

## ★ Energy Connectivity Initiative

The Vienna Summit of the Western Balkans 6 Initiative<sup>1</sup> (“Berlin process”) on 27 August 2015 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. The heads of government, foreign and economic ministers of both EU Member States and the six focus countries in cooperation with the European Commission decided to take steps to improve energy connectivity in the region, by facilitating investments and prioritising market development. The Summit endorsed four “Projects of Energy Community Interest” for inclusion in the EU’s Instrument for Pre-Accession Assistance 2015 multi-country programme. They include power interconnectors and reinforcement of the region’s electricity transmission system.

*The most important element for achieving the timely implementation of the measures under the Western Balkans 6 Energy Connectivity Initiative is the creation of an adequate legal framework in all countries.*

To complement the infrastructure projects, the Western Balkan countries committed to implementing “energy soft measures”<sup>2</sup> as key preconditions for the development of a regional electricity market. The regional priorities consist of establishing spot markets (power exchanges), a regional balancing market and making the best use of the already existing *Coordinated Auction Office in Southeast Europe (SEE CAO)* for regional capacity allocation. The Western Balkan countries committed to implement these and additional supporting measures covering market and institutional reform within a fixed timeframe. The general implementation deadline is the next Western Balkans 6 Summit scheduled to take place in France in July 2016.

The Summit tasked the Energy Community Secretariat to lead the development of the regional energy market and assist in the implementation of the measures. The present Monitoring Report by the Energy Community Secretariat starts a series of bimonthly reports on the progress made by the six Western Balkan countries. The Monitoring Report consists of six Country Reports and an Infrastructure Report. The Country

Reports, broken down by the measures agreed at the Summit, do not aim to provide a comprehensive description of the status quo, but rather identify whether progress is on track or alternatively if urgent action is required in order to implement the measures by the agreed deadline.

## ⚡ Energy Soft Measures Implementation

Measure	Albania	Bosnia and Herzegovina	Kosovo*	FYR of Macedonia	Montenegro	Serbia
Primary Law(s)	🟢	🔴	🔴	🔴	🟢	🟢
Complementary Legal Acts	🟡	🟡	🟡	🟡	🟡	🟡
Organised Day-ahead Market	🟡	🔴	🔴	🔴	🟡	🟢
National Balancing Market	🟡	🟡	🟡	🔴	🟢	🟢
Use of SEE CAO	🟢	🟢	🟡	🔴	🟢	🔴
Price Deregulation	🟡	🔴	🔴	🟡**	🟡	🟢
DSO Unbundling	🔴	🔴	🟢	🔴	🔴	🟡
TSO Unbundling	🔴	🔴	🔴	🔴	🔴	🟡
NRA Independence	🟡	🔴	🟡	🟡	🟡	🟡

\*\* Except for eligibility

🔴 Reverse development    🔴 No progress    🟡 Pending  
 🟡 Progress on track    🟢 Significant progress    🟢 Accomplished

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

1 Final Declaration of the Western Balkans Summit Vienna 2015

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



## WB6 Infrastructure: Introduction

The present Report maps the progress to date in the realisation of the investment projects prioritized for grant co-financing from the EU pre-accession funds (IPA) at the Vienna Summit of the Western Balkans 6 Initiative. The four electricity infrastructure projects concerned have received the label "Project of Energy Community Interest (PECI)" by the 2013 Energy Community Ministerial Council for their significant positive impact on the energy markets of the Energy Community countries when built. The funding comes in addition to the already existing technical support offered for investment preparation. This approach follows the example of the European Union, where a special fund, the *Connecting Europe Facility (CEF)*, was created to support the EU energy priority infrastructure (Projects of Common Interest).



## Electricity Infrastructure Projects of Energy Community Interest (PECI) – IPA 2015 Investment Projects Co-financed



- Albania – FYR of Macedonia Power Interconnection (I):  
 Grid Section in Albania  
 Investments: € 70 million  
 EU Grants: € 14 million (20%)
- Albania – FYR of Macedonia Power Interconnection (II):  
 Grid Section in the FYR of Macedonia  
 Investments: € 49 million  
 EU Grants: € 12 million (24%)
- Trans-Balkan Electricity Corridor (I):  
 Grid Section in Montenegro  
 Investments: € 127 million  
 EU Grants: € 25 million (20%)
- Trans-Balkan Electricity Corridor (II):  
 Grid Section in Serbia  
 Investments: € 28 million  
 EU Grants: € 6,6 million (24%)
- Co-financed IPA 2016 (expected)
- Co-financed IPA 2017 (expected)



## 1. Albania – former Yugoslav Republic of Macedonia Power Interconnection

### A. Grid section in Albania

The 130 kilometres of 400 kV power lines will run from Fier in the south-western part of Albania, via Elbasan, in the central region, to the border with FYR of Macedonia, close to the city of Ohrid. The project is part of the East-West Electricity Transmission Corridor between Bulgaria, FYR of Macedonia, Albania and Montenegro. Two substations will be also upgraded as a part of this project.

#### Investment financing

The total estimated investment required to implement this project amounts to 70 million EUR. Being granted the status of a Project of Energy Community Interest (PECI) and deemed as a priority project for the Western Balkans electricity market integration, the project was selected for co-financing from the 2015 EU pre-accession funds (IPA) in the range of 20% of the investment costs (14 million EUR). The rest of the investment is shared by the Albanian TSO OST (5 million EUR), the German Bank for Development KfW (50 million EUR loan) and other sources (1 million EUR). The project has already received technical assistance for the investment documentation (feasibility study, environmental impact assessment, etc.) from the Western Balkans Investment Framework (WBIF) in the approximate amount of 2.5 million EUR.

