



WB6 Electricity Monitoring Report

**Energy Community Secretariat
July 2017**



Executive Summary

Creating a Regional Electricity Market in the Western Balkans

The 2015 Summit of the Western Balkan 6 Initiative provided a renewed impetus to the development of the regional electricity market spanning the six Contracting Parties of the Energy Community in Southeast Europe: Albania, Bosnia and Herzegovina, former Yugoslav Republic of Macedonia, Montenegro, Kosovo* and Serbia. EU Member States participating in the process - Austria, France, Germany, Italy and the United Kingdom - and the six focus countries in cooperation with the

European Commission and the Energy Community Secretariat decided to take steps to improve energy connectivity in the region. The Western Balkan 6 (WB6) countries committed to a set of regional and national reform measures, which target the development of the electricity market in different timeframes, tackling capacity allocation and calculation, spot markets and balancing markets. The regional measures are focused on strengthening regional institutions and cooperation, whereas national measures aim at removing national obstacles to regional electricity market development. The present Monitoring Report prepared by the Energy Community Secretariat, which was tasked by the Western Balkan countries "to take the lead to develop the regional energy market and to help implement these 'soft measures'", provides an overview of the state of play of implementation of the soft measures and highlights the achievements made since the Paris Summit of 5 July 2016. The report presents the progress made at both national and regional level, as well as where continued implementation efforts are needed most.

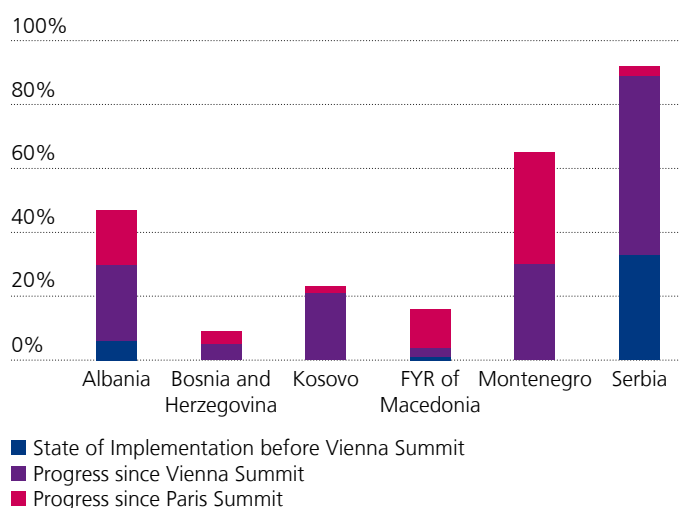
Implementation of the energy soft measures continues to be a key driver of electricity market reforms in the Western Balkans, in line with the Energy Community Treaty incorporating the relevant EU acquis. Two years since the launch of the Western Balkan 6 initiative, countries have already implemented more than half of the energy soft measures. To speed up the process, governments will have to adopt decisions that will remove the remaining blocking points, as well as to step up regional cooperation of both Western Balkan 6 parties and EU Member States towards an efficient integration of their day-ahead and balancing markets.

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

Overall progress in Soft Measures Implementation

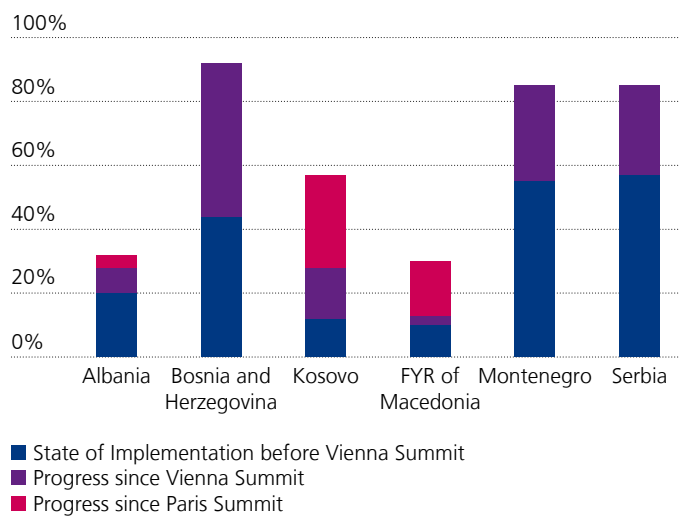
Spot Market Development

Progress in establishing day-ahead markets and their coupling in the Western Balkans still comes at a slow pace. The power exchange SEEPEX in Serbia remains the only functional day-ahead market in the Western Balkan 6. However, in most other countries concrete activities for starting a day-ahead market were initiated. The most notable progress since the Paris Summit has been made in Montenegro, where a company tasked to establish a day-ahead market was set up in June 2017. The further scope of activities of this company depends on an agreement with a strategic partner yet to be selected. In former Yugoslav Republic of Macedonia, the government adopted an action plan for establishing an organized electricity market which shall be operational by end 2018. To fulfil this plan, the new government will have to urgently implement the necessary legal reforms. Bosnia and Herzegovina launched activities on identifying an efficient and viable solution for organising an electricity day-ahead market, but the country is lagging behind in legal and institutional reforms. The already advanced project for establishing a power exchange in Albania, planned to be put into operation by end 2017, is delayed due to lack of political will. The process should be reinvigorated after the new government is in place. New governments in Albania and Kosovo are expected to take up again the discussions on integrating the countries' power markets.



Cross-border Balancing

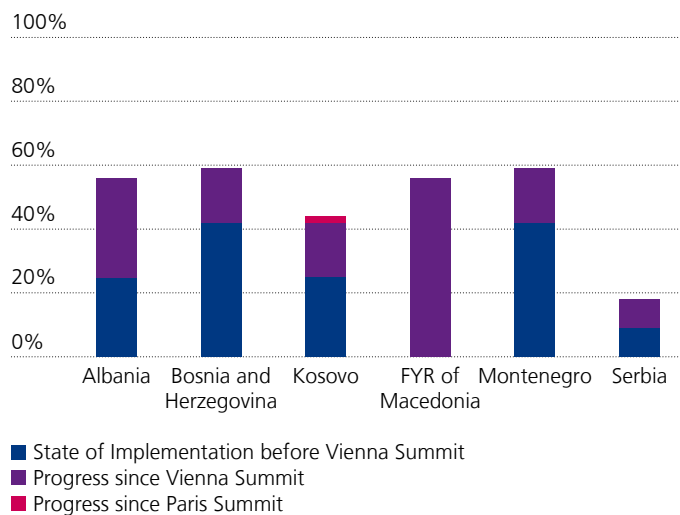
The transmission system operators of the Western Balkan countries are in the process of developing models and contractual frameworks for cross-border exchange of balancing energy. However, activities so far are essentially limited to bilateral cooperation, or the cooperation developed within control blocks (such as trilateral cooperation of transmission system operators of Bosnia and Herzegovina, Croatia and Slovenia within the so-called SHB block). Truly regional balancing cooperation has still not taken off in the Western Balkans, despite the considerable welfare gains it would bring. Underdeveloped national balancing markets in Albania and former Yugoslav Republic of Macedonia, and in particular granting exemptions from balance responsibility to regulated companies, remain major obstacles to their participation in regional balancing. In those countries where balancing markets are functioning, albeit with a single balancing service provider, such as Montenegro and Serbia, cross-border cooperation is urgently needed to open up the market. Further reform of balancing rules and deregulation of the balancing reserve price are needed to allow for non-discriminatory access of new entrants into the market.



