



MEMORANDUM OF UNDERSTANDING (MoU)

OF WESTERN BALKAN 6

ON REGIONAL ELECTRICITY MARKET DEVELOPMENT AND ESTABLISHING A FRAMEWORK FOR OTHER FUTURE COLLABORATION

The High Level representatives of the Western Balkan 6 countries` (Albania, Bosnia and Herzegovina, Kosovo*, the former Yugoslav Republic of Macedonia, Montenegro and Serbia) Ministries, National Regulatory Authorities (NRAs), Transmission System Operators (TSOs) and Power Exchanges (PXs), including parties expected to assume responsibilities for market organisation, hereinafter referred to as the "signatories"

Having regard to

1. the Treaty establishing the Energy Community and the subsequent legal acts forming the Energy Community acquis on electricity;
2. the Berlin Process and the final declarations by the Chair of the Conference on the Western Balkans at the Berlin Summit and Vienna Summit;
3. Regulation 2015/1222 establishing a Guideline on Capacity Allocation and Congestion Management ("CACM Regulation") and other upcoming EU Regulations establishing Network Codes and Guidelines.

Recognising

4. the necessity to act in good faith and adopt a fair and loyal treatment towards each other;
5. the importance of the Final Declaration by the Chair of the Vienna Western Balkans Summit of 27 August 2015 where the Western Balkan 6 ("WB6") have decided to set up a regional power market initiative consisting of establishing power exchanges and a regional balancing market as well as making the best use of the already existing Coordinated Auction Office, inviting the Energy Community Secretariat to support the regional electricity market development;

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

6. the need to develop electricity trading in South East Europe together with neighbouring EU countries given the close physical interconnection and the need to achieve the critical liquidity;
7. the overall aim to create a competitive, efficient and integrated European energy market in order to provide market participants with new business opportunities and more cross-border trade to achieve efficiency gains, competitive prices and higher standards of services;
8. that the existing cross-border grid capacities in the WB6 should be expanded to allow all cross-border trading interests to be realised at every point in time. Reduced cross-border exchanges leads to limited market functions in the region, where congested borders define smaller market sub-regions with converging but still different prices, instead of having homogeneous wholesale market price for the whole South East European Region ("SEE Region"¹);
9. security of supply as a key issue for the successful operation of the grid, particularly with increase in cross-border flows and increased volatile renewable generation resulting in regional grid flows and operational situations which are difficult to predict;
10. the obligation to promote and facilitate regional cooperation and operational arrangements in order to ensure the provision of balancing services in the most economic manner and provide appropriate incentives for network users, through fostering competition, non-discrimination and transparency, supporting penetration of renewable generation and participation of demand side response, and thus provide benefit to customers and enhance system security;
11. that EU Network Codes and Guidelines form part of the EU energy acquis and need to be adopted in the Energy Community, if needed with adaptations for the Energy Community context.

Agree

12. to provide the reasonable resources and support to achieve the objective set forth in the following point, with the overall aim to enhance the comprehensive electricity market integration and security of supply in the WB6, as a first step towards regional electricity trading in the whole SEE Region. This Memorandum of Understanding ("MoU") states general principles that will be implemented through legally binding agreements between concerned parties;
13. to set strategic objectives to analyse, design and implement:
 - a. day-ahead market integration between WB6 countries and further as detailed in Annex 1, including the selection of the appropriate national day-ahead markets design;
 - b. cross-border balancing cooperation as detailed in Annex 2;
 - c. other achievements on regional market development and security of supply that will be detailed in additional future annexes.

¹ For the purpose of this MoU understood as the Region comprising WB6 and neighbouring EU countries.

Annexes make an integral part of this MoU. The strategy objectives should support wider regional and European integration processes enabling possible and desirable inclusion of non WB6 countries in its achievement.

The programmes described in the point a) and b) and further in details in the Annex 1 and 2 shall be implemented in priority;

14. that the ultimate goal is to integrate the markets of the WB6 countries with the EU Multi-Regional Coupling (MRC) markets;
15. that the process to develop electricity trading in the SEE Region requires not only preparatory work within the Energy Community Contracting Parties, but also preparation of the coordination between Energy Community Contracting Parties and EU neighbours. For this purpose, Energy Community Contracting Parties should work closely together with EU partners to create a liquid regional market without unnecessary delays where any of the WB6 countries, if applicable, would closely cooperate with an adjacent EU Member State to facilitate the integration process;
16. that TSOs of the ENTSO-E WB6 Task Force should establish a strategy execution framework with governing and execution procedures for the programmes and projects arising from this MoU and align it with the respective processes on EU side;
17. that, in accordance with their legal competences, the NRAs will use their authorities to remove regulatory obstacles and monitor ongoing development at the technical and regulatory level. They are committed to a joint and efficient decision making procedure and will assist wherever possible and appropriate;
18. that close support of Ministries will be needed to help resolve upcoming issues especially as regards legal or regulatory obstacles. Amongst others, the potential legal and regulatory obstacles could refer to questions related to VAT, public procurement, custom duties, or company registration, when applied to electricity markets. Their removal should facilitate market entry and prevent competition disturbances;
19. that additional parties which are willing and expected to assume a role in the market integration projects resulting from this MoU, including but not limited to TSOs, PXs and NRAs from the WB 6 countries and EU neighbouring countries as well as PXs to be established in the WB6 countries, shall join the relevant work streams and the relevant Programme Steering Committee(s) on equal and non-discriminatory grounds, by becoming a signatory to the present MoU and other relevant agreements; and
20. that this MoU does not create any rights or obligations under international law.