#### Project milestones and progress to date

Feasibility study	
Environmental impact assessment study	
Detailed engineering design study to be finalised in 2016 – currently under tendering procedure by KfW with grant funds from the EU Joint Grant Fund	
Loan to be signed by OST with KfW by mid-2016; this is part of a framework loan signed already by KfW with the Albanian Government	
Permitting and land acquirement to start after the finalisation of a detailed engineering design study and be finalised in early 2017	
Construction to start in 2017 and the overhead line to be put into operation by mid-2020	

### B. Grid section in FYR of Macedonia

This project is also part of the East-West Electricity Transmission Corridor and represents the continuation of the grid section in Albania. It aims to develop a 95 km long 400 kV overhead line connecting Bitola via Resen, Ohrid, Struga and the border with Albania, linking the two electricity networks. The project also includes the upgrade of the substation in Bitola and the development of a new one in Ohrid.

#### Investment financing

The project has received the Energy Community PECI label as well as technical support for its documentation preparation from EU WBIF in the amount of 1.8 million EUR.

The total investment costs are estimated at 49 million EUR. Due to its positive impact on the Energy Community electricity market, the project was selected for co-financing from the 2015 EU pre-accession funds (IPA) in the range of 12 million EUR, representing approximately 24% of the investment costs.

The rest of the investment is financed through a loan of 37 million EUR from the European Bank for Reconstruction and Development (EBRD) to the Macedonian Transmission System Operator (MEPSO).

#### Project milestones and progress to date

Feasibility study	
Environmental impact assessment study	
Detailed engineering design, funded by WBIF technical assistance, will be finalised in 2016	
Loan to be signed by MEPSO with EBRD before end-2015	
Permitting and land acquirement foreseen for 2016 and the first quarter of 2017; land acquirement was flagged as problematic and a possible cause of construction delays by MEPSO	
Construction to start in the first quarter of 2017 and the overhead line to be put into operation by mid-2020	

# Energy Community WB6 Infrastructure Report



## 2. Trans-Balkan Electricity Corridor (I): Grid section in Montenegro

This section is part of a broader project, namely the construction of a 400kV overhead line and associated substations in Bajina Bašta (Serbia), Pljevlja (Montenegro) and Višegrad (Bosnia and Herzegovina). The investments in Montenegro comprise the construction of a new 400kV, 165 km line from Lastva to Pljevlja and further to the Serbian border, a new substation in Lastva, and a grid connection from Lastva substation to the existing overhead line Trebinje (Bosnia and Herzegovina) - Podgorica (Montenegro). The corridor will be further linked with Italy via the submarine cable expected to be completed in 2017.

### Investment financing

The total investment costs are estimated at 127 million EUR. Due to its positive impact on the Energy Community electricity market and having the Energy Community PECL label, the project was selected for co-financing from the 2015 EU pre-accession funds (IPA) in the amount of 25 million EUR, representing approximately 20% of the investment costs, and received 3.5 million EUR for project preparation costs from WBIF. The rest of the funding is provided by a KfW loan in the amount of 25 million EUR, and an EBRD loan of 60 million EUR, while the contribution of the beneficiary is estimated at 17 million EUR.

### Project milestones and progress to date

Feasibility study	▶
Environmental impact assessment study	▶
Preliminary conceptual design finalised in 2015	▶
Construction works for substation Lastva and substation Pljevlja 2 ongoing	▶
For overhead line Lastva-Čevo preparatory construction works on site ongoing. For both parts of overhead line (Lastva – Čevo and Čevo –Pljevlja), the main design is under preparation; estimated finalisation in 2016	▶
The loan agreement between the Montenegro Transmission System Operator (CGES) and KfW and the loan agreement between CGES and EBRD are signed	▶
Permitting and land acquirement to start after the finalisation of the detailed engineering design study; these are not seen as posing problems for CGES, and are expected to be finalised during 2017 / beginning of 2018	⏸
The construction of the line to start in the last quarter of 2017 / beginning of 2018 and will be finalised in 2019	⏸



## 3. Trans-Balkan Electricity Corridor (II): Grid section in Serbia

The grid section in Serbia is part of the Trans-Balkan Electricity Corridor (II). The aim of the project is to develop a 400kV overhead line between substations Kraljevo 3 and Kragujevac 2 (both in central part of Serbia). This interconnection line will be extended to Niš (Serbia) and further to substation Sofia West (Bulgaria).

### Investment financing

The total investment costs are estimated at 28 million EUR. Having received the PECL label and due to its positive impact on the Energy Community electricity market, the project was selected for co-financing from the 2015 EU pre-accession funds (IPA) in the amount of 6.6 million EUR, representing approximately 24% of the investment costs, including 1 million EUR provided for project preparation costs from WBIF. KfW will provide a loan of 14.27 million EUR, while the Serbian Transmission System Operator will contribute with 7.13 million EUR to the investment costs.

### Project milestones and progress to date

Feasibility study	▶
Environmental impact assessment study	▶
The Main Design – ongoing; to be finalised in 2016	▶
Loan between the Serbian Transmission System Operator (EMS) and KfW to be signed in 2016; in general, there is a long decision-making process for loan signature in Serbia	▶
Statutory planning and land expropriation issues should be resolved before end-2015 as well as the construction permit granting	⏸
Construction of the line to start in the first half of 2016 and be finalised by end-2018	⏸



# Albania

## Energy Community Secretariat's WB6 Country Report

11/2015

### 1 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)**

- Most legal and contractual obstacles were removed by adopting primary legislation based on the Third Package. Remaining obstacles will be removed through secondary legislation coordinated by the Secretariat.
- Public procurement legislation no longer impedes the establishment of a day-ahead market. The rules adopted by the regulatory authority still need to be adapted.
- The Ministry of Energy and the Ministry of Finance should assess compatibility between the new market model and legislation related to VAT, and initiate amendments to the latter.