The progress made at national level is heterogeneous and the regional market is still to take shape. Even though the small size of the national markets raises uncertainty over day-ahead market liquidity potential in most of the WB6 markets, so far countries have mainly opted for the establishment of national power exchanges, rather than to look for adhering to existing power exchanges or enlarging national bidding zones. Countries should carefully consider financial viability of the future power exchanges and measures that will contribute to boosting their liquidity, including through an efficient market coupling process. The speed and direction in which spot markets in the Western Balkans will develop and couple among each other and with markets of EU Member States will also depend on both regional and European-wide electricity market development. The necessary reforms were recently slowed down due to elections throughout the Western Balkans. After taking office, the new governments should adopt decisions that will pave way for the implementation of the remaining soft measures.

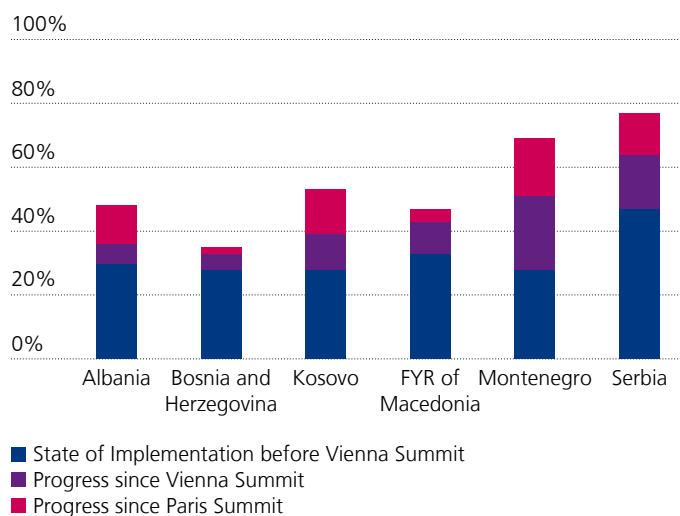
Regional Capacity Allocation

The only improvement made in this area since the Paris Summit is the inclusion of the cross-border capacities on the interconnection between former Yugoslav Republic of Macedonia and Greece into the common regional auctioning performed by SEE CAO. Serbia remains the only WB6 country that is not allocating any of its cross-border capacities through the regional auction office. The signing of an agreement between its transmission system operator, EMS, and SEE CAO was further delayed. No initiative was taken towards Bulgaria's membership of SEE CAO, for the purpose of allocation of capacities on the interconnection with former Yugoslav Republic of Macedonia. There was also no progress in implementing the bilateral agreements between the transmission system operators of Kosovo and Serbia. The lack of progress with respect to the entry into force of the Connection Agreement between KOSTT and ENTSO-E constitutes the single largest obstacle to regional cooperation in the WB6. New efforts are required to resolve this long-standing dispute.

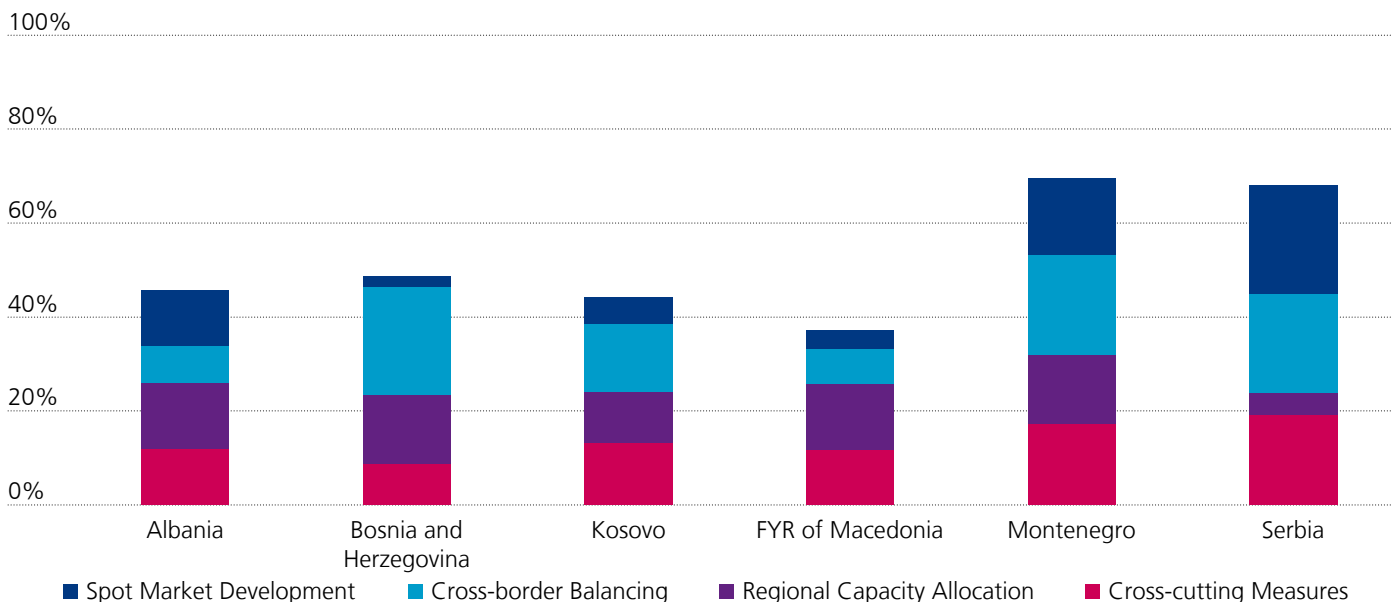


Cross-cutting measures

The most prominent progress since the Paris Summit was made in the area of price deregulation and unbundling of system operators. In four of the Western Balkan 6 countries, the transmission system operators applied for certification. The process was finalized successfully in Albania, where the transmission system operator was certified and subsequently became a member of ENTSO-E. In Serbia, the Energy Community Secretariat found that the transmission system operator had not fulfilled the unbundling requirements of the Third Package. In Kosovo and Montenegro, the national regulatory authority is expected to adopt a preliminary decision on certification soon. A legally unbundled distribution system operator became operational in former Yugoslav Republic of Macedonia. Legal unbundling of the distribution system operator has still not been finalized in Albania and Bosnia and Herzegovina. Functional unbundling is also not yet complete in former Yugoslav Republic of Macedonia, Montenegro and Serbia. In Kosovo, the country which till recently had in place the last remaining fully regulated electricity market in the Western Balkans, price regulation was terminated for generation prices as well as the supply price for high voltage customers and the price for network losses.



