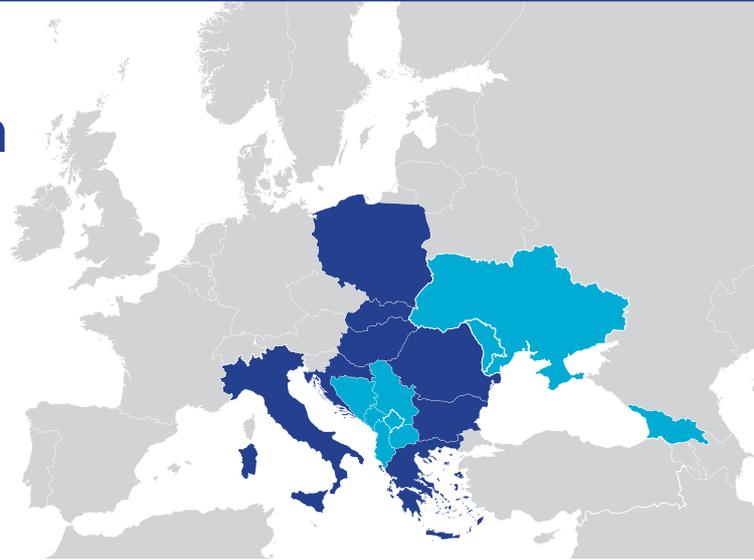


## News across the Energy Community Region



ISSUE 2 | OCTOBER 2017

- 02 Feature:  
Will Ukraine's New Electricity Market Law Create Genuine Competition on the Market?
- 04 Guest Corner:  
Making the Energy Transition a European Success
- 06 Settlement of Probe into Gazprom's Anti-competitive Practices Risks Being a Missed Opportunity for Energy Community Contracting Parties as well as the Union
- 07 Bulgarian Electricity Export Ban Results in Estimated Welfare Loss of EUR 30 Million
- 08 Gas Action 2020 Targets Pan-European Gas Market Integration
- 09 Success of Ungheni-Chisinau Gas Pipeline Hinges on Functioning Gas Market
- 10 Ukraine's Gas Sector Reform Implementation Plan 2.0 (2017-2019)
- 11 Energy Bytes,  
Upcoming Events

Dear reader,

In March 2017, we published the first issue of Energy Community Connected. A lot has happened between then and the launch of today's issue. Georgia became the ninth member of the Energy Community. Ukraine adopted the Electricity Market Law and made certain progress with respect to gas sector market reforms. Two government stakeholders – Italy, represented by the Minister of Economic Development, and Hungary, represented by the Secretary of State for Energy, signed the Western Balkan 6 Memorandum of Understanding on Regional Electricity Market Development.

Moreover, this year's Western Balkan Six Summit in Trieste as well as the Central and South-Eastern European Energy Connectivity (CESEC) Initiative ministerial in Bucharest called for the use of Title III of the Energy Community Treaty. Stakeholders on both sides of the border between the EU and Energy Community Contracting Parties, including governments, regulators, transmission system operators and traders, are starting to recognise the added benefit of using Title III to tackle specific regulatory gaps.

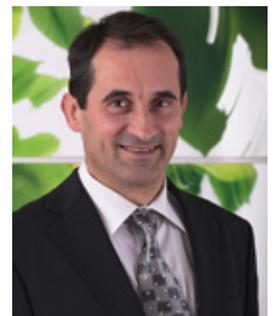
Title III of the Energy Community Treaty provides a mechanism for the adoption of rules governing a specific geographical area - nine Energy Community Contracting Parties (Albania, Bosnia and Herzegovina, Georgia, Kosovo\*, former Yugoslav Republic of Macedonia, Moldova, Montenegro, Serbia and Ukraine) and eight neighbouring EU Member States (Bulgaria, Croatia, Greece, Hungary, Italy, Poland, Romania and Slovakia). This geographical area is also the focus of the Energy Community Connected.

Under Title III, the Energy Community may establish a single mechanism for the cross-border transmission and/or transportation of network energy and take measures on the compatibility of market design, mutual recognition of licenses and measures fostering free establishment of network energy companies.

