



Towards a Regional Electricity Market

From Vienna to Paris

Energy Community Secretariat
July 2016



Executive Summary



The Energy Soft Measures

At the Vienna Summit of the Western Balkans 6 Initiative¹ (“Berlin process”) on 27 August 2015, six Contracting Parties of the Energy Community in Southeast Europe, namely Albania, Bosnia and Herzegovina, former Yugoslav Republic of Macedonia, Montenegro, Kosovo* and Serbia decided to take steps to improve energy connectivity in the region by facilitating investments and prioritising market development. In this context, the Western Balkan countries committed to implement a priority list of so-called “energy soft measures”², at national and regional level, as key preconditions for the development of a truly integrated electricity market. The regional measures consist of establishing spot markets (power exchanges), a regional balancing market and making the best use of the already existing Coordinated Auction Office in Southeast Europe (SEE CAO) for regional capacity allocation. The national measures mainly focus on removing national obstacles to regional electricity market development by creating the appropriate market and regulatory framework.

The present Monitoring Report prepared by the Energy Community Secretariat, which was tasked by the Western Balkan countries “to take the lead to develop the regional energy market and to help implementing these ‘soft measures’”, consists of six country reports and a regional report. The country

reports provide an overview of the state of play of implementation of the energy soft measures and highlight the achievements made since the Vienna Summit of 27 August 2015. It also shows where continued implementation efforts are needed most.

The WB6 countries started late with implementing the Vienna Summit soft measures and did not deliver on all dimensions on time. However, all WB6 governments and implementing entities have recognised that delivering the necessary institutional, legal, regulatory and operational reforms will pay back through better prices for customers, improved economic sustainability of the sector, and increased generation, trade and supply efficiency.

¹ Final Declaration of the Western Balkans Summit Vienna 2015

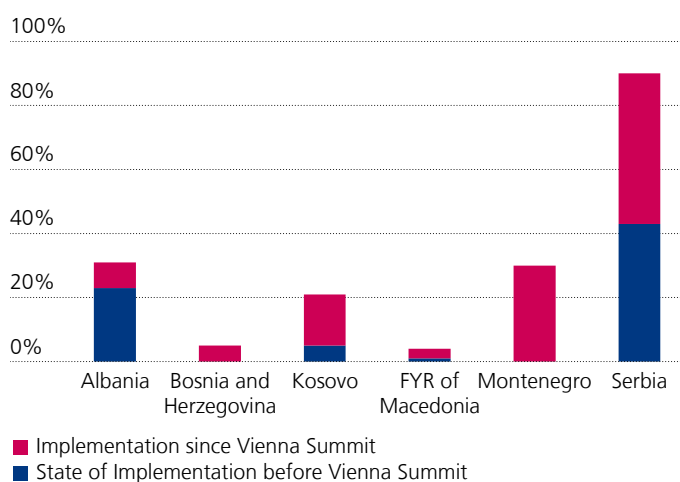
² Addendum to the Final Declaration of the Western Balkans Summit Vienna 2015

* This designation is without prejudice to positions on status, and is in line with UNSCR 1244 and the ICJ Opinion on the Kosovo declaration of independence.

Overall Progress in Soft Measures Implementation since the Vienna Summit

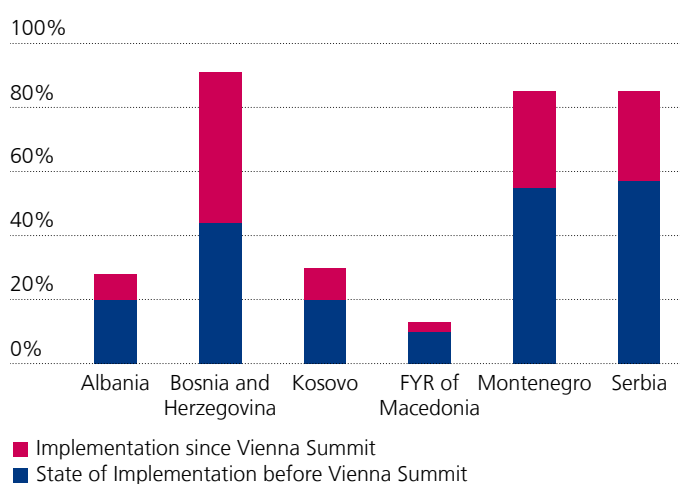
Spot Market Development

The most significant progress regarding the establishment of organised electricity markets allowing for buying and selling of electricity at spot markets was made in Serbia. This includes the establishment of a power exchange, the go-live of the day-ahead electricity market, and the progress made in removing legal and regulatory obstacles. However, developments towards the establishment of a power exchange or seeking services from already operational trading places in Europe took place in nearly all of the WB6 countries. There is still room for improvement for Serbia and all other countries in particular with regard to the promotion of liquidity of domestic markets suffering from anti-competitive structures. There is also still a long way to go before coupling with and between neighbouring markets will be reached.



