



WB6 Electricity Monitoring Report

**Energy Community Secretariat
December 2016**



Executive Summary

Creating a Regional Electricity Market in the Western Balkans

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, Kosovo*, former Yugoslav Republic of Macedonia, Montenegro and Serbia decided to take steps to improve energy connectivity in the region by facilitating investments and prioritising electricity market development. The Paris Summit of 4 July 2016 reemphasised the need for closer cooperation on a regional level and integration of the markets of the Western Balkan 6 into the pan-European one. Concretely, a dedicated roadmap was agreed for the setting up of a regional market for electricity connecting the Western Balkans to the EU’s internal energy market. The Summit also highlighted that the progress in the implementation of the deliverables will be reflected in the EU’s future funding decisions.

In this context, a Grant Contract for technical assistance to connectivity in the Western Balkans, related to the regional energy market, was concluded between the European Commission and the Energy Community Secretariat in June 2016. The technical assistance is targeting the implementation of the soft measures², at regional and national level. The overall focus of the project is the removal of the existing legislative and regulatory barriers

and enhancing the institutional structures necessary for the functioning of the market in line with the Energy Community Treaty. The regional measures consist of establishing spot markets (power exchanges) and their coupling, a regional balancing market and regionally coordinated capacity allocation and calculation. The national measures mainly focus on removing national obstacles to regional electricity market development by creating the appropriate market and regulatory framework. The project was initiated in July 2016 and will last for two years.

A Work Programme for the project was drafted by the Energy Community Secretariat- the body responsible for development and implementation of the project. The Work Programme specifies priority areas that will be supported through outsourced technical assistance. They are targeting mainly those elements where progress has been insufficient according to the bi-monthly monitoring reports published by the Energy Community Secretariat.

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

¹ Final Declaration of the Western Balkans Summit Vienna 2015

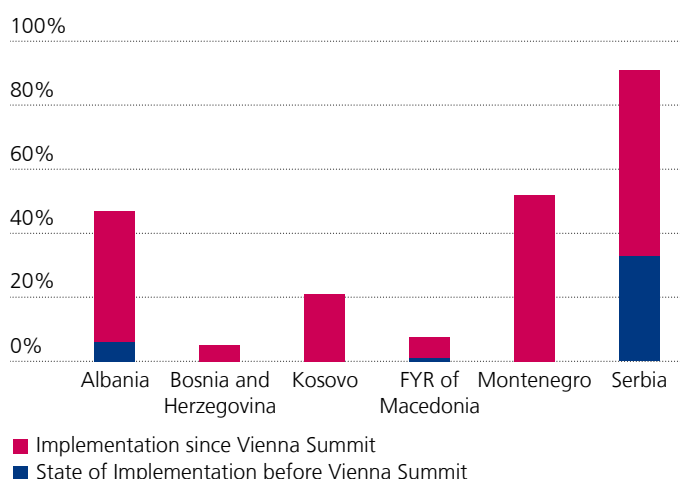
² Defined as implementation targets of said Grant Contract and based on the Addendum to the Final Declaration of the Western Balkans Summit Vienna 2015

* 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

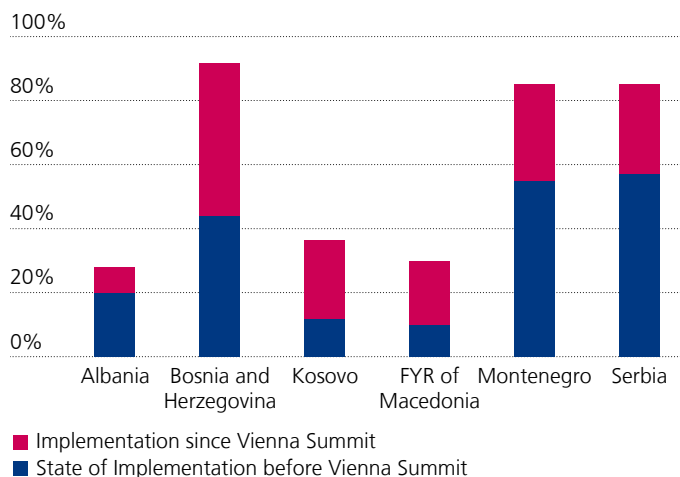
Spot Market Development

Activities towards setting up a legal and institutional framework for establishing and operating an organised day-ahead market were initiated in the majority of Western Balkan 6 countries. However, this is still the area where substantial legal and institutional reforms are needed in order to reach the targets. So far Serbia is still the only country where a functional day-ahead market is operating as of February 2016. Following respective governmental decisions, the process of establishing companies tasked to organise a day-ahead market is going ahead in Albania and Montenegro. Decisions on the model for the day-ahead market in Bosnia and Herzegovina and former Yugoslav Republic of Macedonia have still not been made. Moreover, the necessary legal and regulatory framework which should underpin the process of setting up a power exchange is still insufficiently developed in these two countries. Former Yugoslav Republic of Macedonia has developed a study based on which the decision is expected to be made after a new Government is appointed. Kosovo is working with Albania on developing a framework for market integration, including a single power exchange servicing these two markets.



Cross-border Balancing

Balancing, both in terms of developing national balancing markets and models for cross-border cooperation, remains the area where the most notable achievements were made. Those countries that have already put in place a balancing market at national level moved further with the development of the cross-border balancing cooperation within their control blocks. The transmission system operator of Bosnia and Herzegovina started implementing the trilateral contract for exchange of balancing services signed with transmission system operators of Croatia and Slovenia. Following the launch of a cross-border exchange of balancing energy between transmission system operators of Montenegro and Serbia, activities on developing the model for imbalance netting were initiated within the control block of former Yugoslav Republic of Macedonia, Montenegro and Serbia. Progress has also been made in those countries that were lagging behind in developing a legal and regulatory framework needed for market-based balancing. In former Yugoslav Republic of Macedonia, new balancing rules were adopted, and in Kosovo an imbalance settlement methodology was approved. Both are currently being tested. Balancing rules in former Yugoslav Republic of Macedonia will be applied as of 1 July 2016, and the imbalance settlement in Kosovo as of 2017. Albania is still to draft new market-oriented balancing rules. Terminating the practice of exempting regulated companies from balance responsibility remains a crucial precondition for the development of cross-border balancing in Albania and former Yugoslav Republic of Macedonia.



