

Report on  
Business  
Results

2019



# CONTENTS

<b>I Background and mission of SEE CAO</b>	6
<b>II Key activities and indicators in 2019</b>	9
<b>III Calendar of important events and meetings</b>	14
<b>IV Technical Report</b>	16
Introduction	16
IT infrastructure	16
Cross-border capacity allocation	18
Auctions	19
Collaterals	21
Transparency and Reporting	22
EMFIP Regulation	22
REMIT regulation	22
<b>V Structure, Business Organization and Human Resources</b>	23
Business Organization	23
Human Resources within SEE CAO	25
<b>VI Acts of SEE CAO 2019</b>	26
<b>VII Agreement for Services</b>	27
<b>VIII Financial aspects of business</b>	28
<b>IX Social responsibility</b>	29
<b>X Conclusions</b>	30

Dear partners,

At the beginning, I would like to say that I personally have been part of this allocation story from its sole beginning, from times when coordinated auctions were only an idea and challenging project with unsure operational future.

Today, SEE CAO represents product of 8 involved states, one excellent example of international group of people working together and striving towards development in energy sector and strengthening the SEE energy market.

Numerous long term and daily auctions, performed to full satisfaction of energy traders and in the bottom line of participating Transmission System Operators prove the quality and the good work which is done through our allocation office. Early implementation of FCA guideline in the SEE region, applying the best European practice, gathering the team of educated professionals and experts in their fields and providing the continuity of quality work are only some of the indicators of achievements of SEE CAO.

I will dare to say that good years are ahead of us and lot of space for improvements of internal strategies, cost sharing structures and in house rules and practice.

Some of these matters have been topics of our meetings in 2019 and I believe that important progress was made, especially having in mind new cost share methodology structure, which is our first step towards the goal of proper division of costs based on extensiveness of services provided to each TSO.

Beside this, it is my pleasure to remind you that during 2019, the efforts of Board of Directors have resulted in adoption of new general acts of the company, which came as a product of long discussions and consultations between people who are here to represent the shareholders and to make sure that the path towards SEE CAO is going is the right one. These important activities have improved rules of SEE CAO performance and set proper grounds for upcoming decision making processes in our ranks.

As an end note, let me say I truly believe that SEE CAO is keen to be engaged in all further developments relating to scope of provided services and their content and I look forward to our future accomplishments together.

**Omer Hadžić,**  
Chairman of Board of Directors

Dear colleagues and partners,

I am pleased to have the opportunity to address you with the 2019 report on business results of SEE CAO. I am grateful and pleased to share with you the satisfaction of having one more successful business year behind us.

It is our great pleasure to emphasize that during the reporting year, SEE CAO has celebrated five years of successful business.

After these five years we can gloat not solely because of good business results, but commendable number of 7 borders on which SEE CAO provides its services. During the end of last year, to our greatest satisfaction, SEE CAO's portfolio has been enlarged by ITME border, connected through a submarine interconnector whose operational work started in December 2019. Opening of this new border enables all energy traders to participate in wider manner to energy transactions in SEE region and we are more than glad that SEE CAO is part of this process.

At the time being, more than 120 registered traders, 70 long-term and over 1800 of daily auctions successfully conducted, are the figures that may speak for themselves and evince the success of SEE CAO.

As a company, we have recognized the importance of being socially responsible towards the community in which we operate. By joint donation of employees and our shareholding companies, we have shown sensitivity to the health treatment conditions for the youngest. We did not remain silent as a company even when witnessing the events in the region, when we showed sensitivity and provided sincere support to people of Albania who suffered the consequences of a devastating earthquake. I am proud to be part of team of people who cherish the awareness of us as individuals oriented towards groups in need and in unenviable positions.

I find the year of 2020 as very challenging for business of SEE CAO. Expansion of business in terms of operating on new borders is expected by resolving the dispute between JSC "Elektromreža Srbije" (EMS) and Kosovo Transmission System and Market Operator JSC (KOSTT) referring to status of Kosovo being the independent control area. In terms of investment, we are planning to upgrade Damas as an AuctionTool, and by such upgrade to cover all auction office market-related processes with advanced system security and support of a wide range of interfaces. This upgrade will additionally improve operations of SEE CAO, while meeting all conditions imposed by fast development of the electricity market.

With hope that we will continue to be efficient and make good results in the times to come, I give you my warm regards.

**Ivan Bulatović,**  
Executive Director

# I Background and mission of SEE CAO

---

Coordinated Auction Office in South East Europe (**SEE CAO**) is a company registered in Montenegro whose activities are focused on organizing the explicit allocation of long term and daily physical transmission rights (**PTRs**) in SEE region.

The background of establishing SEE CAO lies within the development of Europe's legal framework, leading to highly liberalised and integrated electricity transmission systems.

SEE CAO started its activities in 2014 by providing services on only two borders, while today it successfully operates on seven borders between Transmission System Operators (**TSO**) who are shareholders of SEE CAO and, from just a while ago, includes operations on Montenegrin border with one non-shareholding TSO i.e. Italian Transmission System Operator TERNA.

Core objective of SEE CAO is to perform its activities through NTC based Auction Processes in accordance with the requirements of Commission Regulation (EU) 2016/1719 establishing a guideline on forward capacity allocation (FCA GL), having regard to Regulation (EC) 714/2009 of the European Parliament and of the Council on conditions for access to the network for cross border exchanges in electricity which became part of Energy Community acquis in line with the stipulations of Energy Community Treaty. Operations of SEE CAO comply with the principles set forth in the Treaty establishing the Energy Community, concerning harmonization of congestion management methods in SEE, the common rules for the internal market in electricity and where applicable, its implementation in the national legislation of concerned countries relating to each of them.

During 2017, following the 'best European practice' of early implementation of FCA GL, SEE TSOs and SEE CAO have prepared and implemented a new set of documents needed for implementation of Harmonised allocation rules (HAR) for long term transmission rights in accordance with Article 51 of FCA GL for the purpose of long-term allocation of transmission rights (yearly and monthly auctions).