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)

According to the Ministry's reading of the Power Sector Law, removing obstacles to the establishment of an organised day-ahead market requires amending that Law. In March 2017, amendments to the Law were submitted to the relevant ministries. However, amendments have not been put forward for approval of the Council of Ministers yet.

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 Council of Ministers adopted the market model which defines an action plan for creating an electricity market. According to the plan, the Minister should have decided on the legal entity and its structure before 31 March 2017. The power exchange shall be fully operational as of 1 January 2018. This has not happened yet and is unlikely to happen on time.

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

The market model includes a strategy for promoting liquidity based on so-called import/export zones and other measures for an interim period until market coupling takes place. The model also foresees the mandatory participation of the main market players in a phased approach. At the same time, the Council of Ministers' Decision imposing Public Service Obligations frustrates market opening and the liquidity of the Albanian power market. It needs to be urgently revised. Besides, the bilateral agreements between KESH and OSHEE as well as the procedure for procuring electricity to cover losses by the transmission and distribution system operator violate Energy Community law (and national law). The Secretariat is currently preparing infringement action.

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

A declaration for creating a common electricity market between Albania and Kosovo signed by the respective Ministers in March 2016 has not resulted in any concrete activities so far. Participation of the transmission system operator of Kosovo as shareholder of the Albanian power exchange has been agreed in principle. However, the discussions on concluding a memorandum of understanding between the transmission system operators, subject to the consent of the ministries, have stalled.

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 legal possibility for the transmission system operator to acquire balancing services using market-based, non-discriminatory and transparent procedures, including through co-operation with neighbouring transmission system operators, is ensured by the Power Sector Law and the market model that further defines obligations of the transmission system operator to procure balancing services and operate a balancing market.

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

New balancing rules were drafted by the transmission system operator and submitted to the regulator for approval in July 2017. The rules should replace the currently applied provisional electricity market rules that are not in compliance with

the Power Sector Law and the market model.

Implementation of a developed mechanism for the cross-border procurement of a reserve for secondary regulation between the transmission system operators of Kosovo and Albania depends on 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)

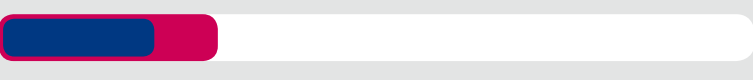
A functional national balancing market does not exist in Albania. The transmission system operator still procures balancing services based on a regulated annual contract with the only balancing service provider, the incumbent generation company KESh. This is in breach of the Power Sector Law that requires phasing-out of price regulation by June 2016. The imbalance settlement mechanism is still implemented in a discriminatory manner following the regulator's decision to exempt KESh from balance responsibility. These shortcomings are expected to be overcome by the adoption of the new 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



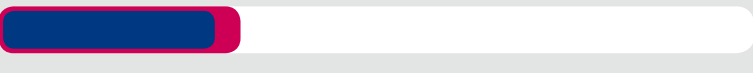
Adoption of a market-based balancing model allowing for the non-discriminatory cross-border exchange of balancing services



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)

There was no progress in this respect since the Paris Summit. The transmission system operator has not taken further steps towards the establishment of the regional security coordination initiative on the basis of the Memorandum of Understanding signed between the transmission system operators

of Bulgaria, Greece, Kosovo, former Yugoslav Republic of Macedonia and Turkey in October 2015.

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

There is no lack of support by WB6 countries. This task needs the active support from the European Commission.

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. According to the Law, the retail price for customers connected to 35 kV was to be deregulated by 1 July 2016 and for 20 kV by 1 January 2017. However, deregulation of these prices has still not taken place. Both 35 kV and 20 kV customers continue to be supplied at regulated prices by the supplier with 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 contrary to the requirements of Energy Community law. The regulated contract between KESh and OSHEE continues to be in force.

Distribution is still legally and functionally bundled with supply within the state-owned joint stock company OSHEE. The unbundling model of OSHEE was approved by the company's Supervisory Council in December 2016 and by the Minister of Energy and Industry, representing the General Assembly of the company, in February 2017. Yet not even legal unbundling has taken place. The Secretariat is currently preparing infringement action.

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 too weak sanctioning powers which need to be improved by increasing the penalty levels.

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

ERE has not applied yet. As a prerequisite for a positive opinion, compliant secondary legislation still needs to be adopted by the Albanian authorities.

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





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

The transmission system operator of Albania was unbundled in terms of ownership and certified by the regulator in line with the Secretariat’s opinion. Subsequently the transmission system operator became member of ENTSO-E in April 2017. However, several conditions still need to be fulfilled according to the certification decision.

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 cooperate well with the Secretariat. They have not yet used the mechanism enshrined in Article 2 of the Energy Dispute Settlement

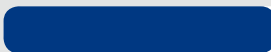
Rules which requires them to notify any pending proceedings and gives them the possibility to ask for the Secretariat’s opinion. The effectiveness of the national competition and State aid authorities in the energy sector is not satisfactory; the Secretariat currently investigates a complaint regarding non-compliance with the competition rules. 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 country is yet to start activities on transposing the Trans-European Network Regulation. The decision of the Council of Ministers on establishment of the national competent authority needs to be adapted in order to transpose all necessary provisions defined under the Trans-European Network Regulation.

Cross-cutting Measures

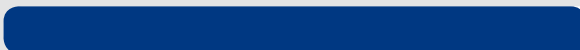
Eliminate price regulation of generation and for other than small enterprises and household customers, and adopt national action plans for phasing out price regulation in general



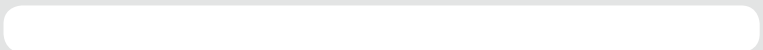
Legal and functional unbundling of distribution system operators and supply companies



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



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



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



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



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



Total for cross-cutting measures





Spot Market Development

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

Bosnia and Herzegovina has still not adopted the State Law on Regulator, Transmission and Power Market and the complementary law on establishment of a transmission system operator, nor taken any other measure to put in place the necessary legal framework. Non-compliance of the existing legislation with the Third Energy Package has been determined by the Ministerial Council.

Legislation on VAT and public procurement needs to be amended in order to remove barriers to electricity trade.

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 Ministry of Foreign Trade and Economic Relations initiated activities on exploring possible solutions for organising a day-ahead market in Bosnia and Herzegovina.

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

The structure of the domestic electricity market, consisting of three incumbent utilities, each with its own generation portfolio, should in theory ensure liquidity on the domestic market. In practice, however, there have been no signs of competition between them. The markets remain split along entity lines. The power utility of Republika Srpska joined the Serbian day-ahead electricity market on 7 March 2017.