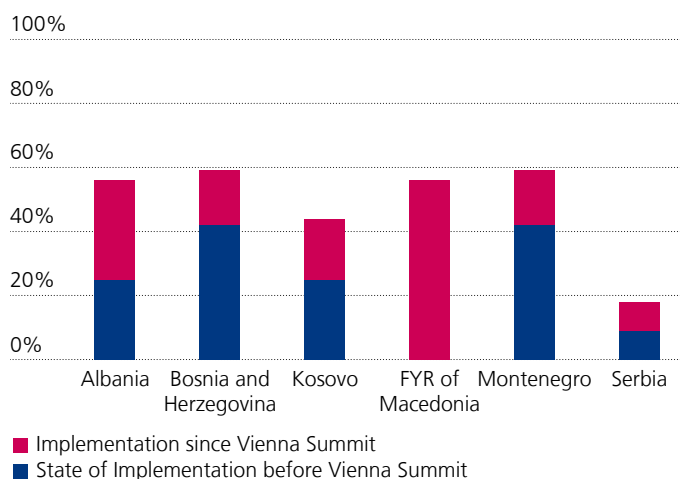
In former Yugoslav Republic of Macedonia, new balancing rules were adopted, and in Kosovo an imbalance settlement methodology was approved. Both are currently being tested. Balancing rules in former Yugoslav Republic of Macedonia will be applied as of 1 July 2016, and the imbalance settlement in Kosovo as of 2017. Albania is still to draft new market-oriented balancing rules. Terminating the practice of exempting regulated companies from balance responsibility remains a crucial precondition for the development of cross-border balancing in Albania and former Yugoslav Republic of Macedonia.

WB6 countries kick-off regional activities towards implementation of the WB6 MoU on creation of the regional electricity market

Under the multi-stakeholder WB6 Memorandum of Understanding on regional electricity market development, the Steering Committee for the Day-ahead Market Integration Programme has initiated the preparation of a management plan and a list of projects to support implementation of the MoU's targets for day-ahead market coupling. The Steering Committee so far identified two coupling projects to be initiated, integration of the electricity markets of Albania and Kosovo, and the market coupling of Montenegro and Serbia. The Programme will be supported by the Grant Contract for technical assistance to connectivity in the Western Balkans related to the regional energy market funded by the European Commission and implemented by the Energy Community Secretariat.

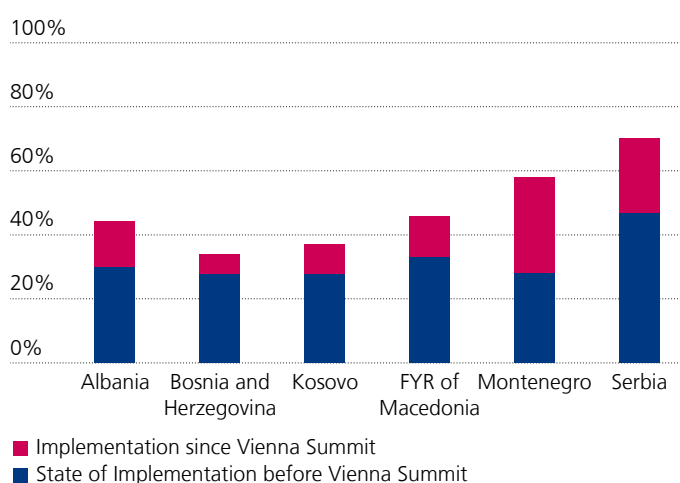
Regional Capacity Allocation

A major step forward in the sphere of regional capacity allocation was made by former Yugoslav Republic of Macedonia. The transmission system operator became a shareholder of the regional auction office SEE CAO. Following this, the transmission system operator started auctioning the cross-border capacities on the interconnection with Greece through SEE CAO. Auctions will take place on a yearly, monthly and daily basis. Serbia submitted an application to join SEE CAO, but an agreement has still not been reached. In other areas there was no progress at all. The transmission system operators of Serbia and of Kosovo have still not implemented the Inter-TSO Agreement on network and system operation management and the Framework Agreement. A proposed technical solution to allow entry into force of the Connection Agreement between ENTSO-E and the transmission system operator of Kosovo was rejected by the transmission system operator of Serbia.