For example, Title III could be used to tackle the lack of harmonisation of licenses for trade and supply of electricity and gas, as highlighted in the conclusions of the 2017 CESEC ministerial. The lack of harmonisation has been a long-standing barrier to establishing liquid and competitive markets, as burdensome administrative procedures continue to deter companies from entering new markets. In the case of wholesale supply, licenses could be abolished all together as well as local seat requirements.

So there we have it – Title III - a tool to favour energy trade to be adopted under tried and trusted Energy Community institutional procedures at our fingertips. The Energy Community Secretariat will do its part to prepare a set of measures under Title III, including on electricity trade and licensing.

Janez Kopač,  
Director of  
the Energy  
Community  
Secretariat



## Will Ukraine's New Electricity Market Law Create Genuine Competition on the Market?



More than two years after the deadline, Ukraine finally adopted an Electricity Market Law, aimed at transposing the Third Energy Package in the country's national legislation and meeting its obligations under the Energy Community Treaty. After the adoption of the Law on the Natural Gas Market, this is the second major step in the reform of the country's inefficient energy sector.

The Secretariat's assessment of the law, which entered into force on 11 June 2017, concluded that it is in general in conformity with the Third Energy Package with the exception of the interim provisions that effectively delay the application of the majority of the law's provisions until 1 July 2019.

While the adoption of the law is a success in itself, it is its implementation that matters the most. The Secretariat, which has already helped in the delivery of all major pieces of secondary legislation and regulatory acts, continues to support and monitor the preparatory activities for the law's implementation and coordinate international donor assistance to Ukraine in the energy sector.

Under the new Electricity Market Law's ownership unbundling regime, Ukrenergo, the country's electricity transmission system operator, shall be corporatized within six and shall request certification within nine months after the law's entry into force. The company has initiated an internal organizational restructuring process. According

to the Electricity Market Law as well as the Certification Rules adopted by the country's national regulatory authority, Ukrenergo should become a "joint stock company". However, with the adoption of a new Charter of Ukrenergo, approved by the Resolution of the Ministry of Energy and Coal

### Ukrainian capacity allocation auction rules and their application for transit breach the acquis

In May 2017, Ukrenergo organised the first electronic auction for cross-border capacity allocation. However, the auction was not performed on a joint basis with neighbouring transmission system operators. Ukrenergo also started publishing and allocating capacity for electricity imports, however, since the ministry is still in charge of approving any imports of electricity to the country and the allocation of electricity depends on the country's single buyer model, the allocation of capacity for import failed to result in the commercial import of electricity. Ukraine continues to fall short of compliance with Regulation (EC) 714/2009, which was confirmed in the Opinion of the Advisory Committee in Case ECS-1/12 delivered on 25 September 2017. This case is scheduled for decision at the upcoming Energy Community Ministerial Council in December 2017.

Industry of Ukraine in September 2017, Ukrenergo was established as a "state enterprise (state unitary commercial entity) with a supervisory board. "Establishing only a state enterprise with a supervisory board does not amount to either corporatization of the transmission system operator, and it even prevents Ukraine from complying with its obligations related to unbundling and certification in line with the Energy Community acquis. The Secretariat is at the same time supporting the Ukrainian authorities in modifying a series of existing laws that pose obstacles to ownership unbundling and certification of the new transmission system operator.

In terms of market development, Ukrenergo and the Ukrainian market operator Energorynok are developing new market rules for the reorganisation of the wholesale market with the Secretariat's support. Both operators are now in the process of initiating procurement processes for the purchase of software tools that will implement the developed rules, making bilateral contract registration and operation of day-ahead, intraday and separate balancing markets operational by July 2019.

The new Electricity Market Law will also impact on the regime for the promotion of energy from renewable sources by introducing gradual balancing responsibility for large renewable energy producers. State support to renewable producers based on feed-in tariffs will be maintained. In July →

→ 2017, the Secretariat submitted to the Ukrainian authorities a new draft renewable energy law in compliance with the EU State aid guidelines on environment and energy 2014-2020. The new guidelines require support to renewable energy to be granted via a competitive process. A new template for power purchase agreements (PPAs) between Energorynok and renewables producer has recently been adopted. The template PPAs will now contain a dispute resolution clause directing the parties to resort to negotiations under the auspices of the Dispute Resolution and Negotiation Centre of the Energy Community Secretariat.