Since daily allocation, prescribed by the Commission Regulation (EU) 2015/1222 of 24 July 2015 establishing a guideline on capacity allocation and congestion management (CACM GL) is not implemented on a single Bidding Zone border serviced by SEE CAO, coordinated explicit daily auctions are performed in line with rules for explicit daily capacity allocation. Hence, SEE CAO set of allocation rules (besides EU HAR) includes following:

- ▷ SEE CAO\_Specific Annex
- ▷ SEE CAO\_Daily Allocation Rules
- ▷ SEE CAO\_Participation Agreement
- ▷ SEE CAO\_Financial terms
- ▷ SEE CAO\_Nomination rules
- ▷ SEE CAO\_Information System Rules

At today's date, both long term and short term auctions on a timeframe including yearly, monthly and daily period are performed on the following bidding zone borders:

1. Croatia – Bosnia and Herzegovina;
2. Bosnia and Herzegovina – Montenegro;
3. Montenegro – Albania;
4. Albania – Greece;
5. Greece – Turkey;
6. North Macedonia – Greece and
7. Italy – Montenegro



*Operational bidding zone borders*

In addition to auction processes, SEE CAO is reporting the outcome of auctions and secondary market in line with Regulation (EU) No 543/2013 on submission and publication of data in electricity markets (EMFIP) and Regulation (EU) No 1227/2011 on wholesale energy market integrity and transparency (REMIT), latter being applicable for borders of its service users from EU member states.

The main characteristic of our recognition is the fact that we are seen as one-stop-shop in terms of allocation of cross-border capacity from Croatia on north-west to Turkey on south-east and are oriented towards constant improvement of our services and practice.

SEE CAO identifies itself as link between different parties, which is seen as opportunity for better cooperation among all stakeholders involved in its activities. This gives an excellent chance to keep up with all the changes regarding EU policies in electricity matters.

Mission of SEE CAO is to provide capacity allocation between bidding zones in the best possible way, which means accurate, on – time, secure, efficient, confidential, complete and comprehensive data for its each stakeholder, in accordance with the SEE CAO set of allocation rules, which are approved by all national regulatory authorities of the participating TSOs. This is possible



through high – competitive employees and their qualities, which have met all the requirements for the particular position they represent. SEE CAO enables electricity market participants to allocate transmission rights according to fair, transparent, and non-discriminatory conditions.

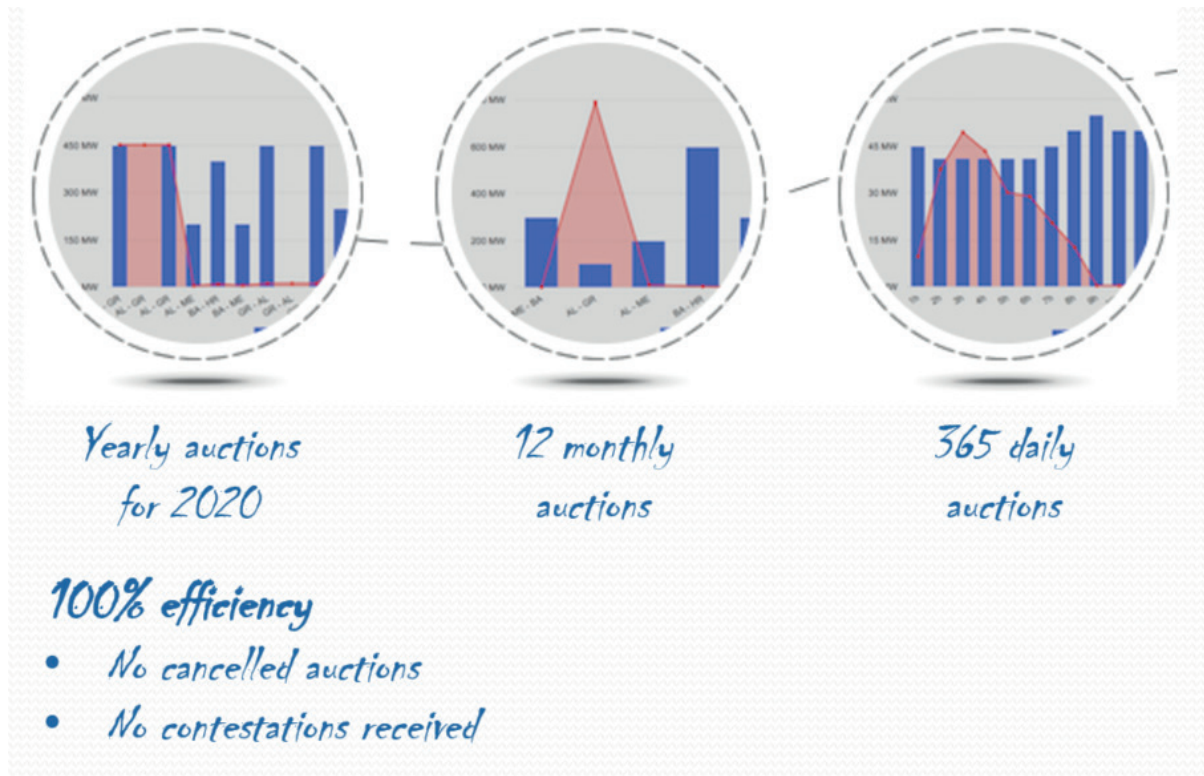
SEE CAO has a strong commitment to create value for its shareholders, and is pursuing this goal through adoption of best professional practices, with a responsible approach to all the stakeholders. We remind you that, on today`s date, SEE CAO is owned by 8 shareholders being SEE TSOs, each with equal share of 12,5%:

<b>Croatia</b>		<b><i>Hrvatski operator prijenosnog sustava d.o.o.</i></b>
<b>Bosnia and Herzegovina</b>		<b><i>Nezavisni operator sistema u Bosni i Hercegovini</i></b>
<b>Montenegro</b>		<b><i>Crnogorski elektroprenosni sistem AD</i></b>
<b>Albania</b>		<b><i>Operatori i Sistemit te Transmetimit</i></b>
<b>Kosovo</b>		<b><i>Operator sistemi, transmisioni dhe tregu Sh.A.</i></b>
<b>Greece</b>		<b><i>Independent Power Transmission Operator S.A.</i></b>
<b>Turkey</b>		<b><i>TÜRKİYE ELEKTRİK İLETİM A.Ş</i></b>
<b>North Macedonia</b>		<b><i>Оператор на електропреносниот систем на Република Северна Македонија</i></b>



## II Key activities and indicators in 2019

In 2019 SEE CAO has continued the paved paths of success. All planned activities have been realized and preconditions for further smooth operations met. All auctions in 2019 were successfully conducted:



Not a single contestation received in this period is a strong indicator of quality of service being provided to our customers.