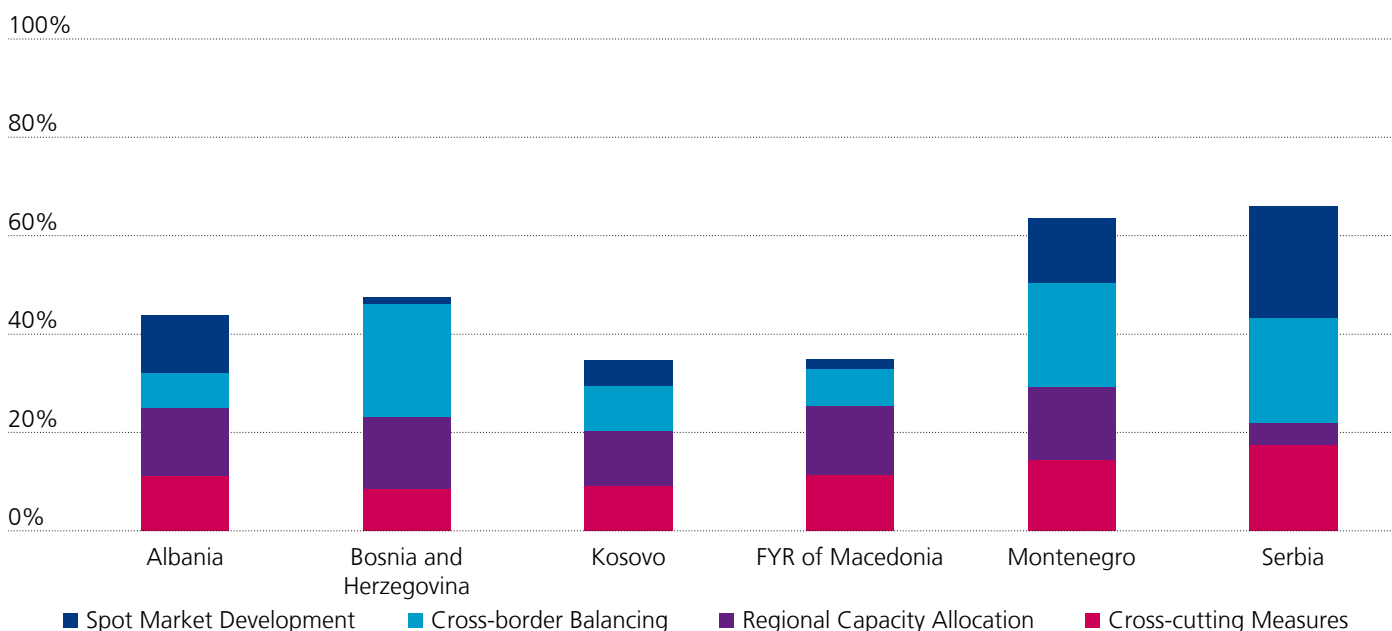


Cross-cutting Measures

Implementation of the cross-cutting measures is characterised by the slow pace of national reforms towards adoption of Third Package-compliant primary and secondary legislation as well as a lack of enforcement measures to implement the laws. The most critical elements are related to price deregulation, unbundling of system operators and regulatory independence. 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 the Agency for the Cooperation of Energy Regulators (ACER). So far, major progress in the process of certifying the transmission system operator was only made by Albania. The preliminary decision on certification was adopted by the regulator and notified to the Secretariat. 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, implementation is still missing in many. On the retail side, former Yugoslav Republic of Macedonia continues to refuse the right to choose a supplier to households and some SMEs.



Overall Implementation of Soft Measures





Spot Market Development

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

A legal framework needed for the establishment of the organised electricity market is under development. Based on the Power Sector Law, the Council of Ministers adopted in July 2016 the Market Model which paves the way towards creating the Albanian power exchange. The Market Model will be complemented by market rules that are being drafted by the transmission system operator. The Ministry is currently considering a need to amend the Power Sector Law in order to lay down legal requirements for the establishment of the power exchange.

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, initiated in 2015, is ongoing. It aims at the establishment of the Albanian power exchange in line with the action plan defined by the Market Model. According to the action plan, the Minister shall decide on the legal entity and its structure before 31 March 2017, while the power exchange shall be fully operational as of 1 January 2018. The implementation of the project in line with

the defined timeline is subject to the timely adoption of the amendments to the Power Sector Law.

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

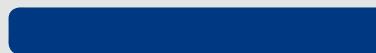
The future market model includes a strategy for promoting liquidity based on so-called import/export zones and other liquidity promoting measures for an interim period until market coupling takes place. Another anticipated measure by the Council of Ministers foresees the mandatory participation of certain parts of the market in a phased approach. It will also enable all market participants to enter the future organised market. The Council of Ministers' decision imposing public service obligations contains provisions which are detrimental to market opening and its liquidity. Furthermore, the procedure for procuring electricity to cover losses by the transmission and distribution system operator violates Energy Community law as well as the Power Sector Law.

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

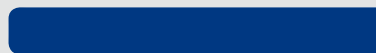
An integration of the electricity market of Kosovo with the Albanian market, including participation of the transmission system operator of Kosovo in the shareholder structure of the Albanian power exchange, is under discussion. Upon a final agreement, a memorandum of understanding between the transmission system operators will be signed with the consent of the ministries.

Spot Market Development

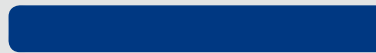
Remove major legal and contractual obstacles to establishing organised electricity markets and market coupling based on the reports of the Secretariat



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



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



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



Total for spot market development



Cross-border Balancing

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

The transmission system operator is required by the Power Sector Law to procure balancing services using market-based, non-discriminatory and transparent procedures, including through cooperation with neighbouring transmission system operators. However, balancing rules have still not been adopted 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 balancing rules shall be approved by the regulatory authority, upon a proposal of the transmission system operator. The transmission system operator is currently drafting balancing rules that are expected to be in force as from March 2017.

The transmission system operators of Albania and Kosovo have developed and tested a mechanism for the procurement of a reserve for secondary regulation. Implementation

of this model of cooperation is pending the entry into force of the Connection Agreement between KOSTT and ENTSO-E. The transmission system operator expressed interest in closer cooperation with the transmission system operators of Montenegro, former Yugoslav Republic of Macedonia and Serbia, who cooperate within a single control block. An initial meeting on potential cooperation took place in May 2016. No concrete actions have been taken yet.

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

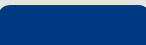
A functional national balancing market does not exist in Albania. The transmission system operator still procures balancing services based on a regulated annual contract with the only balancing service provider, incumbent generation company KESH. This is in breach of the Power Sector Law that requires phasing-out of this price not later than 12 months upon the entry into force of the Law, namely June 2016 at the latest. The imbalance settlement mechanism is still implemented in a discriminatory manner following a regulator's decision to exempt KESH from balance responsibility until the end of 2016. Implementation of a functional balancing market hinges on the removal of regulatory obstacles and adoption of balancing rules.

Cross-border Balancing

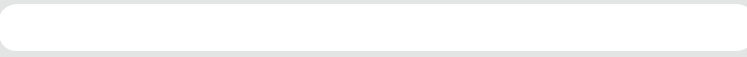
Legal possibility for transmission system operator to acquire balancing services from all operators in the national and in perspective of a regional market under competitive conditions



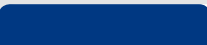
Adoption of a market-based balancing model allowing for the non-discriminatory cross-border exchange of balancing services



Establishment of a functioning national balancing market based on above model



Total for cross-border balancing





Regional Capacity Allocation

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

In October 2015, the transmission system operator signed the Memorandum of Understanding on the establishment of the regional security coordinator with the transmission system operators of Bulgaria, Greece, Kosovo, former Yugoslav Re-

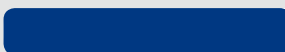
public of Macedonia and Turkey. This is an initial step towards establishing an entity performing capacity calculation services.

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

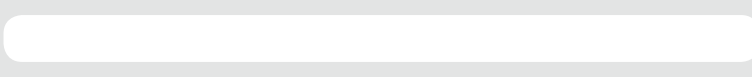
Stronger cooperation between SEE CAO and the relevant EU Member States, supported by the European Commission, is needed.

Regional Capacity Allocation

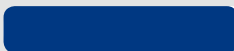
Introduction of a coordinated capacity calculation process for the allocation of day ahead capacities based on a regionally coordinated congestion forecast



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

The Power Sector Law deregulated prices of generation and supply to all customers connected to the high voltage grid (110 kV and above) and for those with an annual consumption over 50 million kWh. All other groups of customers are still supplied at regulated prices by a supplier with a public service obligation, OSHEE. The price at which OSHEE is procuring electricity for the supply of end-users from the incumbent generation company KESH is still regulated, based on the contract between KESH and OSHEE signed for 2016. According to the law, a retail price for customers connected to 35 kV was to be deregulated as of 1 July 2016. However, it has still not taken place.

