

★ Central and South-Eastern European Gas Connectivity (CESEC) Initiative

Most countries in Central and South-Eastern Europe have limited gas source diversity due to historical lock-in to long-term supply contracts from a single supplier and missing interconnections or alternative sources. Effective regional cooperation has been recognized as key to achieving the region's energy policy objectives and addressing challenges that EU Member States and Energy Community Contracting Parties face in the gas sector. Therefore a *Memorandum of Understanding on a Joint approach to address the natural gas diversification and security of supply challenges* was signed on 10 July 2015 as part of the Central and South-Eastern European Gas Connectivity (CESEC) initiative. The signatory countries expressed their commitment to jointly resolve challenges related to security of gas supply and promote source diversification by implementing coordinated measures that should enable regionally optimal results. Under the Memorandum of Understanding, the signatories expressed their readiness to sustain the necessary political commitment to oversee the full and timely implementation of the CESEC Action Plan, which includes the following elements:

- Selection of a limited number of key projects benefitting the CESEC region
- Identifying and addressing project-specific challenges
- Financing aspects, including the role of the *European Investment Bank and the European Bank for Reconstruction and Development*
- Addressing market integration challenges.

The Energy Community Secretariat was invited together with the *Agency for the Cooperation of Energy Regulators (ACER)* and the European Commission to closely monitor the implementation of the Action Plan on a regular basis by using all available tools and institutions foreseen by the EU *acquis*. The Secretariat supports the Contracting Parties in their implementation of the Action Plan, with a particular emphasis on addressing the market integration barriers and requirements.

The Secretariat has prepared a list of concrete actions, which are to be taken for the CESEC market integration objectives to be achieved. The list is used as a basis for the Secretariat's monitoring task assigned under the CESEC Memorandum of Understanding. The present monitoring report is the fourth in a series of periodical reports on the progress made by the Energy Community Contracting Parties participating in CESEC.

Signatory Parties of the MoU: European Union, Austria, Albania, Bulgaria, Croatia, Greece, Hungary, Italy, FYR of Macedonia, Moldova, Romania, Serbia, Slovakia, Slovenia, Ukraine

Implementation of Action Points

	Albania	FYR of Macedonia	Moldova	Serbia	Ukraine
Ensuring transparent and non-discriminatory third party access					
Ensuring free flow of gas and provision of competitive framework					
Infrastructure related measures					
TSO unbundling			 ¹		

¹ In line with the Second Energy Package. ⁷ Taking into consideration Energy Community Ministerial Council Decision on postponement of TSO certification in line with the Third Package in Moldova until 2020.



CESEC Gas Infrastructure Projects

The present Energy Community CESEC Report prepared by the Secretariat focuses on the interconnector Bulgaria-Serbia, as one of only two CESEC priority projects where a Contracting Party is involved. While the *Trans Adriatic Pipeline (TAP)* is also labelled as a CESEC priority project, it has been considered as "decided" on the basis of existing transport and supply contracts. The *TAP's* progress is well on track, thus the decision was made not to conduct additional activities within the CESEC process, i.e. a dedicated project implementation group was not established.



Source: ENTSOG map, compiled by the Energy Community Secretariat



Gas Interconnection Bulgaria-Serbia (IBS)

Project description

The aim of the project is to construct a new gas pipeline route connecting the national gas transmission networks of Bulgaria and Serbia. The pipeline will improve diversification of routes and sources and the interconnectivity of natural gas markets in South East Europe.

The interconnection will be 170 km long (62 km in Bulgaria and 108 km in Serbia) and will connect the Bulgarian capital Sofia via Dimitrovgrad with the Serbian city of Niš. The pipeline's capacity is initially planned at 1.8 billion cm/year, with an option to increase the volumes up to 4.5 billion cm/year. The line will be reversible with a pipe diameter of 28 inches (700 mm) and working pressure of 55 bar, thus enabling access to underground storage facilities on both sides - in Serbia and in Bulgaria.

In December 2012 Prime Ministers of Serbia and Bulgaria signed the Memorandum of Understanding for the construction of IBS.

