

Contents

1	Overview of Regional Integration in the 8th Region	1
2	Progress in the Elements of the Regional Action Plan and Beyond	3
2.1	Capacity Calculation	3
2.2	Forward Markets	4
2.3	Organised Markets and Market Coupling at Day-Ahead	5
2.4	Intraday Market	6
2.5	Cross-border Balancing	7

1 Overview of Regional Integration in the 8th Region

The 8th Region is characterised by **significant heterogeneity**. Structural challenges in some of the jurisdictions of the region relate to governance issues like a lack of independence of regulators, non-existence of power exchanges, or ineffective unbundling of TSOs. Effective market opening is hindered by a number of legislative provisions in some countries, in particular related to public supply, single buyer models, regulated energy prices, non-market based procurement and trade of electricity and monopoly positions in electricity generation and supply. At the same time, additional commitment from various actors in the region is deemed to be a necessary precondition for further improvements.

Progress in overcoming the existing legal and structural problems has been made in the period of Q2/2015-Q3/2015 by transposition of the electricity acts of **Third Package** by Albania and good progress made in this direction by Montenegro and Ukraine. Together with Serbia, who transposed the Third Package already in December 2014, development of secondary legislation enabling proper market functioning will now be essential.

High level political commitment to

- establish organised electricity markets (including power exchange functionalities);
- introduce market based balancing; and
- ensure coverage of all Western Balkan countries by SEE CAO for forward capacity allocations

has been expressed by the August 2015 at the Vienna summit of the so-called **Western Balkan 6 Initiative** with related progress to be realised until the July 2016 summit.

A central element for promoting the creation of a regional market, together with the final prospect of forming part of the Internal Energy Market in a consecutive step, is the so-called *Regional Action Plan for Wholesale Market Opening in South East Europe* (SEE RAP). The SEE RAP has been jointly developed by the Energy Community Regulatory Board and ENTSO-E Regional Group SEE and received support of the Ministerial Council and Permanent High Level Group of the Energy Community. Ukraine and Moldova are not a part of the SEE Regional Action Plan due to the limited amount of synchronous interconnection capacity with the other bidding zones. The SEE RAP has been designed in line with the elements of the European Electricity Target Model, but also faced delay in its implementation.

The Table below provides an overview of the state of play in the elements of the SEE RAP:

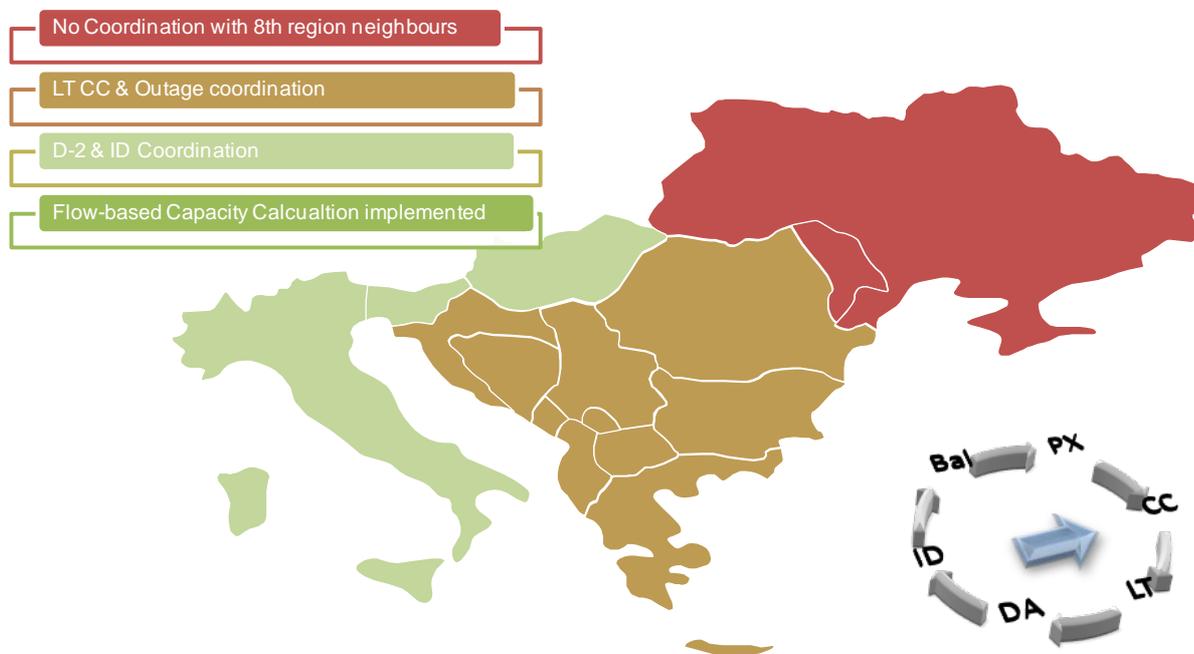
<u>Activity</u>	<u>Target Date</u>	<u>State of Play</u>
Capacity calculation		
Revise and enhance a common grid model (CGM) for the SEE region	Q4 2011	
Harmonize methodologies/ procedures for capacity calculation for yearly / monthly / day ahead time horizons	Q4 2014	
Forward markets		
Coordinated bilateral explicit auctions implemented on all borders within the SEE region	Q2 2015	
Centralized multilateral coordinated (NTC-based in a first step, flow based remaining the final concept) auctions on relevant SEE borders (auctions performed by CAO as the service provider, i.e. single point of contact within SEE region)	Q4 2014	
Multilateral coordinated auctions on all borders within the SEE region (regional one-stop-shop and, finally/or, EU solution)	Q3 2016	
Day-Ahead market		
Establishment of power exchanges in several SEE countries or contracting services from the existing PX	31/12/14	
Bilateral/ trilateral market coupling in the SEE region (nucleus approach or different regional initiatives) – tight volume coupling as a possible interim step	Q3 2015	
Implementation of price based market coupling (EU target model) in the entire SEE region	Q1 2017	
Pan-European market coupling including the SEE region operational	Q2 2018	
Intraday market		
Survey on existing intraday capacity markets in the SEE region	Q2 2011	
Establishment of cross-border intraday capacity FCFS solution on several borders in SEE	Q1 2013	
Establishment of cross-border intraday capacity market on several borders in SEE	Q1 2015	
Establishment of harmonized regional solution for intraday capacity allocation	Q2 2018	
Pan-European intraday solution (continuous trading) including the SEE region operational	Q2 2020	