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

- A project for the establishment of a national organised day-ahead market and a local power exchange has started earlier this year and is ongoing.



#### **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 to be adopted before end-2015 is expected to include a liquidity promoting strategy for an interim period until market coupling takes place.
- A national organised market with so-called import/export zones should be implemented as an intermediary step before full market coupling.



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

- The agreed set-up of the organised day-ahead market envisages compatibility with coupling in line with the single European algorithm.



### 2 Cross-border Balancing

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

- The new Power Sector Law allows the transmission system operator to procure balancing services across borders using market-based procedures.



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

- The existing balancing model is discriminatory. To rectify that, the exemption from balance responsibility of the regulated companies should be phased out completely by end-2015.
- In the context of drafting secondary legislation, the regulated balancing market needs to be replaced by a new market-based balancing model by the transmission system operator upon approval of the regulatory authority.



#### **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 has started activities on implementing a fully-fledged balancing market with an imbalance settlement mechanism based on non-discriminatory balance responsibility.





### 3 Regional Capacity Allocation

<b>Introduction of a coordinated capacity calculation process for the allocation of day-ahead capacities based on a regionally coordinated congestion forecast (July 2016)</b>	
<ul style="list-style-type: none"> <li>No activities have started.</li> </ul>	
<b>The Western Balkan countries to support signing of agreements between SEE CAO and relevant EU Member States (July 2017)</b>	
<ul style="list-style-type: none"> <li>No activity by EU Member States.</li> </ul>	



### 4 Cross-cutting Measures

<b>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)</b>	
<ul style="list-style-type: none"> <li>The new Energy Law deregulated prices of generation and supply to all customers connected to 110 kV and above and for those with the annual consumption over 50 million kWh. For other customer categories, an action plan for deregulation is defined by the Law until 31 December 2018. Customers connected to 0.4 kV will remain regulated (universal service).</li> <li>A decision on the termination of the full capacity supply contract between the two state-owned incumbents should be taken until end-2015.</li> </ul>	
<b>Legal and functional unbundling of distribution system operators and supply companies (March 2016)</b>	
<ul style="list-style-type: none"> <li>Distribution is still legally and functionally bundled with supply. The Power Sector Law requires unbundling only by 31 January 2017 in contravention of the Third Package.</li> <li>Preparatory activities for unbundling have not started yet.</li> </ul>	
<b>Ensure independence of national energy regulatory authorities based on pre-defined indicators (January 2016)</b>	
<ul style="list-style-type: none"> <li>Third Package compliant independence requirements have been transposed by the Power Sector Law, with the exception of sanctioning powers which need to be improved by increasing the penalty levels as soon as possible.</li> </ul>	
<b>Apply for observer status in ACER based on a positive opinion of the European Commission (July 2016)</b>	
<ul style="list-style-type: none"> <li>As a prerequisite, regulatory independence needs to be ensured and all secondary legislation needs to be adopted.</li> </ul>	
<b>Unbundle and certify transmission system operator in line with the Third Energy Package (June 2016)</b>	
<ul style="list-style-type: none"> <li>No actions have been taken by the transmission system operator to prepare its unbundling.</li> <li>The certification procedures are to be adopted by the regulatory authority by December 2015.</li> </ul>	
<b>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)</b>	
<ul style="list-style-type: none"> <li>The competition authority is active but should start real enforcement by issuing binding decisions in case of violations of competition law. The independence of the State Aid Commission should be improved by separating it from the Ministry of Economy.</li> <li>Notification of pending proceedings before administrative authorities is envisaged by the amended Energy Community Dispute Settlement Rules. Whether and how these changes require implementation in Albania needs to be clarified.</li> </ul>	
<b>Timely implementation of the Trans-European Network Regulation with regard to licensing and permitting as well as one-stop shop procedures (January 2017)</b>	
<ul style="list-style-type: none"> <li>The TEN-E Regulation was incorporated in the Energy Community in October 2015, implementation activities in Albania have not started yet.</li> </ul>	







# Bosnia and Herzegovina




Energy Community Secretariat's WB6 Country Report

11/2015

## 1 Spot Market Development

<p><b>Remove major legal and contractual obstacles to establishing organised electricity markets and market coupling based on the reports of the Secretariat (March 2016)</b></p> <ul style="list-style-type: none"> <li>A compliant legal and contractual framework is missing. To remove major obstacles, primary legislation needs to be amended without further delay. The prospects to comply with the deadline are currently not good due to the disagreement between the entities.</li> <li>A working group tasked to reach an agreement on the key provisions necessary for the establishment of the day-ahead market is expected to start its work as from 30 November.</li> </ul>	
<p><b>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)</b></p> <ul style="list-style-type: none"> <li>No progress has been made. To meet the deadline, a plan to join an existing or to create an own power exchange should be developed by the working group, and agreed by the Government(s) by the end of the year.</li> </ul>	
<p><b>Ensure liquidity of the domestic electricity markets by appropriate regulatory measures such as contract reviews, capacity releases, virtual power plants etc. (July 2016)</b></p> <ul style="list-style-type: none"> <li>There are three utilities in the country. If they competed among each other, liquidity could be ensured much easier than in other countries with monopolistic structures.</li> <li>No measures have been taken. The working group should identify whether there is a need to take regulatory measures and to identify them.</li> </ul>	
<p><b>Coupling of organised day-ahead electricity markets with at least one neighbouring country (July 2017)</b></p> <ul style="list-style-type: none"> <li>No steps have been taken in that direction. Market coupling with neighbouring markets should be envisaged by the working group when designing the solution for the day-ahead market. The design of the organised day-ahead market must be fully compatible through the application of the single European algorithm.</li> </ul>	

