



# **WB6 Electricity Monitoring Report**

**Energy Community Secretariat  
March 2018**



## Introduction



## 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.

Implementation of the regional measures, namely the establishment of regional day-ahead market coupling and cross-border balancing, is ongoing under the Memorandum of Understanding on regional electricity market development (WB6 MoU). The initiative extended beyond the boundaries of the WB6 on the occasion of the Western Balkan 6 Summit on 12 July 2017 in Trieste, when the WB6 MoU was for the first time signed by an EU Member State at ministerial level, namely by the Italian Ministry of Economic Development. Furthermore, in the declaration issued following the summit, the WB6 MoU and the Treaty establishing the Energy Community (Title III) are recognised as the cornerstones of the cooperation between WB6 and neighbouring EU Member States. In September 2017, also Hungary signed the MoU at ministerial level.

The present Monitoring Report is 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'". The report provides an overview of the state of play of implementation of the soft measures and highlights the achievements made since November 2017. It presents the progress made at both national and regional level, as well as where continued implementation efforts are needed most.

Progress in this reporting period was very limited. Further implementation of connectivity reform measures largely depends on major institutional changes that the WB6 governments have to make, namely finalising the unbundling of transmission and distribution system operators and appointing day-ahead market operators. The lack of Third Energy Package compliant laws in Bosnia and Herzegovina and former Yugoslav Republic of Macedonia continues to impede electricity market reform in these two countries.

\* 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

Activities to develop day-ahead markets were reinvigorated in all WB6 parties. Whereas the majority of the parties were initially opting for establishing their own national day-ahead market, the focus has now shifted towards finding an efficient solution through partnerships that will ensure swift implementation of day-ahead market processes and coupling with neighbouring markets. The possibility to immediately couple with at least one neighbouring EU Member State is being considered by all WB6 parties.

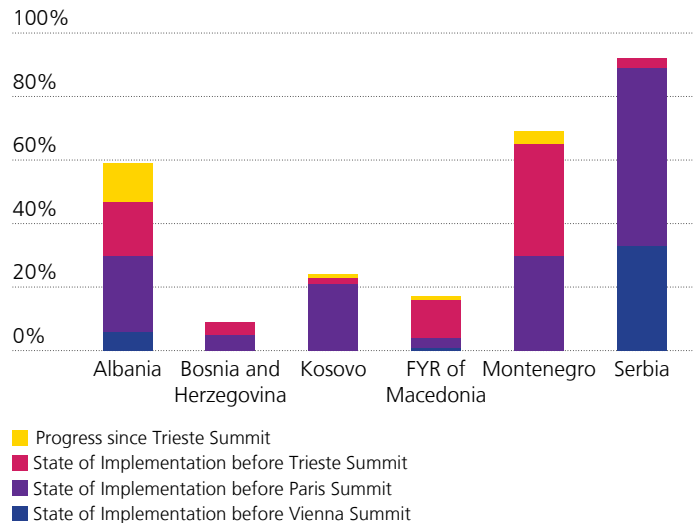
The development of day-ahead markets in WB6 and their coupling started to take shape with the support of national and regional technical assistance projects launched under the WB6 initiative. Based on the findings of the finalised technical assistance to the Ministry of Foreign Trade and Economic Relations of Bosnia and Herzegovina to find a viable solution for the national day-ahead market, outsourcing of the trading and clearing functions is considered as the most efficient way to put into operation the day-ahead market. The service provider should be selected in a tendering procedure, the prerequisite for which is appointment of the legal entity responsible for the day-ahead market's establishment.

The newly established power exchange company in Montenegro (BELEN), supported by technical assistance under the WB6 framework, is finalising documents for a tender to find a strategic partner, expected to be launched in the second quarter of 2018.

In former Yugoslav Republic of Macedonia, different models for organising a power exchange are being analysed under technical assistance aimed at establishing the most appropriate institutional set-up for an organised day-ahead market. A proposal of an optimal solution is expected to be delivered by mid-April 2018. In parallel, a technical assistance project aimed at exploring a possibility for coupling with the Bulgarian day-ahead market is in progress.

Adopted amendments to the Power Sector Law in Albania set the ground for establishing the Albanian power exchange (APEX) as a joint-stock company of the transmission system operator of Albania (OST) and other legal entities. In that light, OST, as a body mandated for establishing a power exchange, invited the transmission system operators of Kosovo, former Yugoslav Republic of Macedonia and Montenegro to consider participation in APEX as shareholders.

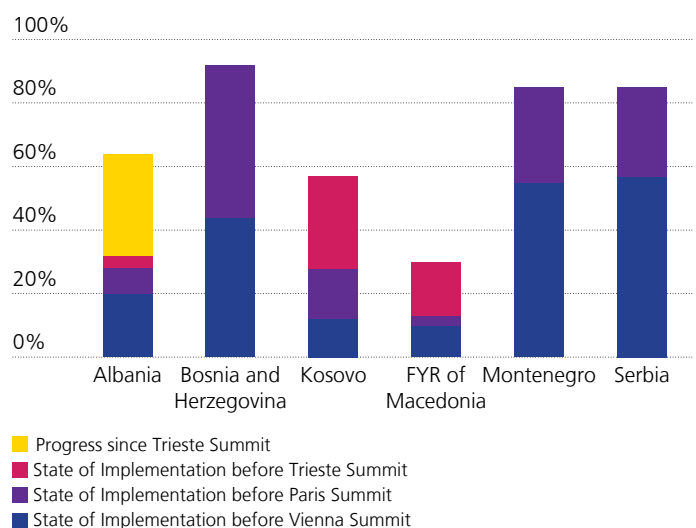
The power exchange SEEPEX in Serbia, as the only functional day-ahead market in the Western Balkan 6, entered into negotiations with the Hungarian power exchange (HUPX) on merging their business processes with a view to further integrate and extend their market activities.



## Cross-border Balancing

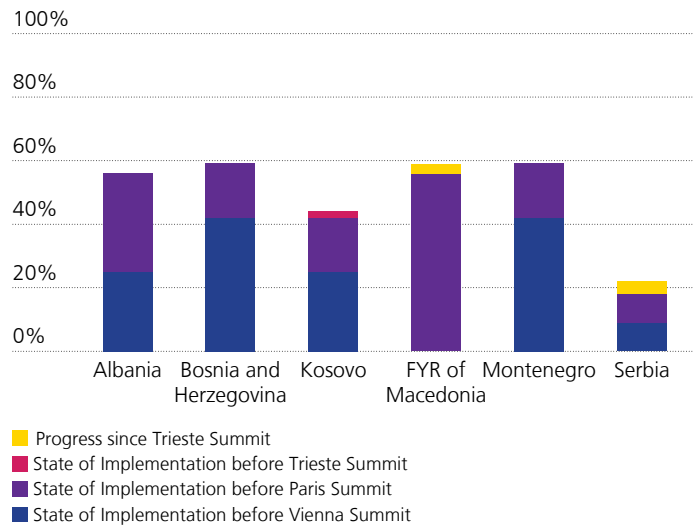
The most notable progress in the reporting period was made in Albania, where transitional balancing rules, developed with technical support under the WB6 regional energy market connectivity programme, were adopted and implemented as of 1 January 2018. As a result, a non-discriminatory imbalance settlement is applied. Now, former Yugoslav Republic of Macedonia remains the only WB6 party where an exemption for regulated energy companies from imbalance settlement is still in force. Phasing out of this exemption is again being postponed. In all WB6 parties, provision of balancing services is essentially limited to one single balancing service provider, namely the incumbent producer, except in Bosnia and Herzegovina, where four big production companies are competing in the balancing market. Participation of demand response facilities in the balancing market is yet to be facilitated across the WB6 region. So far, a contract for provision of balancing services was signed with an industrial customer in Bosnia and Herzegovina and recently also in Montenegro. Further reform of balancing rules and deregulation of the balancing reserve price are urgently needed to allow for non-discriminatory access of new entrants into the market.