The new Electricity Market Law harmonises Ukrainian legislation with the Energy Community acquis and as such is expected to contribute to healthy competition conditions. However, this will happen only in July

## Independence and performance of Ukraine's energy regulator under review

The Secretariat has initiated an assessment of the legal framework and de facto performance of the Ukrainian national regulatory authority, NEURC, upon the regulator's invitation. The review comes in the context of a number of alleged legal and factual shortcomings hindering NEURC to fully use its independence and competences granted by the legislation.

Before legal reforms undertaken in late 2016, NEURC was exposed to severe de iure and de facto shortcomings with respect to Energy Community standards

for regulatory independence. Support by the Secretariat ensured lifting the legal framework for the regulator's operation to the highest standards in terms of independence and competences. However, compliance with the Third Energy Package must materialise beyond mere legal texts. The Secretariat's review will therefore also analyse NEURC's performance as a regulatory institution.

At the same time, the assessment will critically review the broader legal framework of Ukraine with a view to spot potential limitations for NEURC to use its independence and competences fully. The audit will build on cooperation with NEURC as well as Ukrainian and international stakeholders.

2019 and only if all foreseen steps for implementing the new Electricity Market Law and

establishing the competitive bilateral, day-ahead, intraday markets are taken on time.

## Ukraine's Bursthyn island to join inter transmission system operator compensation mechanism

The Energy Community Secretariat is working with Ukrainian electricity transmission system operator Ukrenergy and the European Network of Transmission System Operators for Electricity (ENTSO-E) on developing a roadmap for Bursthyn island<sup>1</sup> to join the inter transmission system operator compensation (ITC) mechanism.

The aim of the ITC mechanism is to compensate transmission system operators for the costs of hosting cross-border flows of electricity and for providing cross-border access to the interconnected system. Provisions from Commission Regulation (EU) No 838/2010 on guidelines on an inter-transmission system operator compensation mechanism and a common regulatory approach to transmission charging, incorporated in the Energy Community in 2013, set the legal basis and the requirement for Ukrenergy to join the ITC mechanism. The mechanism is administered by ENTSO-E.

The objective is to reach agreement on the roadmap by the end of 2017, while aiming at the inclusion of the Bursthyn island in the ITC mechanism during the second half of 2018. Once effective, any cross-border commercial flow between Ukraine and EU Member States will only be subject to potential congestion fees charged through the cross-border capacity allocation process.

Currently, on top of the congestion fee, market participants pay the so-called perimeter fee to the transmission system operators of the EU Member States whose electricity systems are connected to the Ukrainian Bursthyn island system and also an access fee to Ukrenergy. Application of any access fees to the cross-border flows on top of congestion creates artificial price differences between the markets and hinders the value of cross-border capacity, thus distorting price signals.

Another important step in which the Energy Community Secretariat is focusing on is the implementation of a joint and coordinated cross-border capacity allocation between Ukraine and Moldova.



<sup>1</sup> The so-called "Bursthyn island", consisting of the Bursthyn thermal power plant located in Western Ukraine, is the only part of the Ukrainian electricity system which is synchronously connected with the European system (ENTSO-E), unlike the remainder of the Ukrainian system which is synchronised with Russia, Belarus and Moldova.



## Making the Energy Transition a European Success\*

### Open letter to Europeans

Dear Europeans,

In the light of the ongoing discussions on the Clean Energy for all Europeans package, I am very pleased to address you today on the issue of the energy transition towards a low carbon economy, a unique opportunity to modernise our economies and to improve the quality of life of all of us.

It is indeed time to get our act together and to retrieve our drive for our ambitions to become true reality. For too many years in the last decade, plagued by a deep economic crisis followed by a confidence crisis and translated into populism, trumpism and brexitism, European Union has not only lost one of its biggest members but also the red line of its "raison d'être", that is in a nutshell being "stronger together" because we are "closer together".