The project is one of the seven CESEC priority projects, a Project of Common Interest (6.10) as well as a Project of Energy Community Interest (G013).

Investment financing

The total expected investment amounts to 135 million EUR. With EU assistance, Bulgaria has already secured financing for its part of the gas pipeline in the amount of 48 million EUR. Serbia is still seeking to secure EU pre-accession funds (IPA) for the construction of the Serbian part of the project. The Serbian government set aside approximately 7.4 million EUR for permitting and land purchase, but the largest amount of funding, approx. 65 million EUR for the construction of the pipeline in Serbia, still remains to be secured.

Project milestones and progress to date

Bulgaria		Serbia	
Feasibility study was completed.		Feasibility study with elements of environmental and social impact assessment (ESIA) was completed. ¹	
According to the Ministry of Energy in Bulgaria, no Environmental Impact Assessment (EIA) study is needed. Spatial planning was contracted in January 2015, and was finalized in December 2015.		Serbia is expected to finalise an EIA study by June 2017 (including opinions and consents).	
		Preparation of preliminary design for Serbian part is planned to be finalized in February 2017.	
Investment decision was taken and 48 million EUR secured from Operational Programmes: "Competitiveness" and "Innovation and Competitiveness 2014-2020".		The investment decision is conditioned by <i>Srbijagas</i> and the Serbian Government on EU grant funding.	
Construction permit for the Bulgarian part is expected in August 2016.		Construction permit for the Serbian part of the pipeline is foreseen for September 2017, conditioned on the investment decision.	
Completion of the construction works is expected in 2018.		Serbia will start the construction works in February 2018. Completion is expected by October 2019 (conditional on the investment decision).	

¹ According to the JASPERS Project Evaluation Conclusions, a partial feasibility study revision/update will be necessary.




Albania

Energy Community CESEC Report


08/2016

1. Ensuring transparent and non-discriminatory third party access (TPA)

Establish capacity allocation mechanisms and congestion management rules allowing TPA in forward and reverse flow

- The Gas Market Law transposing the Third Energy Package was adopted in October 2015, with a deadline of 18 months for the adoption of secondary legislation. Taking into account the current absence of gas infrastructure and a gas market in Albania, April 2017 is a reasonable deadline. The development of secondary legislation, with the support of the Energy Community Secretariat, started in December 2015 and continued in 2016. 
- Harmonisation of secondary legislation with capacity allocation (CAM) and congestion management (CMP) requirements of Regulation (EC) 715/2009 as well with transparency requirements on publication of capacity-related information needs to be ensured.
- Discussions on Albania's early implementation of the CAM and the CMP Network Codes were initiated at the Energy Community gas network codes meeting on 7 July 2016, where a platform for further discussions was established.

Establish market-based balancing mechanisms


- The requirements of Regulation (EC) 715/2009 related to balancing, including the calculation of imbalance charges, are subject of approval by the regulatory authority and could be included in the secondary legislation by April 2017. 

Develop transparent and non-discriminatory tariffication rules that do not distort trade across borders

- An entry-exit tariff methodology is expected to be adopted by April 2017, while the implementation of transmission tariffs for all entry and exit points is conditioned on gas market development. 

2. Ensuring free flow of gas and provision of a competitive framework

Optimise actual capacity use in both directions, including backhaul

- Discussions on reversibility of TAP with transmission system operators and national regulatory authorities in Italy and Greece are ongoing in the context of the development of the TAP Network Code. 



3. Infrastructure related measures

Provide a cross-border cost allocation mechanism in line with Regulation (EU) 347/2013 by January 2017

- Regulation (EU) 347/2013 was incorporated in the Energy Community in October 2015. The Ministry of Energy and Industry has included relevant implementation activities within its work plan for 2016.



Ensure a harmonised framework of operation of interconnected systems of EU Member States and Contracting Parties

- Regulation (EU) 703/2015 on Interoperability and Data Exchange Rules needs to be adopted by the Energy Community Permanent High Level Group (PHLG), on the basis of a European Commission proposal, in order to apply to Contracting Parties. The 1st meeting on implementation of the gas network codes in the Energy Community took place on 7 July 2016. The meeting led to the establishment of a platform to facilitate further discussions, including on the Interoperability and Data Exchange Network Code. Detailed discussions on the stepwise implementation of the Interoperability and Data Exchange Network Code are envisaged to start in September 2016.