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 distribution company OSHEE prepared an unbundling plan with a view to finalise legal unbundling within Q1 of 2017. According to the plan, the unbundling model would be based on a holding company comprising three subsidiaries – a distribution company, a universal service supplier and a supplier on the free market. The plan is pending the approval of the Supervisory Board of OSHEE.

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. Two central acts on the organisation and operation of the regulatory authority and on penalties were developed but their adoption is pending.





Cross-cutting Measures

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

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

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)

The national regulatory authority adopted a preliminary decision on the certification of the transmission system operator on 6 October 2016. On 18 October 2016, the decision was notified to the Secretariat, which has four months to deliver its opinion. The Council of Ministers passed a decision in April 2016 according to which the Ministry of Economic Development, Tourism, Trade and Entrepreneurship is representing the state ownership in the transmission system operator, whereas the Ministry of Energy and Industry is representing the state ownership in the state-owned production and supply companies, KESH and OSHEE respectively.

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 notify cases and cooperate with the Secretariat. However, the independence of the State aid authority remains questionable due to its strong connection to the Ministry of Economy.

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

The Decision of the Council of Ministers on establishment of the (existing) National Competent Authority shall be adapted in order to transpose all necessary provisions defined under the Trans-European Network Regulation; The Government considers the collaborative permit granting scheme as the most feasible option for the comprehensive decision.



Spot Market Development

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

The legal framework necessary for the organization of the electricity market is still not in place. In October 2016, the Ministerial Council adopted a decision declaring the failure of Bosnia and Herzegovina to comply with the Third Energy Package. According to an action plan agreed by state and entity Ministers, the Energy Community Secretariat and the European Commission in October 2016, the Law on Regulator, Transmission and Power Market at the state level shall be submitted to the Council of Ministers by end 2016 and adopted by the Parliament by 31 March 2017. A Law on the Establishment of the Transmission System Operator is still being drafted by the Ministry. VAT legislation has not been harmonized with the practice of the neighbouring jurisdictions. Public procurement legislation has not been revisited 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 activities have been taken 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 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. Initiated activities of the incumbent utilities towards joining some of the established neighbouring day-ahead markets have still not been materialised.

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

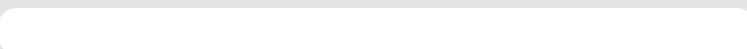
No concrete plans for market coupling have been adopted so far.

Spot Market Development

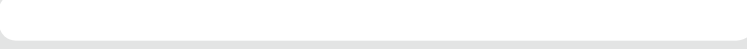
Remove major legal and contractual obstacles to establishing organised electricity markets and market coupling based on the reports of the Secretariat



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 trans-

mission system operator from acquiring balancing services in a market-based manner and across borders. Provisions for market-based and cross-border procurement of balancing services are included in the draft Law on Regulator, Transmission and Power Market. No actions were taken on amending the VAT Law in order to harmonize taxation on cross-border exchange of balancing services.





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

The Market Rules adopted in May 2015, provide a balancing model that ensures market-based and non-discriminatory procurement of balancing capacity and balancing energy by the transmission system operator. 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 a trilateral contract that was put into practice as of September 2016. In line with the contract, balancing energy from a manually activated frequency restoration reserve is exchanged between transmission system operators. Amend-

ments to the contract are under preparation in order to include the possibility of exchanging also downward regulation.

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.

Cross-border Balancing

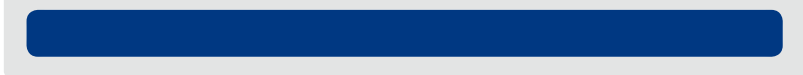
Legal possibility for transmission system operator to acquire balancing services from all operators in the national and in perspective of a regional market under competitive conditions



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

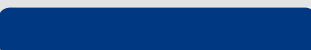
capacity calculation is ongoing. The SCC started to submit values of calculated daily capacities to its shareholders. However, the data are still not practically used by the transmission system operators.

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

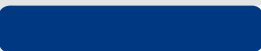
Introduction of a coordinated capacity calculation process for the allocation of day ahead capacities based on a regionally coordinated congestion forecast



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 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. No deadlines are currently envisaged for the finalisation of the process. The adoption of the necessary law is still pending in Republika Srpska, while in Federation of Bosnia and Herzegovina unbundling hinges on the adoption of a plan for restructuring of the energy sector by the Parliament.

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

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



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

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 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

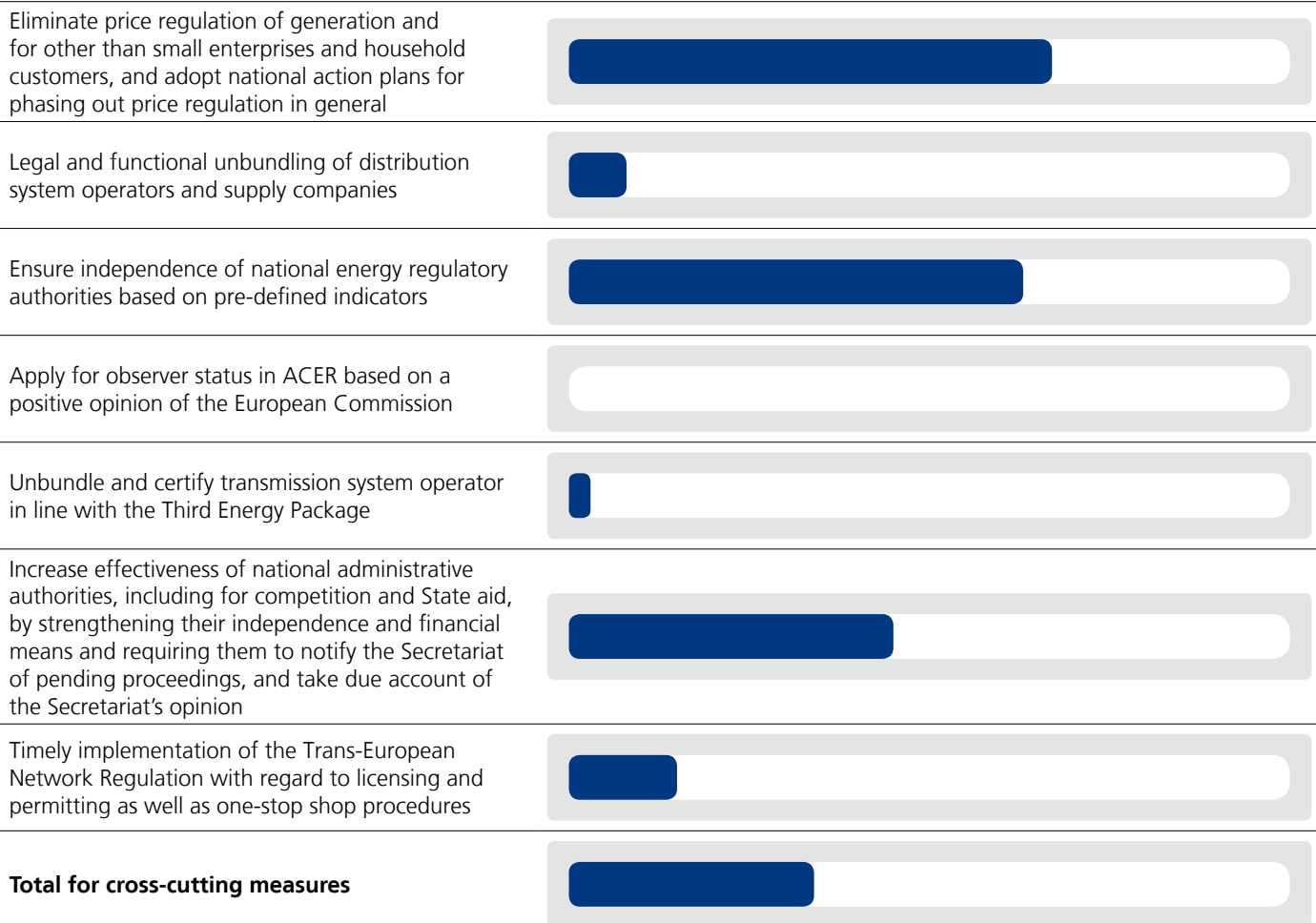
proceedings, and take due account of the Secretariat's opinion (July 2016)

