

**Memorandum of Understanding complementing the
Central and South-Eastern European Connectivity
(CESEC) initiative with a Joint approach on electricity
market, energy efficiency and renewable development**

Sides:

the European Union

the Republic of Austria

the Republic of Bulgaria

the Republic of Croatia

the Hellenic Republic

Hungary

the Italian Republic

Romania

the Slovak Republic

the Republic of Slovenia

the Republic of Albania

Bosnia and Herzegovina

Kosovo*

the former Yugoslav Republic of Macedonia

Montenegro

the Republic of Moldova

the Republic of Serbia and

Ukraine

**This designation is without prejudice to positions on status and is in line with UNSCR 1244/1999 and the ICJ Opinion on the Kosovo declaration of independence.*

HAVING REGARD TO:

The Memorandum of Understanding on a Joint approach to address the natural gas diversification and security of supply challenges as part of the Central and South-Eastern European Gas Connectivity (CESEC) initiative signed on 10 July 2015 by the European Union, nine of its Member States¹ and six Energy Community Contracting Parties;

The conclusions of the CESEC High Level Group of 9 September 2016 expressing that an expansion of the CESEC scope beyond natural gas could be beneficial for the regional energy system to achieve efficiently and timely the objectives of the Union's energy policy and to address the main challenges faced in the energy sector by the EU Member States in the region and Energy Community Contracting Parties;

The conclusions of the European Council of October 2009, which supported an EU objective to reduce greenhouse gas emissions by 80-95 % by 2050 compared with 1990 levels, in the context of reductions by developed countries as a group deemed necessary by the Intergovernmental Panel on Climate Change;

The conclusions of the European Council of 24 October 2014, which set targets for 2030 of at least a 40 % reduction in greenhouse gas emissions, an at least 27 % share for renewable energy and an EU target of at least 27 % for improving in energy efficiency, to be reviewed by 2020 having in mind an EU level of 30%;

The five key interlinked and mutually reinforcing dimensions of the strategy on the Energy Union presented by the European Commission on 25 February 2015 and the governance framework for the Energy Union;

The provisions of the Treaty Establishing the Energy Community and the governance framework for the Energy Community;

The need to ensure closer integration of the European Union and Energy Community energy markets, as also envisaged by the Treaty Establishing the Energy Community;

The three established objectives — security, sustainability and competitiveness — of the Union's energy policy and the ambition to create an internal energy market in which no Member State remains isolated from the European gas and electricity networks, ensuring that energy flows freely across the European Union, without technical or regulatory barriers;

The relevant regulatory framework concerning common rules for the internal market in electricity and gas, including network codes as well as the Guidelines for Trans-European energy infrastructure;

The established legal framework for the Union's energy efficiency policy, which aims at increasing efficiency at all stages of the energy chain from generation to final consumption and the relevant legislation

The established legal framework for the Union's renewable energy policy, which aims at increasing the production of renewable energy, lowering dependence on imported fossil fuels and making its energy production more sustainable.

¹ The Republic of Austria, the Republic of Bulgaria, the Republic of Croatia, the Hellenic Republic, Hungary, the Italian Republic, Romania, the Slovak Republic and the Republic of Slovenia.

THE SIDES AGREE: ·

That it is useful and necessary to complement their regional cooperation by including electricity networks, markets and supply security, energy efficiency as well as renewable energy.

To make their best endeavors to achieve a regionally optimal situation by ensuring a stable regulatory framework and by implementing joint measures to integrate the CESEC markets into the internal energy market. This will improve the liquidity and resilience of the energy system and will enable the full use of the region's energy efficiency and renewable potential.