Development of a truly regional balancing market is crucial for boosting competition. Currently, cooperation among transmission system operators is taking shape on the bilateral or trilateral level only, mainly within control blocks (such as cooperation of transmission system operators of Bosnia and Herzegovina, Croatia and Slovenia within the so-called SHB block). To step-up cross-border balancing, technical assistance for the implementation of the regional electricity balancing market was launched under the WB6 regional energy market connectivity programme in December 2017.



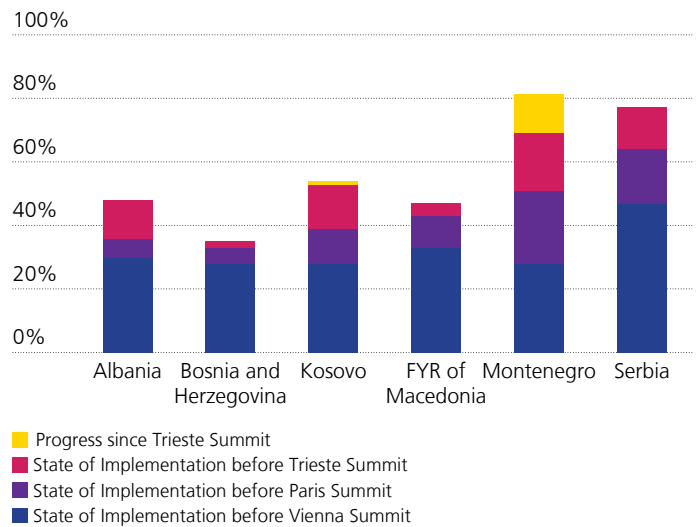
## Regional Capacity Allocation

The transmission system operator of Serbia started allocating interconnection capacities on the border with Croatia through Joint Auction Office (JAO). Capacities on other borders are still not allocated through the regional auction office. An agreement with SEE CAO has still not been made. 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. To facilitate negotiations between Serbia and Kosovo on this long-standing dispute, the Government of the Federal Republic of Germany requested the Energy Community Dispute Resolution and Negotiation Centre to act as mediator in the dispute.



## Cross-cutting measures

Lack of progress in this area was notable, especially with regard to the further opening of the wholesale and retail market. In Albania, a right of customers to change their supplier was withheld by an amendment to the Power Sector Law adopted in February 2018. Furthermore, amendments to the Council of Ministers decision on the public service obligation were adopted in December 2017, continuing the regulation of electricity trading between the incumbent producer and the universal supplier. In Republika Srpska entity of Bosnia and Herzegovina and in former Yugoslav Republic of Macedonia, deregulation of electricity prices sold by the incumbent producers to the universal suppliers are still pending until the adoption of the respective new laws.

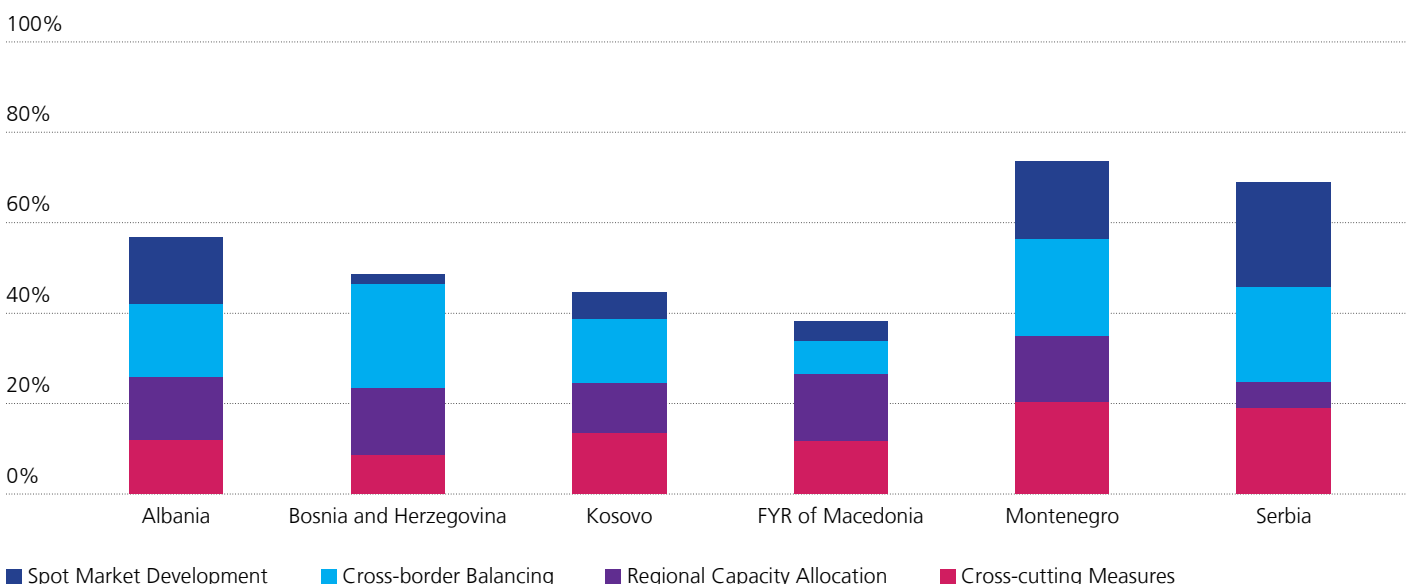


At retail level, none of the WB6 Governments undertook activities to appoint the universal supplier in a non-discriminatory and transparent procedure. In practice, small and household customers continue to be supplied at regulated prices by the incumbent suppliers, to a large extent still bundled with the distribution system operator. The regulated prices continue to be at a level that does not provide an incentive to alternative suppliers to enter the market.

As no activities were taken to legally unbundle distribution system operators in Albania and Bosnia and Herzegovina in the reporting period, the Energy Community Secretariat launched infringement actions.

With regard to the certification of transmission system operators, the process is ongoing in Montenegro only, where the regulator is working on adopting the final decision following the Secretariat's opinion issued in February 2018. In other WB6 parties, apart from Albania where the transmission system operator is certified in a compliant manner, the certification is still to be done.

## 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)

In mid-February 2018, the Parliament adopted a set of amendments to the Power Sector Law necessary for the establishment and operation of an organised day-ahead electricity market, thus removing the remaining obstacles to the establishment of the Albanian power exchange (APEX). Now there is no more justification not to establish APEX in line with the market model.

