NERP emission limits in Bosnia

and Herzegovina, Kosovo*, and North Macedonia to the Ministerial Council. Serbia also faces infringement due to non-compliance with the SO₂ ceiling.

In addition, the 2023 infringement package includes a case of non-compliance with opt-out rules at TPP Pljevlja in Montenegro. Several plants, like Tuzla 4 and Kakanj 5 in Bosnia and Herzegovina and Morava in Serbia have reached their opt-out limits.



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.

In June 2023, the second phase of the Clean Air Regions Initiative started. The first phase of the Initiative was dedicated to building capacity for air quality planning at the local level. The second phase is structured around two work streams. The first work stream focuses on the development of air quality monitoring and local-level

projects, while the second work stream aims to promote regional and international exchange.

The Environmental Impact Assessment (EIA) and Strategic Environmental Assessment (SEA) directives are pivotal for sustainable development by requiring thorough evaluations



of potential impacts before project approval. These directives, which are part of the Energy Community Treaty *acquis*, promote transparency in decision-making through stakeholder engagement and innovative methods aimed at mitigating environmental harm.

Infringement proceedings currently target Kosovo*, North Macedonia, and Serbia due to incomplete implementation of the EIA Directive. Kosovo* passed the Law on EIA in December 2022, but the necessary secondary legislation for effective public involvement is still pending. Draft EIA legislation in North Macedonia and Serbia requires further refinement and formal adoption. Albania needs additional amendments to its EIA law for alignment, while Bosnia and Herzegovina must enhance the implementation of EIA for hydropower projects that have been in progress for over a decade.

The Secretariat currently runs six registered cases of inadequate EIA for 18 hydropower projects in the Western Balkans. In 2023, a significant accomplishment was the establishment of a cross-border dialogue group between Bosnia and Herzegovina and Montenegro. This initiative facilitated discussions regarding the cross-border impacts of the Buk Bijela hydropower project, resulting in the development of a jointly agreed roadmap, facilitated by the Secretariat. Albania also made significant progress by designating the Vjosa River as a National Park, preserving its status as a wild, free-flowing river.

The Serbian Ministry of Environment approved the EIA report for the Djerdap 2 hydropower project, scheduled for revitalization from January 2025 to September 2037. Other Contracting Parties are actively working on establishing new large hydropower projects. For instance, in the reporting period, North Macedonia initiated the EIA procedure for the 333 MW Cherbren project, Albania for the 210 MW Skavica project, and Bosnia and Herzegovina commenced the construction of the 160 MW Dabar project.

Bosnia and Herzegovina is leading the way in addressing issues related to subsidies for small hydropower projects. In the Federation of Bosnia and Herzegovina, the newly adopted Law on Renewable Energy Sources excludes all hydropower projects from eligibility for financial support schemes. Other parties in the Western Balkans have yet to make similar progress in this area.

Regarding network energy plans and programs, Serbia initiated the SEA for its draft National Energy and Climate Plan during the reporting period, beginning public consultations that also included trans boundary discussions. Concurrently, Bosnia and Herzegovina, Kosovo*, and Montenegro are in the preliminary stages of preparing SEAs for their respective energy and climate plans.

Key challenges ahead



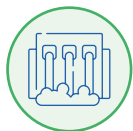
A significant challenge lies ahead due to the absence of a comprehensive legal framework for environmental assessment, which results in gaps in the scrutiny of energy projects and creates uncertainty for future investments, including those in renewable projects. Strengthening the national legal framework for environmental assessment must go hand in hand with efforts to enhance institutional capacity. This is crucial to ensure streamlined procedures and the successful establishment of a unified “one-stop shop” for various assessments and permits.



The implementation of environmental initiatives faces two prominent challenges: **securing financing for the proposed measures and developing adequate administrative capacity**. It is imperative to translate plans and programs into concrete actions and ensure sufficient financial and human resources are available for their execution.



The Large Combustion Plants Directive, in particular, experienced delays in investment for emissions abatement equipment, exacerbated by the impact of Covid-19 measures, energy price shocks, and the full-scale Russian invasion of Ukraine. These events raised concerns about supply security, which in turn undermined environmental compliance. In general, respect for the pollution thresholds established by this Directive in the Western Balkans remains low, to the detriment of citizens' lives, health and the environment.



A more cohesive approach is essential for the development of hydropower projects. Incorporating spatial mapping and considering sensitive siting practices could prove pivotal in mitigating conflicts related to biodiversity and water usage. Legislative instruments must be developed to gradually phase out financial incentives for small hydropower projects, presenting a significant challenge.



Achieving effective and efficient consultation within reasonable timeframes poses a key challenge in Strategic Environmental Assessments (SEAs) for National Energy and Climate Plans. This challenge is especially pronounced in the context of trans boundary discussions involving neighboring countries.












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