I. The extended scope of responsibilities of the CESEC Initiative

That the CESEC Action Plan in the areas of electricity, renewables and energy efficiency should define specific roadmaps, measures, projects and studies necessary to achieve, effectively and in good time the common objectives as follows:

(1) Electricity markets, infrastructure and security of electricity supply

Electricity markets

- The development of a larger, more liquid and competitive regional energy market in the South East Europe region to ensure security of electricity supply at least cost for consumers.
- The coordination of capacity calculation and the development of regional power trading through pilot market coupling projects to overcome the limits of small, isolated markets. These pilot projects are based on the Union's Third Energy package, EU Rules on trading as set out in the relevant Network Codes, the proposed South East Europe Capacity Calculation Region and the Memorandum of Understanding on Regional Electricity Market Development signed on 27 April 2016 in Vienna. These pilot projects are listed in the Action Plan annexed to this Memorandum of Understanding.
- The importance of regional power trading to ensure that electricity infrastructure will deliver the full potential of cost savings.
- The transparency in the regulatory framework to build investor and public confidence and remove barriers so that utilities are managed effectively and efficiently.
- The Sides are expected and determined to assist Ukraine and the Republic of Moldova in the integration of their electricity markets into the European electricity market.

Electricity infrastructure

- The need for investments in electricity infrastructure to achieve the objectives of the Union's energy policy in terms of regional market integration and integration of renewable energy sources.
- The need to establish fully interconnected and intermodal electricity networks on the basis of Projects of Common Interest (PCIs), Projects of Energy Community Interest

(PEICs) and Projects of Mutual Interest (PMIs). The regional infrastructure network should be developed in line with the establishment of regional power trading and should maximize the region's growing renewable energy production and contribute to the smartening of the grid also in view of cross-sectoral integration in network industries.

- The need to accelerate the joint realization of a limited number of electricity infrastructure projects which bring the highest benefits for the CESEC region, notably in terms of improving the functioning of the electricity markets, enhancing the cross-border transmission capacity, the integration of renewable electricity, network interoperability as well as system flexibility.
- The need to take all measures at all levels to enable the timely and resource-efficient implementation, including by means of the available instruments and funding for Contracting Parties and European Member States, of the following priority projects:

1. Enhancement of the cross-border transmission capacity between Bulgaria, Romania and Greece and comprising the following 2 project clusters:

1.a) Interconnection Bulgaria-Greece and internal reinforcements in Bulgaria (a cluster of 4 PEICs)

1.b) Reinforcement of the interconnection between Bulgaria and Romania (“Black Sea Corridor”) comprising 2 internal reinforcements projects in Romania and 1 in Bulgaria (3 PEICs)

2. Enhancement of the transmission capacity along the East-West corridor in South-East Europe from Italy to Romania via the Balkans and comprising the following 3 project clusters

2a) Italy — Montenegro Interconnector

2b) Transbalkan corridor (a cluster of 5 PEICs)

2c) Interconnection Romania — Serbia (“Mid Continental East Corridor”) and internal reinforcements in Romania (4 projects)

3. Electricity Interconnections Hungary — Slovakia

3.1. Interconnection between Gabčíkovo (SK) — Gönyű (HU) and Veľký Ďur (SK)

3.2. Interconnection between Sajóvánka (HU) and Rimavská Sobota (SK)

4. Infrastructures supporting the integration of Ukraine and Moldova power systems into European electricity market

4.1 The OHL rehabilitation Mukacheve (Ukraine) – V.Kapusany (Slovakia); Restoration and strengthening of existing cross-border line Mukacheve (UA) – V.Kapusany (SK); technology type - cross-border line (AC, overhead line) (PMI)

4.2 Interconnection between Isaccea (RO) and Vulcanesti (MD), back to back station in Vulcanesti (MD), OHL 400kV Vulcanesti (MD) - Chisinau (MD) (PMI)

5. Interconnection Croatia — Hungary — Slovenia between Žerjavinec /Hévíz and Cirkovce

6. Slovenia – Croatia Smart Grids Project

Security of electricity supply

- The need to enhance security of electricity supply, including cyber-security, in the region, notably by reinforced co-operation on how to prevent and manage crisis situations.
- The need for the maximum preparedness for electricity crisis situations and an effective management of such situations should they occur, based on full respect of market rules and effective cross-border co-operation.
- The need to duly and timely implement the relevant network codes and guidelines in this respect, which aim to strictly limit the introduction of 'export bans' as a means to cope with electricity crisis situations, call for a stronger co-operation between the Transmission System Operators and the drawing up of 'system defense plans'.
- The need to share information and best practice in this context.