### 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)

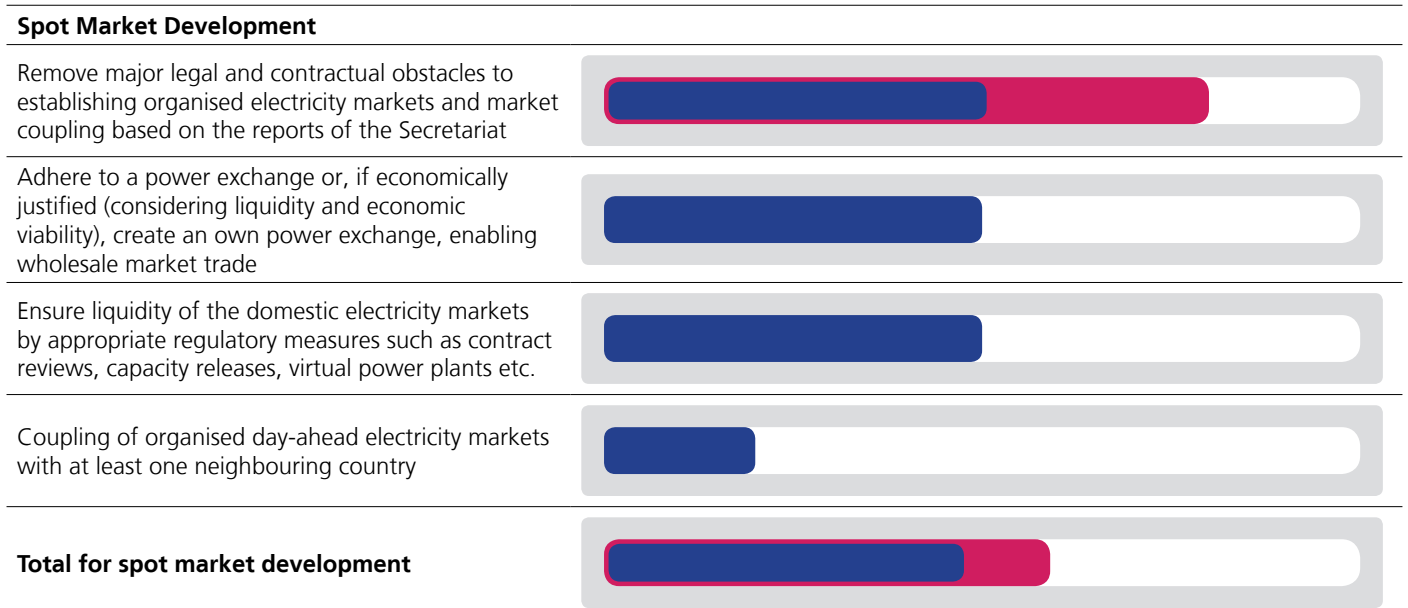
Deadlines set by the market model for establishment of the power exchange have expired. New deadlines are not envisaged by the amended Power Sector Law. Activities of the steering committee for the establishment of APEX were resumed in November 2017 on insistence of the Secretariat.

### 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. Its implementation has been stalled. The Council of Ministers Decision on public service obligations (amended in December 2017) continues to oblige the distribution system operator OSHEE to purchase the electricity needed for universal service, losses and supply of last resort exclusively from KESh. This prevents liquidity in the wholesale market. The transmission system operator started purchasing electricity for covering network losses via an organised platform. OSHEE is using the organised platform for purchasing electricity that could not be procured from KESh. However, its practical application by OSHEE is still not in line with a procedure for procuring losses adopted by the national regulatory authority ERE.

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

A Memorandum of Understanding on cooperating on the establishment and operation of APEX was signed between the Albanian and Kosovo Ministries responsible for energy in November 2017 with a view to resume implementing a plan on the integration of these two markets. A project on coupling the day-ahead markets of Albania and Kosovo was initiated under the WB6 regional energy market connectivity programme. Activities on coupling Albania with Montenegro, Italy and Serbia were kicked-off in January 2018.





## 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 under market-based, non-discriminatory and transparent procedures, is envisaged by the Power Sector Law and the market model.

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

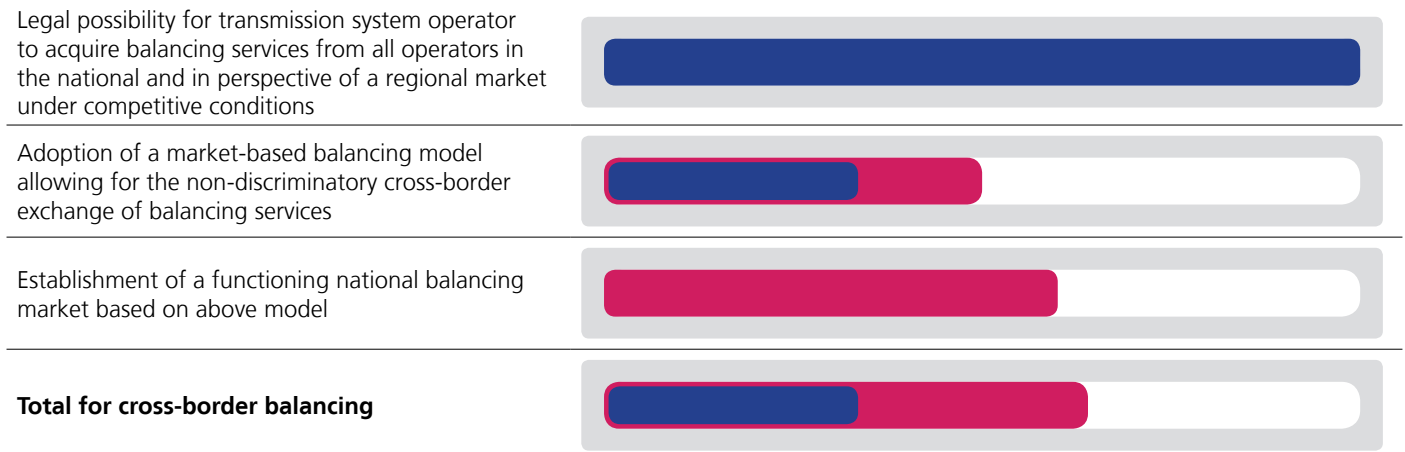
In November 2017, ERE adopted transitional balancing rules, drafted with technical assistance from the WB6 regional en-

ergy market connectivity programme. Implementation of a developed mechanism for the cross-border procurement of secondary reserves 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)

The transitional balancing rules are applied as of 1 January 2018. Imbalances are settled in a non-discriminatory manner using as reference hourly prices of the Hungarian day-ahead market. The transmission system operator issued invoices for January 2018 to all balance responsible parties. KESh continues to be the only balance service provider. However, the transitional rules allow for new balance service providers to enter the market.

#### 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)

A methodology for coordinated capacity calculation in the Western Balkans region is missing. A technical assistance project aimed at developing a common capacity calculation methodology for South-east Europe will be launched under

the WB6 regional energy market connectivity programme. The transmission system operator has still not made a decision on joining any of the existing regional security coordinators.

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

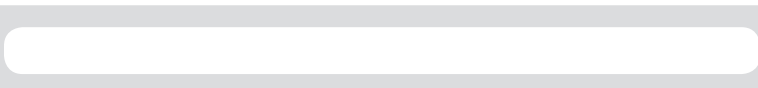
There is no lack of support by WB6 countries. This task depends on the active support from the European Commission.

#### 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 and 20 kV should have also been already deregulated. As of 2018, prerequisites for 35 kV customers to switch supplier are in place. However, the Power Sector Law amendments of February 2018 postponed further market opening. Customers that should have changed their supplier are given a possibility to continue to be supplied by a last resort supplier for a period of two years as of the date when they are informed by the distribution system operator that they are technically ready to change their supplier. This infringes the eligibility right of customers. The Secretariat deems this a serious setback in Albania's efforts to reform its electricity sector. Moreover, the regulated wholesale supply contract between KESH and OSHEE continues to be in force. According to amendments to the Council of Ministers Decision imposing public service obligations, the prices and quantities of electricity that KESH is selling to

OSHEE for universal service supply and supply of last resort are determined by the Minister.

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

Distribution is still legally and functionally bundled with supply within the state-owned joint stock company OSHEE. Not even legal unbundling has taken place. The Secretariat initiated a dispute settlement case on the lack of distribution system operator unbundling in January 2018.

### 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 excessively 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 for observer status yet.

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

The transmission system operator of Albania was unbundled and certified by the regulator in line with the Secretariat's Opinion. Following the certification, the transmission sys-







tem operator became member of ENTSO-E in April 2017. Subsequently, the transmission system operator appointed a compliance officer which was approved by the regulator in September 2017. Other conditions requested by the Secretariat and the regulator in its final certification decision were not fulfilled within the deadline of 15 March 2018.

The national competition and State aid authorities cooperate well with the Secretariat. The effectiveness of the national competition and State aid authorities in the energy sector is not satisfactory. Due to the restructuring of the administration, the State aid authority lacks human resources and independence.