Since 1951, the six founding nations of the then European Coal and Steel Community have tried to demonstrate that working together is delivering results and they did so well that they expanded their cooperation with the Rome Treaty in March 1957 to de-

velop the so-called common market. Then came nine new member states and the Maastricht Treaty paving the way for more integration and ambitions, given the newly reunified Germany and the prospect of enlargement to central and eastern states. The next step has seen the biggest enlargement of the European Union in 2004 with 10 new Member States coming from another economic and political world. What a challenge for all - in the West and in the East! The 2006 Energy Community Treaty was another sign of the willingness to unite Europe further after so many decades of cold war and distrust. The financial crisis of 2008 made huge damages to this unprecedented ambition to offer so many countries economic and social progress thanks to in-depth cooperation and huge financial help to restore infrastructures, trade, economic and political ties. What a confidence in a better future did show all these agreements and what welfare has been brought to the European citizens during this turbulent period. Because things could have turned very badly: no enlargement and a return to the Russian dominance, Western Balkan States left alone with all their ethnic divisions, Russian revenge coming in and resurging local conflicts could have been the mark of these



Jean-Arnold Vinois, Honorary Director, European Commission and Energy Union Adviser, Jacques Delors Institute

last 25 years. Instead, we see a permanent effort to understand each other, to work together to find common solutions to common problems and to create the conditions for more trust and confidence to build our future together.

I have had the privilege to witness from the inside 35 years of European construction, where the challenge was and remains to invent together the future, with no single existing precedent in history. Energy is a key sector for any country, given →

\* Title of the last report of the Jacques Delors Institute, published on 21 June 2017 and available online at [www.delorsinstitute.eu](http://www.delorsinstitute.eu)

→ its economic, social and geopolitical dimensions. Optimising the resources and infrastructures at European level requires a very high level of trust and cooperation between the countries. The signal to cooperate has to come from the highest level of the States to enable the (market) players to work and progress together. In the European Union, such signal has been given in March 2007 when the European Council decided a common direction under the three 2020 targets (20% CO2 reduction, 20% renewables, 20% better energy efficiency), which are now very close to being met. It led to the cooperation of Electricity and Gas Transmission System Operators, under the guidance of the Agency for Cooperation of Energy Regulators, with the resulting biannual Ten Year Network Development Plans and the Network Codes. But it gave birth to the Baltic Energy Market Interconnection Plan, allowing the Baltic States to gain their energy independence in less than ten years,

to the CESEC in Central and Eastern Europe which should deliver tangible results soon. And it delivered gas to gas competition and the free flow of electricity throughout the European Union resulting in a significant convergence of wholesale prices of gas and electricity in Europe for the benefit of all. The divergent levels of retail prices allow us to measure the work still to be done to avoid untransparent pricing, ill regulated prices and major inefficiencies affecting the national and regional levels, dominated by political considerations well beyond the expectations of the consumers.

The Energy Community has followed this path, with determination and with the help of a very committed Secretariat. Its work in Western Balkans and in Ukraine is remarkable and needs to be pursued and enlarged to bring the same benefits as those enjoyed by the members of the European Union.

But nothing can be done without political will clearly expressed at the highest level of each participating State. Europe enjoys a good level of governance, which has still to be enhanced in some parts of it, a high level of education of its citizens, a remarkable innovative ability, an important social awareness and protection, a very significant level of funding for clean techs and infrastructures. All this may serve our common objective of decarbonising our way of life by 2050, for a better health and a better quality of life. Working together at developing energy efficient solutions and renewable energy sources can only bring benefits for all. The European Union and the Energy Community are together to deliver the Energy Union that we all expect as soon as possible.

Being stronger together is the only way forward.

Europeanly yours

Jean-Arnold Vinois



# Settlement of Probe into Gazprom's Anti-competitive Practices Risks Being a Missed Opportunity for Energy Community Contracting Parties as well as the Union



Despite their geographic proximity and membership in the same pan-European energy organisation, the Energy Community Contracting Parties have been left out of the scope of the European Commission's investigations into the anti-competitive practices of Gazprom as regards gas markets in Central and Eastern Europe and subsequent settlement negotiations with the Russian gas giant. The settlement of the seven-year probe thus risks leaving the Contracting Parties and their 70 million energy consumers in the cold.