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; The Secretariat initiated an infringement procedure because of the lack of State aid enforcement. Furthermore, the independence of the State Aid Council is questionable.

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

At the moment, the transposition is being discussed at the State level, the entity level and Brcko District, due to the Constitutional division of competences under which entities and Brcko District have the authority to issue majority of individual permits in the permit granting process. The collaborative permit granting scheme is being considered.

Cross-cutting Measures





Spot Market Development

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

A set of primary laws defining the legal and contractual framework for establishing organised spot markets for electricity and market coupling was adopted in June 2016. Amendments to the Law on Public Procurement were adopted in January 2016. The amendments allow state-owned companies to apply simplified tendering procedures in procuring electricity.

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

Concrete actions in that respect depend on a decision on

establishing a power exchange in Albania. Discussions about the servicing of the Kosovo market by the Albanian power exchange and the co-shareholding of the Kosovo transmission system operator are taking place.

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)

An integration of the electricity market of Kosovo with the Albanian market is under discussion. Upon a final agreement, a memorandum of understanding between the transmission system operators will be signed with the consent of the ministries.

Spot Market Development

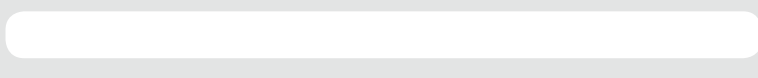
Remove major legal and contractual obstacles to establishing organised electricity markets and market coupling based on the reports of the Secretariat



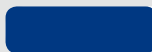
Adhere to a power exchange or, if economically justified (considering liquidity and economic viability), create an own power exchange, enabling wholesale market trade



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 new Law on Electricity stipulates an obligation of the transmission system operator to procure balancing services in a transparent, market-based and non-discriminatory procedure. A contractual framework and a non-discriminatory approach to balance responsibility of each market participant have been introduced by the new law. In addition, the law defines obligations of the transmission system operator to

develop balancing rules, including rules for imbalance settlement, and submit them to the regulator for approval.

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

A market-based balancing model defined by the transmission system operator exists albeit it is not implemented. Following the regulator's approval, the transmission system operator adopted a methodology for determining the imbalance settlement price in October 2016.

The transmission system operators of Kosovo and Albania have developed a mechanism for the cross-border procurement of a reserve for secondary regulation. Implementation



of this model of cooperation is pending the entry into force of the Connection Agreement between KOSTT and ENTSO-E.

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

A national balancing market is not operational. The incumbent generation company KEK is not able to provide the needed balancing services. An imbalance settlement mechanism, which is currently in a dry-run phase, is scheduled to become functional as of 1 January 2017.

Cross-border Balancing

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



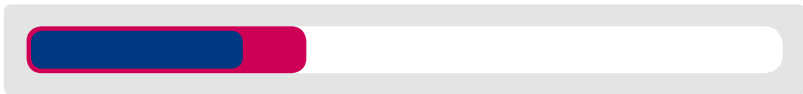
Adoption of a market-based balancing model allowing for the non-discriminatory cross-border exchange of balancing services



Establishment of a functioning national balancing market based on above model



Total for cross-border balancing



Regional Capacity Allocation

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

The transmission system operators of Serbia and of Kosovo continue to delay the implementation of the Inter-TSO Agreement on network and system operation management and the Framework Agreement signed by both parties in 2014. The entry into force of the Connection Agreement between ENTSO-E and the transmission system operator of Kosovo, signed in October 2015, was unduly conditioned by a supply license being issued to a Serbian supplier in Kosovo. As EPS of Serbia has failed to register a supply company, this long-standing dispute still remains unresolved. A possible technical solution allowing for the entry into force of the Connection Agreement proposed by ENTSO-E has been rejected by EMS of Serbia. The 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 fi-

nalising agreements on compensation for past congestion management and ITC for an interim period.

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

In October 2015, the transmission system operator has signed a Memorandum of Understanding on the establishment of a regional security coordinator with the transmission system operators of Albania, Bulgaria, Greece, former Yugoslav Republic of Macedonia and Turkey. As a follow up, the transmission system operator has signed an agreement for the establishment of the company with the transmission system operators of Greece and Bulgaria.

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

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



Regional Capacity Allocation

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



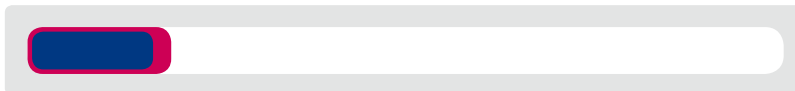
Introduction of a coordinated capacity calculation process for the allocation of day ahead capacities based on a regionally coordinated congestion forecast



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 continue to be fully regulated, even though the new Electricity Law limits regulation to supply prices for household and small customers under universal service. According to the new law, the regulatory authority shall annually reassess the price methodology, the level of prices and the need for further regulation and shall submit it to the Secretariat. The appointment of a supplier of last resort remains to be done in a tendering procedure not later than six months following the adoption of the law. The regulatory authority started activities towards market opening by adoption of switching rules and issuing licenses to two new suppliers in October 2016. No decision to deregulate prices has been taken to date.