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

No steps for market coupling have been undertaken 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)

Legislation is not preventing the transmission system operator from acquiring balancing services in a market-based manner and across borders. Specific 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 necessary 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)

A balancing model that ensures market-based and non-discriminatory procurement of balancing capacity and balancing energy by the transmission system operator is defined by the

market rules adopted already in May 2015. Since the Paris Summit, cross-border cooperation was strengthened, namely by a trilateral contract for the exchange of balancing services with the transmission system operators of Croatia and Slovenia from September 2016. The contract concerns balancing energy from a manually activated frequency restoration reserve. In 2017, the contract was amended in order to include the possibility of exchanging also downward regulation and to reflect changes in reserve requirements due to new generation capacity in Bosnia and Herzegovina. The transmission system operator also signed bilateral contracts for an emergency exchange of balancing energy with the transmission system operators of Serbia and Montenegro.

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

A competitive national balancing market, with both balancing reserve and balancing energy procured in market-based procedures, is operational since 1 January 2016.

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)

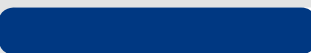
The transmission system operator has still not started allocating day-ahead capacities based on the values of daily capacities calculated and submitted by the Security Coordination Centre (SCC), which was established by the transmission system operators of Bosnia and Herzegovina, Montenegro and Serbia in August 2015.

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

There is no lack of support by WB6 countries. This task needs the active support from the European Commission.

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 price of electricity supplied by the incumbent generation companies to public suppliers continue to be regulated in Republika Srpska. This is a breach of Energy Community law. It has not been addressed by the draft new energy law of that entity. End-user price regulation also continues for small customers and households. In the Federation of Bosnia and Herzegovina, all prices were deregulated on 1 January 2015, except for households and small customers. There is no national or entity-based action plan for phasing out remaining price regulation.

in Federation of Bosnia and Herzegovina. No deadlines have been set for the finalisation of the process. The Secretariat is currently preparing infringement action.

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

There was no progress since the Paris Summit. Distribution is still legally and functionally bundled with supply throughout Bosnia and Herzegovina and with generation in two utilities

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.

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

The state regulator has not applied yet. As a prerequisite, the Third Package would need 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 in violation of the Energy Community Treaty.





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

The current legal framework on state level does not require the unbundling and certification of the transmission system operator in line with the Third Energy Package. Unbundling of the transmission system operator has not been achieved. This is a clear breach of Energy Community law.

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 and State aid enforcement authorities must notify pending energy cases to the Secretariat pursuant to

the Energy Community Dispute Settlement Rules. This does not happen in practice. The effectiveness of national competition and State aid authorities is not at a satisfactory level. 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)

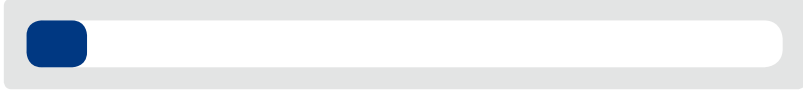
The country is yet to start activities on transposing the Trans-European Network Regulation. Currently, a model, which would include designation of one state level body along with two entity bodies and one body of Brcko District, is being discussed.

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



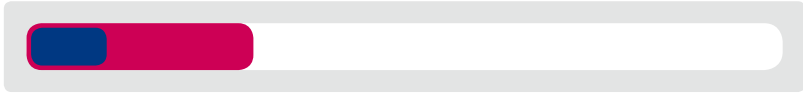
Unbundle and certify transmission system operator in line with the Third Energy Package



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)

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)

There was no progress with respect to concrete actions to follow up on the decision on establishing a power exchange in Albania. Ongoing discussions about the servicing of the Kosovo market by the Albanian power exchange and the co-shareholding of the Kosovo transmission system operator

have slowed down due to the lack of progress in Albania.

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 included in the new Energy Law.

The regulatory authority started activities towards market opening by adoption of the switching rules and issuing two licenses to new suppliers to operate on the Kosovo market in October 2016. Moreover, the regulatory authority admitted an EU-based trader without requiring an additional license based on provisions of the Energy Law.

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

A declaration for creating a common electricity market between Albania and Kosovo signed by Ministers in March 2016 has not resulted in concrete activities 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 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 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)

Progress has been made since the Paris Summit by the adop-

tion of a methodology for determining the imbalance settlement price, following the regulator's approval in October 2016. A market-based balancing model defined by the transmission system operator exists albeit it is not implemented. Implementation of a developed mechanism for the cross-border procurement of a reserve for secondary regulation between the transmission system operators of Kosovo and Albania 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)

An imbalance settlement mechanism, based on the adopted methodology for determining the imbalance settlement price, is applied by the transmission system operator as of 1 June 2017. A national balancing market is not operational. The incumbent generation company KEK is not able to provide the needed balancing services.

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 operator 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. 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 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. This issue urgently requires facilitated negotiations under the Energy Community Dispute Resolution and Negotiation Center.

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)

There is no lack of support by WB6 countries. This task needs the active support from the European Commission.

Regional Capacity Allocation

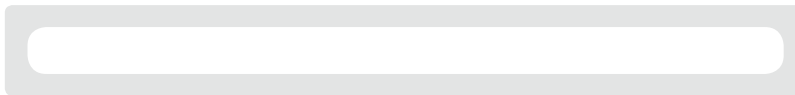
EMS (Serbia) and KOSTT (Kosovo*) to implement the Framework and Inter-TSO Agreement



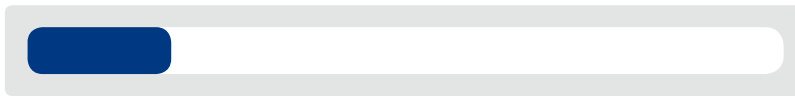
Introduction of a coordinated capacity calculation process for the allocation of day ahead capacities based on a regionally coordinated congestion forecast



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)

A major step forward has been made in phasing out price regulation in the electricity market since the Paris Summit. As of 1 April 2017, wholesale and supply prices for high voltage customers were deregulated. In addition, transmission and distribution system operators are obliged to procure electricity for network losses at non-regulated prices. The Electricity Law limits price regulation to supply prices for household and small customers under universal service. An action plan for further deregulation of retail prices is defined in a guideline on market liberalisation in Kosovo, issued by the regulator in January 2017. According to the guideline, prices of supply for medium voltage customers shall be deregulated by 31 March 2018.

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

Legal and functional unbundling was finalised early. 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. The first compliance report was approved and published in 2016. The compliance report for 2016 has still not been approved by ERO and published on KEDS's website as required by law.

