

Roadmap for a regional electricity market for the Western Balkan 6

Electricity trading across borders is a key element of EU energy policy. Three regulatory packages have opened up formerly isolated EU markets and introduced cross-border trading through liquid spot markets, with a view to removing the barriers to an internal electricity market covering the entire EU. As Contracting Parties to the Energy Community Treaty, the Western Balkan six countries ('WB6 countries') have followed this development, including full implementation of the Third Energy Package by 1 January 2015.

WB6 countries committed in Vienna in 2015 to implement a list of energy legal and regulatory measures, which are necessary to establish market-based electricity trading. These commitments remain valid. They include developing spot trading and regional market coupling, regional balancing and regional capacity allocation. They also include the removal of existing legal and regulatory barriers by, inter alia, full implementation of the Third Energy Package and additional market reforms.

The recently signed Memorandum of Understanding of the WB6 on regional electricity market development ("MoU") constitutes the basis for further regional market integration; it is a positive signal in the right direction. A central element is now how to continue national reform and regional market integration efforts, and to allow integration of the SEE markets into the pan-European electricity market.

However, the majority of the WB6 countries are still lagging behind in establishing organised market places as a precondition for efficient electricity trading. Cross-border electricity trade is below the region's potential, reflecting the high level of market fragmentation.

The potential benefits of liquid spot markets for the WB6 countries are significant. Many of the WB6 countries do not have the critical size to develop liquid markets in isolation. Liquid cross-border markets will lead to important cost savings for SEE energy consumers through more competition and more effective use of existing generation and transmission infrastructure in the region. This would also attract more investments.

Regional power trading is also a pre-condition to organise electricity markets in a more environmentally-friendly manner. Aggregating generation and demand over larger trading regions will become a key condition for integrating energy from water, wind and sun. Expanding renewables in small isolated markets would require considerable investment into backup generation, which would further increase costs for customers. All of this market integration will also enhance security of supply.

Unbundled and certified transmission system operators and a regionally coordinated capacity calculator are part of a functioning regional trading system. Not all countries have implemented the necessary institutional changes yet.

Since the WB6 region is physically closely linked with neighbouring EU Member States, it is crucial to develop an *integrated* SEE trading region, including WB6 and EU countries in order to overcome the limits of the small size of isolated national markets. The WB6 countries will support integration with the neighbouring EU Member States which should take place in parallel to the implementation of the present Roadmap **but not replacing it**. In this respect, they take note of and will participate in the emerging "SEE Coupling Initiative". National market reforms will also have to be executed in EU MSs neighbouring the WB6 countries to allow for successful implementation of market coupling in the SEE Region (to be followed up by EC). This roadmap clarifies content, addressees and implementation steps for

implementing the soft measures relating to the development of spot trading and market coupling in the WB6 countries. It is an additional tool to enable implementation of those soft measures which are particularly important to prepare WB6 countries for integration with the EU markets. This roadmap neither replaces nor extends the Vienna Summit conclusions, which remain as commitments. The clearer description in this roadmap of the conditions to be fulfilled by WB6 countries may reduce the risk of further delays to access EU funds for energy infrastructure.

By the signing up to this Roadmap, the WB6 countries reiterate their commitments made under the Energy Community Treaty and at the WB6 Summit in Vienna last year and ask the Secretariat of the Energy Community to help them coordinating and implementing the reform measures to be taken for that purpose and to monitor the implementation.

The following four key conditions need to be fulfilled to comply with the obligation to implement electricity spot trading:

- 1. Adhere to a power exchange**
- 2. Develop trading/market coupling with one or more neighbours**
- 3. Participate in MoU and SEE Coupling Initiatives and implement agreed measures**
- 4. Ensure, and if necessary increase liquidity and monitor the progress with indicators**

1. Each WB6 country must adhere to a power exchange

Efficient trading requires power exchanges. The delay in the establishment of one or more SEE power exchanges for spot trading is a main reason for the missing progress in SEE (see also "soft measures" II 1).

Procedure/elements:

- Submitting draft proposal containing details on when to couple which markets by January 2017
- Submitting draft proposal for establishing a national power exchange or which power exchange shall service the respective national markets by January 2017.

2. Each WB6 country must develop trading/market coupling initiatives with one or more EU neighbours and/or amongst themselves

Implementation projects have proven to be crucial for the implementation of cross-border market coupling as they allow to identify technical and regulatory bottlenecks (see also "soft measures" II 1).

Procedure/elements:

- Develop implementation projects through the finalisation of the project implementation agreements foreseen in the WB6 MoU until November 2016
- Without delay, all TSOs need to join SEECAO
- Develop implementation projects with EU neighbours (SEE Coupling Initiative)
- Submit a plan for cross-border day-ahead market coupling projects by end 2016
- Start market coupling pilot project by July 2018

- Each TSO must allow KOSTT to be connected to ENTSO-E and allocate capacity in its interconnectors with neighbouring countries in accordance with a Connection Agreement signed with ENTSO-E.

3. Each WB6 country must participate in MoU and SEE Coupling Initiatives and implement agreed measures

Market Coupling must not be developed in isolation, but in close coordination with WB6 and EU neighbours who form one SEE trading region. Without participation in the relevant coordination effective development of a trading region is impossible.

Procedure/elements:

- Participate in work of MoU and SEE Coupling Initiative; implement agreed measures
- Start early implementation of key elements necessary for regional market coupling
- Take part in "CACM" implementation and all related stakeholder groups
- Ensure compatibility of new trading rules with EU regulatory framework.

4. Each WB6 country must ensure (and if necessary increase) liquidity and monitor progress with indicators

Energy trading requires removing regulatory barriers and appropriate regulatory and contractual arrangements which allow that sufficient volumes reach the market and new market participants can enter (see also "soft measures" II 1). Increased liquidity is a pre-condition for cross-border trading and vice versa. Progress should be measured with specific indicators.

Procedure/elements:

- Develop a plan describing national actions to ensure and, if necessary increase liquidity
- Measure liquidity, at least using the following specific benchmarks:
 - Volumes traded
 - Day-ahead market resilience (market robustness)
 - Churn rate (the total trade volume divided by the physically traded volume). A higher churn rate means a higher liquidity.
 - Bid-ask spread (difference between the best buying and selling rates - the smaller the spread, the higher the liquidity)

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