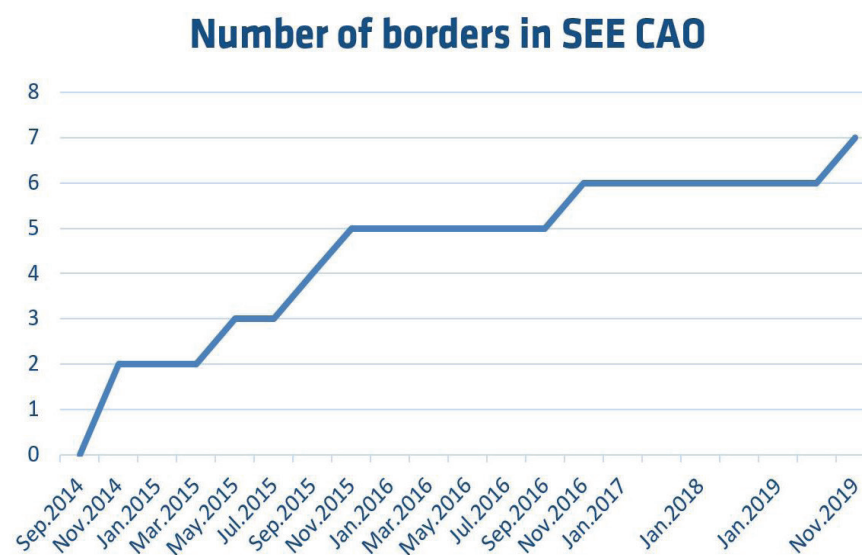
All other parameters also indicate stable growth. One of the most important achievements in 2019 was inclusion of Italy – Montenegro border to our portfolio.

During 2019, as commencement of new interconnection was getting closer, Montenegrin and Italian TSOs, CGES and TERN, started negotiations for defining the entity in charge for allocation of transmission rights on border Italy – Montenegro. In order to hear the voice of traders, a public consultation was held in July 2019, at which the majority of involved subjects identified SEE CAO as preferable allocation office. After public contestation, Italian and Montenegrin national regulators decided to entitle SEE CAO as allocation office in charge for organization of capacity auctions on undersea power interconnector between Italy and Montenegro. Upon their decision, CGES, TERN and our team worked on enabling of all technical, legal and material aspects of this trilateral collaboration which has resulted in admission of TERN as a new SEE CAO Service User in the end of November 2019, by signing the Agreement for Services with all other participating TSOs.

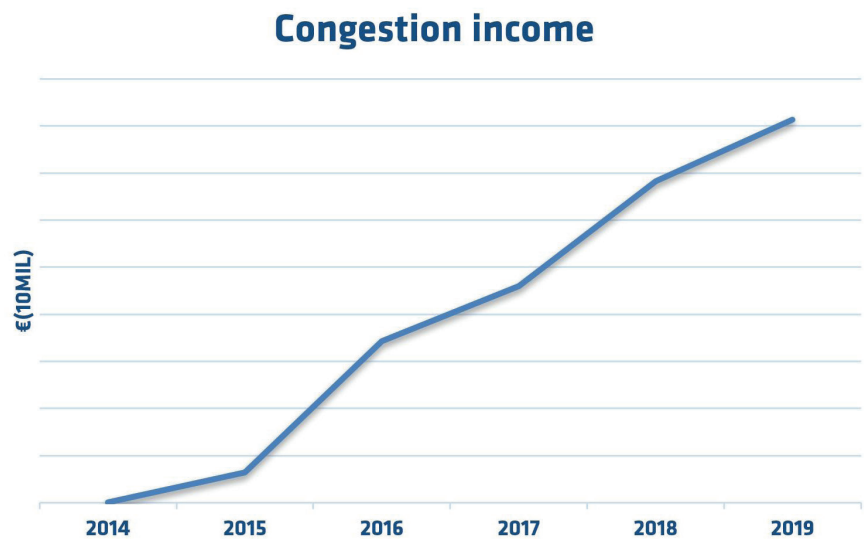
By accessing to list of our Service Users, TERN has joined ADMIE, CGES, HOPS, NOSBiH, TEIAS, MEPSO and OST and became important part of our operations.

First yearly auctions for 2020 on ITME border were conducted on 11<sup>th</sup> December, while monthly auctions for January were held on 20<sup>th</sup> December. Daily allocation on ITME border started on 27<sup>th</sup> December for delivery day 28<sup>th</sup> December. This whole process was followed by great interest of energy traders and resulted in greatest number of participants so far.

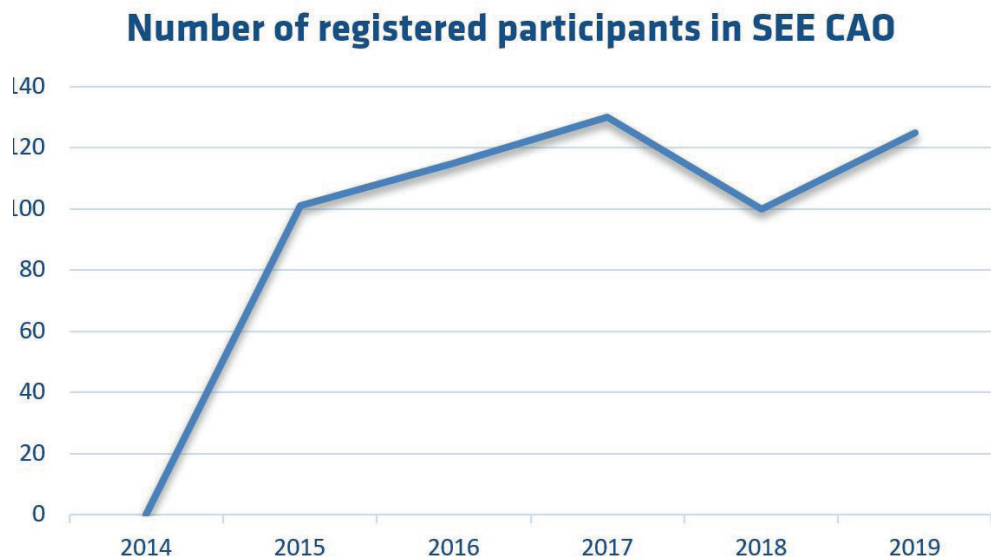
With this border, number of borders operated by SEE CAO increased to seven.