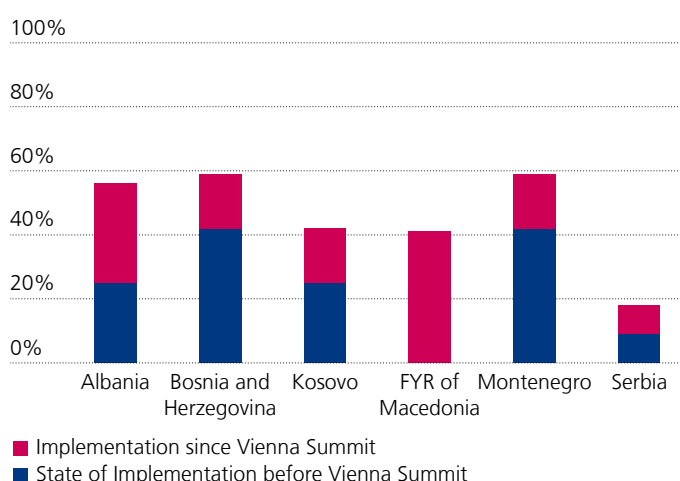
Cross-border Balancing

The development of cross-border and market-based mechanisms for procurement of balancing services is an area where the most notable progress was achieved since the Vienna Summit. Bosnia and Herzegovina stands out with fully deregulated procurement of both balancing capacity and balancing energy as of 1 January 2016. In Montenegro and Serbia the deregulation of the balancing energy price allowed for the launch of an operational cross-border exchange of balancing energy in May 2016. Further activities aimed towards deregulation of balancing reserve prices are needed in both jurisdictions. In the other countries, activities to develop market-based balancing models have still not resulted in concrete results, mainly due to regulatory obstacles. Terminating the prevailing discriminatory approach to balance responsibility remains a crucial precondition for the development of cross-border balancing in Albania, Kosovo and FYR of Macedonia.



Regional Capacity Allocation

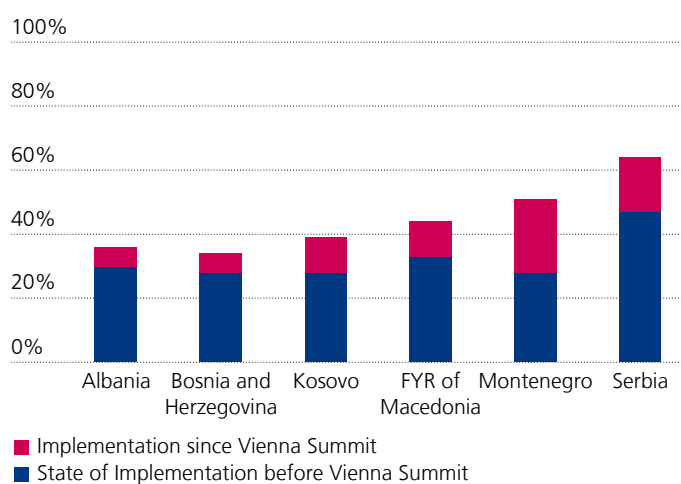
The progress in the sphere of regional capacity allocation was made in all WB6 countries, but with different levels of success. In terms of regionally coordinating the allocation of cross-border capacity through the Coordinated Auction Office in South East Europe (SEE CAO), the cooperation among Albania, Bosnia and Herzegovina, Kosovo and Montenegro was already advanced at the time of the Vienna Summit. The soft measures defined in Vienna aimed at overcoming the lack of cooperation by the transmission system operators in FYR of Macedonia and Serbia. Since the Vienna Summit, the system operator of FYR of Macedonia has concluded binding agreements on coordinated capacity allocation with the SEE CAO. However, the definitions of the start and scope of concrete allocations are still missing. The Serbian system operator failed to finalise such an agreement, which partly explains the poor scoring of Serbia.