In response to the European Commission's invitation to submit comments on the commitments submitted by Gazprom to address its competition concerns, the Secretariat brought a number of issues to the Commission's attention in a letter sent on 4 May 2017. In its response, the Secretariat stressed the importance of these proceedings for the integration of the pan-European gas market and its exemplary value for commercial practice in the Energy Community. The Secretariat also underlined that the European Commission, as an institution of one of the Parties to the Energy Community Treaty, should take due care of anti-competitive conduct in the entire Energy Community, i.e. including also the situation in and effect of anti-competitive measures on other Parties of the Energy Community.

In particular, the Secretariat highlighted that Gazprom's commitment to eliminate territorial restrictions and unfair pricing policies in supply contracts should not be limited to contracts in Central and Eastern European EU Member States, but should also

include the Energy Community Contracting Parties. Moreover, the Secretariat noted that the commitments related to Gazprom's contracts with Bulgargaz (conclusion of interconnection agreements at the interconnection points between Bulgaria and other EU Member States and adjustment of "allocation-as-measured" methodology at such points) should be extended to interconnection points between Bulgaria and Contracting Parties, e.g. former Yugoslav Republic of Macedonia and Serbia. This would enhance competition on the European gas market.

Gazprom's commitment to give specific customers that want to resell gas across borders the possibility to ask for the delivery of their contracted gas to other entry points should be extended insofar as Gazprom should offer the opportunity to change also Ukrainian delivery points to Eastern Ukraine. This would enable the full implementation of the Third Energy Package in Ukraine to the benefit of an integrated and competitive energy market.

Furthermore, the Secretariat underlined that the Ukrainian gas transmission system could be used for gas flows between EU Member States – in particular Poland, Slovakia, Hungary and Bulgaria – and Ukraine, were it not for Gazprom's contractual arrangements with those countries and the transit contract with Ukraine, which de facto confers control over the Ukrainian gas transmission system. In particular, Gazprom refuses to provide to Ukraine's gas incumbent Naftogaz and transmission system operator Ukrtransgaz so-called shipper codes, without which transmission system operators are unable

to match cross-border flows of natural gas through their interconnection points with neighbouring systems. In order to terminate this anti-competitive practice, the Secretariat proposed that Gazprom commits to provide the necessary matching information to Ukrtransgaz and removes all anti-competitive provisions in legacy contracts with European transmission system operators.

The final settlement of the Commission's competition case against Gazprom should address Gazprom's anti-competitive conduct in the wider European energy neighbourhood in a meaningful way. At present, it risks being a missed opportunity to enhance competition in both the Energy Community Contracting Parties and the EU Member States. Putting aside the EU's obligations under the Energy Community Treaty as well as its normative values and goals, the geographic proximity of the Contracting Parties to the EU Member States means that anti-competitive conduct in the Energy Community Contracting Parties impacts on competition in the European Union. In short, EU energy consumers have as much to gain (or lose) as those in the Contracting Parties.

# Bulgarian Electricity Export Ban Results in Estimated Welfare Loss of EUR 30 Million



Autumn has begun and once again the minds of energy stakeholders turn to readiness for the upcoming winter season. Last winter saw Southeastern Europe and in particular the Balkan region being struck by severe cold weather. The winter was marked by system adequacy and network security issues in several countries, as highlighted in ENTSO-E's report "Managing Critical Grid Situations - Success & Challenges"<sup>2</sup>, which provides information on the measures undertaken by transmission system operators to preserve the security of supply and safety operation of the interconnected system.

In Bulgaria, a state of emergency was declared by the country's Ministry of Energy on 11 January 2017, introducing an electricity export ban as of 13 January 2017. The ban was in place until 9 February 2017. As a result, the Bulgarian electricity market was commercially disconnected from the regional market. The cross-border capacity during this period had no value, while the day-ahead prices between Bulgarian and neighboring markets recorded a significant spread. This had an impact on the wholesale market prices in Southeastern Europe in general and Bulgaria's neighbouring countries in particular.