Fully implemented
Partly implemented
Not implemented

2 Progress in the Elements of the Regional Action Plan and Beyond

2.1 Capacity Calculation

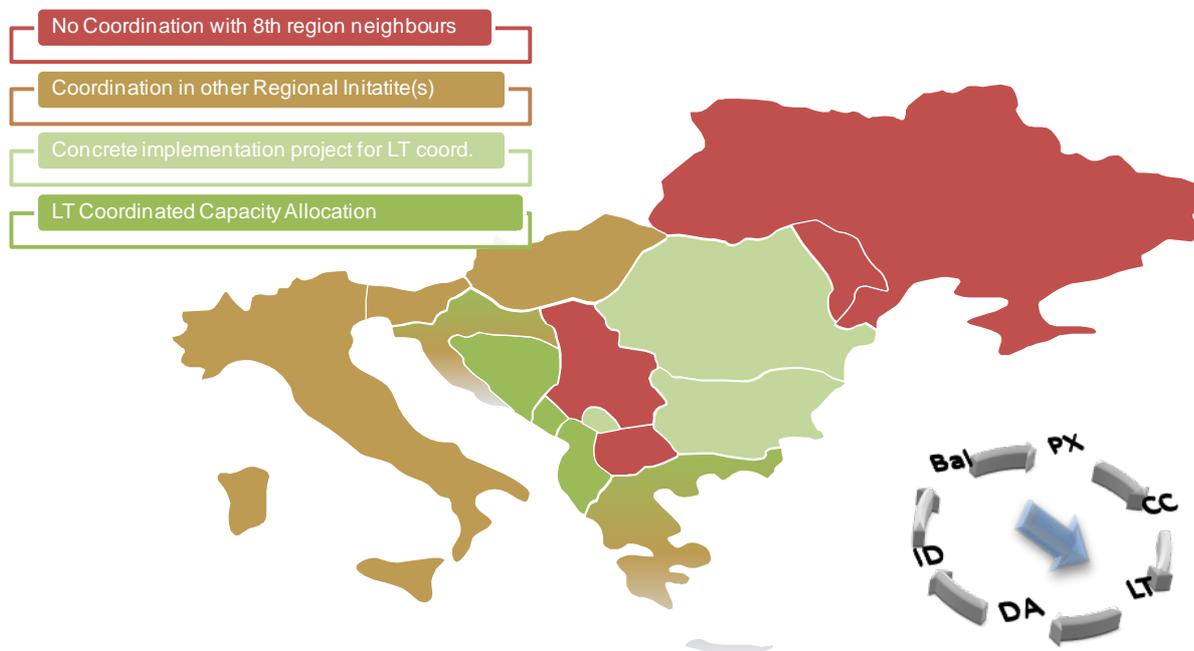
The 8th Region – Progress Map – Coordinated Capacity Calculation