Congestion income<sup>1</sup> for 2019 was highest so far. With commencement of capacity allocation on border Italy – Montenegro it is realistic to expect that they will continue to grow also in 2020.



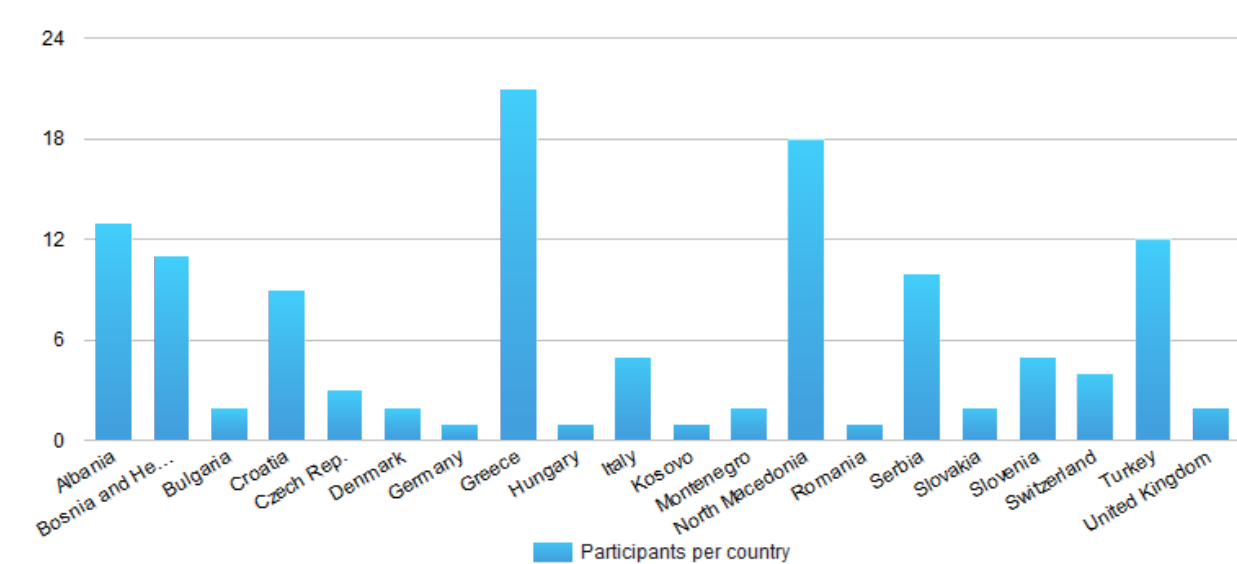
In the previous year 25 new participants were registered in SEE CAO, increasing the total number of participants to 125.



SEE CAO registers constant growth of number of participant, with exception to year of 2017 when

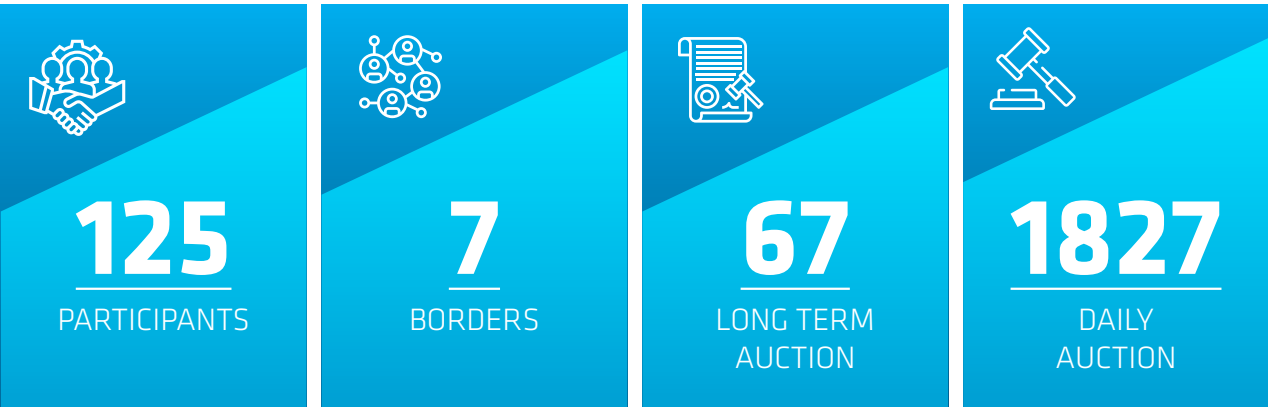
<sup>1</sup> Congestion income figures available on SEE CAO website and ENTSO-E Transparency Platform

there was a drop in number of registered participants due to start of application of HAR and the obligation of participants to re-register their status in accordance with new rules.



In past period various companies from the field of electricity markets recognized our work. At this moment, we can proudly say that we provide services to customers from 20 different countries from all parts of Europe.

By the end of 2019, SEE CAO has conducted 67 long-term auctions and 1827 daily auctions.





















## III Calendar of important events and meetings

<b>14</b> FEBRUARY	ENC MEETING - MARKET NETWORK CODES	
<b>14-17</b> MAY	6TH CG KO CIGRE	
<b>24</b> MAY	MEETING WITH CGES AND NRA (ME-IT ALLOCATION)	
<b>03</b> JUNE	SRB CIGRE	
<b>27</b> JUNE	ENC MEETINGS – FUTURE PLANS, FCA	
<b>01-31</b> JULY	PUBLIC CONSULTATIONS (ME-IT ALLOCATION)	
<b>2</b> OCTOBER	ENERGY COMMUNITY REGULATORY SCHOOL	
<b>24</b> OCTOBER	REGIONAL ENERGY CONFERENCE	
<b>29</b> OCTOBER	MEETING WITH JAO	
<b>5</b> DECEMBER	5TH ANNIVERSARY CELEBRATION PARTY	
<b>10</b> DECEMBER	UNICORN MEETING DAMAS UPGRADE	
<b>11</b> DECEMBER	FIRST AUCTIONS FOR ITME BORDER	

2019 was very dynamic and prosperous year for SEE CAO. We took active part on numerous significant events all over the region, such as Athens Electricity Forum, regional CIGRE conferences, Energy Community Regulatory School and many others.