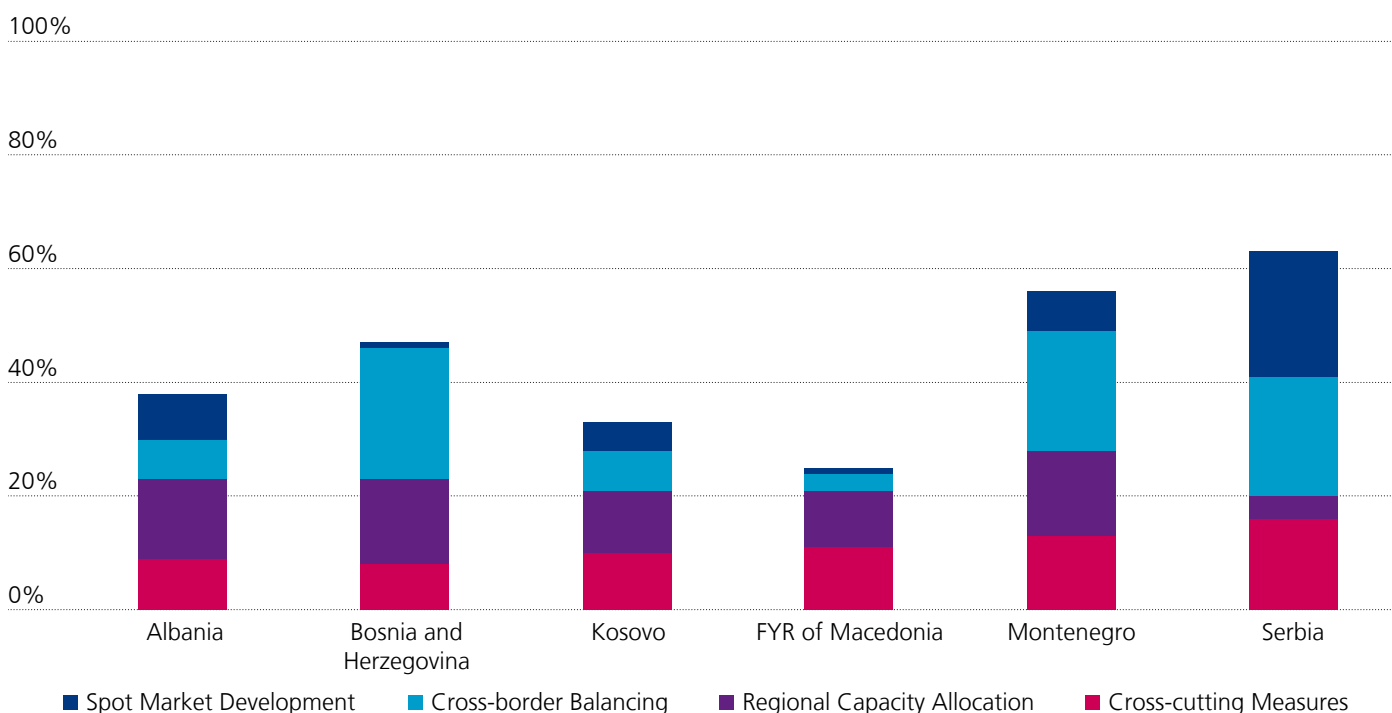
The biggest concern in the sphere of regional capacity allocation is the non-implementation of the agreements between the system operators of Serbia and Kosovo, which blocks market integration in the entire region, leads to inefficient market results and prevents amicable and efficient cooperation in a much wider area. A finalised and signed agreement between the European Network of Transmission System Operators for Electricity (ENTSO-E) and the Kosovo system operator on the joint operation of the interconnected grid is effectively blocked by the Serbian system operator's insistence on an unrelated and non-technical condition, the setting up of a Serbian supply company in Northern Kosovo.

Cross-cutting Measures

The progress made in implementing cross-cutting measures was modest in the period since the Vienna Summit. This is partly due to the fact that they are more long-term than the others. The most critical elements are related to price deregulation, unbundling of system operators and regulatory independence. The main reason behind underperformance is often missing Third Package-compliant primary and/or secondary legislation in several countries. The lack of legislation is of particular relevance for unbundling and certification of the transmission system operator, regulatory independence and applying for observer status in Agency for the Cooperation of Energy Regulators (ACER). While the legal bases for price deregulation of generation and end-user prices, as well as unbundling of the distribution system operator, are in place in most of the countries, enforcement is still missing in many. On the retail side, FYR of Macedonia refuses to grant the right to choose a supplier to households and some SMEs, who are held captive. This breaches a crucial commitment under the Treaty establishing the Energy Community.



Overall Implementation of Soft Measures



The overall implementation of the energy soft measures agreed at the Vienna Summit 2015 by the Western Balkan 6 countries provides a heterogeneous picture. No country has fulfilled all its commitments, some outperformed others, and results in some areas proved easier to accomplish than in

others. A notable achievement on a regional level was made through the signing of the Memorandum of Understanding of Western Balkan 6 on Regional Electricity Market Development and Establishing a Framework for Future Collaboration on 27 April 2016 in Vienna.

Following an initially slower pace in organising activities on implementing the energy soft measures, progress made in all spheres in the last months before the Paris Summit gives rise to the expectation that the Western Balkan 6 countries can, to a large extent, implement the remaining energy soft measures within the months to come.



Spot Market Development

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

The starting point for the implementation of this measure was the adoption of the primary electricity sector law in April 2015, which entered into force in June 2015. The law requires the development and adoption of a very comprehensive set of secondary acts which will enable the removal of all obstacles as required by the Vienna Soft Measures. Most importantly, the Regulation on Procurement of Losses in Electricity, Balancing Services and Ancillary Services, which shall regulate the purchase procedures applicable until the establishment of the day-ahead market, still needs to be adapted by the regulatory authority.

The adoption of that secondary legislation depends on the approval of the so-called market model by the Albanian Government. Following consultations with stakeholders and the Energy Community Secretariat, the Government announced

to adopt this crucial act in a timely manner. This will establish the basis for market opening, the precondition for the adoption of missing pieces of secondary legislation, and the foundations for establishing an organised market based on a power exchange within Albania.

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

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

Spot Market Development

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



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



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



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



Total for spot market development



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

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

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





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

Cross-border Balancing

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

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

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

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

The transmission system operators of Albania and Kosovo have developed and tested a mechanism for the procure-

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

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

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

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

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

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

Cross-border Balancing

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



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



Establishment of a functioning national balancing market based on above model



Total for cross-border balancing





Regional Capacity Allocation

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

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

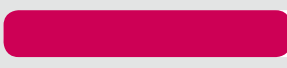
donia and Turkey. This is an initial step towards establishing an entity performing capacity calculation services.