4. TSO unbundling

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

- The regulatory authority (ERE) published the final decision on certification of TAP in April 2016.
- The transmission system operator *Albpetrol* has not been unbundled yet. However, the Ministry of Energy has recently prepared the final draft of the Decision of the Cabinet of Ministers on establishing a new company "*Albgas*", which the Secretariat has not have opportunity to assess yet.





FYR of Macedonia

Energy Community CESEC Report

08/2016



1. Ensuring transparent and non-discriminatory third party access (TPA)

<p>Establish capacity allocation mechanisms and congestion management rules allowing TPA in forward and reverse flow</p> <ul style="list-style-type: none"> Primary legislation transposing the Third Energy Package has not been adopted. The transmission system operator and the regulatory authority agreed to prepare secondary legislation harmonized with requirements of Regulation (EC) 715/2009 related to capacity allocation mechanisms (CAM) and congestion management procedures (CMP) by October 2016. A working group in charge of preparing a new transmission network code was established in February 2016. Discussions with Bulgaria on implementation of the CAM and the CMP Network Codes were supposed to take place by June 2016. On 7 July 2016, the 1st meeting on implementation of the gas network codes in the Energy Community took place. The meeting led to the establishment of a platform to facilitate further discussions, including on CAM and CMP Network Codes. 	
<p>Establish market-based balancing mechanisms</p> <ul style="list-style-type: none"> The transmission system operator and the regulatory authority agreed to prepare secondary legislation harmonized with requirements of Regulation (EC) 715/2009 related to balancing by October 2016. A working group in charge of preparing a new transmission network code was established in February 2016. 	
<p>Develop transparent and non-discriminatory tariffication rules that do not distort trade across borders</p> <ul style="list-style-type: none"> An entry-exit transmission tariff methodology that allows for individual setting of tariffs for all entries to and all exits from the system in a non-discriminatory way needs to be prepared by September 2016 to allow its implementation as of January 2017. So far no activity has been launched. 	



2. Ensuring free flow of gas and provision of a competitive framework

<p>Optimise actual capacity use in both directions, including backhaul</p> <ul style="list-style-type: none"> The transmission system operator agreed to start discussions on the possibility for backhaul with Bulgaria by June 2016. However, this did not happen. 	
<p>Ensure publication of transparency requirements of Regulation (EC) 715/2009 on ENTSOG transparency platform</p> <ul style="list-style-type: none"> Publication on ENTSOG platform is envisaged by April 2017. 	



3. Infrastructure related measures

<p>Adopt interconnection agreements</p> <ul style="list-style-type: none"> A discussion on an interconnection agreement with the transmission system operator of Bulgaria was recently launched. The Secretariat has not been informed on any progress towards adoption of the agreement. In the framework of discussions on the stepwise implementation of the Interoperability and Data Exchange Network Code, bilateral discussions with Bulgaria on interconnection agreements are envisaged to continue, starting in September 2016. 	
<p>Provide a cross- border cost allocation mechanism in line with Regulation (EU) 347/2013 by January 2017</p> <ul style="list-style-type: none"> Regulation (EU) 347/2013 was incorporated in the Energy Community in October 2015. Implementation activities in the former Yugoslav Republic of Macedonia have not started yet. 	
<p>Ensure a harmonised framework of operation of interconnected systems of EU Member States and Energy Community Contracting Parties</p> <ul style="list-style-type: none"> Regulation (EU) 703/2015 on Interoperability and Data Exchange Rules needs to be adopted by the Permanent High Level Group, on the basis of a European Commission proposal, in order to apply to Contracting Parties. The 1st meeting on implementation of the gas network codes in the Energy Community took place on 7 July 2016. The meeting resulted in the establishment of a platform to facilitate further discussions, including on the Interoperability and Data Exchange Network Code. Detailed discussions on the stepwise implementation of the Interoperability and Data Exchange Network Code in a dedicated small group (BG- MK) are envisaged to start in September 2016. 	