As the highlight of the year, new border was welcomed to our portfolio!



The crown of successful and fruitful five-year operation, was the organisation of SEE CAO's fifth business anniversary, where we had pleasure to host our respectful partners and friends.



## IV Technical Report

---

### Introduction

Providing an unobstructed business flow has always been a challenge from technical standpoint. There are plenty of different aspects which should be considered in all times, which could potentially affect everyday operation.

From the very beginning of its operation and throughout the following years, SEE CAO has managed, with complete commitment of its team, to provide flawless service to all related customers. Year of 2019 is no difference.

### IT infrastructure

Behind successful operation there is a strong infrastructure. Today, that is a main prerequisite for starting and maintaining any business.

The core and primary asset of SEE CAO operation is Damas Auction Tool, software solution necessary for conducting capacity allocation, which was purchased in 2014 from Unicorn Systems A.S. in accordance with the tender procedure of the European Bank for Reconstruction and Development (EBRD), which has granted the funds for its purchase. The main used standard modules of Damas are as follows:

- ▷ Long-term (yearly, monthly) and daily explicit auctions for various defined products;
- ▷ Support of the secondary market including compensation evaluation (returns, transfers, application of the UIOSI principle);
- ▷ Administration of transmission rights;
- ▷ Curtailment tool including compensation evaluation;
- ▷ Settlement and Invoicing;
- ▷ Risk management;
- ▷ Automatic data exchange with the TSOs;
- ▷ Data exchange with the market participants;
- ▷ Data exchange with the transparency platforms (ENTSO-E, ARIS);
- ▷ Support of the ENTSO-E communication standards (ECAN V4R0, ESS V2R3);
- ▷ Statistics and reporting, data publishing.

Initial Damas solution did not cover all the requested functionalities for the involved parties, but only the main functionalities in order to execute auctions successfully. From commencement of our operation, Damas was subject of continuous improvement. This process was supported by EBRD with additional grant for the upgrade of Damas Auction Tool. These updates have simplified the usage of Auction Tool for SEE CAO, TSOs and market participants and have improved communication and data exchange between Auction Tool and other connected systems.

During the 2017, SEE CAO has made a significant progress through transposition of HAR in accordance with Article 51 of FCA Network Code. This project has been recognised by the German development bank – KfW as a crucial for future development of SEE energy market, for which SEE CAO has received grant for upgrade of the Auction Tool solely. As a result, Auction Tool provider, Unicorn systems a.s. had developed a Damas HAR environment by transposition of HAR in Damas system, which entered in operation with Yearly Auctions for 2018, in November 2017.

SEE CAO's capacity allocation system is being run on a sophisticated hardware configuration hosted in modern datacentre in Podgorica, Montenegro.

The configuration with redundancy ensures full service even in cases of unwanted events such as software or hardware failures.

Software itself is divided into two environments:

- ▷ production environment and
- ▷ testing environment.

Each of mentioned environments is being run on a separate hardware unit. This ensures that there is no mixing of production data with testing data.

Production environment represents capacity allocation system, used by our customers on everyday basis. Testing environment is dedicated for development of new features but also serves as a testing ground for our customers.

In 2019 SEE CAO has renewed hardware equipment, which was a basic precondition for software upgrade planned for 2020. This planned upgrade will provide SEE CAO with a flexible solution based on the most recent technologies

The latest version of Damas is one of the most advanced solutions available on the current market and is entirely suitable for ongoing, as well as future needs of SEE CAO. Upgraded software would cover all auction office market-related processes with advanced system security and support of a wide range of interfaces (FTP, SFTP, ECP, email, Web services).

All these investments in IT infrastructure are inevitable for retaining smooth functioning of the system and quality of services provided by SEE CAO, especially having in mind the continuous and tremendous development of information technologies.

## Cross-border capacity allocation

Allocation of cross-border transmission capacity is core business of SEE CAO. Service is provided for 8 service users on following borders:

1. Croatia – Bosnia and Herzegovina;
2. Bosnia and Herzegovina – Montenegro;
3. Montenegro – Albania;
4. Albania – Greece;
5. Greece – Turkey;
6. North Macedonia – Greece and
7. Italy – Montenegro

Capacity is being allocated on yearly, monthly and daily basis, by conducting auctions on explicit NTC based allocation principle. Allocation is performed in accordance with SEE CAO Set of Allocation Rules. Core document of this set is HAR. As not all of the provisions prescribed by EU HAR are applicable in SEE countries, all the exceptions, and regional specifics are gathered in Specific Annex for the Bidding Zone borders serviced by SEE CAO to the HAR. This annex refers to borders (i) Croatia – Bosnia and Herzegovina; (ii) Bosnia and Herzegovina – Montenegro; (iii) Montenegro – Albania; (iv) Albania – Greece; (v) Greece – Turkey; and (vi) North Macedonia – Greece. On these borders, allocation of daily transmission capacity is performed in accordance with Rules for explicit Daily Capacity Allocation on Bidding Zone borders serviced by SEE CAO. Other accompanying documents in SEE CAO Set of Allocation Rules are Financial terms, Nomination Rules and Information System Rules.

Upon inclusion of Italy – Montenegro border in SEE CAO portfolio in late 2019, SEE CAO Set of Allocation Rules is updated with two additional documents - Allocation Rules for Forward Capacity Allocation on Italy- Montenegro Border and Rules for Daily Capacity Allocation on Italy- Montenegro Border. These rules have the same basis as rules applied on other borders, with minor deviations in terms of timings and deadlines. Therefore, SEE CAO Set of Allocation Rules is currently consisted of:

- ▶ Harmonized allocation rules for long-term transmission rights in accordance with Article 51 of Commission Regulation (EU) 2016/1719 of 26 September 2016 establishing a Guideline on Forward Capacity Allocation;
- ▶ Allocation Rules for Forward Capacity Allocation on Italy- Montenegro Border;
- ▶ Rules for Daily Capacity Allocation on Italy- Montenegro Border;
- ▶ Specific Annex for the Bidding Zone borders serviced by SEE CAO to the Harmonized Allocation Rules for long-term transmission rights;
- ▶ Rules for explicit Daily Capacity Allocation on Bidding Zone borders serviced by SEE CAO;
- ▶ Financial terms;
- ▶ Nomination Rules;
- ▶ Information System Rules;