Based on the Energy Community Secretariat's assessment, the loss of social welfare from the inefficient use of forward allocated cross-border capacity amounts to around EUR 20 million. Adding the losses from inefficient use of spot cross-border capacity, this figure could touch almost EUR 30 million. The assessment by the Secretariat was conducted following a

complaint raised by a market participant from a Contracting Party. The complaint outlines a suspected failure of Bulgaria, as an EU Member State, to comply with the Treaty establishing the Energy Community. It is alleged that such a decision by the Bulgarian authorities and in particular its length (almost a month) was a measure intended to keep the wholesale spot prices in Bulgaria low or completely disconnected from the regional prices during a period when the regional prices were spiking. The Secretariat is currently assessing the complaint in the framework of its dispute settlement procedure.

Last winter's cold spell raised the alarm also in other European countries. The European Commission is working on assessing the general impact and the actions undertaken by EU

stakeholders. This is expected to shed more light on the necessity of such restrictive measures undertaken in Bulgaria as well as on the potential national market design issues to be addressed. It is clear that the market was reacting to the tightness created due to the cold spell and the measures such as the export ban seem to have deteriorated the situation even more. It is important to ensure that such extensive interventions in the market do not re-occur. The transmission system operators, and not the governments, are best placed to assess the safety aspects of grid operation and may undertake short-term operational curtailments and interruptions should the safe operation of the grid be challenged. When cross-border activities are impacted, this should be done in a regionally coordinated manner ensuring no or minimum interruption to market mechanisms.



<sup>2</sup> [https://www.entsoe.eu/Documents/News/170530\\_Managing\\_Critical\\_Grid\\_Situations-Success\\_and\\_Challenges.pdf](https://www.entsoe.eu/Documents/News/170530_Managing_Critical_Grid_Situations-Success_and_Challenges.pdf)

# Gas Action 2020 Targets Pan- European Gas Market Integration



In March 2017, the Energy Community Secretariat published its Gas Action 2020<sup>3</sup> strategy aimed at fostering the establishment of functioning gas markets in the Energy Community and pan-European gas market integration. The strategy outlines legal, market and infrastructure measures in order to help overcome shortcomings of the present market structures, gas infrastructure connectivity and/or availability and attain more liquidity, competition, diversification and security of supply in the Energy Community region.

In addition to targeting crucial requirements of the existing Energy Community acquis, e.g. unbundling, third-party access and transparency, the adoption and implementation of network codes and guidelines in the Energy Community is a key part of Gas Action 2020. Network codes are a key tool for facilitating market integration and cross-border trade, which is particularly important in the gas sector where the Contracting Parties' transmission networks are mainly interconnected with EU neighbours at the end of the main transit routes and only a small liquidity boost can be expected from integrating Contracting Parties' markets only. This is especially the case given the small size and low level of development of the Contracting Parties' gas markets. Against this background, it is also of central importance that legal requirements are equally applied also between Contracting Parties and Member States.

Gas Action 2020 targets the adoption and implementation of the Network Code on Interoperability and Data Exchange at the

Energy Community level in December 2017. The code's adoption would bring much needed transparency into the often opaque cross-border arrangements, which hinder gas market liquidity. At present, interconnection or technical agreements between transmission system operators in the Energy Community Contracting Parties and Contracting Parties and EU Member States are far from being compliant with the requirements of this network code. In some cases, no agreements exist at all. The right and need to introduce EU rules at Contracting Parties' interconnection points under long-term transit contracts have been challenged by Gazprom.

In order to assist the Contracting Parties, the Secretariat has already facilitated the dialogue between Polish transmission system operator Gaz-System and the Ukrainian transmission system operator Ukrtransgaz in order to amend the interconnection agreements on points Hermanowice and Drozdowicz.

The Network Code on Capacity Allocation, which essentially requires the joint offer of bundled capacity products by adjacent transmission system operators on capacity booking platforms, is expected to be adopted at the Energy Community level in 2018. To support Contracting Party transmission system operators in the future implementation of the code, the Secretariat organized several workshops in order for Contracting Party transmission system operators and regulatory authorities to learn from the experiences of their EU counterparts and to create

a communication platform for the future implementation of the code and joining one of the existing platforms. The possibility of Contracting Party transmission system operators offering capacity on EU platforms, Poland's GSA booking platform as well as Hungary's RBP in particular, was discussed.