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

The Law on the Energy Regulator of June 2016 overcomes the previously 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)

ERO has not yet applied. 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)

The Electricity Law foresees unbundling in a way that the government controls the generation company KEK, while the transmission system operator KOSTT is controlled by parliament. The transmission system operator applied for certification to the national regulatory authority ERO on 28 April 2017. The regulator must adopt its preliminary decision on certification of the transmission system operator within four months from the day of acceptance of the application, and then refer it to the Energy Community Secretariat for its Opinion.

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)

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 still pending. A new law on State aid was adopted in January 2017; it stipulates that the State Aid Office is transferred to the Ministry of Finance. However, this has not happened to date.

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

The Administrative Instruction on the promotion of joint regional investments in the energy sector, which transposed the Trans-European Network Regulation, was signed by the Minister of Economic Development on 20 February 2017. However, Kosovo has not designated the national competent authority by the regulation's deadline of 30 June 2017.

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



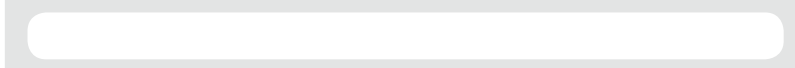
Legal and functional unbundling of distribution system operators and supply companies



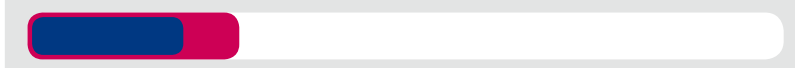
Ensure independence of national energy regulatory authorities based on pre-defined indicators



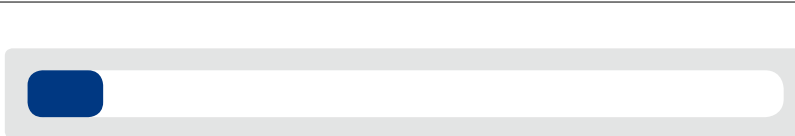
Apply for observer status in ACER based on a positive opinion of the European Commission



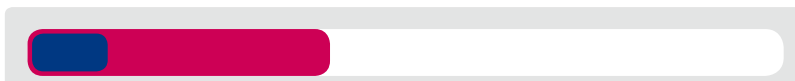
Unbundle and certify transmission system operator in line with the Third Energy Package



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, 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 established the failure of former Yugoslav Republic of Macedonia to comply with the Third Energy Package. The new government started activities towards rectifying this breach.

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)

On 22 March 2017, the government adopted a decision on establishment of an organised electricity market in former Yugoslav Republic of Macedonia, instructing the transmis-

sion system operator to develop an action plan and submit it to the government within 15 days. On 23 May 2017, the government adopted that action plan, according to which the power exchange will be operational by the end of 2018.

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 liquidity measures 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)

No plans for coupling with neighbouring markets have been announced yet.

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 ELEM to provide balancing services at regulated prices until 30 June 2020. In addition, an exemption for regulated energy undertakings from balance responsibility until 30 June 2017 has been imposed by the regulatory authority. No progress has been made towards the removal of these legal and regulatory obstacles which are in breach of Energy Community law.

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, which introduced method-

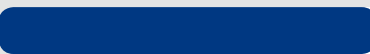
ologies for market-based procurement of balancing services and non-discriminatory imbalance settlement, were adopted by the national regulatory authority ERC in October 2016. This provides the possibility for the transmission system operator to procure balancing services from domestic providers and across borders. Currently, a model for imbalance netting within the control block of former Yugoslav Republic of Macedonia, Montenegro and Serbia is in the testing phase.

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

The establishment of a balancing market requires the implementation of amendments to the market rules adopted in October 2016 and the phasing-out of the regulatory decision on the exemptions from balance responsibility, both expected to come into effect as of 1 January 2018.

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. As of 2017, interconnection capacities between former Yugoslav Republic of Macedonia and Greece are auctioned on a yearly, monthly and daily basis through SEE CAO. This closed the infringement case opened by the Secretariat. The transmission system operators of former Yugoslav Republic of Macedonia and Bulgaria are in the process of introducing joint auctions (outside SEE CAO), expected to be applied as of 2018.

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 initiated a public procurement procedure for providing services of the regional security coordinator, including coordinated capacity calculation. 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 Bosnia and Herzegovina, Montenegro and Serbia, as well as to a Memorandum of Understanding on the establishment of a regional security coordinator with the transmission system



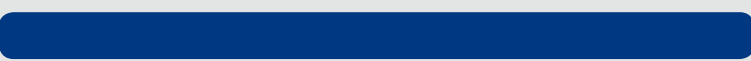
operators of Albania, Bulgaria, Greece, Kosovo and Turkey. However, no further steps have been taken by the transmission system operator with respect to any of these two initiatives.

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

There is no lack of support by WB6 countries. This task needs the active support from the European Commission.

Regional Capacity Allocation

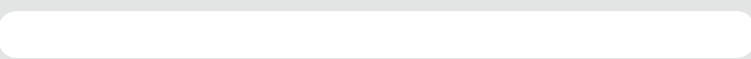
Binding agreement between TSO from the former Yugoslav Republic of Macedonia with SEE CAO on coordinated allocation



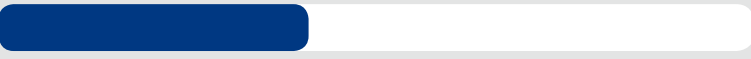
Introduction of a coordinated capacity calculation process for the allocation of day ahead capacities based on a regionally coordinated congestion forecast



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 denies the eligibility right to households and certain categories of small customers. In October 2016, the Ministerial Council of the Energy Community decided on the failure of former Yugoslav Republic of Macedonia to comply with its obligations under the Energy Community Treaty in this respect. The new government has resumed activities on drafting a new Energy Law that is expected to rectify this breach.

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)

Since the Paris Summit, retail prices of an additional portion of small customers were deregulated. Customers with an annual consumption greater than 500 MWh in 2016 were obliged to find their supplier based on non-regulated prices as from 1 July 2017. However, regulation of both generation and retail prices for supply for households and small customers, remaining under the consumption threshold, is envisaged until 30 June 2020 under the existing Energy Law.

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

The distribution system operator was legally unbundled from regulated supply of last resort in the distribution company EVN after the Paris Summit. On 1 January 2017, a new daughter company established by EVN has been licenced for distribution. This company performs distribution activities with assets leased from the mother company. The compliance programme of EVN Distribution was approved by the regulatory authority in March 2017. A separate identity of the company through rebranding is still to be established, following the adoption of the new law.

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 currently not transposed. A neutral committee for selecting board members should be introduced and the dubious 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)

ERC has not applied. 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 even 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. This is a clear breach of Energy Community law.