## 2 Cross-border Balancing

<p><b>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)</b></p> <ul style="list-style-type: none"> <li>The legislation does not prevent the transmission system operator from acquiring balancing services in a market-based manner and across borders. However, provisions for market-based and cross-border procurement of balancing services should be included into primary legislation.</li> <li>Barriers to cross-border access to balancing services in the VAT legislation should be removed by amendments in line with the Secretariat's Guidelines.</li> </ul>	
<p><b>Adoption of a market-based balancing model allowing for the non-discriminatory cross-border exchange of balancing services (March 2016)</b></p> <ul style="list-style-type: none"> <li>A market-based and non-discriminatory balancing model was defined in the market rules adopted by the transmission system operator in 2015.</li> </ul>	
<p><b>Establishment of a functioning national balancing market based on above model (July 2016)</b></p> <ul style="list-style-type: none"> <li>The transmission system operator is obliged to implement the new balancing model as from 1 January 2016.</li> </ul>	

### 3 Regional Capacity Allocation

<p><b>Introduction of a coordinated capacity calculation process for the allocation of day-ahead capacities based on a regionally coordinated congestion forecast (July 2016)</b></p> <ul style="list-style-type: none"> <li>The independent (transmission) system operator, together with the transmission system operators of Montenegro and Serbia, established a Security Coordination Centre in August 2015 with a plan to perform coordinated capacity calculation.</li> </ul>	▶
<p><b>The Western Balkan countries to support signing of agreements between SEE CAO and relevant EU Member States (July 2017)</b></p> <ul style="list-style-type: none"> <li>No activity by EU Member States.</li> </ul>	◻

### 4 Cross-cutting Measures

<p><b>Eliminate price regulation of generation and end user prices for other than small enterprises and household customers and adopt national action plans for phasing out price regulation in general (January 2016)</b></p> <ul style="list-style-type: none"> <li>Regulated prices are available to all customers. No phase-out plans exist. This should be developed immediately by the working group, once established.</li> </ul>	◻
<p><b>Legal and functional unbundling of distribution system operators and supply companies (March 2016)</b></p> <ul style="list-style-type: none"> <li>Distribution is still legally and functionally bundled with supply throughout Bosnia and Herzegovina and with generation in two utilities.</li> <li>Legislation in place requires legal unbundling, but is not sufficient for functional unbundling. It needs to be amended immediately.</li> <li>Preparatory activities for unbundling have started in the utilities but are not at a level sufficient to keep the deadlines.</li> </ul>	◻
<p><b>Ensure independence of national energy regulatory authorities based on pre-defined indicators (January 2016)</b></p> <ul style="list-style-type: none"> <li>The competences of the NRA need to be adjusted to the Third Package. The appointment procedure includes strict ethnicity requirements.</li> <li>Achieving independence requires legislative changes on State and entity levels in line with the Third Package. Efforts in this respect are not sufficient.</li> </ul>	◻
<p><b>Apply for observer status in ACER based on a positive opinion of the European Commission (July 2016)</b></p> <ul style="list-style-type: none"> <li>As a prerequisite, the Third Package needs to be transposed, regulatory independence needs to be ensured and all secondary legislation needs to be adopted. Efforts in this respect are not sufficient.</li> </ul>	◻
<p><b>Unbundle and certify transmission system operator in line with the Third Energy Package (June 2016)</b></p> <ul style="list-style-type: none"> <li>This requires transposition of the Third Package as a minimum. Efforts in this respect are not sufficient. No further actions have been taken to prepare for unbundling.</li> </ul>	◻
<p><b>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)</b></p> <ul style="list-style-type: none"> <li>Effectiveness of national competition and State aid authorities is not satisfactory and subject to an infringement procedures. The independence of the State Aid Council is questionable.</li> <li>Notification of pending proceedings before administrative authorities is envisaged by the amended Energy Community Dispute Settlement Rules. Whether and how these changes require implementation in Bosnia and Herzegovina needs to be clarified.</li> </ul>	◻
<p><b>Timely implementation of the Trans-European Network Regulation with regard to licensing and permitting as well as one-stop shop procedures (January 2017)</b></p> <ul style="list-style-type: none"> <li>The TEN-E Regulation was incorporated in the Energy Community in October 2015, implementation activities in Bosnia and Herzegovina have not started yet.</li> </ul>	▶









# Kosovo\*




## Energy Community Secretariat's WB6 Country Report

11/2015

### 1 Spot Market Development

<p><b>Remove major legal and contractual obstacles to establishing organised electricity markets and market coupling based on the reports of the Secretariat (March 2016)</b></p> <ul style="list-style-type: none"> <li>• A compliant legal and contractual framework is missing. To remove major obstacles, primary legislation needs to be amended without further delay. The prospects are currently not good due to political instability.</li> <li>• The Ministry of Economic Development and the Ministry of Finance should initiate amendments to the laws on public procurement and the regulation on the selling of goods in order to remove obstacles to the participation of state-owned companies in the open market.</li> <li>• The VAT legislation does not impede the establishment of a day-ahead market.</li> </ul>	
<p><b>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)</b></p> <ul style="list-style-type: none"> <li>• No progress has been made. To meet the deadline, a plan to establish a day-ahead market and to select a service company should be developed by the Government by the end of the year.</li> </ul>	
<p><b>Ensure liquidity of the domestic electricity markets by appropriate regulatory measures such as contract reviews, capacity releases, virtual power plants etc. (July 2016)</b></p> <ul style="list-style-type: none"> <li>• Liquidity is not likely to be ensured unless immediate market coupling with at least one neighbouring market takes place.</li> </ul>	
<p><b>Coupling of organised day-ahead electricity markets with at least one neighbouring country (July 2017)</b></p> <ul style="list-style-type: none"> <li>• Market coupling with Albania is being discussed. The design of the organised day-ahead market must be fully compatible through the application of the single European algorithm.</li> </ul>	