**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)**

**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 has not started activities to transpose the Trans-European Network Regulation, despite the fact that the deadline has expired on 1 January 2017.

<b>Cross-cutting Measures</b>	
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	
<b>Total for cross-cutting measures</b>	



## Spot Market Development

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

The Government of Bosnia and Herzegovina again failed to approve the State Law on Regulator, Transmission and Power Market and the complementary law on establishment of a transmission system operator. In October 2017, the Secretariat requested the Energy Community Ministerial Council to establish a serious and persistent breach under Article 92 of the Treaty for failure to transpose the Third Energy Package. No progress has been achieved since a meeting of Prime Ministers and Ministers in charge of energy of both entities of Bosnia and Herzegovina and the state Minister for Foreign Trade and Economic Relations, organised by the Secretariat in November 2017. The two entity governments have still not submitted to the state Ministry their position on the draft Law.

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

Technical assistance to support identifying a viable solution for the establishment of an organised day-ahead market in Bosnia and Herzegovina was provided under the WB6 regional energy market connectivity programme. According to its findings, endorsed by the relevant stakeholders in Bosnia and Herzegovina, a legal entity responsible for organising a day-ahead market in Bosnia and Herzegovina should be established. It is foreseen that market operation is launched before March

2019, while the main functions, including market clearing, are outsourced. The selection procedure for a service provider is expected to start as soon as possible, even before the Law is adopted.

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

Despite the domestic electricity market structure – consisting of three incumbent utilities, each with its own generation portfolio – being conducive for opening and liquidity of the domestic market, no competition exists. All market activities remain within the respective incumbents' areas of operation, despite the fact that there are no obstacles to trade throughout Bosnia and Herzegovina. Trading on an organised day-ahead market is exercised so far only by the power utility of Republika Srpska.

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

Along with the establishment of the national day-ahead market, implementation of market coupling of Bosnia and Herzegovina with Croatia, Montenegro and Serbia is being considered under the roadmap for regional day-ahead market integration in Western Balkans. The Croatian day-ahead market operator CROPEX expressed its interest in receiving technical assistance for implementation of day-ahead market coupling between Croatia and Bosnia and Herzegovina under the WB6 regional energy market connectivity programme. Follow-up activities to prepare the launch of the project are still to be agreed.

## Spot Market Development

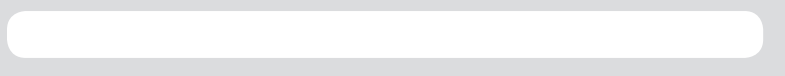
Remove major legal and contractual obstacles to establishing organised electricity markets and market coupling based on the reports of the Secretariat



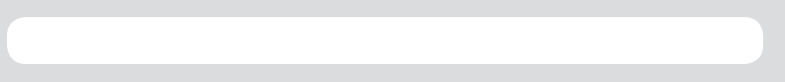
Adhere to a power exchange or, if economically justified (considering liquidity and economic viability), create an own power exchange, enabling wholesale market trade



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. A new VAT Law and an implementing rulebook are currently under development in order to harmonize the taxation of cross-border 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. The exchange of balancing services (manually activated frequency restoration reserve) with the transmission system operators of Croatia and Slovenia is operational since 2016. The exchange of balancing energy from the manually activated frequency restoration reserve with the transmission system operator of Serbia is active as of December 2017. An agreement on the exchange of balancing energy with the transmission system operator of Montenegro was approved by the regulator in March 2018.

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

A competitive state-wide balancing market, encompassing both the balancing reserve and the balancing energy procured via market-based procedures, is operated by the transmission system operator 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)

A methodology for coordinated capacity calculation in the Western Balkans region is missing. A technical assistance project aimed at developing a common capacity calculation methodology for South-east Europe will be launched under the WB6 regional energy market connectivity programme. The transmission system operator is a shareholder of the Security Coordination Centre (SCC), which was established together

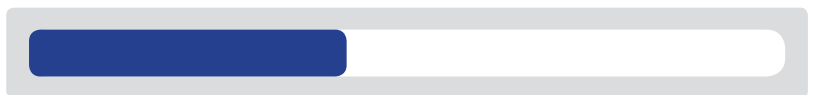
with the transmission system operators of Montenegro and Serbia in August 2015. However, the European Commission has expressed concern about SCC's legitimacy as regional security coordinator given the non-applicability of the System Operation Guideline in the Energy Community and in light of the EMS-KOSTT dispute.

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

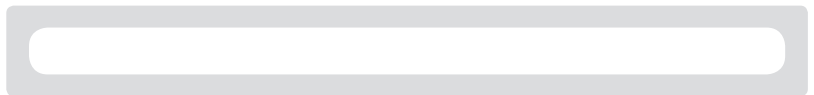
There is no lack of support by WB6 countries. This task depends on the active support from the European Commission.

#### 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 under the universal service provision continues to be regulated in Republika Srpska. This is a breach of Energy Community law. It has not been addressed by the draft 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. The country and its entities do not respond to Secretariat's requests for improvement.

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

No actions were taken to legally and functionally unbundle distribution from supply throughout Bosnia and Herzegovina and from generation in two utilities in Federation of Bosnia

and Herzegovina and no deadlines have been set for the finalisation of the process. The Secretariat initiated infringement procedures in January 2018. The draft Electricity Law in Republika Srpska was revised with the view to remove the breach, however, no implementation deadline is foreseen.

### 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 critical. Independence is weakened by other factors such as 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 needs to be transposed, regulatory independence ensured and all secondary legislation adopted. Transposition of the Third Package is still pending, which is 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. The transmission system operator is not unbundled in line with those rules. 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)**

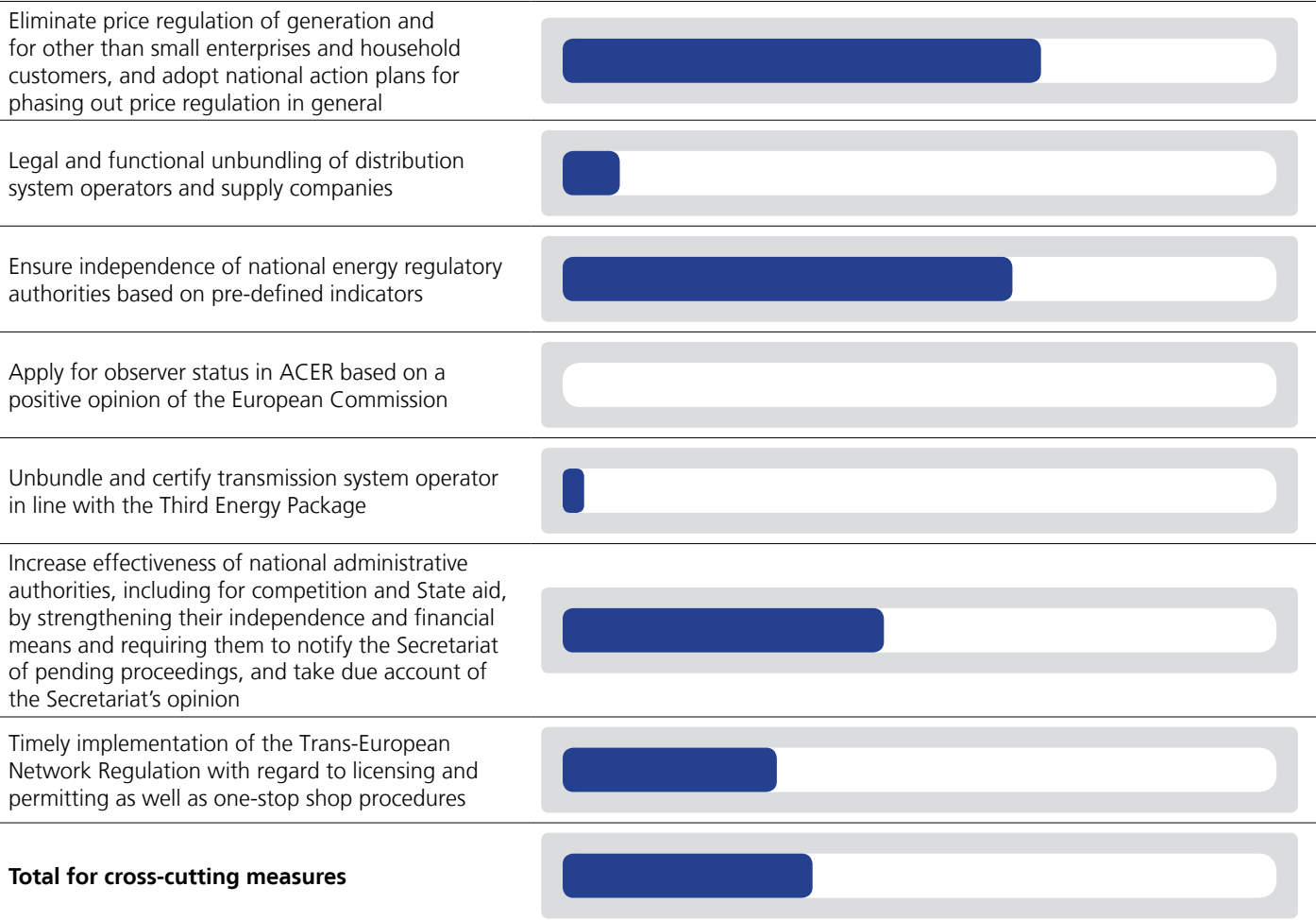
The competition and State aid enforcement authorities do