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, must notify pending

energy cases to the Secretariat pursuant to the Energy Community Dispute Settlement Rules. 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)

The country is yet to start activities on transposing the Trans-European Network Regulation. No progress is registered with the preparation of the by-law supposed to transpose the Regulation. While unified procedures already exist, they are not 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



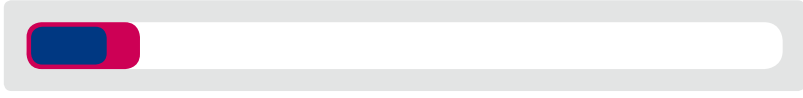
Unbundle and certify transmission system operator in line with the Third Energy Package



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

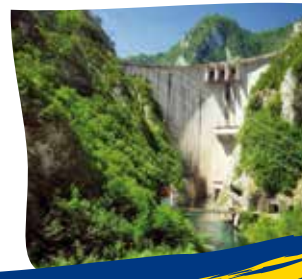


Timely implementation of the Trans-European Network Regulation with regard to licensing and permitting as well as one-stop shop procedures



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 legislative framework needed for establishing the organised electricity market was completed since the Paris Summit. The 2015 Energy Law was complemented by the Law on Cross-border Exchanges of Electricity and Natural Gas adopted in 2016. This set of laws defines the legal framework for establishing the organised day-ahead market and its coupling. The Law amending the VAT Law, which includes a definition of the place of taxable transactions for providing transmission services as the place where the recipient of service is established, was also adopted after the Paris Summit.

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

A government decision adopted in June 2016 paved the way for setting up a day-ahead market. In line with the decision, the market operator COTEE, the transmission system operator

CGES and the incumbent utility EPCG set up in June 2017 a limited liability company with the task to establish a power exchange in Montenegro. As the next step, the company should select a strategic partner among European power exchanges.

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

Montenegro is the only WB6 country where a license for wholesale trade is not required, as a measure to enhance competition in the market. Liquidity in the day-ahead market is expected to further increase through coupling with neighbouring markets. In addition, the introduction of mandatory participation and selling of electricity from renewable sources in the day-ahead market are being discussed.

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

According to the government's decision on the organisation of the day-ahead market, coupling plans will be formalised through a future agreement with a strategic partner.

Spot Market Development

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



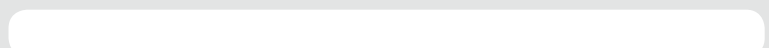
Adhere to a power exchange or, if economically justified (considering liquidity and economic viability), create an own power exchange, enabling wholesale market trade



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)

There are no legal obstacles for the transmission system operator to procure balancing services from domestic providers and across the border. The Energy Law provides a substantial legal framework for market-based procurement of balancing services and development of the cross-border balancing market. After the Paris Summit, a new methodology for provision and pricing of balancing services was adopted by the national regulatory authority. The methodology lays the ground for non-discriminatory procurement of balancing services from balancing service providers.

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

The regulator adopted new market and balancing rules, drafted by the market operator in cooperation with the transmission system operator in June 2017. The balancing model allows for market-based and non-discriminatory balancing with an inter-transmission system operator model for cross-border

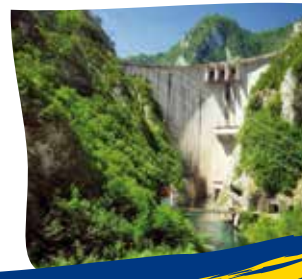
exchange of balancing energy. The transmission system operator is in the process of establishing a cross-border bilateral cooperation with the neighbouring transmission system operators. In addition to the already implemented exchange of balancing energy with the transmission system operator of Serbia, a contract for an emergency exchange of balancing energy with the independent transmission system operator of Bosnia and Herzegovina was signed in March 2017. Negotiations on bilateral cooperation with the Albanian transmission system operator are ongoing. A model for imbalance netting within the control block of former Yugoslav Republic of Macedonia, Montenegro and Serbia is in the testing phase.

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, the incumbent generation company EPCG. 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. The possibility for new providers to offer balancing services is not effectively implemented.

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)

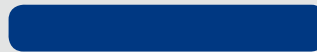
The transmission system operator has not started allocating day-ahead capacities based on the values of daily capacities calculated and submitted by the Security Coordination Centre (SCC), which was established by the transmission system operators of Bosnia and Herzegovina, Montenegro and Serbia in August 2015.

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

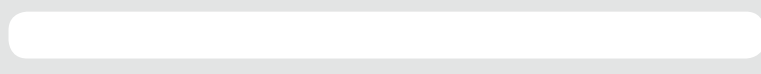
There is no lack of support by WB6 countries. This task needs the active support from the European Commission.

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 of electricity is not subject to price regulation. The Energy Law sets an action plan for market opening and development of competition in the retail market, according to which the prices of electricity supplied to final customers, except for small and household customers, were to be deregulated as of 1 January 2017. The supplier of last resort was to be selected by the government in an open competitive procedure within 12 months from the entry into force of the law. The procedure has not been conducted yet. Instead, the government appointed the incumbent supplier until a supplier of last resort is appointed following a tendering procedure. As there are no new suppliers in the market, all customers continue to be supplied by the incumbent supplier who is in the process of signing new contracts with its final customers. Price of electricity supplied to households and small customers is market based, but subject to a price cap established by the regulator.

negrin Electricity Distribution System (CEDIS), was established. CEDIS is independent in decision-making from the parent company EPCG, except for investments exceeding the amount of 10% of its capital. CEDIS and EPCG have no shared services except IT which is currently provided by EPCG. After the Paris Summit, a compliance programme of CEDIS was adopted and approved by the national regulatory authority. 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 independence requirements, including 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)

The regulatory authority RAE submitted the application for observer status in ACER Working Groups in January 2017. The Secretariat provided a positive assessment of the requirements for such participation in March 2017.

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 when a new company, Monte-





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

The Energy Law sets requirements for ownership unbundling. The transmission system operator applied for certification to the national regulatory authority on 20 June 2017. Within four months from the application, the national regulatory authority shall adopt a preliminary decision and submit it to the Secretariat.

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 have to notify pending energy cases to the Secretariat pursuant to the Energy Community Dispute Set-

tlement Rules. 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 with the adoption of the new draft State aid law which provides for the State Aid Control Commission to be moved under the umbrella of the Agency for Competition Protection.

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

The country is yet to start activities on transposing the Trans-European Network Regulation. The Ministry of Economy prepared a draft for the development of secondary legislation to implement the Regulation. The next step should be the selection of the most suitable option for conducting the permitting procedure for Projects of Energy Community Interest and other major infrastructure projects.

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



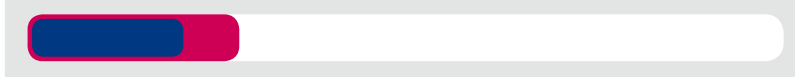
Ensure independence of national energy regulatory authorities based on pre-defined indicators



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 wholesale market based on a license that does not require a domestic seat.