With regard to capacity calculation, the SEE region's TSOs are already running a coordinated capacity calculation process based on a rotational sharing of model merging responsibility. With the adoption of the [CACM Regulation](#) on 24 July 2015 in the European Union, a challenge with regard to the definition of the so-called Capacity Calculation Regions (CCR) arises. The factually existing SEE CCR for forward capacities will have to be acknowledged and a new D-2 process based on this region will have to be established in order to fulfil the Code's requirements, even though the majority of jurisdictions of the region does not fall under immediate applicability of the CACM Regulation. Consequently, this is important to allow the EU Member State TSOs to follow their obligations in a reasonable manner with its interconnected partners. The definition of the CCRs and the processes attached to it show that the discrepancies in legal framework of the Energy Community between the EU Member States and the other Parties will have to be bridged by early implementation on the one hand and the timely inclusion of relevant provision into the Energy Community acquis on the other hand.

2.2 Forward Markets

The 8th Region – Progress Map – Long-Term Capacity Allocation



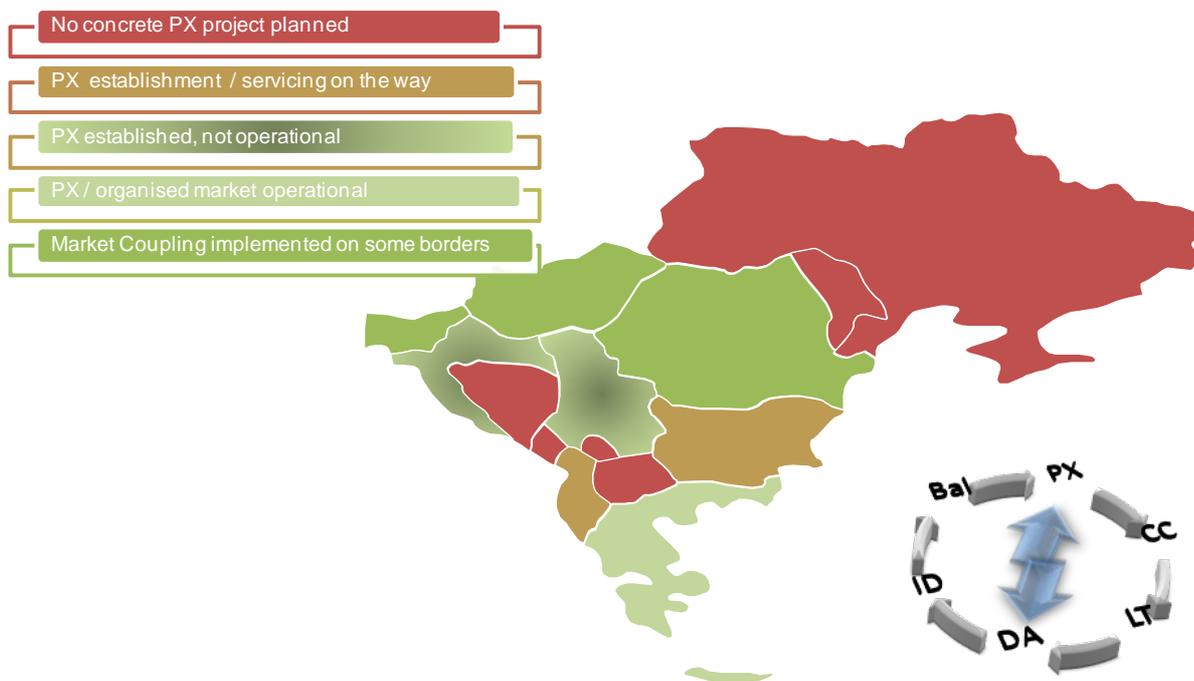
The coordinated allocation of long-term cross-zonal transmission capacities is one of the cornerstones of early stage market integration. In Southeast Europe, the Coordinated Auction Office in Southeast Europe (SEECAO) has finally taken up its operation and is continuously growing with regard to the borders it services. In the end of 2014, the first products were auctioned for the borders between Bosnia and Herzegovina, Croatia and Montenegro. In a next stage, Albania, Greece, and Turkey have started allocation for the majority of their borders in the last half year, allowing for a coordinated approach leading to reduced transaction costs, better competition, more transparent pricing and lower system cost. The system operators of Kosovo* and Serbia are expected to allocate their long-term cross-border capacities through SEECAO by the end of 2015 or the beginning of 2016, respectively. The system operators of FYR of Macedonia, Hungary¹ and Bulgaria showed some reluctance towards regional cooperation in this regard.