Signed at Vienna on 27 April 2016

For the WB6 Transmission System Operators (TSOs):

- a) Operatori i Sistemit të Transmetimit (OST)



- b) Nezavisni operator sistema u Bosni i Hercegovini (NOS BiH)



- c) Transmission System Operator of Macedonia – Joint Stock Company for Electricity Transmission and Power System Control of Macedonia (AD MEPSO)



- d) Operatori Sistemi, Transmisioni dhe Tregu – KOSTT j.s.c. (KOSTT)

- e) Electric Transmission System of Montenegro (Crnogorski Elektroprenosni Sistem AD - CGES)

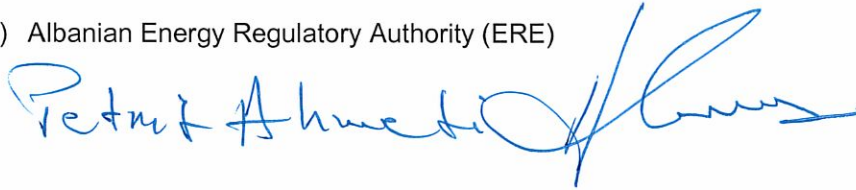


- f) JP Elektromreža Srbije (EMS)



For the WB6 National Regulatory Authorities (NRA):


- a) Albanian Energy Regulatory Authority (ERE)

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- b) State Electricity Regulatory Commission (DERK)


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- c) Energy Regulatory Commission (ERC)

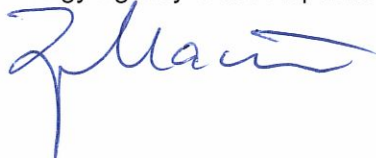
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- d) Energy Regulatory Office (ERO)

- e) Energy Regulatory Agency (REGAGEN)

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- f) Energy Agency of the Republic of Serbia (AERS)

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For the Power Exchanges (PX) and parties expected to assume responsibilities for market organisation:

SEEPEX a.d. Beograd (SEEPEX)

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COTEE Montenegro

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For the WB6 Ministries of:

- a) Ministry of Energy and Industry of Albania

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- b) Ministry of Foreign Trade and Economic Relations of Bosnia and Herzegovina

- c) Ministry of Economy of Macedonia

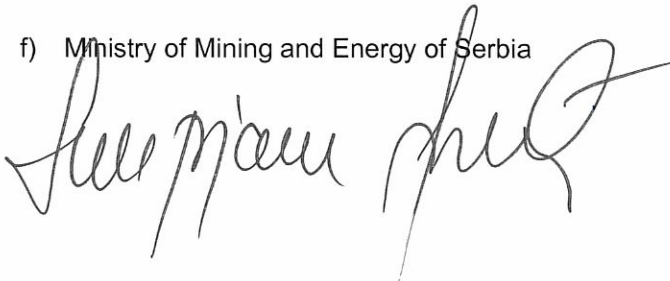
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- d) Ministry of Economic Development of Kosovo*

- e) Ministry of Economy of Montenegro

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- f) Ministry of Mining and Energy of Serbia

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Annex 1

Day-ahead Market Integration

1. This part of the MoU details the objective of the analysis, design and implementation of a day-ahead market integration between six countries of the so called WB6 region, through the implementation of the most appropriate market coupling mechanism or market splitting, where more appropriate, based on the formal establishment of below integration programme through finalising all relevant agreements. This integration programme shall aim to lead to the coupling of national organised day-ahead markets with at least one neighbouring WB6 or EU country by July 2018 and the finalisation of the project implementation agreements between the TSOs, NRAs and PXs until November 2016. Such market integration and development should support wider regional and European integration processes.

