EXPANDING CESEC INTO ELECTRICITY, RENEWABLE ENERGY AND ENERGY EFFICIENCY

Context
The enhanced regional cooperation and collective efforts achieved through Central and South Eastern Europe Gas Connectivity (CESEC) have delivered concrete results when it comes to gas. Thanks to it, the countries of Central and South-Eastern Europe have made important progress in their cooperation on natural gas issues and infrastructure development. Working together, they have boosted security of supply in an especially vulnerable region and have facilitated the development of a liquid and properly functioning natural gas market.

The CESEC process is now sufficiently mature to warrant broadening its mandate beyond gas to include other key areas such as: electricity trading and market coupling; the coordinated planning and development of power grid infrastructures; and renewable energy and energy efficiency. Broadening the scope of CESEC should not go at the expense of the successful ongoing cooperation in gas, but allow use its successful cooperation model for other fields of energy policy where EU and Energy Community need to cooperate more closely.

Electricity trading and market coupling
With the introduction of market coupling in almost all EU regions but the South-East, this region is now lagging behind. The absence of cross-border trade and liquid electricity markets constitutes a severe obstacle to attracting investments in the electricity sector, with negative consequences for the region's economy.

Two separate processes to develop electricity trading and market coupling in South-Eastern Europe have been launched lately. In the European Union, Bulgaria, Greece, Croatia and
Romania are working on developing cross-border trade via implementation of the CACM Regulation. Within the Energy Community (EnC) the "Western Balkans 6" (WB6) partners have agreed on a *Roadmap* to develop electricity trading in their region\(^1\).

However, there is a clear need for a single "South-Eastern Europe" market coupling region encompassing EU and Western Balkans 6 partners. This is a physical requirement, as many EU interconnectors in the South East run through Energy Community Contracting Parties. In addition, two isolated "mini-regions" in the South East would not reach the critical mass of liquidity necessary for market coupling\(^2\).

The European Union has therefore started to moderate the process of linking the EU and Energy Community coupling projects (via the "SEE Coupling Initiative"). The aim is to align both projects from the very beginning, to avoid duplication and incompatible processes on both sides, and to start work on specific pilot projects. Based on the Western Balkan 6 Roadmap, a draft Memorandum of Understanding with an Action Plan is currently being developed at technical level between the EU, EU Member States' TSOs, Power Exchanges, Regulators and the Energy Community.\(^3\) The Western Balkan 6 Initiative does not cover the whole CESEC region and a differentiated approach between the Energy Community Contracting Parties and the CESEC counties, notably EU Member States must be avoided. Thus, the role of CESEC regarding electricity would need to be developed hand in hand and complement the work of Energy Community and Western Balkan 6 in this area which should continue and work together with the Energy Community to develop a single harmonised approach.

The scope of "CESEC electricity" would need to be enlarged to Montenegro\(^4\) to include all Western Balkan 6 partners.

**Development of power grid infrastructures**

In taking up the challenge of developing the power market in the region, greater urgency should be given to introducing new transmission lines, including interconnectors, and modernising existing ones. The large number of electricity Projects of Common Interest (PCIs) in the CESEC countries highlights the pressing need for additional infrastructure in the region to plug the gaps in the regional networks – namely a reinforced electricity grid and an appropriate balancing system to integrate electricity from renewable energy. These PCIs should be carried out swiftly but are being held up by delays, inter alia with financing and permitting.

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\(^1\) In the framework of the Western Balkan Initiative (or "Berlin Process"), the Western Balkan B6 partners have committed to implementing measures to enhance cross-border trade. Successful implementation is a condition for obtaining financial support on infrastructure projects from the EU.

\(^2\) TSOs have already proposed a dedicated South-East "Capacity Calculation Region" covering EU and EnC countries, stemming from CACM implementation.

\(^3\) Involving the European Commission's DG for Energy, the Energy Community Secretariat and ENTSO-E.

\(^4\) Bosnia and Herzegovina, already *de facto* but not formally part of CESEC (MoU not yet signed), would also be in "electricity CESEC".
Enhanced regional cooperation in the electricity sector in the CESEC region would also encompass advanced, coordinated electricity infrastructure implementation and planning; this would also involve coordinating grid development in EU Member States and Energy Community countries.

**Renewable energy and energy efficiency**

The countries of the CESEC region stand to gain from concerted efforts to exploit fully the renewable energy and energy efficiency potential that the region has to offer. The benefits of a coordinated regional approach to renewable energy and energy efficiency issues would include: pursuing cooperation on developing cross-border electricity markets; engaging in closer cooperation on the deployment of renewable energy, particularly where cross-border cooperation is vital in enabling technologies to achieve their full potential, promoting the use of innovative financial instruments in the region, particularly making the maximum use of the EFSI Instrument; and drawing on the relevant experience and best practices, particularly on energy efficiency, established in other regions.

By way of example, the Baltic Energy Market Interconnection Plan (BEMIP) Memorandum of Understanding, covering a broad range of energy issues, has led to the creation of a working group on renewable energy. The BEMIP countries recently undertook to strengthen regional cooperation on renewable energy policies, on developing renewable energy markets and on investment support. They agreed further to continue exploring options for the deployment of specific technologies and practical cooperation among stakeholders.

**Conclusion**

With the above considerations in mind, it is proposed that the High-Level Group agrees that:

- two working groups will be established with the task of
  
  (i) in very close collaboration with the Energy Community, preparing a Memorandum of Understanding and an Action Plan identifying possible concrete actions and timelines to promote a liquid and competitive electricity market in the region, including a concrete proposal how to link the CESEC regional cooperation with the work done in the framework of the Energy Community, and ("Western Balkan 6 Initiative") and in "CACM"-implementation on the EU side, and
  
  (ii) preparing a Memorandum of Understanding and an Action Plan on expanding CESEC to renewable energy and energy efficiency, with the aim of identifying possible specific actions to exploit the potential for cost effective and sustainable investments
in the region promoting job creation and examining possible relevant areas for cooperation;

- the Working groups are requested to deliver these draft Memoranda of Understanding and Action Plans for discussion and adoption by the CESEC High-Level Group in 2017.