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

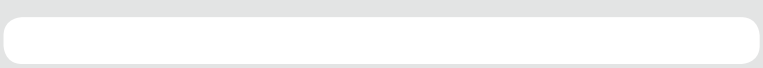
Stronger cooperation between SEE CAO and the relevant EU Member States, supported by the European Commission, is needed.

Regional Capacity Allocation

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



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



Total for regional capacity allocation



Cross-cutting Measures

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

The Power Sector Law deregulated prices of generation and supply to all customers connected to the high voltage grid (110 kV and above) and for those with an annual consumption over 50 million kWh. All other groups of customers are supplied by the incumbent supplier. An action plan for deregulation of supply prices until 31 December 2018 is defined by the law. As of July 2016, customers connected to 35 kV distribution lines will have to choose their supplier.

The elimination of retail price regulation requires also the termination of a regulated full supply contract between the state-owned generation and supply companies. The contract covering some 75% of Albanian electricity consumption has been extended until mid-2016 and will only be gradually phased out.

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

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

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

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

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

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





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

Significant progress was made since the Vienna Summit. In December 2015, the regulatory authority approved the rules for certification. The Law on Ownership of the Transmission System Operator, which lays down the legal basis for unbundling, was adopted by the Parliament in January 2016. The Council of Ministers passed a decision in April 2016 according to which the transmission system operator shall be controlled by the Ministry of Economy, whereas the Ministry of Energy shall have control over state-owned production and supply companies. This constitutes the basis for the transmission system operator to apply to the national regulatory authority for certification.

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

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

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

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

Cross-cutting Measures

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



Legal and functional unbundling of distribution system operators and supply companies



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



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



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



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



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



Total for cross-cutting measures





Spot Market Development

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

Despite significant efforts, the implementation of this measure has not been completed. An infringement case is pending before the Ministerial Council of the Energy Community. The legal framework necessary for the organization of the electricity market and in line with the Third Energy Package should have been established through the Law on Regulator, Transmission and Power Market. However, the Law is still in the drafting phase and has not yet been submitted for approval to the Council of Ministers and further to Parliament. A draft Law on the Establishment of the Transmission System Operator is in the early stages of development.

VAT legislation has not been harmonized with the practice of the neighbouring jurisdictions. Public procurement legislation has not been revised in order to remove obstacles to the functioning of the electricity market.

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

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

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

There are three local utilities in the country, each with its own generation portfolio. Their participation in a national or regional organized market would ensure liquidity in a much easier way than in the prevailing markets with concentrated or monopolistic structures. However, no measures to open up or integrate these local markets have been taken since the Vienna Summit.

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

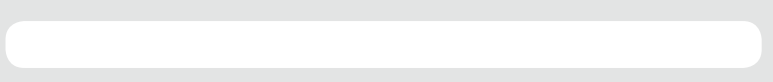
No concrete plans for market coupling have been adopted so far.

Spot Market Development

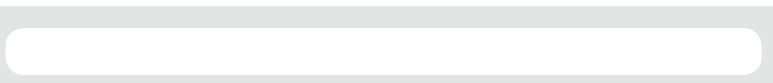
Remove major legal and contractual obstacles to establishing organised electricity markets and market coupling based on the reports of the Secretariat



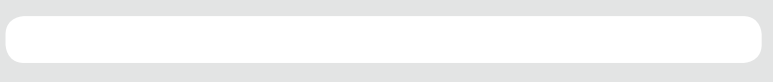
Adhere to a power exchange or, if economically justified (considering liquidity and economic viability), create an own power exchange, enabling wholesale market trade



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



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



Total for spot market development





Cross-border Balancing

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

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

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

A significant step forward was made with the adoption of Market Rules, which provide a balancing model that ensures market-based and non-discriminatory procurement of balancing capacity and balancing energy by the transmission system operator, in May 2015. Non-discriminatory imbalance settlement was also defined and implemented in practice. A model of cross-border exchange of balancing services with the transmission system operators of Croatia and Slovenia is defined in the trilateral contract signed between them, but it is still not applied in practice.

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

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

Cross-border Balancing

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



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



Establishment of a functioning national balancing market based on above model



Total for cross-border balancing





Regional Capacity Allocation

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

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

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

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

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

Regional Capacity Allocation

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



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



Total for regional capacity allocation



Cross-cutting Measures

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

In Republika Srpska, the price of electricity supplied by the incumbent generation companies to public suppliers is still regulated. End-user price regulation has been reformed since the Vienna Summit and is limited to small customers and households.

In Federation of Bosnia and Herzegovina, all prices were deregulated on 1 January 2015, except for households and small customers.

No activities have been undertaken towards adopting an action plan for phasing out remaining price regulation.

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

The deadline for unbundling was missed. Distribution is still legally and functionally bundled with supply throughout Bosnia and Herzegovina and with generation in two utilities in Federation of Bosnia and Herzegovina.