not make use of the cooperation mechanism stipulated under Article 2 of the Energy Community Dispute Settlement Rules. The effectiveness of national competition and State aid authorities is not at a satisfactory level. Furthermore, the independence of the State Aid Council remains questionable.

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

In spite of the provided technical assistance, Bosnia and Herzegovina has still not transposed the Trans-European Network Regulation, the deadline for which expired already on 1 January 2017.

**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)

This task was fulfilled. 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 for 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)

Progress in this area depends on the decision to establish a power exchange in Albania. Discussions about the servicing of the Kosovo market by the Albanian power exchange and the co-shareholding of the Kosovo transmission system operator are reinvigorated.

### 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 of the regulatory authority to impose such measures are included in the Energy Law. The regulator's activities towards market opening, namely issuing of two licenses to new suppliers to operate on the Kosovo market and recognition of an EU-based trader as eligible to trade in Kosovo without requiring an additional license, has still not resulted in improved market competition. As of 1 September 2017, the transmission system operator is organising daily auctions for purchasing electricity to cover network losses. The recent contractual framework adopted for the new Kosovo e Re power plant will seriously hamper the development of a market.

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

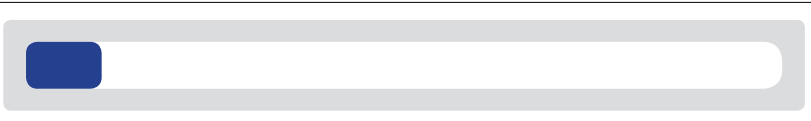
Ministries of Kosovo and Albania signed a Memorandum of Understanding on cooperation on the establishment and operation of the Albanian power exchange in November 2017, resuming the plan to integrate their markets. A project on coupling the day-ahead markets of Albania and Kosovo was launched under the WB6 regional energy market connectivity programme.

#### Spot Market Development

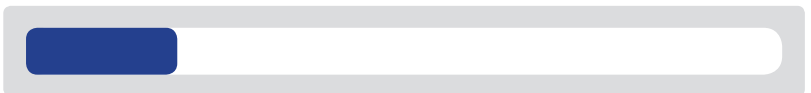
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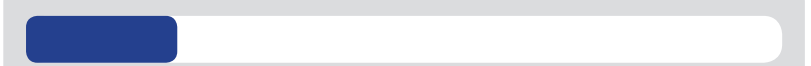
Adhere to a power exchange or, if economically justified (considering liquidity and economic viability), create an own power exchange, enabling wholesale market trade



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)

This task has been completed. 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.

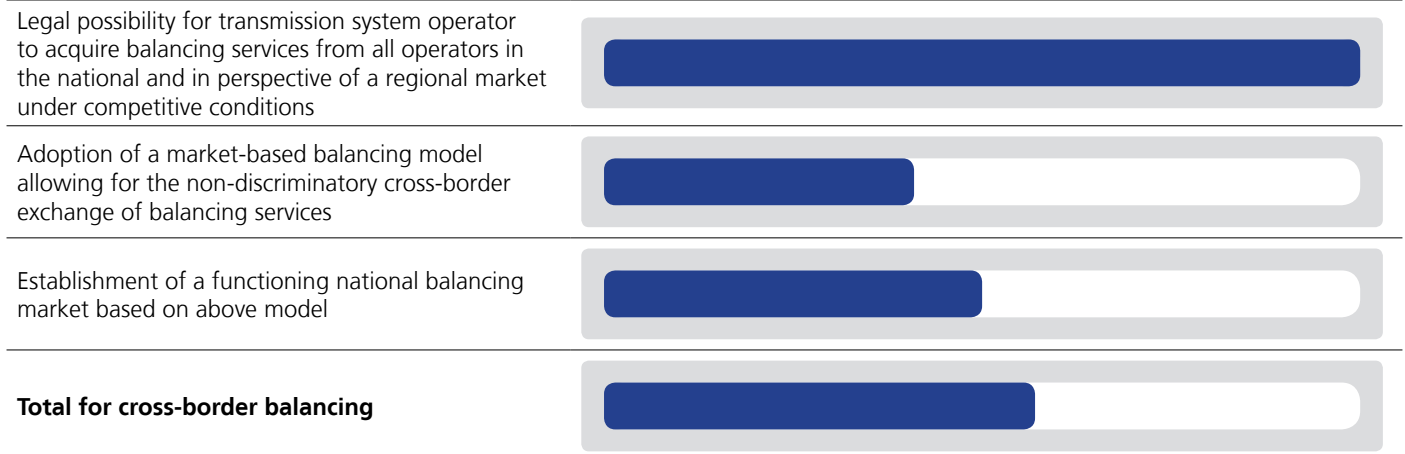
### Adoption of a market-based balancing model allowing for the non-discriminatory cross-border exchange of balancing services (March 2016)

A market-based balancing model, including a methodology for imbalance settlement, is in place. A mechanism for the cross-border procurement of a reserve for secondary regulation between the transmission system operators of Kosovo and Albania was developed. Implementation is pending the entry into force of the Connection Agreement between KOSTT and ENTSO-E.

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

A national balancing services market is not operational yet. Balance responsible parties' imbalances are settled based on the methodology for determining the imbalance settlement price, applied by the transmission system operator as of 1 June 2017.

#### Cross-border Balancing



## Regional Capacity Allocation

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

The Inter-TSO Agreement on network and system operation management and the Framework Agreement signed by the transmission system operators of Serbia and Kosovo in 2014

are still not implemented. They also failed to make progress in finalising agreements on compensation for past congestion management and the Inter-TSO compensation (ITC). In September 2017, the Government of the Federal Republic of Germany requested the Energy Community Dispute Resolution and Negotiation Centre to facilitate negotiations between Serbia and Kosovo on this long-standing dispute. Kosovo has appointed its representative in this process.



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

A methodology for coordinated capacity calculation in the Western Balkans region is missing. A technical assistance project aimed at developing a common capacity calculation methodology for South-east Europe will be launched under the WB6 regional energy market connectivity programme.

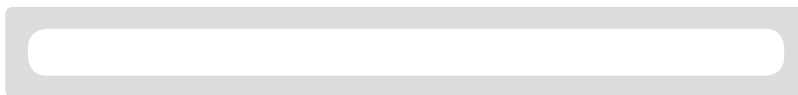
The transmission system operator has still not made a decision on joining any of the existing regional security coordinators.