### 2 Cross-border Balancing

<p><b>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)</b></p> <ul style="list-style-type: none"> <li>• Legislation allows the transmission system operator to procure balancing services across borders using market-based procedures. The Ministry of Economic Development and the Ministry of Finance should take actions to identify and remove any obstacle in the Public Procurement Law for the transmission system operator to procure balancing services in the balancing market.</li> </ul>	
<p><b>Adoption of a market-based balancing model allowing for the non-discriminatory cross-border exchange of balancing services (March 2016)</b></p> <ul style="list-style-type: none"> <li>• A market-based balancing model defined by the transmission system operator exists.</li> <li>• The existing balancing rules need to be amended by the transmission system operator to define imbalance settlement pricing and balance responsibility.</li> </ul>	
<p><b>Establishment of a functioning national balancing market based on above model (July 2016)</b></p> <ul style="list-style-type: none"> <li>• The establishment of a balancing market hinges on the implementation of the Inter-TSO Agreement with the transmission system operator of Serbia. It also depends on the participation of sufficient balancing service providers.</li> <li>• The transmission system operator should start procuring the balancing reserve needed for tertiary regulation in addition to the contract signed with the Albanian system operator on the procurement of reserve for secondary regulation.</li> </ul>	

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

### 3 Regional Capacity Allocation

<p><b>EMS (Serbia) and KOSTT (Kosovo*) to implement the Framework and Inter-TSO Agreement (September 2015)</b></p> <ul style="list-style-type: none"> <li>The deadline for implementing the agreements between both transmission system operators was missed due to the stalling of negotiations and the postponing of the entry into force of the Connection Agreement between ENTSO-E and the transmission system operator of Kosovo*. The latter was conditioned on a supply license to be issued to a potential Serbian supplier in Kosovo*. No request for such a license was made.</li> <li>The transmission system operator is expected to be included in the Multiyear ITC Agreement which requires a unanimous decision by all European transmission system operators in December 2015.</li> </ul>	
<p><b>Introduction of a coordinated capacity calculation process for the allocation of day-ahead capacities based on a regionally coordinated congestion forecast (July 2016)</b></p> <ul style="list-style-type: none"> <li>No activities have started.</li> </ul>	
<p><b>The Western Balkan countries to support signing of agreements between SEE CAO and relevant EU Member States (July 2017)</b></p> <ul style="list-style-type: none"> <li>No activity by EU Member States.</li> </ul>	

### 4 Cross-cutting Measures

<p><b>Eliminate price regulation of generation and end user prices for other than small enterprises and household customers and adopt national action plans for phasing out price regulation in general (January 2016)</b></p> <ul style="list-style-type: none"> <li>Regulated prices are available to all customers. No phase-out plans exist. This should be developed immediately by the working group, once established.</li> </ul>	
<p><b>Legal and functional unbundling of distribution system operators and supply companies (March 2016)</b></p> <ul style="list-style-type: none"> <li>The process of legal and functional unbundling has been completed by separating the distribution system operator from supply activities, including the adoption of a compliance programme and the appointment of a compliance officer.</li> </ul>	
<p><b>Ensure independence of national energy regulatory authorities based on pre-defined indicators (January 2016)</b></p> <ul style="list-style-type: none"> <li>The appointment procedure for the members of the regulatory authority, the absence of a rotation scheme and lack of full budgetary autonomy jeopardize the authority's independence.</li> <li>Achieving full independence depends on legislative changes in line with the Third Package. Efforts in this respect are not sufficient.</li> </ul>	
<p><b>Apply for observer status in ACER based on a positive opinion of the European Commission (July 2016)</b></p> <ul style="list-style-type: none"> <li>As a prerequisite, the Third Package needs to be transposed, regulatory independence needs to be ensured and all secondary legislation needs to be adopted. Efforts in this respect are not sufficient.</li> </ul>	
<p><b>Unbundle and certify transmission system operator in line with the Third Energy Package (June 2016)</b></p> <ul style="list-style-type: none"> <li>This requires transposition of the Third Package as a minimum. Efforts in this respect are not sufficient.</li> <li>No concrete actions have been taken to prepare the transmission system operator for unbundling.</li> </ul>	
<p><b>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)</b></p> <ul style="list-style-type: none"> <li>Effectiveness of national competition and State aid authorities is not satisfactory and subject to infringement procedures. There is no operational State aid enforcement in Kosovo*.</li> <li>Notification of pending proceedings before administrative authorities is envisaged by the amended Energy Community Dispute Settlement Rules. Whether and how these changes require implementation in Kosovo* needs to be clarified.</li> </ul>	
<p><b>Timely implementation of the Trans-European Network Regulation with regard to licensing and permitting as well as one-stop shop procedures (January 2017)</b></p> <ul style="list-style-type: none"> <li>The TEN-E Regulation was incorporated in the Energy Community in October 2015, implementation activities in Kosovo* have not started yet.</li> </ul>	



# FYR of Macedonia

Energy Community Secretariat's WB6 Country Report

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## 1 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 compliant legal and contractual framework is missing. Primary legislation needs to be amended without further delay. Most likely the deadline will be missed.
- Taxation of services related to cross-border electricity trade is not harmonized with the neighbouring jurisdictions. The Ministry of Economy, in coordination with the Ministry of Finance, should initiate a process of amending the VAT law in line with the Secretariat's Guidelines.
- Public procurement legislation does not impede the establishment of a day-ahead market.