Preparatory activities for the unbundling of distribution, undertaken since the Vienna Summit in both Republika Srpska and Federation of Bosnia and Herzegovina, have not resulted in meeting the unbundling requirements.

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

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

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

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





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

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

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

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

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

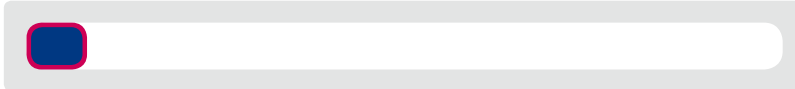
The TEN-E Regulation was incorporated in the Energy Community in October 2015, implementation activities in Bosnia and Herzegovina have not started yet.

Cross-cutting Measures

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



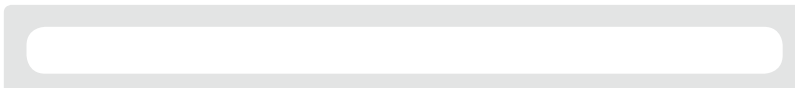
Legal and functional unbundling of distribution system operators and supply companies



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



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



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



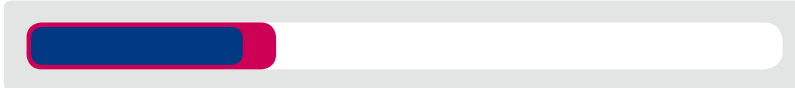
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Timely implementation of the Trans-European Network Regulation with regard to licensing and permitting as well as one-stop shop procedures



Total for cross-cutting measures





Spot Market Development

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

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

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

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

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

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

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

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

Spot Market Development

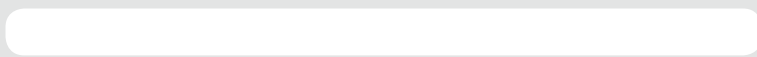
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Ensure liquidity of the domestic electricity markets by appropriate regulatory measures such as contract reviews, capacity releases, virtual power plants etc.



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



Total for spot market development





Cross-border Balancing

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

Existing legislation allows the transmission system operator to procure balancing services across borders using market-based procedures. The legal framework for the development of the balancing market and regional balancing cooperation is strengthened by the Electricity Law adopted in June 2016.

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

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

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

A national balancing market is not operational. Rules for imbalance settlement pricing were developed by the transmission system operator and submitted for regulatory approval, which is still pending. Further efforts are needed to ensure balancing and imbalance settlement.

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

Regional Capacity Allocation

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

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

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



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

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

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

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

Regional Capacity Allocation

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



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



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



Total for regional capacity allocation



Cross-cutting Measures

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

Prices of both generation and supply to all customers are still fully regulated. The regulatory authority has not taken any decision to deregulate prices and open the market under the current legal framework, including the issuance of licenses to alternative suppliers. As an initial step towards the reduction of cross-subsidisation between different categories of customers, the regulatory authority decreased prices for commercial customers in April 2016. A first step towards the deregulation of generation and supply prices for all customers was made with the adoption of the new primary laws in June 2016.

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

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

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

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

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

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

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

This unbundling model remains to be implemented. The recently adopted Electricity Law foresees unbundling in a way that the Government controls the generation company KEK, while the transmission system operator KOSTT is controlled by the Parliament.





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

Notification of pending proceedings before administrative authorities is envisaged by the amended Energy Community Dispute Settlement Rules. Following several years of not having a functioning competition and State aid authority in

place, the missing commissioners were finally appointed in June 2016. A new law on State aid is currently in the drafting stage.

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

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

Cross-cutting Measures

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



Spot Market Development

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

The former Yugoslav Republic of Macedonia has not transposed the Third Energy Package. An infringement case is pending before the Ministerial Council of the Energy Community. The Energy Law in force recognises the possibility of establishing a power exchange. However, the legal and regulatory framework that would ensure the implementation of this provision is missing. After the Vienna Summit, the Ministry drafted a new Energy Law that defines obligations for establishing a day-ahead market and its coupling. Commitments by the Government to adopt the said law until January 2016 have, however, not been kept. An amendment to the VAT Law, which would allow the place of taxation for access to the electricity and natural gas networks to be the seat of the recipient of the service, was prepared by the Ministry of Finance in March 2016. However, no further actions were taken to adopt this law.

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

No activities towards taking a decision on the organisation of a day-ahead market were taken.

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

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

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

Plans for coupling with neighbouring markets have not been developed since the Vienna Summit.

Spot Market Development

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



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



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



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



Total for spot market development





Cross-border Balancing

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

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

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

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

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

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

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

Regional Capacity Allocation

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

On 15 March 2016, the Government decided that the transmission system operator shall adhere to the SEE CAO no later than 31 July 2016. Following up on this, the transmission

system operator signed a shareholder agreement with SEE CAO on 31 May 2016. There is still no concrete timeline for starting capacity allocation through SEE CAO. However, the transmission system operator announced that first auctions will be performed by early next year for the border with Greece. In order to implement this agreement, amendments to the VAT Law must be adopted to avoid double taxation of services provided to foreign market participants.