## 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 depends on the active support from the European Commission.

### Regional Capacity Allocation

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



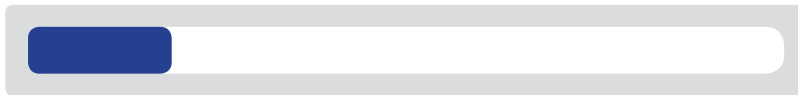
Introduction of a coordinated capacity calculation process for the allocation of day ahead capacities based on a regionally coordinated congestion forecast



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)

As of 1 April 2017, wholesale and supply prices for high voltage customers were deregulated. Transmission and distribution system operators are obliged to procure electricity for network losses at non-regulated prices. 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)

This task was completed. Legal and functional unbundling was finalised even before the deadline. Legal unbundling of the distribution system operator from supply is in effect as of 1 January 2015. The process of functional unbundling was completed in July 2015.

### 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. However, the regulator's effective functioning was blocked since the Board lost its decision-making quorum in April 2017. This was a breach of Energy Community law for which the Secretariat prepared infringement action. However, the breach was rectified in March 2018, following the appointment of two missing members by the Parliament.

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

ERO has not applied for observer status 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. Following the reinstatement of the functioning of the Board of regulators, the transmission system operator is expected to file the application for certification.



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

Following several years of not having a functioning competition and State aid authority in place, the missing commissioners were appointed in June 2016. A new law on State aid was adopted in January 2017. According to its provisions, the State Aid Office has been transferred to the Ministry of Finance, but it still has only two employees. Due to the lack of effective State aid enforcement, the Secretariat intends to continue with the next steps in its infringement procedure. The absence of functioning authorities exacerbates the lack

of State aid compliance of the contractual framework for the Kosovo e Re project.

**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. Kosovo has also designated the required national competent authority. Implementation of the Administrative Instruction is ongoing and supported through technical assistance provided by the Energy Community Secretariat.

**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



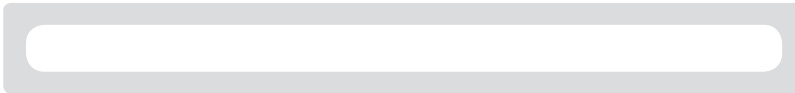
Legal and functional unbundling of distribution system operators and supply companies



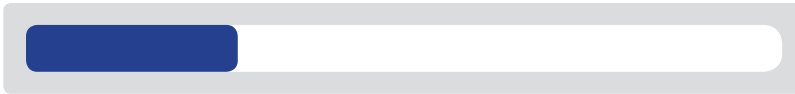
Ensure independence of national energy regulatory authorities based on pre-defined indicators



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)

Former Yugoslav Republic of Macedonia has still not adopted a Third Energy Package compliant energy law. As the Ministerial Council's Decision on the country's failure to comply with the Third Energy Package was not followed up, the Secretariat requested the Ministerial Council to establish a serious and persistent breach under Article 92 of the Treaty. A new Energy Law has been drafted with a view to approval by Government in March 2018. The process of adoption needs to be sped up if this deadline is to be met.

### 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 selecting an efficient way to establish an organised day-ahead market in former Yugoslav Republic of Mac-

edonia started in January 2018. It is supported by a technical assistance project under the WB6 regional energy market connectivity programme. The project is expected to be finalised in April 2018.

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

Measures to ensure liquidity, in particular related to the participation of renewable energy sources in the electricity market, are envisaged by the draft Energy Law. The competences for the regulatory authority to impose liquidity measures are envisaged as well. No measures were applied in practice yet.

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

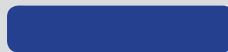
Activities to set up a project to facilitate the coupling of day-ahead markets of former Yugoslav Republic of Macedonia and Bulgaria are ongoing. They are supported by a technical assistance project under the WB6 regional energy market connectivity programme.

## Spot Market Development

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



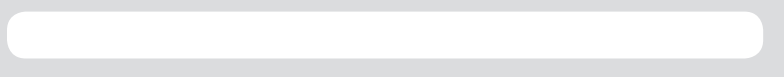
Adhere to a power exchange or, if economically justified (considering liquidity and economic viability), create an own power exchange, enabling wholesale market trade



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)

Progress is subject to the adoption of the new Energy Law. 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 was further extended until end June 2018 by the regulatory authority. This is in breach of Energy Community law.

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



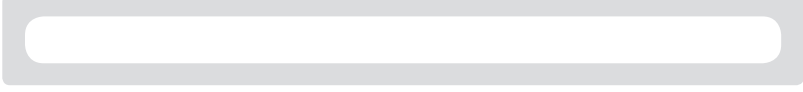

### balancing services (March 2016)

Amendments to the market rules, which introduced methodologies for market-based procurement of balancing services and non-discriminatory imbalance settlement, were adopted by the national regulatory authority in October 2016. This provides the possibility for the transmission system operator to procure balancing services from domestic providers and across borders. Implementation of a model for imbalance netting within the control block of former Yugoslav Republic of Macedonia, Montenegro and Serbia is postponed further.

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

Implementation of a market-based model was further postponed until end June 2018. A testing phase, launched in November 2017, is still ongoing.

## 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	
<b>Total for cross-border balancing</b>	

## Regional Capacity Allocation

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

This task was completed. 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.

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

A methodology for coordinated capacity calculation in the Western Balkans region is missing. A technical assistance project aimed at developing a common capacity calculation methodology for South-east Europe will be launched under the WB6 regional energy market connectivity programme. In an open procurement procedure, the transmission system operator selected the Security Coordination Centre (SCC) as a



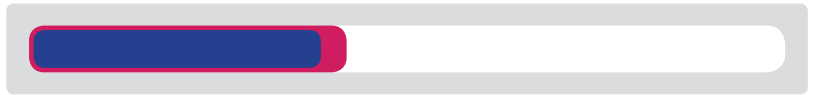
provider of services of a regional security coordinator, including coordinated capacity calculation. SCC started providing services as of March 2018. However, the European Commission has expressed concern about SCC's legitimacy as regional security coordinator given the non-applicability of the System Operation Guideline in the Energy Community and in light of the EMS-KOSTT dispute.

### 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 depends on 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



Binding agreements between TSOs from the former Yugoslav Republic of Macedonia, and Serbia with SEECAO on coordinated allocation



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 Secretariat requested the Ministerial Council to establish a serious and persistent breach under Article 92 of the Treaty. The new draft Energy Law 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)

Retail prices of an additional portion of small customers were deregulated as of 1 July 2017. Customers with an annual consumption greater than 500 MWh in 2016 were obliged to find a supplier based on non-regulated prices. However, regulation of both generation and retail prices for supply to households and small customers, remaining under this consumption threshold, will remain 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. On 1 January 2017, a new daughter company established by EVN was 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.

### 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, which is currently not even transposed.

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

The regulatory authority ERC has not yet applied for observer status. As a prerequisite, the Third Energy Package compliant law 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



currently non-compliant Energy Law. The adoption of the new Energy Law, foreseen to transpose the necessary prerequisites, is still pending. 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, does not notify pending energy cases to the Secretariat pursuant to the En-

ergy Community Dispute Settlement Rules. In practice, there are no enforcement activities related to competition and State aid rules in the energy sector.

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

Former Yugoslav Republic of Macedonia did not succeed in meeting the transposition and implementation deadlines defined by the Regulation. A manner in which the Regulation should be transposed and implemented is subject to ongoing technical assistance provided by the Energy Community Secretariat.

**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	
<b>Total for cross-cutting measures</b>	



## 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)**

This task has been completed. The legislative framework needed for establishing the organised electricity market is prescribed by the 2015 Energy Law and the Law on Cross-border Exchanges of Electricity and Natural Gas adopted in 2016.