The signatories agree

2. on the establishment of a common day-ahead spot market integration programme (further in this Annex: the Programme) in order to develop, implement and to start the daily operation of market coupling to ensure a better utilization of currently available cross-border capacities, including the establishment of coordinated day-ahead capacity calculation processes, and at the same time to maintain the same level of security of operation;
3. that the Programme should be governed by a Programme Steering Committee comprising relevant regional stakeholders (e.g. TSOs, PXs, Ministry, NRAs representatives etc);
4. that the Programme will be composed of different projects which are managed by project managers from the relevant institutions (e.g. TSOs, PXs, Ministries or NRAs, depending of its scope) nominated by the Programme Steering Committee;
5. that the Programme should aim at setting up a market coupling system which is fully coherent with the system created in the CACM Regulation;
6. that the objective should be to analyse, design and implement the most appropriate day-ahead market coupling mechanism (or market splitting where more appropriate) between the six countries of the WB6, as well as the market integration through the flow-based and/or NTC-based market coupling with existing initiatives for coupling in neighbouring EU countries (e.g. 4MMC, Price Coupling Region (PCR), etc.);
7. that each signatory should facilitate the coupling of bidding zones for which they are responsible with any other bidding zone that requests to do so and which accomplished all necessary preconditions for doing so and is envisaged under a project in the framework of the Programme;
8. that the Programme should envisage a joint market coupling roadmap which foresees the step-by-step integration of all WB6 day-ahead markets, the coupling in the SEE Region in line with the Initiative to establish market coupling between the WB6 and

neighbouring EU countries, and the final coupling into the Multi-Regional Coupling (MRC);

9. that the signatories will make their best efforts to provide and use all needed human and technical resources at their disposal in order to reach the commonly expressed goal to implement a coupled day-ahead market, at least between the WB6 bidding zones, and at best coupled with the synchronously connected rest of the Energy Community, the EU's bidding zones, under the MRC;
10. that the coupling with the rest of the Energy Community, including the EU through the MRC, should not be hindered by the WB6 coupling initiative;
11. to ensure the implementation of appropriate regulatory measures to support/enhance market liquidity on the day-ahead level;
12. to actively support the cooperation and communication with other relevant MRC initiatives and the implementation of flow-based, and for an intermediary period coordinated NTC-based, capacity calculation within the entire SEE region, with flow-based capacity calculation being a key element for the successful integration of the electricity markets, and supporting the implementation of Article 20(4) of the CACM Regulation;
13. that with respect to project costs:
 - all individual costs of each project participant (e.g.: own personnel and travel costs, costs for adaptation of its own IT system, costs for the data connection, etc.) should be borne by the project participant itself unless the contribution of the respective party is considered common costs, or direct or indirect financial support is provided by the Energy Community Secretariat or an international donor organisation,
 - sharing and reimbursement of costs considered common (e.g.: costs related to the Market Coupling Operator, Coordinated Capacity Calculator, Market Information Aggregator and Scheduled Exchange Calculator, if and where applicable) should be defined and agreed upon in separate agreements,
 - where applicable, efficiently incurred costs should be recognised by NRAs, provided that they are contributing to fostering market integration and security of supply; and
14. to report to the Energy Community Secretariat and the ENTSO-E about the implementation progress every two months.

Annex 2

Cross-border Balancing Cooperation

1. This part of the MoU details the objective of the analysis, design and implementation of a cross-border balancing cooperation between six countries of the so called WB6 with 31 December 2018 as a target date. Such cooperation and accompanying developments should support wider regional and European integration processes.

The signatories agree

2. on the establishment of a common cross-border balancing cooperation programme (further in this Annex: the Programme) in order to develop, implement and to start the daily operation of cross-border balancing cooperation that will ensure efficient market based balancing and settlement processes;
3. that the Programme should be governed by a Programme Steering Committee comprising participating TSOs and NRAs representatives
4. that the Programme will be composed of different Projects which are managed by project managers from the relevant institutions (e.g. TSOs, Ministries or NRAs, etc. depending of its scope) nominated by the Programme Steering Committee;
5. that the Programme objective should be to:
 - a. develop and adopt a coordinated integration path towards a regional balancing market with the implementation of regional imbalance netting as one of the key elements for cross-border balancing before 31 December 2016;
 - b. develop and implement cross-border balancing cooperation based on the integration path until 31 December 2018 that will ensure the most efficient balancing and settlement processes;
6. that the program will not by any means hinder already achieved agreements of WB6 TSOs within their control blocks (e.g. NOS BiH within SHB Control Block), but will promote further cooperation with neighbouring TSOs;
7. to provide and use all needed human and technical resources to implement cross-border balancing cooperation in line with the adopted integration path;
8. to ensure that the implemented cross-border balancing cooperation is open to relevant institutions (e.g. NRA, TSO, Ministries) from adjacent EU Member States;
9. to ensure that the MoU will not in any case prevent merging with other cross-border balancing cooperation initiatives involving EU Member States in line with the EU electricity market legislation;
10. that with respect to project costs:
 - all individual costs of each project participant (e.g. own personnel and travel costs, costs for adaptation of its own IT system, costs for the data connection, etc.) should be borne by the project participant itself unless the contribution of the respective party is considered common costs, or direct or indirect financial

support is provided by the Energy Community Secretariat or an international donor organisation,

- sharing and reimbursement of costs considered common should be defined and agreed upon in separate agreements,
- where applicable, efficiently incurred costs should be recognised by NRAs, provided that they are contributing to fostering market integration and security of supply; and

11. to report to the Energy Community Secretariat and the ENTSO-E about the implementation progress every two months.