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

In October 2015, the transmission system operator signed a Memorandum of Understanding on the establishment of a regional service coordinator with the transmission system operators of Albania, Bulgaria, Greece, Kosovo and Turkey. This is an initial step towards establishing a company that performs capacity calculation services.

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

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

Regional Capacity Allocation

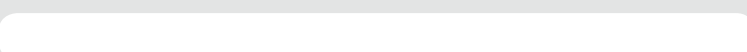
Binding agreement between TSO from the former Yugoslav Republic of Macedonia with SEE CAO on coordinated allocation



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



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



Total for regional capacity allocation



Cross-cutting Measures

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

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

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

Regulation of both generation and retail prices for supply of last resort for households and small customers applies until 30 June 2020 based on the existing Energy Law. Due to the lack of eligibility rights, regulated retail prices are mandatory for all households and small customers until 30 June 2020.

No activities on phasing out price regulation have taken place since the Vienna Summit.

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

Distribution is still legally bundled with regulated supply of last resort in both distribution companies, EVN and ELEM. The regulatory authority approved a compliance programme and the compliance officer of EVN in February 2016. In June 2016, EVN in Austria paved the way for unbundling the distribution system operator in FYR of Macedonia.

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

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

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





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

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

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

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

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

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

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

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

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

Cross-cutting Measures

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



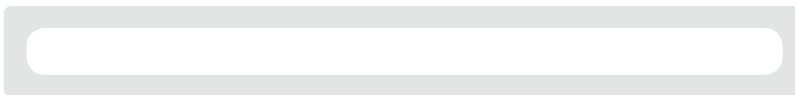
Legal and functional unbundling of distribution system operators and supply companies



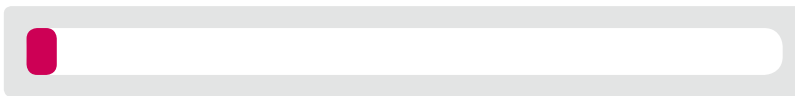
Ensure independence of national energy regulatory authorities based on pre-defined indicators



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



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



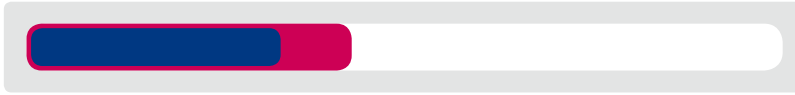
Increase effectiveness of national administrative authorities, including for competition and State aid, by strengthening their independence and financial means and requiring them to notify the Secretariat of pending proceedings, and take due account of the Secretariat's opinion

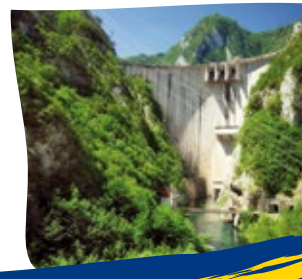


Timely implementation of the Trans-European Network Regulation with regard to licensing and permitting as well as one-stop shop procedures



Total for cross-cutting measures





Spot Market Development

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

The new Energy Law was adopted by Parliament on 29 December 2015. The Law promotes market integration and defines a legal framework for establishing organised day-ahead and intraday electricity markets. The adoption of the Energy Law was a significant step forward. However, the process of adopting the remaining pieces of primary legislation needs to be completed. Two laws needed to complete the primary legislative framework - the Law on Transmission Systems for Cross-border Exchanges of Electricity and Natural Gas and the Law amending the VAT Law which includes a definition of the place of taxable transactions for providing access to the transmission system – are pending adoption by Parliament.

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

The legal basis for designating a nominated electricity market operator will be established through the Law on Transmission

Systems for Cross-border Exchanges of Electricity and Natural Gas. On 9 June 2016, the Government instructed the market operator COTEE, the transmission system operator CGES and the incumbent company EPCG to sign a contract on establishing a limited liability company with a task to establish a power exchange in Montenegro. The company will be obliged to enter into a strategic partnership with a European power exchange. The company shall be operational by 1 October 2016 and the strategic partnership established by 1 November 2016.

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

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

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

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

Spot Market Development

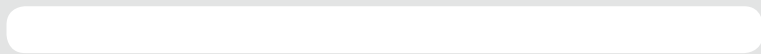
Remove major legal and contractual obstacles to establishing organised electricity markets and market coupling based on the reports of the Secretariat



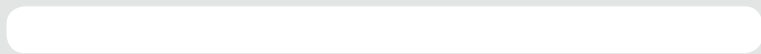
Adhere to a power exchange or, if economically justified (considering liquidity and economic viability), create an own power exchange, enabling wholesale market trade



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



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



Total for spot market development





Cross-border Balancing

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

Significant progress in strengthening the legal framework related to balancing has been made since the Vienna Summit. The new Energy Law substantially improves the balancing market. Rules for the operation of the balancing market and a methodology for pricing of balancing services, to be developed within one year of the Law's entry into force, are required for creating competition in the balancing market.