4. TSO unbundling

<p>Unbundle and certify transmission system operator in line with the Third Energy Package</p> <ul style="list-style-type: none"> Unbundling and certification are not possible without a legislative framework in line with the Third Package. However the regulatory authority launched the work on certification rules, in cooperation with the Secretariat, without having any effect on the gaps in primary law. 	
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Moldova

Energy Community CESEC Report

08/2016



1. Ensuring transparent and non-discriminatory third party access (TPA)

Establish capacity allocation mechanisms and congestion management rules allowing TPA in forward and reverse flow

- Natural Gas Law transposing the Third Energy Package was adopted in May 2016.
- The transmission system operator and the regulatory authority agreed to prepare secondary legislation harmonized with requirements of Regulation (EC) 715/2009 related to capacity allocation mechanisms (CAM) and congestion management procedures (CMP) by end 2016.
- Discussions with Ukraine and Romania on implementation of the CAM and the CMP Network Codes were supposed to take place by June 2016. On 7 July 2016, the 1st meeting on implementation of the gas network codes in the Energy Community took place, where a platform for further discussions, including on CAM and CMP Network Codes, was established.



Establish market-based balancing mechanisms

- The transmission system operator and the regulatory authority agreed to prepare secondary legislation harmonized with requirements of Regulation (EC) 715/2009 related to balancing by end 2016.



Develop transparent and non-discriminatory tariffication rules that do not distort trade across borders

- According to the Law on Natural Gas, implementation of entry-exit transmission tariffs is effectively postponed by the transitional provisions until "identifying relevant market conditions" without additional explanation. However, the regulatory authority envisaged finalization of the entry-exit tariff methodology by September 2017.



2. Ensuring free flow of gas and provision of a competitive framework

Optimise actual capacity use in both directions, including backhaul

- The transmission system operator agreed to start discussions on the possibility for backhaul on the Trans-Balkan pipeline with Ukraine and Romania by June 2016. However, this did not happen.



Ensure publication of transparency requirements of Regulation (EC) 715/2009 on ENTSOG transparency platform

- Publication on ENTSOG platform is envisaged by June 2017.





3. Infrastructure related measures

Adopt interconnection agreements

- There is an ongoing discussion between *Moldovatrangaz* and *Ukrtrangaz* on an interconnection agreement. There is also a technical agreement between *Vestmoldtrangaz* and *Trangaz (RO)*.
- In the framework of discussions on the stepwise implementation of the Interoperability and Data Exchange Network Code, bilateral discussions with Ukraine and Romania on interconnection agreements are envisaged to continue in September 2016.



Provide a cross-border cost allocation mechanism in line with Regulation (EU) 347/2013 by January 2017

- Regulation (EU) 347/2013 was incorporated in the Energy Community in October 2015. Implementation activities in Moldova have not started yet.



Ensure a harmonised framework of operation of interconnected systems of EU Member States and Energy Community Contracting Parties

- Regulation (EU) 703/2015 on Interoperability and Data Exchange Rules needs to be adopted by the Permanent High Level Group, on the basis of a European Commission proposal, in order to apply to Contracting Parties. The 1st meeting on implementation of the gas network codes in the Energy Community took place on 7 July 2016. The meeting led to the establishment of a platform to facilitate further discussions, including on the Interoperability and Data Exchange Network Code. Detailed discussions on the stepwise implementation of the Interoperability and Data Exchange Network Code in a dedicated small group (UA- MD- RO) are envisaged to start in September 2016.



4. Cross-cutting measures

Unbundle transmission system operator in line with the Second Energy Package

- The Energy Community Ministerial Council approved postponement of unbundling in line with the Third Package in Moldova until 2020. The transmission system operator is legally unbundled in line with the Second Package, while functional unbundling is doubtful and need to be further monitored by the regulatory authority.