# Auctions

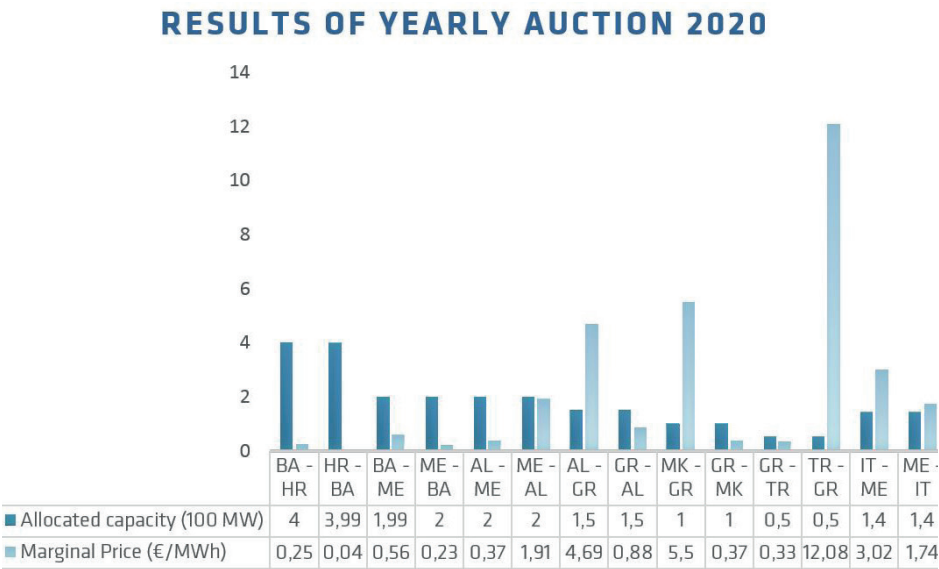
During 2019 SEE CAO has successfully conducted following auctions:

- ▷ Yearly auction for 2020;
- ▷ 12 monthly auctions;
- ▷ 365 Daily auctions.

All auctions were performed successfully, with no auction cancelation and no contestation from auction participants.



Congestion income<sup>2</sup> from Yearly auction for 2020 was significantly higher comparing to last, and previous years. It can be linked to inclusion of new border to SEE CAO’s portfolio, Italy – Montenegro. Results of yearly auctions for 2020 are displayed in below graph.

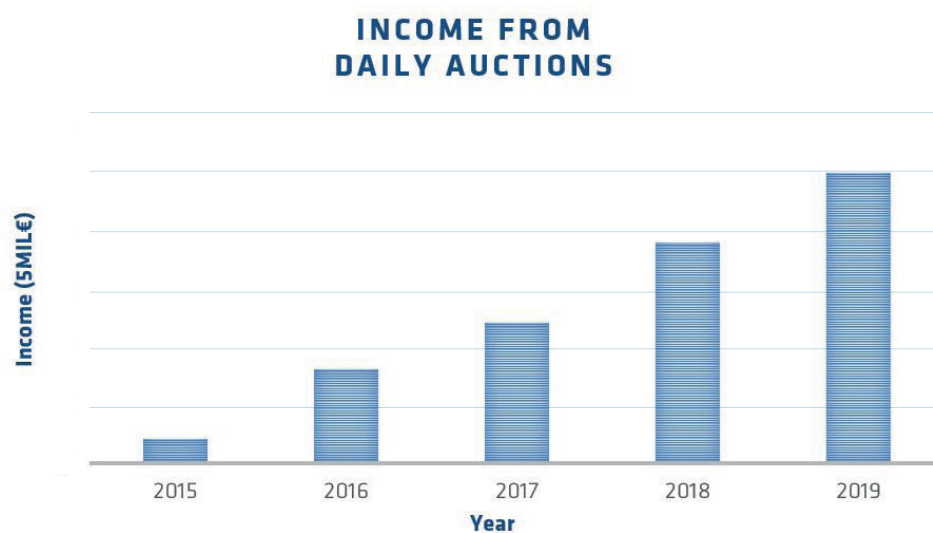


2 Congestion income figures available on SEE CAO website and ENTSO-E Transparency Platform.

All monthly auctions were conducted without any issues. Similarly to yearly auctions, trend of congestion income growth is also present here.



Daily auctions represent biggest part of SEE CAO portfolio, as they are being held each day in the year<sup>3</sup>.

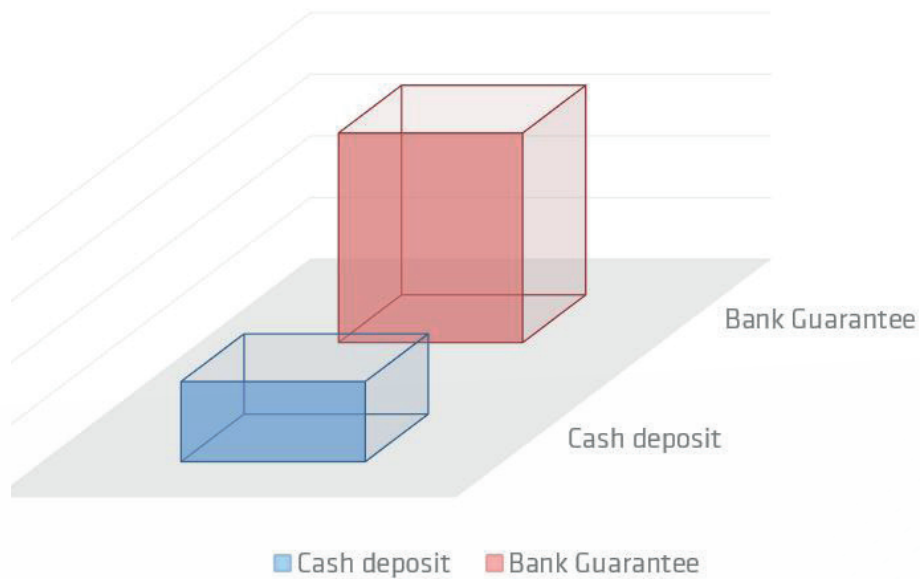


<sup>3</sup> Congestion income figures available on SEE CAO website and ENTSO-E Transparency Platform.