Two elements will shape the future development of the SEECAO. First, the outcomes of discussions with the system operators of Serbia, Romania, Hungary and Bulgaria will determine the establishment of comprehensively coordinated allocation of forward capacity. Second, the process for the creation of Harmonised Auction Rules (HAR) for all auction offices in Europe which was initiated by ENTSO-E will lead to the further integration and standardisation of forward capacity allocation in the entire Energy Community. In the mid-term future, with the application of the Forward Capacity Allocation Network Code, a Single Platform will replace interim solutions after a merger of all remaining auction offices.

¹ Hungary is explicitly listed by Ministerial Council Decision 2008/02/MC-EnC as member of the 8th Region. The exemption granted to Hungary (and members of the 7 EU Regions in general) by chapter 3.2 of the Annex to Regulation 714/2009 cannot be interpreted to also apply to the SR-HU border.

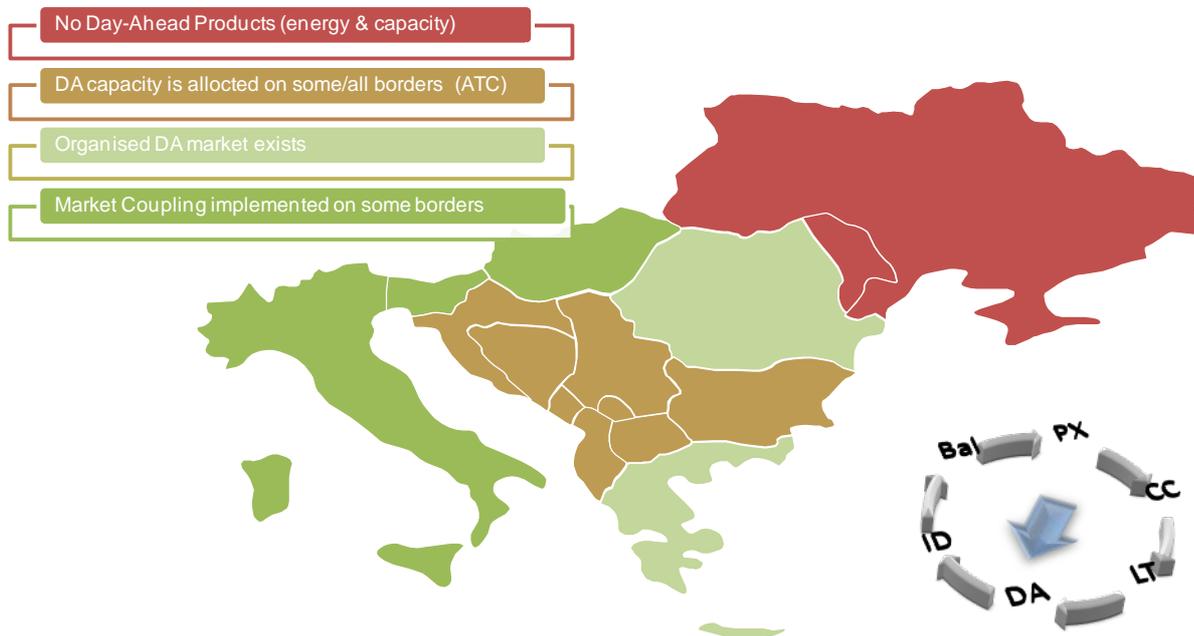
2.3 Organised Markets and Market Coupling at Day-Ahead