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)

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

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

Activities on certification of the transmission system operator have not started yet. 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. Due to the lack of effective State aid enforcement, an infringement procedure by the Secretariat is pending. A new law on State aid is currently in the drafting stage.

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

The Ministry of Economy has sent out a draft Administrative Instruction transposing the Trans-European Network Regulation to the Secretariat for comments. The Government considers the collaborative permit granting scheme as the most feasible option for the comprehensive decision.

Cross-cutting Measures

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



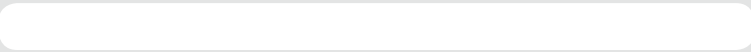
Legal and functional unbundling of distribution system operators and supply companies



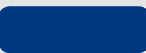
Ensure independence of national energy regulatory authorities based on pre-defined indicators



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



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



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



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



Total for cross-cutting measures





Spot Market Development

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

The 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. Former Yugoslav Republic of Macedonia has still not adopted a Third Energy Package compliant Energy Law. In October 2016, the Ministerial Council of the Energy Community adopted a decision on the failure of former Yugoslav Republic of Macedonia to comply with the Third Energy Package.

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

Activities towards taking a decision on the organisation of

a day-ahead market were initiated. The transmission system operator drafted an analysis of the optimal model for the establishment of the day-ahead market and put it forward to the working body established by the Government. A decision on the day-ahead market is not expected to be passed before the new Government is appointed in early 2017.

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

The competences for the regulatory authority to impose such a measure are envisaged by the draft Energy Law. The analysis of the optimal model for the establishment of the day-ahead market considers possibilities for increasing liquidity by introduction of new models for procuring losses and selling electricity from renewable energy sources.

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

Plans for coupling with neighbouring markets have not been under consideration for the time being.

Spot Market Development

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



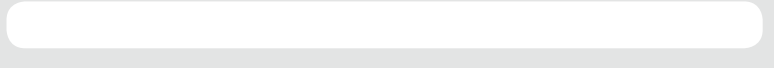
Adhere to a power exchange or, if economically justified (considering liquidity and economic viability), create an own power exchange, enabling wholesale market trade



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



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



Total for spot market development



Cross-border Balancing

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

The current Energy Law imposes an obligation on the state-owned generator to provide balancing services at regulated prices until 30 June 2020. In addition, an exemption for reg-

ulated energy undertakings from balance responsibility until 30 June 2016 has been imposed by the regulatory authority. 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.

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

Amendments to the Market Rules were adopted by the na-



tional regulatory authority in October 2016. The amendments introduced methodologies for market-based procurement of balancing services and non-discriminatory imbalance settlement. After having completed a dry-run phase, they will be applicable as of 1 July 2017. A model for imbalance netting within the control block of Serbia, former Yugoslav Republic of Macedonia and Montenegro is being developed with a view to extend the cooperation to all interested Western

Balkan 6 transmission system operators.

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

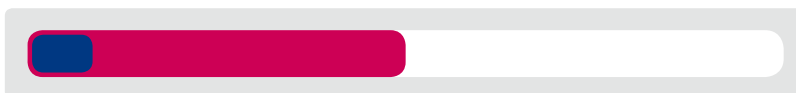
The establishment of a balancing market hinges on the implementation of the amendments to the market rules adopted in October 2016 and the phasing-out of the regulatory decision on the exemptions from balance responsibility.

Cross-border Balancing

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



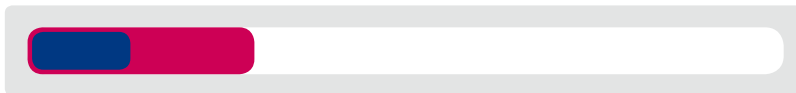
Adoption of a market-based balancing model allowing for the non-discriminatory cross-border exchange of balancing services



Establishment of a functioning national balancing market based on above model



Total for cross-border balancing



Regional Capacity Allocation

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

The transmission system operator signed a shareholder agreement with SEE CAO on 31 May 2016. Following this, interconnection capacities between former Yugoslav Republic of Macedonia and Greece will be auctioned through SEE CAO. Auctions will take place on a yearly, monthly and daily basis, starting with yearly auctions for 2017. This will lead to the closure of the infringement case opened by the Secretariat. To avoid double taxation on the provision of access to the networks to foreign market participants, an amendment to the VAT Law was adopted in October 2016.

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

The transmission system operator is signatory to a Memorandum of Understanding on the establishment of a regional security coordinator with the transmission system operators of Albania, Bulgaria, Greece, Kosovo and Turkey. No further steps have been taken in this respect.

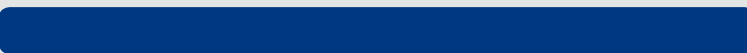
The Western Balkan countries to support signing of agreements between SEE CAO and relevant EU Member States (July 2017)

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

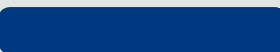


Regional Capacity Allocation

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



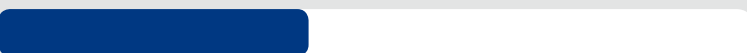
Introduction of a coordinated capacity calculation process for the allocation of day ahead capacities based on a regionally coordinated congestion forecast



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

The former Yugoslav Republic of Macedonia to comply with the obligation to grant eligibility to all electricity customers (October 2015)

The Energy Law in force refuses to grant the eligibility right to households and certain categories of small customers. In October 2016, the Ministerial Council of the Energy Community adopted a decision on the failure of former Yugoslav Republic of Macedonia to comply with the Energy Community's eligibility rules by postponing full opening of the electricity market. 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. Small customers with an annual consumption greater than 1000 MWh in 2015 were obliged to choose their supplier in the free market as of 1 July 2016.

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 September 2016, EVN established a new daughter company to perform distribution activities with assets leased from the mother company. The new company obtained a distribution license in December 2016 and is expected to become operational as of 1 January 2017.

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

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

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

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

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

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

Unbundling and certification are not envisaged by the current Energy Law. The adoption of the new Energy Law to transpose the necessary prerequisites is still pending. The lack of a legal basis represents an obstacle for the adoption of certification rules that have been finalised by the regulator in May 2016.