**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)**

In line with a government decision of June 2016, the market operator COTEE, the transmission system operator CGES and the incumbent utility EPCG set up and registered in August 2017 a limited liability company with the task to establish a power exchange in Montenegro. The company should select a strategic partner among European power exchanges. The selection of an optimal model of strategic partnership is ongoing with the support of the technical assistance under the

WB6 regional energy market connectivity programme, which will be finalised by end March 2018.

**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, which enhances the potential for market competition. The introduction of mandatory participation and selling of electricity from renewable sources in the day-ahead market are being discussed but no concrete progress has been made. As there are no alternative suppliers on the retail market, all customers continue to be supplied by the incumbent supplier.

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

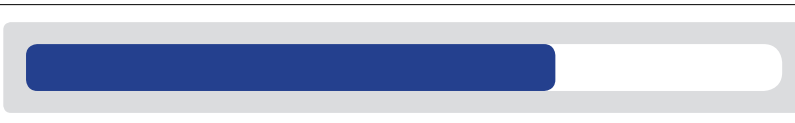
According to the government's decision on the organisation of the day-ahead market, coupling plans will be formalised through a future agreement with a strategic partner. The roadmap for day-ahead market integration in the Western Balkans includes coupling projects with all neighbouring WB6 parties and with Italy. Concrete progress is yet to be made.

### Spot Market Development

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



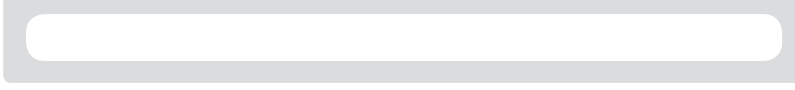
Adhere to a power exchange or, if economically justified (considering liquidity and economic viability), create an own power exchange, enabling wholesale market trade



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 compliant legal framework for market-based procurement of balancing services and development of the cross-border balancing market. A methodology for provision and pricing of balancing services, adopted by the national regulatory authority, lays the ground for non-discriminatory procurement of balancing services.

### 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 in July 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 exchanging balancing energy from a manual frequency restoration reserve with the transmission system operator of Serbia, and a same model of cooperation is agreed with the transmission system operator of Bosnia and Herzegovina. No progress was made in establishing cooperation with the Albanian transmission system operator yet. Implementation of imbalance netting within the control block of former Yugoslav Republic of Macedonia, Montenegro and Serbia is postponed further.

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

The national balancing market is functional. In addition to the incumbent generation company EPCG, who is acting as a balancing service provider, a contract for providing balancing services was signed with an industrial customer. 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.

#### 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)

A methodology for coordinated capacity calculation in the Western Balkans region is missing. A technical assistance project aimed at developing a common capacity calculation methodology for South-east Europe will be launched under the WB6 regional energy market connectivity programme.

The transmission system operator is a shareholder of the Security Coordination Centre (SCC), which was established

together with the transmission system operators of Bosnia and Herzegovina and Serbia in August 2015. However, the European Commission has expressed concern about SCC's legitimacy as regional security coordinator given the non-applicability of the System Operation Guideline in the Energy Community and in light of the EMS-KOSTT dispute.

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

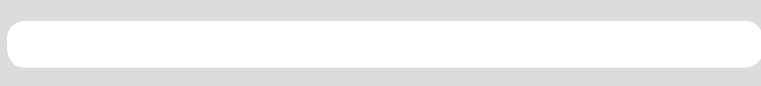
There is no lack of support by WB6 countries. This task depends on the active support from the European Commission.

#### 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 were to be deregulated as of 1 January 2017. The price of electricity supplied to households and small customers is market based, but subject to a price cap established by the regulator. 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.

programme of CEDIS was adopted and approved by the national regulatory authority. A compliance officer was appointed. According to the Law, the compliance officer shall submit the first report to the regulator by 31 March 2018. 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 the 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. Based on this, the ACER Director on 25 October 2017 approved the admission as observer in ACER Working Groups.

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

Legal unbundling of the distribution system operator was completed in June 2016 with the establishment of Montenegro Electricity Distribution System (CEDIS). A compliance pro-





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

The Energy Law sets requirements for ownership unbundling. The national regulatory authority adopted the preliminary decision on certification of the transmission system operator and submitted it to the Energy Community Secretariat for its Opinion in October 2017. In its Opinion sent to the regulator on 26 March 2018, the Secretariat requested further assessment by the regulator, in particular concerning the separation of control within the government.

**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 should notify pending energy cases to the Secretariat pursuant to the Energy Community Dispute Settlement Rules. However, there is no enforcement of competition and State aid rules by the national competition authority in the energy sector. 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)**

Montenegro should adopt the law and supporting by-law to transpose Regulation (EU) 347/2013 as soon as possible. The national competent authority should also be designated and become fully operational.

**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



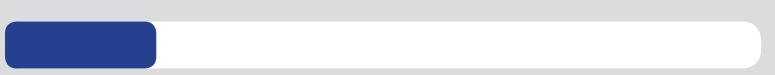
Unbundle and certify transmission system operator in line with the Third Energy Package



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 for the organised electricity market and market coupling is in place.

### 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)

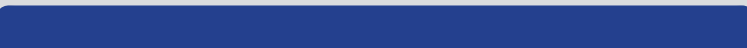
Trading on SEEPEX is voluntary and no regulatory measures promoting liquidity have been taken. In 2017, the trading volume on SEEPEX increased by 60%. A further increase of liquidity requires implementation of additional measures such as purchase of network losses, mandatory sales of electricity from renewable sources, further deregulation of retail prices and abandoning the licencing regime for wholesale.

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

SEEPEX and the Hungarian Power Exchange HUPX initiated activities to merge their businesses, based on the Memorandum of Understanding signed in February 2018 together with the transmission system operators of Hungary and Serbia and the European Power Exchange EPEXSPOT. Further steps are subject to negotiations. Activities on coupling with Montenegro, Albania and Italy are envisaged as part of a roadmap for regional day-ahead market integration in Western Balkans.

## Spot Market Development

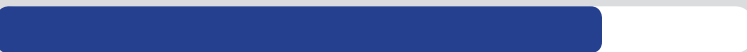
Remove major legal and contractual obstacles to establishing organised electricity markets and market coupling based on the reports of the Secretariat



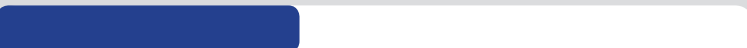
Adhere to a power exchange or, if economically justified (considering liquidity and economic viability), create an own power exchange, enabling wholesale market trade



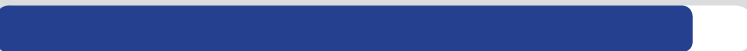
Ensure liquidity of the domestic electricity markets by appropriate regulatory measures such as contract reviews, capacity releases, virtual power plants etc.



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.

### 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. Implementation of imbalance netting within the control block of former Yugoslav Republic of Macedonia, Montenegro and Serbia is postponed further. The exchange of balancing energy from the manually activated frequency restoration reserve with the transmission system operator of Bosnia and Herzegovina is applied as of December 2017.

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

No measures were taken to enable competition in the balancing market, where services are still provided by only one balancing service provider, the incumbent generation company EPS. The price of balancing reserves 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 creates a vicious circle.

#### 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 Inter-TSO Agreement on network and system operation management and the Framework Agreement signed by the transmission system operators of Kosovo and Serbia in 2014 are still not implemented. They also failed to make progress in finalising agreements on compensation for past congestion management and ITC for an interim period. In September 2017, the Government of the Federal Republic of Germany requested the Energy Community Dispute Resolution and Negotiation Centre to facilitate negotiations between Serbia and Kosovo on this long-standing dispute. Serbia did not react to the request to nominate a representative for these negotiations.