The 8th Region – Progress Map – PX establishment & Market Coupling



The establishment and existence of operational organised market structures are prerequisites for the SEE RAP Targets for the day-ahead timeframe, implying the nomination and/or establishment of electricity market operators (i.e. power exchanges) in one or the other way. This process is foreseen in the CACM Regulation which entered into force in the EU on 14 August 2015. Putting in place harmonised cross border markets in timeframes closer to real-time (spot markets) will lead to a more efficient matching of demand and supply, promote the long-term sustainability of the industry and consequently benefit customers. For that it is important to avoid the creation of barriers to the establishment of a Single European Price Coupling. The rules contained in the CACM Regulation will have to provide the basis for the implementation of a single energy market across the Energy Community spanning the EU and the Energy Community’s Contracting Parties. Its main provisions foresee the establishment of implicit trading mechanisms (market coupling) and more efficient inter-TSO processes, allowing for the optimisation of traders’ and suppliers’ portfolios with reduced uncertainties and electricity wholesale market price convergence on the entire continent. Any delay in implementing its provisions due to a potentially staggered inclusion into the Energy Community acquis must be avoided. Positive developments with regard to the establishment of organised market and the related governance structures where they have not existed yet come mainly from Croatia (CROPEX) and Serbia (SEPEX). In both countries, power exchanges were established. They are based on cooperation with different EU partner exchanges and communicate go-live of day-ahead operation in Q4/2015. The establishment of intraday markets are planned for a later stage. Another initiative was launched in Albania, where structures for the creation of a power exchange in cooperation an EU partner are about to be realised and the development of secondary legislation allowing for its implementation was kicked off.

The 8th Region – Progress Map – Day-Ahead Market Development



2.4 Intraday Market

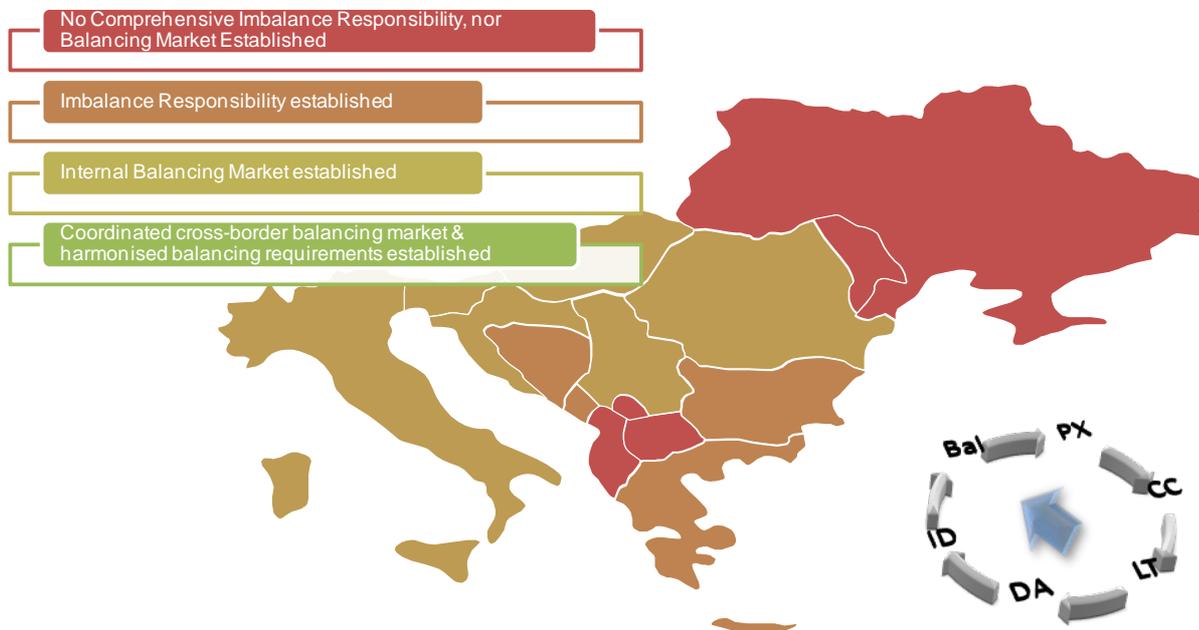
The 8th Region – Progress Map - Intraday



Cross-Border Intraday Trading is largely of bilateral nature and based on a first-come-first-serve allocation principle. It is possible in the SEE Regions' interconnectors between the bidding zones operated by the following TSOs: CGES, HOPS, EMS/KOSTT, NOSBIH.

2.5 Cross-border Balancing

The 8th Region – Progress Map - Balancing



The development of the electricity balancing market in the SEE Region is in an early phase, characterised by the nationally-oriented approach to balancing in the Energy Community Contracting Parties, but also in some EU Member States. In the Contracting Parties, the implementation of the 2nd Energy Package requirements for market-based, non-discriminatory and transparent system balancing and imbalance settlement so far has been the exception rather than the rule. The obligation for establishing well-functioning balancing markets and their regional integration is strengthened by the 3rd Package which was to be implemented in the Contracting Parties as of 1 January 2015. At the drafting of this report, Albania and Serbia have adopted a new electricity law based on the 3rd package. Besides that, negotiations between the TSOs of the Control Blocks comprising the SEE Region are ongoing regarding the common procurement and sharing of balancing reserves.