Serbia

Energy Community CESEC Report

08/2016



1. Ensuring transparent and non-discriminatory third party access (TPA)

<p>Establish capacity allocation mechanisms and congestion management rules allowing TPA in forward and reverse flow</p> <ul style="list-style-type: none"> Transmission network codes are mostly harmonized with requirements of Regulation (EC) 715/2009 related to capacity allocation mechanisms (CAM) and congestion management procedures (CMP). Certain provisions related to secondary capacity trading are still not covered by the network codes in an appropriate way. Update of the transmission network code, originally envisaged for end December 2015, has not happened. The implementation of the secondary legislation, including publication of capacity-related information, was envisaged by April 2016. However, the implementation depends on functional unbundling of the transmission system operators which is still pending. Its absence constitutes a serious and persistent breach of the Energy Community Treaty. Discussions with Hungary and Bosnia and Herzegovina on implementation of the CAM and CMP Network Codes are supposed to take place in 2016. In July 2016, the 1st meeting on implementation of the gas network codes in the Energy Community took place, where a platform for further discussions, including on CAM and CMP Network Codes, was established 	
<p>Establish market-based balancing mechanisms</p> <ul style="list-style-type: none"> The transmission network codes transpose the requirements of Regulation (EC) 715/2009 related to balancing. Their implementation in practice, including the calculation of imbalance charges, was envisaged by April 2016. Again, the implementation depends on the functional unbundling of the transmission system operators, which is still pending. 	
<p>Develop transparent and non-discriminatory tariffication rules that do not distort trade across borders</p> <ul style="list-style-type: none"> An entry-exit transmission tariff methodology allowing for the individual setting of tariffs for all entries to and all exits from the system in a non-discriminatory way has been approved and is implemented for the transmission system of Srbijagas since February 2015. However, the entry- exit tariffs for <i>Yugorosgaz Transport</i> are not implemented yet. 	



2. Ensuring free flow of gas and provision of a competitive framework

<p>Optimise actual capacity use in both directions, including backhaul</p> <ul style="list-style-type: none"> The transmission system operator agreed to start discussions on the possibility for backhaul with Hungary by June 2016 and with Bosnia and Herzegovina by December 2016. The discussions with Hungary have not been launched. 	
<p>Ensure publication of transparency requirements of Regulation (EC) No 715/2009 on ENTSOG transparency platform</p> <ul style="list-style-type: none"> Publication on ENTSOG platform is envisaged by December 2016. 	



3. Infrastructure related measures

Adopt interconnection agreements

- A discussion on an interconnection agreement with the transmission system operator of Hungary has been launched. Its finalization was envisaged by June 2016, however, this did not happen.
- A discussion on an interconnection agreement with Bosnia and Herzegovina has not been launched yet.
- In the framework of discussions on the stepwise implementation of the Interoperability and Data Exchange Network Code, bilateral discussions with Hungary and Bosnia and Herzegovina on interconnection agreements are envisaged to continue starting in September 2016.



Provide a cross-border cost allocation mechanism in line with Regulation (EU) 347/2013 by January 2017

- Regulation (EU) 347/2013 was incorporated in the Energy Community in October 2015. The regulatory authority will obtain technical assistance related to the implementation of regulatory aspects of the Regulation. In May 2016, a working group was established by the ministry to steer the implementation of the regulation.



Ensure harmonised framework of operation of interconnected systems of EU Member States and Energy Community Contracting Parties

- Regulation (EU) 703/2015 on Interoperability and Data Exchange rules needs to be adopted by the Permanent High Level Group, on the basis of a European Commission's proposal, in order to apply to Contracting Parties. The 1st meeting on implementation of the gas network codes in the Energy Community took place on 7 July 2016. The meeting led to the establishment of a platform to facilitate further discussions, including on the Interoperability and Data Exchange Network Code. Detailed discussions on the stepwise implementation of the Interoperability and Data Exchange Network Code in a dedicated small group (HU- SRB- BIH) are envisaged to start in September 2016.



4. TSO unbundling

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

- Unbundling and certification of *Transportgas Srbija* in line with the Third Package has not yet started. The unbundling deadline envisaged by the Third Package has expired. *Yugorosgaz Transport* applied for certification but then revoked its application before AERS adopted a preliminary decision.