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 re-

views, capacity releases, virtual power plants etc. (July 2016)

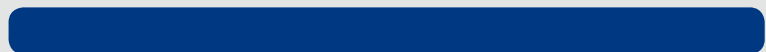
Trading on SEEPEX is voluntary and no regulatory measures promoting liquidity have been taken. Since the Paris Summit, the number of participants in SEEPEX increased from 10 to 14, out of which 11 are foreign companies. As of March 2017, SEEPEX introduced a flexible block order as a new product with a view to increase liquidity. Further measures to increase liquidity should be implemented, such as purchase of network losses, selling of electricity from renewable sources, further deregulation of retail prices and relaxing the licencing regime.

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

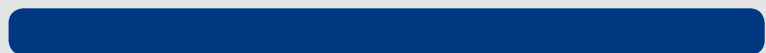
Since the Paris Summit there was no progress made towards coupling the Serbian day-ahead market with the markets of Hungary, Czech Republic, Slovakia and Romania (known as 4MMC), for which SEEPEX expressed interest in a letter of intent sent to 4 MMC together with the Serbian regulatory authority and the transmission system operator.

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 and non-discriminatory procedures. Changes

to the licensing regime and the VAT Law removed obstacles to the participation of foreign companies in the balancing market as well.

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



Market rules adopted in November 2016, allow for market-based procurement of balancing energy with an inter-transmission system operator model for cross-border exchange. With the transmission system operator of Montenegro, a model for exchange of balancing energy from a manually activated frequency restoration reserve has been implemented. Currently, imbalance netting within the control block of former Yugoslav Republic of Macedonia, Montenegro and Serbia is in the testing phase. Since the Paris Summit, a contract for emergency exchange of balancing energy was signed with the transmission system operator of Bosnia and Herzegovina, whereas a model for cross-border exchange of balancing energy with the Hungarian transmission system operator is under discussion.

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

The national balancing market features only one balancing service provider, the incumbent generation company EPS. 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. According to the first report on the need for further regulation of the balancing reserve price, published by the national regulatory authority in May 2017, the price shall continue to be regulated in order to prevent abuse of dominant position of the single reserve provider, EPS. This calls urgently for more competition. The introduction of a level playing field for new balancing service providers to enter the market will require further changes to the market 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

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. ENTSO-E failed to revise the Connection Agreement as planned in early 2017. 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)

There was no progress towards accession of the transmission system operator EMS to SEE CAO since the Paris Summit. An agreement with SEE CAO has still not been reached and EMS continues to fail to participate in a regionally coordinated capacity allocation mechanism, which represents a breach of Energy Community law. In May 2017, the Secretariat referred the infringement case initiated in 2011 to the Ministerial Council for decision.

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 has still not started allocating day-ahead capacities based on the values of daily capac-



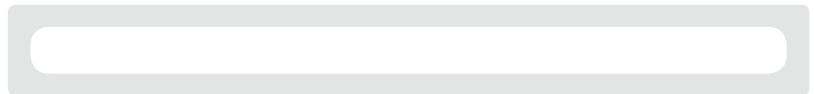
ities calculated and submitted by the Security Coordination Centre (SCC), which was established by the transmission system operators of Bosnia and Herzegovina, Montenegro and Serbia in August 2015.

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

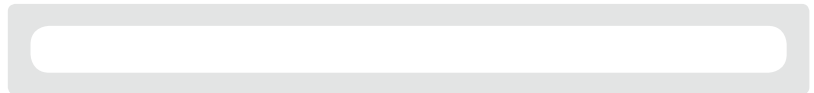
There is no lack of support by WB6 countries. This task needs the active support from the European Commission.

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



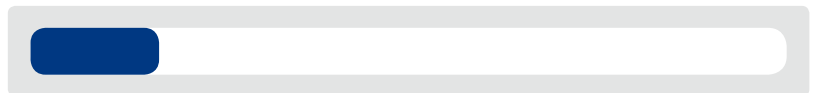
Introduction of a coordinated capacity calculation process for the allocation of day ahead capacities based on a regionally coordinated congestion forecast



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 supply to households and small customers. There has been no progress towards further deregulation of supply prices. The regulatory authority published a report on the need for continuing regulation of these prices, concluding that the price of universal service shall continue to be regulated until the gap between regulated and market prices is diminished, and the protection of vulnerable customers is improved. To facilitate the process of switching supplier, the regulator adopted changes to the switching rules in February 2017.

September 2016 at the latest. The first compliance report, published on 30 June 2017, concludes that independence of the company in terms of organisation and decision-making has still not been ensured and that the adopted compliance programme is still to be fully implemented. Hence functional unbundling has yet to be achieved.

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

Legal unbundling of distribution system operators from supply is completed. The regulatory authority in June 2016 approved 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

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 Working Groups in May 2016. The Secretariat provided ACER with an analysis related to the requirements for ACER Working Group participation of AERS in August 2016 that did not confirm compliance with the necessary conditions established by ACER.





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

The procedure of certification of the transmission system operator is still ongoing. In its Opinion issued on 15 June 2017, the Secretariat concluded, contrary to AERS, that EMS can currently not be certified as it is not unbundled in line with the ownership unbundling model. EMS is still directly controlled by the government, which also controls the state's electricity and gas production and supply incumbents. The regulator had issued a preliminary decision on certification on 26 January 2017.

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)