In the framework of the Gas Action 2020, the Secretariat also developed a roadmap for increasing liquidity in Ukraine. The roadmap identified measures needed to establish functional virtual trading point and trading platforms as well as the actions needed for harmonized regional balancing rules. This document is also an integral part of CESEC Action Plan 2.1, adopted at the CESEC High Level Group meeting on 28 September 2017 in Bucharest.

Gas Action 2020 has designated a number of priority infrastructure projects, one of which is the development of reverse flow between Poland (Hermanowice) - Ukraine (Bilche Volytsya). In a meeting facilitated by the Secretariat, the transmission system operators of the two countries agreed to prepare a joint non-paper on the possible scenarios in order to try to overcome the main issue stalling the project's realization. The bone of contention lies in the diverging regulatory regimes of the two countries. While Poland needs to run an "open season" call to test the shipper's interest in the pipeline, and to have the results of a similar one run in Ukraine before the final investment decision can be made, Ukraine has no such obligation, but only needs a Cabinet of Ministers' decision to invest in the pipeline.

<sup>3</sup> [https://www.energy-community.org/dam/jcr:7ea2720c-7b65-4d12-9c61-56f59444b147/WS\\_Gas\\_032017\\_background.pdf](https://www.energy-community.org/dam/jcr:7ea2720c-7b65-4d12-9c61-56f59444b147/WS_Gas_032017_background.pdf)

## Success of Ungheni-Chisinau Gas Pipeline Hinges on Functioning Gas Market



Following several years of negotiations, Moldova secured a loan agreement with international financial institutions (EBRD and IEB) on the construction of the Ungheni-Chisinau gas pipeline in December 2016. Despite the pipeline's crucial role in unlocking the country's dependence on a single source and a single route of gas supply, ensuring bankability of the project in a country with an undeveloped gas market was one of the underlying conditions for obtaining the loan.

Moldova has adopted the Third Energy Package for gas and established an independent transmission system operator to

operate the pipeline (Westmoldtransgaz). However, the country's legal and regulatory framework requires further development. Only the smooth operation of the gas pipelines and effective market functioning will enable the country to reap the full benefits of the investment as well as repay the loan.

With the assistance of the Energy Community Secretariat, Moldova adopted the Energy Sector Reform Plan 2020 aimed at completing its legal framework in line with the Third Energy Package. The plan targets the development of secondary legislation, such as network codes and entry-exit transmis-

sion tariffs and rules on off taking gas from the new supply source.

The Secretariat has already drafted a concept paper aiming at introducing methodological solutions for an entry-exit tariff methodology to be finalized together with the country's regulator ANRE and submitted to the Ministry of Economy and Infrastructure for its comments and consent. Together with the Moldovan authorities, the Secretariat is also finalising the development of grid codes for Moldova. Natural gas market design will be the next step in the reform of the country's gas market.



# Ukraine's Gas Sector Reform Implementation Plan 2.0 (2017-2019)



Gas reforms in Ukraine, following the adoption of the Natural Gas Market Law, have put the country on the path towards market based-solutions for the governance of the gas sector. This process was widely based on the Gas Reform Plan 2015, agreed between the Ukrainian Government, Energy Community Secretariat and the World Bank, and Ukraine's commitment to apply Energy Community law. Notwithstanding significant progress, especially with respect to the legislative framework, the Plan, being temporary by nature, has reached its limits. This was reaffirmed in the continuous reporting on the Plan's implementation by the Secretariat (as reported in the first issue of this newsletter).

Following the significant delays and obstacles encountered in the Plan's implementation, International Financial Organisations together with the Secretariat became convinced that a new plan was needed if the goal was for Ukraine to continue with its reforms and speed up the pace especially given that Ukraine's reliability as a trading partner and a transit country is at stake.

The draft of the new Gas Sector Reform Implementation Plan 2.0 was discussed and agreed among the international community and shared with the Ukrainian authorities in May 2017. The new Plan presents a summary of actions, which are deemed as essential, with the main objective to compel Ukraine to live up to its obligations from the Energy Community Treaty and apply its national legislation, which at wide transposed the Energy Community gas acquis.