(2) Renewable energy

- The need to take all appropriate measures, in accordance with their renewable energy action plans, in view of achieving the relevant binding targets and sectorial targets for transport, as set out in Directive 2009/28/EC and, where relevant, by Decision 2012/04/MC-Energy Community, and in this context, to exchange information and best practices.
- The need to work together towards contributing to the binding EU-level renewable energy target of at least 27 % share by 2030 and any post-2020 commitment of Energy Community.
- The need to discuss the potential and possible measures for an improved cooperation between the Member States in the region and the Energy Community Contracting Parties.
- The added value of increased renewable energy deployment in the field of energy security as well as sustainable and cost-effective energy system. The need for future electricity grid infrastructure development, allowing for an effective integration of renewable energy, including storage.
- The Sides therefore intend to focus on promoting renewable energy and underline the potential of renewable energy deployment in the region, also with a view to reduce import dependency, improve resilience to supply shocks, and reduce energy poverty especially in the heating and cooling sector and through specific action at building level, in coordination with energy efficiency.

- The importance of tackling renewable energy and energy efficiency together, especially at decentralized level.
- The need to exchange information and best practices and cooperate to increase the contribution of renewable energy, including specific support instruments as well as reducing non-financial barriers for deploying renewable energies.
- To share information and best practices to enhance and promote the use of financial instruments, with a particular view to lowering capital costs of renewable energy projects, improving the effectiveness of public funds and its capability to attract additional private funding.

(3) Energy efficiency

- The importance of energy efficiency as a tool to increase security of energy supply, enable the energy transition towards the full decarbonisation of the economy by 2050 and reduce greenhouse gases emissions, while promoting growth, jobs investment and tackling energy poverty which constitutes a major challenge in the CESEC region.
- The need to work together to increase energy efficiency at all stages of the energy chain from generation to final consumption. This will help to achieve energy efficiency objectives as defined in the Union's legislation and in the Energy Community legislation, in the 2020 and 2030 energy and climate strategies and in the Energy Union Strategy.
- The need to share information, experience and best practices on — and to cooperate on measures that aim at — improving energy efficiency. As regards financial issues, the cooperation should in particular focus on:
 - The more effective use of public funds such as EU funds, including those available for the Energy Community Contracting Parties, to trigger additional private financing for energy efficiency and sustainable energy investments, especially in buildings, with a particular view of implementing the legislation and support the most vulnerable consumers;
 - The use of Project Development Assistance in both the EU Member States and the Energy Community Contracting Parties and aggregation mechanisms to support the development of investment project pipelines;
- As regards horizontal issues, the cooperation should in particular focus on:
 - Benchmarking activities on energy efficiency practices in specific sectors (e.g. energy efficiency measures to address energy poverty) in order to identify and promote good practices and foster cooperation actions.

II. The Action Plan in the areas of electricity, renewables and energy efficiency: implementation and monitoring

The Sides developed an Action Plan in the areas of electricity, renewables and energy efficiency, as presented in the Annex II of this Memorandum of Understanding.

The close monitoring by the European Commission and by the Secretariat of the Energy Community and the Agency for the Cooperation of Energy Regulators (ACER) of the Action Plan annexed to this Memorandum of Understanding in the areas of electricity, renewables and energy efficiency is crucial to the success of the CESEC process. The European Commission, ACER or the Energy Community Secretariat are invited as facilitators to any regulatory issue of a cross-border nature.

The CESEC Action Plan in the areas of electricity, renewables and energy efficiency should be regularly reviewed and, when necessary, take into account the most recent developments in the energy sector and include new measures and projects needed to address emerging challenges.

III. Nature of the Memorandum of Understanding

The present document complements the Memorandum of Understanding on a Joint approach to address the natural gas diversification and security of supply challenges as part of the Central and South-Eastern European Connectivity (CESEC) initiative of 10 July 2015.

It records a political intent alone and does not establish any new legal commitments under domestic or international law for the Sides and does not replace or modify any existing legal obligations with regard to the Sides and any third persons.

Signed at Bucharest on 28 September 2017 in English and one original copy

For the European Union

For the Republic of Bulgaria

For the Republic of Austria

For the Republic of Croatia

For the Hellenic Republic

For Hungary

For the Italian Republic

For Romania

For the Slovak Republic

For the Republic of Slovenia

For the Republic of Albania

For Bosnia and Herzegovina

For Kosovo*

For the former Yugoslav Republic of Macedonia

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