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

- No progress has been made. To meet the deadline, a plan to join an existing or to create an own power exchange should be developed by the Ministry of Economy by the end of the year.



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

- No measures to ensure liquidity have been taken so far. A government study foresees a model on how to pool liquidity on a day-ahead basis. Regulatory intervention to promote liquidity will be needed before market coupling with neighbouring markets due to the size of the market and the structure of generation portfolios. The competences for the regulatory authority to impose such measure are envisaged by the draft Energy Law.



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

- No steps have been taken in that direction. Market coupling with neighbouring markets should be part of the envisaged design for the day-ahead market. The design of the organised day-ahead market must be fully compatible through the application of the single European algorithm.



## 2 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)**

- Prices of the balancing service provided by the state-owned generator are subject to regulation until 30 June 2020. Deregulation requires the adoption of a new Energy Law.
- The transmission system operator cannot participate in a balancing energy market due to a regulatory exemption for regulated companies from balance responsibility until 30 June 2016. This regime must be immediately terminated by the regulatory authority.



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

- There is no market-based balancing model in place.
- Under the existing legislation, the transmission system operator is not equipped with the competence to adopt balancing market rules, which is under the responsibility of the regulatory authority.
- The balancing market rules are being developed by a working group and should be submitted to the Secretariat for review in November 2015 before their adoption by the regulatory authority.






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

- The establishment of a balancing market hinges on the adoption of the balancing rules by the regulatory authority.



### 3 Regional Capacity Allocation

<p><b>Binding agreement between the TSO from the former Yugoslav Republic of Macedonia with SEE CAO on coordinated allocation (November 2015)</b></p> <ul style="list-style-type: none"> <li>The transmission system operator failed to sign such an agreement and does not even engage in negotiations. The deadline is about to be missed.</li> <li>In support, the Ministry of Economy, together with the Ministry of Finance, should initiate amendments to the VAT law in accordance with the Secretariat's Guidelines to avoid double taxation or non-taxation of access to interconnection capacity. No progress has been made.</li> </ul>	
<p><b>Introduction of a coordinated capacity calculation process for the allocation of day-ahead capacities based on a regionally coordinated congestion forecast (July 2016)</b></p> <ul style="list-style-type: none"> <li>No activities have started.</li> </ul>	
<p><b>The Western Balkan countries to support signing of agreements between SEE CAO and relevant EU Member States (July 2017)</b></p> <ul style="list-style-type: none"> <li>No activities by EU Member States.</li> </ul>	

### 4 Cross-cutting Measures

<p><b>The former Yugoslav Republic of Macedonia to comply with the obligation to grant eligibility to all electricity customers (October 2015)</b></p> <ul style="list-style-type: none"> <li>The deadline has been missed as the non-compliant Energy Law has not been amended. The Government shows no willingness to rectify this breach of the Energy Community Treaty.</li> </ul>	
<p><b>Eliminate price regulation of generation and end user price for other than small enterprises and household customers and adopt national action plans for phasing out price regulation in general (January 2016)</b></p> <ul style="list-style-type: none"> <li>Regulated prices apply to generation. Activities to phase-out price regulation have not started. The regulatory authority and/or the Government should urgently develop and start implementing an action plan in cooperation with the Secretariat.</li> <li>Retail prices except for other than small customers and households are not regulated.</li> </ul>	
<p><b>Legal and functional unbundling of distribution system operators and supply companies (March 2016)</b></p> <ul style="list-style-type: none"> <li>Distribution is still legally and functionally bundled with supply activities.</li> <li>The effective legislation requires legal unbundling and functional unbundling, even though the requirements for functional unbundling are not fully compliant (compliance officer).</li> </ul>	
<p><b>Ensure independence of national energy regulatory authorities based on pre-defined indicators (January 2016)</b></p> <ul style="list-style-type: none"> <li>The regulatory authority's competences need to be expanded and its independence ensured by implementation of the Third Package.</li> <li>A neutral committee for selecting board members should be introduced and the requirement for applicants to pass a psychological and integrity test be abolished.</li> </ul>	
<p><b>Apply for observer status in ACER based on a positive opinion of the European Commission (July 2016)</b></p> <ul style="list-style-type: none"> <li>As a prerequisite, the Third Package needs to be transposed, regulatory independence needs to be ensured and all secondary legislation needs to be adopted. Efforts in this respect are not sufficient.</li> </ul>	
<p><b>Unbundle and certify transmission system operator in line with the Third Energy Package (June 2016)</b></p> <ul style="list-style-type: none"> <li>This requires transposition of the Third Package as a minimum. Efforts in this respect are not sufficient. No further actions have been taken to prepare for unbundling.</li> </ul>	
<p><b>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)</b></p> <ul style="list-style-type: none"> <li>Effectiveness of the national State aid authority is not satisfactory as it does not intervene in State aid granted for the energy sectors.</li> <li>Notification of pending proceedings before administrative authorities is envisaged by the amended Energy Community Dispute Settlement Rules. Whether and how these changes require implementation in FYR of Macedonia needs to be clarified.</li> </ul>	
<p><b>Timely implementation of the Trans-European Network Regulation with regard to licensing and permitting as well as one-stop shop procedures (January 2017)</b></p> <ul style="list-style-type: none"> <li>The TEN-E Regulation was incorporated in the Energy Community in October 2015, implementation activities in FYR of Macedonia have not started yet.</li> </ul>	



# Montenegro

## Energy Community Secretariat's WB6 Country Report

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### 1 Spot Market Development