In particular, two areas were identified as being of critical importance: unbundling of

the transmission system operator from NAK Naftogaz and the extension of the public service obligation as part of the country's subsidy scheme reform in compliance with the acquis. The Plan 2.0 also sets out measures to foster market development on both wholesale and retail level and actions aimed at securing ample production of natural gas in Ukraine.

Immediate next steps are required to ensure that the process of reforms is maintained (and delays are addressed) to overcome the foreclosed market structure of the past,

and to make market opening, efficiency and transparency a practical reality instead. The necessary actions, as elaborated by the Plan 2.0, should focus on the proper implementation of the existing legislation and commitments, a strategy to diminish public interventions and non-transparent subsidisation and efficient solutions for the district heating sector.

Comments from the Ukrainian side were provided to the Secretariat in September 2017 and the plan is still under negotiation.



## Kosovo\* Paves Way for Mutual Recognition and Reciprocity of Licensing Regime for Wholesale Market

The Energy Community Secretariat agreed on the application of the principles of mutual recognition of licenses and reciprocity with the Energy Regulatory Office in Kosovo\*, ERO in May 2017. Based on the understanding reached with ERO, German based market participant, Statkraft, can become a participant in the wholesale electricity market in Kosovo\* without requiring a license.

Other market participants from EU Member States and Contracting Parties of the Energy Community will now be able to register as market participants and perform their activity in the electricity market in Kosovo\* without a local establishment requirement.

## Energy Community Energy and Climate Targets for 2030 to be Set

The Energy Community Climate Action Group agreed to design 2030 targets for energy efficiency, renewables and greenhouse gas emission reduction for the Energy Community Contracting Parties at its meeting on 5 September. The group, which brings together ministers responsible for climate and energy policy, also agreed to work to ensure the mainstreaming of climate related obligations across sectors and simplify reporting obligations on renewables, energy efficiency and greenhouse gas emissions. Its focus will also be on preparations for future meetings of the Conference of the Parties (COP) of the UNFCCC.

The group appointed Connie Hedegaard, Chair of the Board of KR Foundation and former EU Commissioner for Climate Action, and Ostap Semerak, Minister of Ecology and Natural Resources for Climate Action of Ukraine, as its co-chairs. Its work is supported by representatives of the European Commission and the Energy Community Secretariat, think tanks, international financial organisations and civil society.

## Dispute Resolution Centre in the Spotlight

The Dispute Resolution and Negotiation Centre has intensified its activities in the dispute resolution market. Notably, reputed professionals have been added to the Centre's Panel of Mediators and further selection procedures are ongoing. In July 2017, the first mediation as part of the Energy Community dispute settlement procedure was successfully concluded. Most recently, the Government of the Federal Republic of Germany, represented by the Ministry for Economic Cooperation and Development (BMZ), requested the Energy Community Secretariat's Dispute Resolution and Negotiation Centre to facilitate negotiations between Serbia and Kosovo\* on the long-standing dispute between EMS and KOSTT. The negotiations are expected to commence soon.

Find out more:

<https://www.energy-community.org/about/disputeresolution.html>

## An Insight into the Energy Community Summer School

The second Energy Community Summer School took place on 26 August – 2 September 2017 in Ohrid, former Yugoslav Republic of Macedonia. The Summer School brought together 40 ambitious postgraduate students and young professionals representing 25 countries of the Energy Community region and wider Europe.

Following the success of the first two editions, the next Energy Community Summer School will take place in Croatia from 25 August – 1 September 2018. The application period for the 2018 Summer School will run from 15 January 2018 until 31 March 2018. Stay tuned to the Energy Community website for more information!

Find out more:

<https://www.energy-community.org/about/summer-school.html>

## Oil Forum

27-28 November 2017

Belgrade, Serbia

## Ministerial Council (by invitation only)

14 December 2017

Pristina, Kosovo\*

## More on upcoming events

<https://www.energy-community.org/events/Upcoming-events.html>



Energy Community Secretariat  
Am Hof 4  
1010 Vienna, Austria  
Tel: + 43 (0) 1 535 2222



[info@energy-community.org](mailto:info@energy-community.org)



Visit our website  
[www.energy-community.org](http://www.energy-community.org)



Follow us  
[twitter.com/Ener\\_Community](https://twitter.com/Ener_Community)