## Collaterals

In order to be able to participate on auctions organized by SEE CAO, our customers, registered participants, need to provide a risk management instrument i.e. collateral. Collaterals can be in a form of cash deposit or bank guarantee. Their standard templates are defined in Financial terms.

### Risk management instruments



## Transparency and Reporting

### EMFIP Regulation

SEE CAO was one of the first data providers who started reporting of following explicit allocation set of data to ENTSO-E Transparency Platform as of 5 January 2015 on behalf of its TSOs:

- ▷ Yearly offered cross- zonal capacity;
- ▷ Monthly offered cross- zonal capacity;
- ▷ D-1 offered cross- zonal capacity (NTC);
- ▷ Explicit allocation - the capacity, requested by the market;
- ▷ Explicit allocation - the capacity allocated to the market;
- ▷ Explicit allocation - the price of the capacity;
- ▷ Explicit allocation - the auction income per border between Bidding Zones;
- ▷ Total Capacity Already Allocated;
- ▷ Transfer capacities allocated between Bidding Zones in Member States and third countries;
- ▷ Configuration of transmission capacity allocation;

It is important to note that reporting to ENTSO-E transparency platform has significantly contributed to the enhancement of the transparency in the SEE region.

### REMIT regulation

By entering into force of REMIT on 25 October 2011 enacted by of European Parliament and the Council and in particular of the Commission implementing Regulation (EU) No 1348/2014 – TSOs from EU Member States became obliged to report the transactions regarding capacity allocation to the Agency for the Cooperation of Energy Regulators (ACER), starting from 7 April 2016. With aim of providing service of mandatory reporting to its Participating TSOs, SEE CAO has registered at ACER as Registered Reporting Mechanism on 2 August 2016. From that date, SEE CAO regularly reports data to ACER REMIT Information System (ARIS), while all required data for period April – August 2016 are delivered retroactively.

In the name of Greek IPTO's, Croatian HOPS and Italian TERNA, SEE CAO reports the below listed transactions from primary allocation (for the borders HR-BA, GR-AL, GR-TR, GR-MK, ME-IT), as well as secondary rights in the name of market participants:

- ▷ Offers/bids;
- ▷ Capacity Allocation time series (Yearly, Monthly, Daily);
- ▷ Auction results;
- ▷ No-Bids auction time series;
- ▷ Secondary rights time series.

The remaining borders can easily be reported from DAMAS Auction Tool once it becomes mandatory for the non-EU countries.



## V Structure, Business Organization and Human Resources

---



*SEE CAO shareholders structure*

As known and mentioned, shareholders of SEE CAO are SEE TSOs from Albania, Bosnia and Herzegovina, Croatia, North Macedonia, Greece, Kosovo, Montenegro and Turkey.

Each shareholding TSO holds the equal amount of shares in SEE CAO corresponding to its equal participation in share capital of the company and has the same access and control rights in SEE CAO deriving from its share.

### Business Organization

Organizational structure of SEE CAO consists of two bodies:

- ▷ the **Board of Directors**, and
- ▷ the **Executive Director**.

The Board of Directors, headed by its Chairman, is a collective body which governs the company and supervise business activities, all in accordance with enacted internal rules, Articles of Association, and applicable legal rules of the state of Montenegro.

Eight shareholders of SEE CAO have appointed their representatives in Board of Directors, while the ninth member is appointed unanimously by all shareholders, upon proposal of a shareholder on turn, based on determined rotation principle. Thus, SEE CAO's Board of Directors has nine members, as envisaged in Articles of Association.

The Executive Director of SEE CAO is responsible for organization of work and lawfulness of company's activities and is appointed by Board of Directors on a 4 year basis.

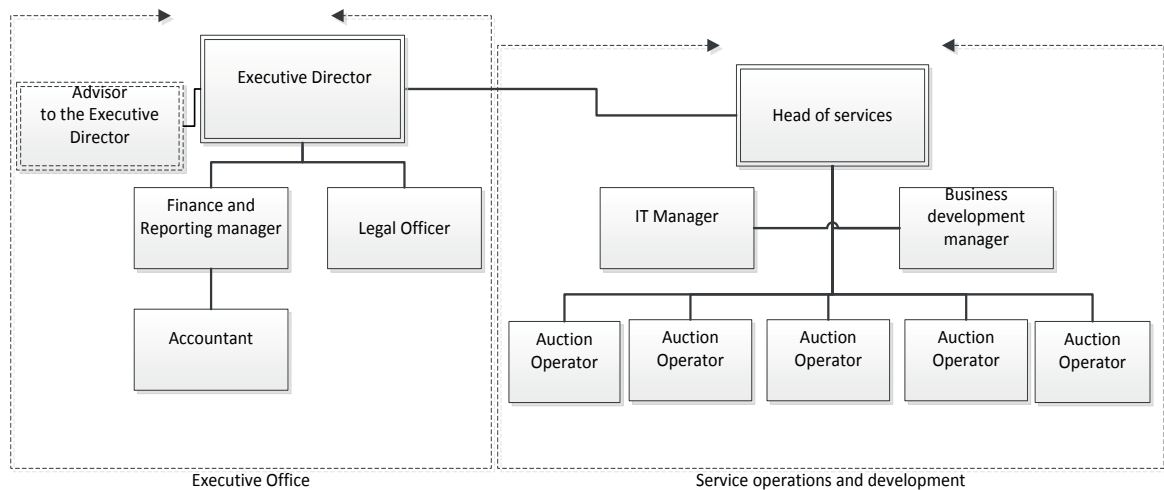
While covering this management position, the Executive Director organizes all business activities of the company, represents and acts for the company within the limits of his authority and enforces decisions made by the Board of Directors.

In 2019, upon expiration of term of office of former Executive Director, the selection process was organized and resulted in appointment of new Executive Director in May 2019.



# Human Resources within SEE CAO

SEE CAO employees are covering management, operational, financial and legal positions.



Systematization chart

SEE CAO is a young and perspective company, in terms of age, work experience and gender diversity:



It is important to note that SEE CAO does not outsource any work to be performed in order to fulfil all comprehensive requirements. Employees are acting as a “front-office” towards the traders and involved TSOs and as such provide reliable, compact, and efficiently organized service.