Ukraine

Energy Community CESEC Report

08/2016

1. Ensuring transparent and non-discriminatory third party access (TPA)

Establish capacity allocation mechanisms and congestion management rules allowing TPA in forward and reverse flow

- The Transmission Network Code adopted in November 2015 transposes the capacity allocation (CAM), the congestion management (CMP) and the transparency requirements of Regulation (EC) 715/2009. Its implementation is fully exercised at the cross-border points, even a capacity allocation procedure was successfully launched in February 2016. However, full implementation of the Code has yet to be exercised for all internal entry and exit points.
- Publication of all capacity-related information in line with the Annex to Regulation (EC) 715/2009 was expected in January 2016. For now *Ukrtransgaz* is publishing information on capacity for entry and exit points relevant for transit flows as well as other documents relevant for contracting capacity on all entry and exit points.
- Discussions on implementation of the EU CAM and the CMP Network Codes have already started with Poland Similar discussions with Hungary, Slovakia, Romania and Moldova will be launched via a platform for implementation of the gas network codes in the Energy Community established in July 2016.



Establish market- based balancing mechanisms

- The requirements of Regulation (EC) 715/2009 related to balancing have been transposed by the Law on Gas Market. The balancing regime has been defined by the Transmission Code. Different balancing regimes – on a daily basis for interconnection points and on a monthly basis for all internal entry and exit points may distort the market. Disproportional financial guaranties required for balancing services may constitute a barrier for market participants.



Develop transparent and non-discriminatory tariffication rules that do not distort trade across borders

- The entry-exit transmission tariff methodology was adopted in November 2015 and implemented from January 2016 for cross-border points, while tariffs for internal entry and exit points have been calculated according to the old (volume based) methodology.



2. Ensuring free flow of gas and provision of a competitive framework

Optimise actual capacity use in both directions, including backhaul

- Ukraine maintains a dialogue on reversibility with Poland, Slovakia, Hungary and Romania. Bidirectional flow has been established at certain interconnection points. Final agreements for all interconnection points depend also on the progress achieved by the relevant EU Member States, which is still pending.



Ensure publication of transparency requirements of Regulation (EC) 715/2009 on *ENTSOG* transparency platform

- *Ukrtransgaz* publishes regularly capacity related information at *ENTSOG* transparency platform for all cross-border points and data on storages at Gas Storage Infrastructure platform.





3. Infrastructure related measures

Adopt interconnection agreements

- The transmission system operator *Ukrtransgaz* has concluded interconnection agreements with the Polish and Slovakian operators for pipelines where physical reverse flows take place and with the Hungarian operator for all interconnection points. The latter's implementation is pending due to missing shippers codes. An interconnection agreement was signed also with *Transgaz* (Romania) on one interconnection point out of four, in July 2016. Discussions to conclude interconnection agreements for all interconnection points continue with Eustream (Slovakia) and Gaz System (Poland), as well as with *Moldovatransgaz* (Moldova).



Provide a cross-border cost allocation mechanism in line with Regulation (EU) 347/2013 by January 2017

- Regulation (EU) 347/2013 was incorporated in the Energy Community in October 2015. Implementation activities in Ukraine have not started yet.



Ensure harmonised framework of operation of interconnected systems of EU Member States and Energy Community Contracting Parties

- Regulation (EU) 703/2015 on Interoperability and Data Exchange Rules needs to be adopted by the Permanent High Level Group, on the basis of a European Commission's proposal, in order to apply to Contracting Parties. The 1st meeting on implementation of the gas network codes in the Energy Community took place on 7 July 2016. The meeting led to the establishment of a platform to facilitate further discussions, including on the Interoperability and Data Exchange Network Code. Detailed discussions on the stepwise implementation of the Interoperability and Data Exchange Network Code in a dedicated small group (UA-PL-SK_HU; UA-MD-RO) are envisaged to start in September 2016.



4. TSO unbundling

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

- In July 2016, the Cabinet of Ministers of Ukraine (CMU) approved a Plan for Restructuring of National Joint Stock Company "*Naftogaz of Ukraine*". Unbundling has not yet started.
- The regulatory authority adopted certification rules in April 2016.