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

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

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

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

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

Cross-border Balancing

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



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

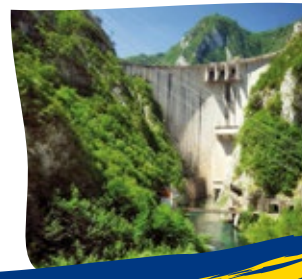


Establishment of a functioning national balancing market based on above model



Total for cross-border balancing





Regional Capacity Allocation

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

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

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

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

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

Regional Capacity Allocation

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



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



Total for regional capacity allocation



Cross-cutting Measures

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

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

The incumbent company EPCG adopted a programme for unbundling of the distribution from generation and supply activities. The unbundling plan was approved by EPCG's shareholder assembly on 23 June 2016.

Legal unbundling of the distribution system operator was completed on 30 June 2016 by establishing a new company Montenegrin Electricity Distribution System (CEDIS).

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

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

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

Distribution is still legally and functionally bundled with supply and generation activities. The Energy Law requires unbundling of distribution to be finalised by 28 April 2016.

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

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





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

Unbundling of the transmission system operator has not yet happened. The new Energy Law defines requirements for unbundling of the transmission system operator. The transmission system operator will be controlled by the Ministry of Finance. A certification procedure is envisaged by the new Energy Law. Further measures are needed to prepare proper certification, including the adoption of the Law on Transmission Systems for Cross-border Exchanges of Electricity and Natural Gas.

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

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

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

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

Cross-cutting Measures

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



Spot Market Development

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

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

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

The joint stock company South East European Power Exchange

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

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

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

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

The Serbian day-ahead market operator SEEPEX, together with the regulatory authority and the transmission system operator, expressed interest to couple with the markets of Hungary, Czech Republic, Slovakia and Romania (known as 4MMC) by a letter of intent for market coupling sent on 31 May 2016.

Spot Market Development

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



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



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



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



Total for spot market development





Cross-border Balancing

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

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

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

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

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

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

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

Cross-border Balancing

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



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



Establishment of a functioning national balancing market based on above model



Total for cross-border balancing



Regional Capacity Allocation

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

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

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

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

The transmission system operator failed to sign the agreement. The negotiation process is blocked due to the failure of the parties to reach an agreement on the terms and conditions of



admission and the scope of borders to be serviced by SEE CAO. On 25 May 2016, the transmission system operator submitted an application for becoming a new shareholder to SEE CAO.

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

The transmission system operator, together with those of Bosnia and Herzegovina and Montenegro, established a Security Coordination Centre (SCC) in August 2015 with the view to perform, inter alia, capacity calculation function. A SCC pi-

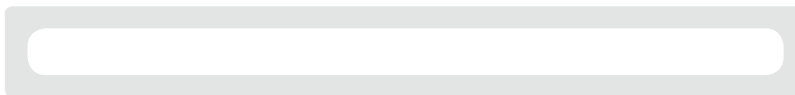
lot project for daily capacity calculation is ongoing. The SCC started to submit values of calculated daily capacities to its shareholders. However, the data are still not practically used by the transmission system operators.

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

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

Regional Capacity Allocation

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



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



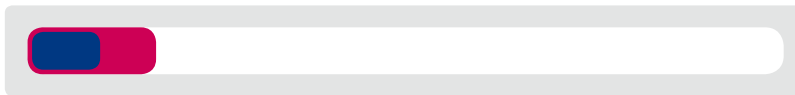
Introduction of a coordinated capacity calculation process for the allocation of day ahead capacities based on a regionally coordinated congestion forecast



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



Total for regional capacity allocation



Cross-cutting Measures

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

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

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

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

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

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

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

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

The regulatory authority AERS submitted the application for





observer status in ACER on 18 May 2016. It has requested the opinion by the Secretariat required to support its application. The Secretariat's assessment is ongoing.

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

The requirement for ownership unbundling of the transmission system operator was transposed by the Energy Law. In October 2015, the Ministry of Mining and Energy adopted rules for certification. However, unbundling activities were insufficient since the Vienna Summit. To ensure the separation of control in line with the unbundling requirements, further measures, including amendments to the Laws on Government, Ministries and Public Enterprises have to be taken. The new Law governing the Control over Public Enterprises of February 2016 fails to ensure unbundling in a compliant manner.

Increase effectiveness of national administrative authorities, including for competition and State aid, by strengthening their independence and financial means