## VI ACTS OF SEE CAO 2019

---

During the last years, big efforts were made in direction of updating of main general act of the company i.e. Articles of Association. The process of negotiating the content, defining its structure in more detailed manner, delineating the decision making process and competences of governing bodies was time consuming and comprehensive work task, which was topic of board meetings during long period of time.

On 40<sup>th</sup> meeting of Board of Directors, invested efforts resulted in adoption of final version of Articles of Association, which was followed by process of registration of this act with CRCE, finalized on 6 February 2020.

New Articles of Association set up certain changes in managing of the company, was subject to many rounds of comments, redrafts, and content improvements, which is why it is consisted of many terminology alignments, proper law references, technical, and format changes. Those soft, but important changes played a big role in assuring the quality of the new Articles of Association of SEE CAO.

The Board of Directors has also worked on regulating the procedural rules of its performance, organization of meetings and activities during sessions, as well as on defining the core principles of procedure of selection of Executive Director and staff positions within the company.

After long preparation, the Business Plan of SEE CAO referring to period 2020-2022 was also adopted where scenarios of potential development paths of SEE CAO are included and elaborated.

As a conclusion, when it comes to acts of the company, during 2019, the Board of Directors has adopted the following corporate documents:

1. Articles of Association;
2. Rules of Procedure of Board of Directors;
3. Set of Human Resources Rules – HR Act; and
4. Business Plan 2020-2022.

## VII Agreement for Services

---

SEE CAO is auctioning long term and daily PTRs of cross zonal capacities on the bidding zone borders between participating TSOs. In this context, in respect of allocation of PTRs SEE CAO acts towards the Registered Participants as an agent of TSOs. Rights and obligations between SEE CAO and involved TSOs are defined in Agreement for Services (**Afs**), which is concluded on a one year basis.

SEE CAO's cost sharing methodology in period 2014 - 2019 was based on equal share principle, where all receiving services TSOs have been paying equal service fee amount on a monthly basis, which constituted the roots for yearly financial plan and defined budget.

From 2020 SEE CAO applies new cost sharing methodology, which reflects the costs of operations more realistically. New approach for service fee calculation enables involved TSOs to pay different amount of service fee based on the number of operative borders and provided services that are on their behalf operated by SEE CAO.

For 2020, we plan to analyse and improve procedure for dividing of share costs and engage our technical, financial and legal personnel to work on new solutions and approaches, with the aim to find most appropriate solution of cost sharing, for the benefit of all included parties.



## VIII Financial aspects of business

---

SEE CAO's business stability is ensured by regular monthly revenues (inflows) for services provided to their users.

The annual budget is approved by the Board of Directors and is a guarantee of quality and stability of company's business.

During the previous business year, all collection of revenues was performed in accordance with planned dynamics, while the company was settling its obligations in accordance with the maturity dates. When designing the budget, particular attention is given to investments plans, both in terms of timely depreciation of existing fixed assets and in further development of modern software solutions.

Every year financial statements of the company are subject of review and appraisal by one of the reputable external audit companies. The financial statements for 2019 have been audited by Deloitte and have been assessed as true and objective in accordance with the accounting rules of Montenegro.



## IX Social responsibility

---

In addition to maximizing business values and operations, starting from 2019 SEE CAO directed its actions towards social responsible acting. We believe that social responsibility has become increasingly important and find the goal of contributing to welfare of society and environment as noble and significant.

As a company, we have recognized the importance of socially responsible acting and practicing of corporate social responsibility, which is as important for the beneficiaries, as it is for a company which in this manner makes positive influence on the surrounding community.

Because of this standpoint, on the occasion of its fifth anniversary SEE CAO and its employees have donated the amount of € 3,700 to children's hospital in Podgorica and in that way highlighted the importance of youngest and most vulnerable groups of our community.

We have also reacted to rough times of terrible earthquakes in Albania and as a SEE CAO donated the funds in the amount of € 2,000 to Albanian people as a sign of support, with hope that this small gesture from our side helped our neighbouring country in overcoming of this difficult situation.

We believe that by taking an active participation we can inspire, set good examples and make the impact into the lives of individuals, which is why we hope that this kind of practice will be part of our actions in future times.





## X Conclusions

---

Operational activities, successful performance of yearly, monthly and daily auctions in 2019 with neither one contestation from registered participants received, no lapses in invoicing and settling procedures, as well as confirmative feedback received from more than 120 registered trading companies, strengthened the position of SEE CAO as respectable allocation office in the European energy market. Our work has one more time been recognised by involved trading parties during public consultation for allocation of capacity on ITME border which confirms our resoluteness to continue with this work in most favourable way for all market participants.

From financial point of view, all incomes from auctions were collected from auction participants and distributed to shareholding TSOs in due time, which has resulted in the liquidity of the SEE CAO towards its shareholders and clients.

During the last few years SEE CAO records expansion in provided services, number of participant, serviced borders and consequently total work overload, but manages to maintain operational costs approximately around the same level, due to commitment of its team and upgrade of their work processes.

In 2019 we have completed one big investment - purchase of new hardware, a necessary precondition for upgrade of Damas Auction tool, which is planned to be purchased during the ongoing year.

Damas upgrade will enable SEE CAO to retain smooth functioning of the system and quality of provided services. New solution will be

completely suitable for ongoing, as well as future needs of SEE CAO, especially having in mind the continuous and tremendous developments in electricity markets, as well as in information technologies.

In terms of business development 2019 will be marked with golden letters because of adding one more border to SEECAO's portfolio - ITME border, which is very important for future plans and stability of SEE CAO.

This year was also special because of celebrating five successful years of SEE CAO operations and enjoying the quality time with people important for this SEE capacity allocation process.

Taking into consideration everything written above, we are glad to state that all of activities for 2019 have been successfully accomplished, which is primarily proven by successfully conducted harmonised allocation for 2019 and successfully commenced auctions for 2020.

Next year will be a big challenge for SEE CAO, but with our employees and Board of Directors as main governing body we are ready to tackle with all challenges in our future work.

At the end, we would like to sincerely thank to all of our colleagues and partners for being valuable part of our activities and progress to which we evidence and strive to.

With best wishes,

**SEE CAO, April 2020**