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

The Commission for Protection of Competition, as competition and State aid enforcement authority, 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. The effectiveness of the Commission's enforcement activities is not at a satisfactory level.



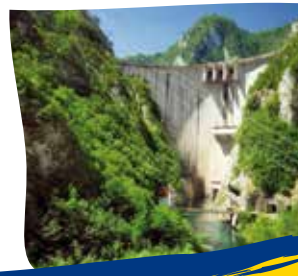
Timely implementation of the Trans-European Network Regulation with regard to licensing and permitting as well as one-stop shop procedures (January 2017)

No progress is registered with the preparation of the by-law transposing the Regulation. While unified procedures already

exist, they are not fully compliant with the provisions defined by the Regulation. The Government considers the collaborative permit granting scheme as the most feasible option for the comprehensive decision.

Cross-cutting Measures

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



Spot Market Development

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

The primary legislative framework needed for establishing the organised electricity market was completed. The Energy Law, adopted in 2015, and the Law on Transmission Systems for Cross-border Exchanges of Electricity and Natural Gas, adopted in June 2016, set a legal basis for designating a nominated electricity market operator. The Law amending the VAT Law of August 2016 determines that the provision of access to the electricity system shall be taxable at the place where the recipient of service is established.

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

The process of setting up a limited liability company with the

task to establish a power exchange in Montenegro is ongoing. The contract on establishing the company as well as its statute are in drafting phase. The market operator COTEE, the transmission system operator CGES and the incumbent utility EPCG were tasked by the Government to sign this contract by June 2016 and to become operational by 1 October 2016. These deadlines were missed.

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

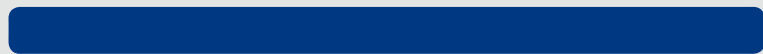
A regulatory approach for ensuring liquidity hinges on the model for establishing an organised day-ahead market and its coupling.

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

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

Spot Market Development

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



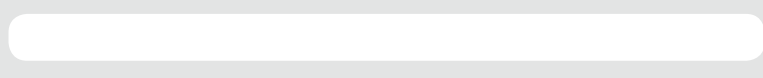
Adhere to a power exchange or, if economically justified (considering liquidity and economic viability), create an own power exchange, enabling wholesale market trade



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



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



Total for spot market development



Cross-border Balancing

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

The Energy Law provides a substantial legal framework for development of the cross-border balancing market. Rules for the operation of the balancing market and a methodology for pricing of balancing services, to be developed within one year of the Law's entry into force, are required for creating competition in the balancing market.

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

The balancing model defined by the market rules allows for market-based and non-discriminatory balancing with an inter-transmission system operator model for cross-border exchange of balancing energy. Based on this, the transmis-

sion system operators of Serbia and Montenegro developed a model for exchange of balancing energy from a manually activated frequency restoration reserve. As of May 2016, this model is fully implemented. A model for imbalance netting within the control block of Serbia, former Yugoslav Republic of Macedonia and Montenegro is being developed with a view to extend the cooperation to all interested Western Balkan 6 transmission system operators. The cross-border exchange of all balancing services will require deregulation of balancing reserve prices.

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

A national balancing market exists, but only with one balancing service provider 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. Deregulation of these prices is subject to the adoption of new secondary legislation.

Cross-border Balancing

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



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



Establishment of a functioning national balancing market based on above model



Total for cross-border balancing



Regional Capacity Allocation

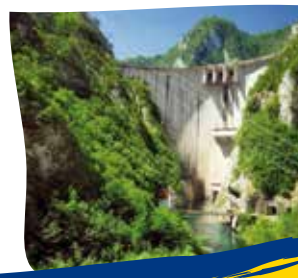
Introduction of a coordinated capacity calculation process for the allocation of day-ahead capacities based on a regionally coordinated congestion forecast (July 2016)

The transmission system operator, together with those of Bosnia and Herzegovina and Serbia, established a Security Coordination Centre (SCC) in August 2015 with the view to perform, inter alia, 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.

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

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

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

With the adoption of the new Energy Law, important improvements have been made in terms of regulatory independence. Still, the regulator lacks the full set of Third Energy

Package 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.

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. The regulator has initiated informal coordination with the Secretariat on the application for observer status in ACER Working Groups.

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

The Energy Law sets requirements for ownership unbundling. To ensure independence of the transmission system operator, the Law defines that the members of the management body shall be proposed by the Ministry of Finance, without obtaining the Government's opinion or instructions. The certification procedure has still not been initiated and no deadline for its completion is defined.

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 national competition authority's effectiveness in the energy sector in terms of enforcement is not satisfactory. The independence of the State Aid Control Commission is questionable and should be improved.



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

A consultancy contracted by the Ministry of Economy prepared a Draft Report on “Recommendations for the Development of Rulebooks and By-Laws Related to the Establishment of Trans-European Energy Infrastructure Guidelines”; The Government considers the collaborative permit granting scheme as the most feasible option for the comprehensive decision.

opment of Rulebooks and By-Laws Related to the Establishment of Trans-European Energy Infrastructure Guidelines”; The Government considers the collaborative permit granting scheme as the most feasible option for the comprehensive decision.

Cross-cutting Measures

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



Legal and functional unbundling of distribution system operators and supply companies



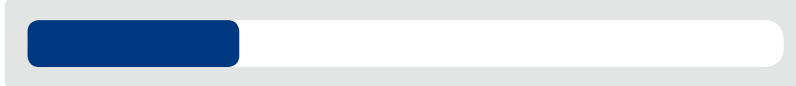
Ensure independence of national energy regulatory authorities based on pre-defined indicators



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



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



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



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



Total for cross-cutting measures





Spot Market Development

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

The legal and regulatory framework needed for operating an organised electricity market and market coupling is in place. Foreign companies can participate in the Serbian electricity market without a seat requirement. In addition, the financial legislation was changed to remove obstacles to clearing and settlement.

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

This task was completed by the launch of the Serbian day-ahead electricity market in February 2016. It is operated by the joint stock company South East European Power Exchange (SEEPEX).

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

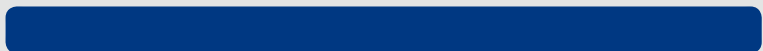
Trading on SEEPEX is voluntary and no regulatory measures promoting liquidity have been taken. SEEPEX is working on increasing liquidity and the number of participants by attracting foreign companies to join the market. So far, this has resulted in 9 foreign traders, out of the 12 participants registered at SEEPEX. In September 2016, the transmission system operator EMS registered at SEEPEX with a view to procure a portion of losses in the day-head market as of 2017. This is expected to increase SEEPEX' liquidity.