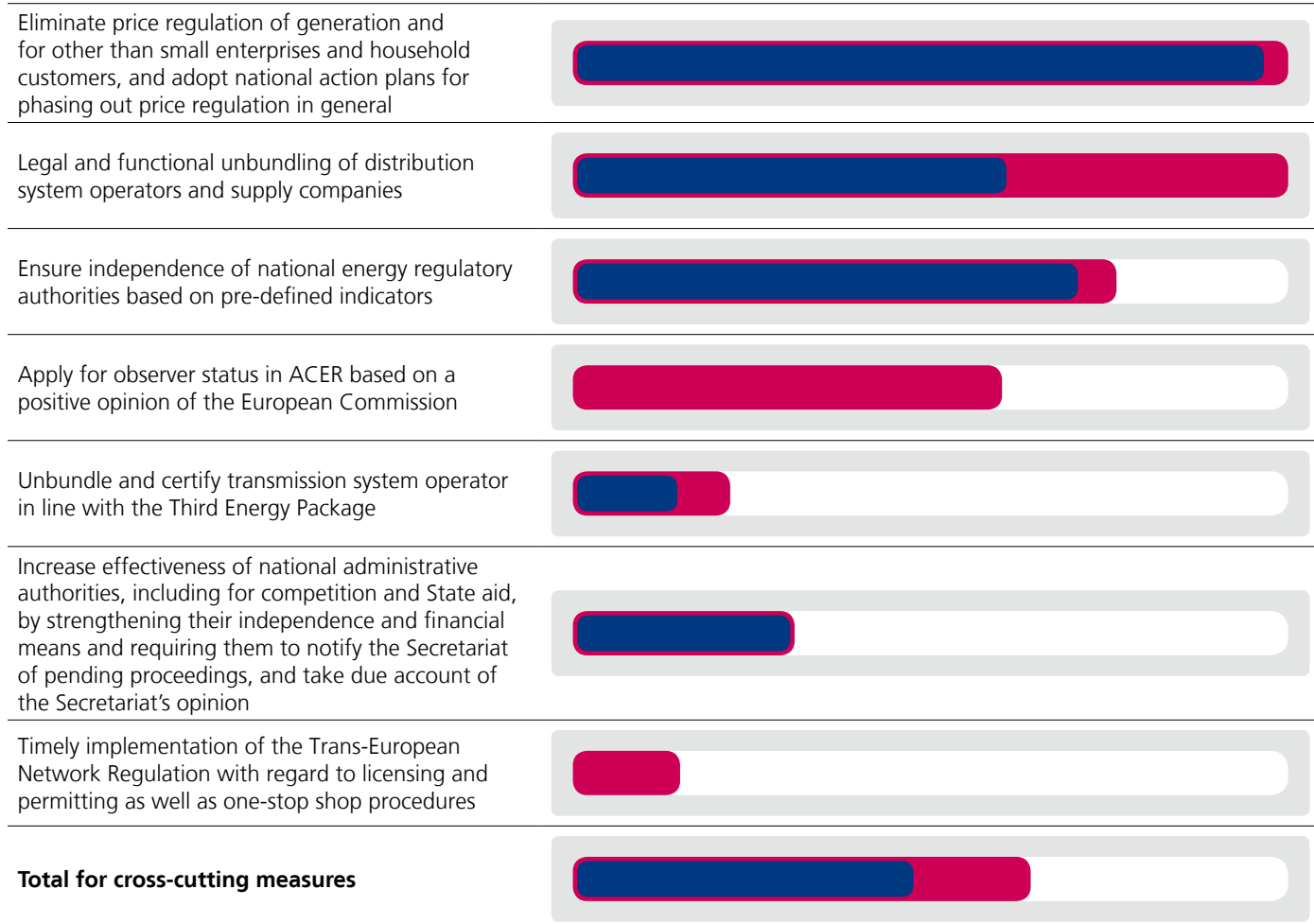
and requiring them to notify the Secretariat of pending proceedings, and take due account of the Secretariat's opinion (July 2016)

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

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

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

Cross-cutting Measures





The Regional Soft Measures

At the Vienna Summit of 27 August 2015, the Western Balkan 6 countries committed to implement the following regional soft measures:

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

What are the benefits of cross-border balancing?

Balancing production and consumption in the power system is one of the vital functions of the transmission system operator to ensure reliable and secure system operation. Performing this task requires reserve capacities that could be procured domestically and across borders. In small-sized markets, the required level of balancing reserve is sometimes unavailable and thus costly. Development of cross-border balancing cooperation contributes to better utilisation of reserves, maintaining operational security and will lead to reductions of costs that are to be estimated up to 50 million Euros per year for WB6.

The Memorandum of Understanding

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

Why market coupling?

Market coupling is currently Europe's most efficient way of integrating organized markets and allocating transmission capacities, needed to exchange and trade electricity, to the market participants. By way of centralised optimisation, both the value of the energy and that of the transmission capacities are weighed and allocated to where they have their highest value. Implementation of this concept will particularly benefit electricity market integration in the WB6.

The Memorandum sets out the way forward for reaching both market coupling and cross-border balancing. In that respect, it can be seen as having fulfilled the regional soft measures 1 and 2. Concretely, the MoU aims to implement the coupling of national organised day-ahead markets with at least one neighbouring WB6 or EU country by July 2018 and cross-border balancing cooperation between the WB6 countries by December 2018. The MoU also commits its signatories to follow up with legally binding agreements between the concerned parties. The signature of the Memorandum of Understanding by Kosovo representatives was made conditional on the entry into force of the Connection Agreement between KOSTT and the ENTSO-E. This highlights the need to resolve the pending issues between Serbia and Kosovo in energy matters.

Closer cooperation between Western Balkan 6 countries and EU Member States can be achieved through the joining of the relevant neighbouring EU Member States' entities to the governance and implementation projects resulting from the signing of the said Memorandum. The MoU is open for signature to EU neighbouring stakeholders which are willing to assume a role in the market integration projects. The relevant entities from Croatia and Hungary have expressed interest to join the initiative as signatories and upgrade this agreement to a wider regional project spanning EU and non-EU countries.

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





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