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

Negotiations between the transmission system operator EMS and SEE CAO have stalled. As of 2018, EMS is allocating capacities on the border with Croatia through Joint Auction Office (JAO), whereas on other borders the capacity allocation mechanism is not regionally coordinated.

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

A methodology for coordinated capacity calculation in the Western Balkans region is missing. A technical assistance project aimed at developing a common capacity calculation methodology for South-east Europe will be launched under



the WB6 regional energy market connectivity programme. The transmission system operator is a shareholder of the Security Coordination Centre (SCC), which was established together with the transmission system operators of Bosnia and Herzegovina and Montenegro in August 2015. However, the European Commission has expressed concern about SCC's legitimacy as regional security coordinator given the non-applicability of the System Operation Guideline in the Energy

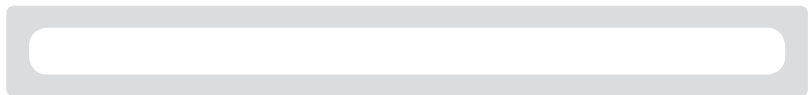
Community and in light of the EMS-KOSTT dispute.

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

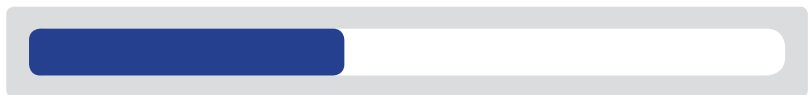
There is no lack of support by WB6 countries. This task needs the active support from the European Commission.

**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



Binding agreements between TSOs from the former Yugoslav Republic of Macedonia, and Serbia with SEECAO on coordinated allocation



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 electricity supplied to households and small customers entitled to universal service. The regulated price of guaranteed supply does not provide sufficient incentive for alternative offers to emerge in the market. The lack of competition is used as a justification to continue regulation of these prices and postpone further the selection of a guaranteed supplier in a competitive procedure. This hampers the effective opening of the market for small customers and households.

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

While legal unbundling of distribution system operators from supply has been finalized, functional unbundling has not been completed yet. In June 2016, the regulatory authority approved the compliance programme and appointment of the compliance officer. The first compliance report of 30 June

2017 concludes that independence of the company in terms of organisation and decision-making does still not exist and that the compliance programme, approved by the regulator in 2016, is still not implemented. Rectifying this breach requires amendments to the founding act of the distribution system operator. Activities on aligning the statute of the distribution system operator with the Law on Public Enterprises and the Energy Law are ongoing.

**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.

**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 but was rejected. The Secretariat provided ACER with an analysis related to the requirements for ACER Working Group participation of AERS 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)**

On 4 August 2017, the regulator certified the transmission system operator as compliant with ownership unbundling rules of the Third Energy Package. In its Opinion issued on 15 June 2017, the Secretariat concluded that EMS is not unbundled in line with the ownership unbundling model. As the Law on Ministries was changed after the Secretariat issued its Opinion, the Secretariat formally requested the regulator to reopen the certification procedure on 15 September 2017. AERS has not complied with this request. The Secretariat will open infringement procedures.

**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)**

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 ongoing. The Secretariat submitted a request to the Ministerial Council to establish a failure by Serbia to comply with the Energy Community State aid *acquis* in relation to aid granted to the Kolubara B power plant project. The structure of the Commission for State Aid Control that is closely linked to the Ministry of Finance prevents the Commission from applying the State aid rules independently.

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

The Government adopted the Programme for the Implementation of the Energy Development Strategy by 2025 for the period 2017-2023 in October 2017 by which the Regulation is partially transposed in the national legislation. Additional activities are needed to fully transpose and implement the Regulation, including designation of the National Competent Authority. The Strategy stipulates that a new law shall be adopted every time a new infrastructure project is commenced.

**Cross-cutting Measures**

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



Legal and functional unbundling of distribution system operators and supply companies



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



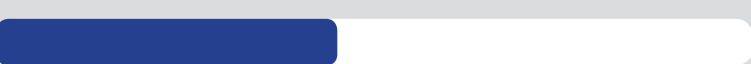
Apply for observer status in ACER based on a positive opinion of the European Commission



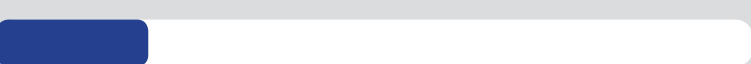
Unbundle and certify transmission system operator in line with the Third Energy Package



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



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



**Total for cross-cutting measures**





## The Regional Activities

The WB6 initiative to create a regional electricity market in the Western Balkans through the development of market coupling, cross-border balancing and regionally coordinated capacity calculation continues to push for the integration of WB6 markets with those of EU Member States. Starting from the commitments made at the 2015 and 2016 Western Balkan Summits, the 2017 Trieste Summit emphasised the need to couple WB6 markets with those of EU Member States in order to make the best use of transmission infrastructure. The Trieste Summit highlighted the opportunities for cooperation between the WB6 and neighbouring EU Member States building on the WB6 Memorandum of Understanding on Regional Electricity Market Development (WB6 MoU) and the Treaty establishing the Energy Community (Title III). To support these political commitments, the WB6 MoU, initially signed by WB6 ministries, transmission system operators, national regulatory authorities and power exchanges, was reinforced by 15 signatories from the neighbouring EU Member States.

Most recently, it was signed by two ministries of neighbouring EU MSs, namely the Italian Ministry of Economic Development and the Hungarian Ministry of National Development. Previous signatories are the Italian energy regulator, power exchange GME 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. WB6 MoU signatories agreed on the market integration process starting with market coupling of national organised day-ahead markets with at least one neighbouring WB6 or EU Member States by July 2018 and the development of cross-border balancing cooperation among WB6 countries by December 2018.

Under the WB6 MoU platform, the Programme Steering Committee for day-ahead market integration (WB6 DA MI PSC) developed a roadmap for 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 with the Multi-Regional Coupling (MRC). The roadmap identifies national and regional projects that should lead to the market coupling between the WB6 and with neighbouring EU Member States. Seven market

coupling projects were proposed so far, five of which aim at the implementation of market coupling with all neighbouring EU Member States. The Programme Steering Committee for cross-border balancing aims to develop a roadmap towards creating a regional balancing market, including pilot projects for imbalance netting and exchange of balancing energy with common merit order lists.

Implementation of these objectives is financially backed-up by the contract for technical assistance to regional energy market connectivity in the Western Balkans, signed between the European Commission and the Energy Community Secretariat. Regional technical assistance projects to support the WB6 and neighbouring EU transmission system operators, national regulatory authorities and power exchanges in the preparation and implementation of market coupling projects and platforms for cross-border balancing cooperation were kicked-off in December 2017.

The technical assistance for day-ahead market coupling is focused on the implementation of the roadmap for day-ahead market coupling proposed by the WB6 MoU DA MI PSC, subject to the request for support from stakeholders. So far, sub-projects for market coupling between Albania and Kosovo, between former Yugoslav Republic of Macedonia and Bulgaria as well as between Bosnia and Herzegovina and Croatia, regional coupling covering Albania, Italy, Montenegro, and Serbia and general facilitation of the coupling between EU Member State markets and Energy Community Contracting Parties' markets were proposed. The projects are currently in the scoping phase, and implementation is expected to start during the next reporting period.

The technical assistance for cross-border balancing is supporting the efforts of the Programme Steering Committee for cross-border balancing to establish platforms for imbalance netting and cross-border exchange of balancing energy by end 2018. The first project results, namely a gap analysis and a set of amendments to the current legal and regulatory framework needed to establish a harmonized framework for cross-border balancing cooperation in line with European rules and practice, will be presented in the next reporting period.

The technical assistance project to support the implementation of regional coordinated capacity calculation between WB6 and with neighbouring EU MSs is expected to be launched in April 2018, following finalisation of the ongoing tendering procedure.



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