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

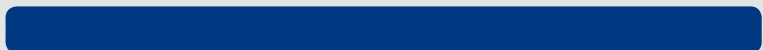
The Serbian day-ahead market operator SEEPEX expressed an interest to couple with the markets of Hungary, Czech Republic, Slovakia and Romania (known as 4MMC) in a joint letter of intent together with the Serbian regulatory authority and the transmission system operator. The response received from 4MMC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

Spot Market Development

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



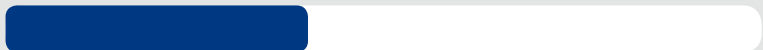
Adhere to a power exchange or, if economically justified (considering liquidity and economic viability), create an own power exchange, enabling wholesale market trade



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



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



Total for spot market development



Cross-border Balancing

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

The legislation in force allows the transmission system operator to procure balancing services across borders using market-based procedures. The introduced changes to the

licensing regime and the VAT Law removed obstacles to the participation of foreign companies in the balancing market. This is expected to contribute to the development of competition in the balancing market, which is currently operated with only one active balancing service provider.

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

The balancing model defined by the market rules allows



for market-based and non-discriminatory balancing with an inter-transmission system operator model for cross-border exchange of balancing energy. Based on this, the transmission system operators of Serbia and Montenegro developed a model for exchange of balancing energy from a manually activated frequency restoration reserve. As of May 2016, this model is fully implemented. A model for imbalance netting within the control block of Serbia, former Yugoslav Republic of Macedonia and Montenegro is being developed with a view to extend the cooperation to all interested Western Balkan 6 transmission system operators. The cross-border exchange of all balancing services will require deregulation of balancing reserve prices. The new market rules, approved by the regulator in December 2016, introduce a procedure for procurement of the balancing reserve by the transmission system operator.

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 on an annual basis. The procurement of balancing reserves in market-based procedures hinges on the regulator's decision to deregulate prices of balancing reserves. According to the Energy Law, the decision shall be adopted before 1 May 2017 based on an assessment of the level of competition. The transmission system operator shall start procuring the balancing reserve in a non-discriminatory procedure.

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 EPS of Serbia has failed to register a supply company, this long-standing dispute still remains unresolved. A possible technical solution allowing for the entry into force of the Connection Agreement proposed by ENTSO-E has been rejected

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



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

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

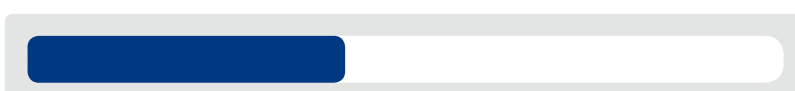
EMS (Serbia) and KOSTT (Kosovo) to implement the Framework and Inter-TSO Agreement



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



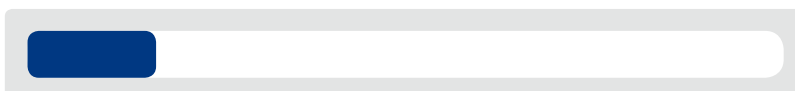
Introduction of a coordinated capacity calculation process for the allocation of day ahead capacities based on a regionally coordinated congestion forecast



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.

the regulatory authority with its decision of 10 June 2016 to approve the compliance programme and appointment of the compliance officer. With the same decision, the regulatory authority imposed the obligation on the distribution system operator to bring its acts of establishment in line with the conditions for functional unbundling defined in the Energy Law by 4 September 2016 at the latest. Enforcement of this obligation is still pending.

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 unbundling of the distribution system operator were transposed in the new Energy Law. The process of functional unbundling of the distribution system operator was acknowledged by

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 in May 2016. The Secretariat provided ACER with an analysis related to the requirements for ACER



Working Group participation of AERS in August 2016. Until now further steps have not been communicated by ACER.

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

In October 2016, the transmission system operator submitted a request for certification before the national regulatory authority. The regulator shall decide within four months if the transmission system operator complies with the requirements for ownership unbundling in line with the Energy Law. By a Government decision of October 2016, the transmission system operator has been transformed into a joint-stock company.

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

The national legal framework allows the Commission for the

Protection of Competition to notify the Secretariat as envisaged by the amended Energy Community Dispute Settlement Rules. It is unclear whether the State Aid Commission has the same competence. Moreover, the effectiveness of the national competition and State aid authorities in the energy sector is not yet satisfactory; an infringement procedure regarding non-compliance with State aid rules is pending. The independence of the Commission for State Aid Control should be improved by separating it from the Ministry of Finance.

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

A consultancy is being contracted to assist the Government before end of 2016; The Government is considering extending the competences of the existing one-stop shop within the Ministry of Constructions, Transport and Infrastructure; The Government considers the collaborative permit granting scheme as the most appropriate option for the comprehensive decision.

Cross-cutting Measures

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



The Regional Activities

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

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

Following the MoU's signature, the WB6 MoU Programme Steering Committee for the Day-ahead Market Integration (DA MI PSC) was constituted, and two meetings of DA MI PSC took place in September and November 2016. On this occasion, a set of documents to support the governance structure of the project, namely a WB6 Programme Management Manual and DA MI PSC Terms of Reference were adopted. In the next step, the Programme Management Plan and all other relevant documents for the initiation of the programme should be completed until 1 February 2017.

The process of appointing members of the Programme Steering Committee for Cross-border Balancing will be initiated before the end of 2016.

The Memorandum of Understanding

On 27 April 2016, representatives of transmission system operators, national regulatory authorities, ministries of energy and power exchanges of the Western Balkans 6 countries signed a Memorandum of Understanding of Western Balkan 6 on Regional Electricity Market Development and Establishing a Framework for future cooperation (WB6 MoU) in Vienna. It sets out the general principles of cooperation as well as concrete actions to develop the regional electricity market, governance of its implementation projects and details of key technical solutions.

Concretely, the MoU aims to implement the coupling of national organised day-ahead markets with at least one neighbouring WB6 or EU country by July 2018 and cross-border balancing cooperation between the WB6 countries by December 2018. The signature of the Memorandum of Understanding by Kosovo representatives was made conditional on the entry into force of the Connection Agreement between KOSTT and the ENTSO-E.

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

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. This would play a decisive role in reaching the regional implementation targets. For this reason, the MoU is open for signature to EU neighbouring stakeholders which are willing to assume a role in the market integration projects. The Italian regulator has already signed the WB6 MoU, while other EU Member State entities are also considering becoming signatories.



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