<p><b>Remove major legal and contractual obstacles to establishing organised electricity markets and market coupling based on the reports of the Secretariat (March 2016)</b></p> <ul style="list-style-type: none"> <li>• A conducive legal and contractual framework is not defined by current legislation.</li> <li>• To remove major obstacles, primary legislation needs to be amended without further delay. The prospects for adoption by end-2015 are good as a new Energy Law is already in the Parliamentary procedure.</li> <li>• The Ministry of Finance has been requested to revise VAT legislation by including a provision on the place of taxable transactions for transmission services.</li> <li>• Public procurement legislation does not impede the establishment of a day-ahead market.</li> </ul>	▶
<p><b>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)</b></p> <ul style="list-style-type: none"> <li>• A task force was appointed to propose to the government a model for the development of a spot market and its governance by end-2015. The task force is expected to recommend one of the options.</li> </ul>	▶
<p><b>Ensure liquidity of the domestic electricity markets by appropriate regulatory measures such as contract reviews, capacity releases, virtual power plants etc. (July 2016 target)</b></p> <ul style="list-style-type: none"> <li>• Liquidity is not likely to be achieved without further measures being taken. Realistically it can be ensured through immediate market coupling with at least one neighbouring market. How, when and with whom to couple should be addressed by the task force.</li> </ul>	▶
<p><b>Coupling of organised day-ahead electricity markets with at least one neighbouring country (July 2017)</b></p> <ul style="list-style-type: none"> <li>• No steps have been taken in that direction. Market coupling with neighbouring markets should be envisaged by the task force when designing the solution for the day-ahead market. The design of the organised day-ahead market must be fully compatible through the application of the single European algorithm.</li> </ul>	▶

### 2 Cross-border Balancing

<p><b>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)</b></p> <ul style="list-style-type: none"> <li>• Legislation allows the transmission system operator to procure balancing services across borders using market-based procedures.</li> </ul>	▶▶
<p><b>Adoption of a market-based balancing model allowing for the non-discriminatory cross-border exchange of balancing services (March 2016)</b></p> <ul style="list-style-type: none"> <li>• The balancing model in place allows for cross-border balancing in a market-based and non-discriminatory way. The pricing methodology adopted by RAE ensures cost-reflective balancing.</li> </ul>	▶▶
<p><b>Establishment of a functioning national balancing market based on above model (July 2016)</b></p> <ul style="list-style-type: none"> <li>• A balancing energy market exists, however with only one balancing service provider. The balancing reserve is still procured at regulated prices. This is to be eliminated through implementation of the new Law.</li> </ul>	▶

### 3 Regional Capacity Allocation

<p><b>Introduction of a coordinated capacity calculation process for the allocation of day-ahead capacities based on a regionally coordinated congestion forecast (July 2016)</b></p> <ul style="list-style-type: none"> <li>The transmission system operator, together with those of Bosnia and Herzegovina and Serbia, established a Security Coordination Centre in August 2015 with a plan to perform coordinated capacity calculation.</li> </ul>	▶
<p><b>The Western Balkan countries to support signing of agreements between SEE CAO and relevant EU Member States (July 2017)</b></p> <ul style="list-style-type: none"> <li>No activity by EU Member States.</li> </ul>	◻

### 4 Cross-cutting Measures

<p><b>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)</b></p> <ul style="list-style-type: none"> <li>Generation prices are not regulated. Regulated end-user prices are available to all customers connected to the distribution network.</li> <li>Following the adoption of the new Energy Law, price regulation for all customers, except for small enterprises and households entitled to universal service and vulnerable customers, will be eliminated. For those categories, no further deregulation is envisaged.</li> </ul>	▶
<p><b>Legal and functional unbundling of distribution system operators and supply companies (March 2016)</b></p> <ul style="list-style-type: none"> <li>Distribution is still legally and functionally bundled with supply and generation activities.</li> <li>Existing legislation requires legal and functional unbundling of distribution by end-2015. The regulatory authority issued an order to the incumbent requesting legal and functional unbundling.</li> </ul>	◻
<p><b>Ensure independence of national energy regulatory authorities based on pre-defined indicators (January 2016)</b></p> <ul style="list-style-type: none"> <li>The regulatory authority's competences need to be expanded and its independence ensured by implementation of the Third Package.</li> <li>In particular, it should be granted autonomy over its budget and internal organisation. The possibility to dismiss board members on the sole ground that the annual report has not been approved by the Parliament should be removed.</li> </ul>	▶
<p><b>Apply for observer status in ACER based on a positive opinion of the European Commission (July 2016)</b></p> <ul style="list-style-type: none"> <li>As a prerequisite, the Third Package needs to be transposed, regulatory independence needs to be ensured and all secondary legislation needs to be adopted. Efforts in this respect are not sufficient.</li> </ul>	◻
<p><b>Unbundle and certify transmission system operator in line with the Third Energy Package (June 2016)</b></p> <ul style="list-style-type: none"> <li>This requires transposition of the Third Package as a minimum. No further actions have been taken to prepare for unbundling.</li> </ul>	◻
<p><b>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)</b></p> <ul style="list-style-type: none"> <li>Effectiveness of the national competition and State aid authority in the energy sector is not yet satisfactory. The independence of the State Aid Control Commission is questionable and should be improved.</li> <li>Notification of pending proceedings before administrative authorities is envisaged by the amended Energy Community Dispute Settlement Rules. Whether and how these changes require implementation in Montenegro needs to be clarified.</li> </ul>	▶
<p><b>Timely implementation of the Trans-European Network Regulation with regard to licensing and permitting as well as one-stop shop procedures (January 2017)</b></p> <ul style="list-style-type: none"> <li>The TEN-E Regulation was incorporated in the Energy Community in October 2015, implementation activities in Montenegro have not started yet.</li> </ul>	▶



# Serbia

Energy Community Secretariat's WB6 Country Report

11/2015

## 1 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)**

- Legal and contractual obstacles to establish a day-ahead market were removed by adopting primary legislation based on the Third Package, amending VAT legislation and adopting new licensing rules allowing foreign companies to obtain a license for wholesale electricity supply.
- A preferential status, granted to domestic bidders and goods by the public procurement law, needs to be removed to the extent applicable to the energy sectors.