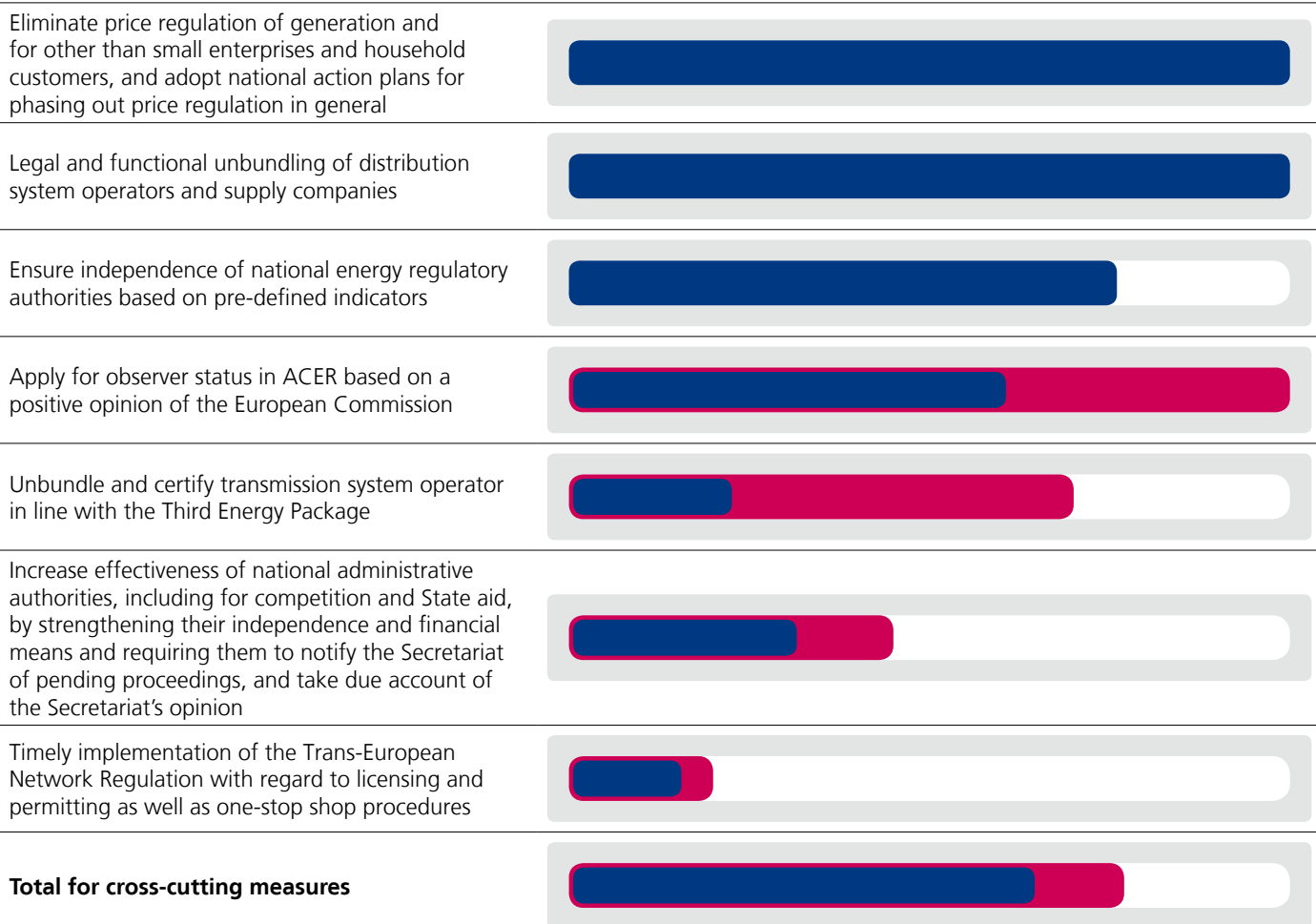
The national legal framework does not prevent the Commission for the Protection of Competition from notifying the Secretariat of any pending cases in the field of energy, as en-

visaged by the Energy Community Dispute Settlement Rules. It is unclear whether the State Aid Commission has the same competence. In any event, cooperation with the Commission for State Aid Control is not effective; an infringement procedure and an investigation regarding non-compliance with State aid rules through actions taken by that Commission are 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)

The country is yet to start activities on transposing the Trans-European Network Regulation. The government is currently preparing the implementation of the regulation, and a draft implementation roadmap has been elaborated. The government is considering extending the competences of the existing one-stop shop within the Ministry of Constructions, Transport and Infrastructure to cover obligations under the Regulation.

Cross-cutting Measures





The Regional Activities

At the 2015 Vienna Summit, the Western Balkan 6 countries committed to create a regional electricity market underpinned by an agreement on market coupling and a coordinated integration path towards a regional balancing market, as well as through regionally coordinated capacity calculation. The Paris Summit of 5 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.

With the aim to transform political commitments into practice, WB6 ministries, transmission system operators, national regulatory authorities, and power exchanges signed the Memorandum of Understanding on regional electricity market development (WB6 MoU) on 27 April 2016 in Vienna. The WB6 MoU is facilitating the implementation of regional measures as it sets concrete actions and deadlines to develop the regional electricity market. Signatories agreed on the market integration process starting with market coupling of national organised day-ahead markets with at least one neighbouring WB6 or European Union country by July 2018 and development of cross-border balancing cooperation among WB6 countries by December 2018. Implementation of the WB6 MoU is commencing but the activities in both areas covered by the MoU need to be stepped up.

Additionally, to ensure that the process is backed-up by the financial incentives needed to implement these targets, the European Commission and the Energy Community Secretariat concluded a contract for technical assistance to connectivity in the Western Balkans in June 2016. Implementation of the contract started based on the Work Programme that identifies technical assistance services supporting regional and national measures in those areas where insufficient progress was identified and where financial support is expected to be efficiently delivered.

In 2016 and 2017, the WB6 MoU was reinforced as 12 stakeholders of neighbouring EU Member States signed the WB6 MoU and joined its working structures, namely the Italian

energy regulator and transmission system operator Terna, the Croatian Power Exchange CROPEX, the Romanian transmission system operator Transelectrica, the Greek transmission system operator IPTO and market operator Lagie, three Hungarian stakeholders, namely the Energy and Public Utility Regulatory Authority, the Independent Transmission Operator MAVIR and the Power Exchange HUPX, and three Bulgarian stakeholders, namely the national regulatory authority EWRC, the transmission system operator ESO and the power exchange IBEX.

The Programme Steering Committee for the day-ahead market integration activities under the MoU developed a roadmap for an optimal and feasible day-ahead market integration among the WB6 and with EU Member States in line with the CACM Regulation, which is supposed to ultimately lead to the coupling of the WB6 region into the Multi-Regional Coupling (MRC). On this path, two possible coupling projects among WB6 countries were identified: integration of the electricity markets of Albania and Kosovo, and market coupling of Montenegro and Serbia. Within the scope of the Programme Steering Committee for the day-ahead market integration, a project for market coupling between Albania, Italy, Montenegro and Serbia was launched in May 2017. The aim of the project is to couple Western Balkans into MRC after a submarine cable between Italy and Montenegro is in place, presumably second half of 2019. Market coupling of Serbia with markets of Hungary, Czech Republic, Slovakia and Romania (4MMC) still remains to be supported by all 4 MMC parties.

The Programme Steering Committee for cross-border balancing started to develop a roadmap towards a regional balancing market, including pilot projects for imbalance netting and exchange of balancing energy with common merit order lists. Implementation of the roadmaps will be supported by technical assistance commissioned by the Secretariat under the contract for technical assistance to connectivity in the Western Balkans, related to the regional energy market, concluded with the European Commission.

Western Balkan 6 process reinforced – WB6 countries and neighbouring EU Member States join forces to efficiently integrate their markets

Since the Paris Summit, the multi-stakeholder Memorandum of Understanding of Western Balkan 6 countries grew into a common platform for cooperation between WB6 countries and EU Member States. Having recognised the potential to use WB6 working structures for an early implementation of market integration between WB6 and EU Member States, 12 stakeholders from all six neighbouring EU Member States signed the Memorandum of Understanding so far. Pooling resources to efficiently couple the markets and develop cross-border cooperation is expected to increase competition and liquidity, thus maximizing benefits for energy consumers. The Western Balkans Summit in Trieste will further elevate the importance of this process, bringing new signatories and delivering on the commitments of both EU Member States and WB6 parties to explore further possibilities of integrating their energy markets.



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