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

- The joint stock company SEEPEX was established for the operation of an organised electricity market (power exchange). After several postponements, it is expected to start operating in early 2016 and still requires a license by the national regulatory authority (AERS).



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

- SEEPEX is working on ensuring liquidity by lowering market entry barriers (such as removing seat requirements). No additional regulatory measures to promote liquidity are envisaged.



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

- SEEPEX, in coordination with the regulatory authority and the transmission system operator, intends to propose market coupling with the markets of Hungary, Czech Republic, Slovakia and Romania (known as 4MMC).



## 2 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 allows the transmission system operator to procure balancing services across borders using market-based procedures.



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

- The balancing model in place allows for market-based and non-discriminatory balancing with an inter-transmission system operator model for cross-border cooperation.







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

- A functional national balancing energy market exists, however with only one balancing service provider for the time being. The balancing reserve is still procured at regulated prices. Price deregulation depends on an assessment made by the regulatory authority before 1 May 2017 under the Energy Law.



### 3 Regional Capacity Allocation

<p><b>EMS (Serbia) and KOSTT (Kosovo*) to implement the Framework and Inter-TSO Agreement (September 2015)</b></p> <ul style="list-style-type: none"> <li>The deadline for implementing the agreements between both transmission system operators was missed due to the stalling of negotiations and the postponing of the entry into force of the Connection Agreement between ENTSO-E and the transmission system operator of Kosovo*. The latter was conditioned on a supply license to be issued to a potential Serbian supplier in Kosovo*. No request for a license was made.</li> <li>The transmission system operator of Kosovo* is expected to be included in the Multiyear ITC Agreement which requires a unanimous decision by all European transmission system operators in December 2015.</li> </ul>	
<p><b>Binding agreement between TSO from Serbia with SEE CAO on coordinated allocation (November 2015)</b></p> <ul style="list-style-type: none"> <li>The transmission system operator failed to sign such an agreement. Negotiations are still ongoing but reaching an agreement is not likely. The deadline is about to be missed.</li> </ul>	
<p><b>Introduction of a coordinated capacity calculation process for the allocation of day-ahead capacities based on a regionally coordinated congestion forecast (July 2016)</b></p> <ul style="list-style-type: none"> <li>The transmission system operator, together with those of Montenegro and Bosnia and Herzegovina, established a Security Coordination Centre in August 2015 with a plan to perform coordinated capacity calculation.</li> </ul>	
<p><b>The Western Balkan countries to support signing of agreements between SEE CAO and relevant EU Member States (July 2017)</b></p> <ul style="list-style-type: none"> <li>No activity by EU Member States.</li> </ul>	

### 4 Cross-cutting Measures

<p><b>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)</b></p> <ul style="list-style-type: none"> <li>Prices of generation and supply to all customers were deregulated by the new Energy Law, except the price of universal supply to households and small customers. For those categories, further deregulation depends on an assessment made by the regulatory authority before 1 May 2017 under the Energy Law.</li> </ul>	
<p><b>Legal and functional unbundling of distribution system operators and supply companies (March 2016)</b></p> <ul style="list-style-type: none"> <li>The process of legal unbundling has been completed by separating the distribution system operator from supply activities.</li> <li>Functional unbundling is required by the Energy Law. However, the deadline for adoption of a compliance programme and the appointment of a compliance officer defined by the Energy Law was missed. The distribution system operator and the regulatory authority are working on the finalization of these tasks.</li> </ul>	
<p><b>Ensure independence of national energy regulatory authorities based on pre-defined indicators (January 2016)</b></p> <ul style="list-style-type: none"> <li>Insufficient autonomy of the regulatory authority 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.</li> <li>In practice, the regulatory authority failed to ensure participation by the transmission system operator in a coordinated capacity allocation process.</li> </ul>	
<p><b>Apply for observer status in ACER based on a positive opinion of the European Commission (July 2016)</b></p> <ul style="list-style-type: none"> <li>As a prerequisite, regulatory independence needs to be ensured and all secondary legislation needs to be adopted.</li> </ul>	
<p><b>Unbundle and certify transmission system operator in line with the Third Energy Package (June 2016)</b></p> <ul style="list-style-type: none"> <li>The transmission system operator has initiated unbundling with the aim to be certified in line with the deadlines defined in the Energy Law.</li> <li>The Ministry of Mining and Energy adopted rules for certification.</li> </ul>	
<p><b>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)</b></p> <ul style="list-style-type: none"> <li>Effectiveness of the national competition and State aid authority in the energy sector is not yet satisfactory. The independence of the Commission for State Aid Control should be improved by separating it from the Ministry of Finance.</li> <li>Notification of pending proceedings before administrative authorities is envisaged by the amended Energy Community Dispute Settlement Rules. Whether and how these changes require implementation in Serbia needs to be clarified.</li> </ul>	
<p><b>Timely implementation of the Trans-European Network Regulation with regard to licensing and permitting as well as one-stop shop procedures (January 2017)</b></p> <ul style="list-style-type: none"> <li>The TEN-E Regulation was incorporated in the Energy Community in October 2015, implementation activities in Serbia have not started yet.</li> </ul>	