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# Energy Projects in Kosovo



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## ABBREVIATIONS

USAID	Unites States Agency for International Development
MW	Mega watts
KIPRED	Kosovar Institute for Policy Research and Development
GAP	Institute for Advanced Studies
BIRN	Balkan Investigative Reporting Network
FIQ	Forum for Civic Initiatives
YIHR	Youth Initiative for Human Rights
PIPS	Prishtina Institute for Political Studies
ICG	International Crisis Group
KEK	Kosovo Energy Corporation
WB	The World Bank
LPTAP	Lignite Power Technical Assistance Team
U.S.	United States
SRSG	Special Representative of Secretary General
PSC	Project Steering Committee
MEM	Ministry of Energy and Mines
MEF	Ministry of Economy and Finance
MESP	Ministry of Environment and Spatial Planning
MLSW	Ministry of Labor and Social Welfare
ERO	Energy Regulatory Office
ICMM	Independent Commission for Mines and Minerals
UNMIK	United Nations Mission in Kosovo
ECLO	European Commission Liaison Office
ICO	International Civilian Office
KfW	German Development Bank
IBRD	International Bank for Reconstruction and Development
IDA	International Development Agency
IFC	International Finance Corporation
KEDS	Kosovar Electricity Distribution and Supply Company
NGO	Non-governmental Organization
LDK	Kosovo Democratic League
AAK	Alliance for Kosovo's Future
PDK	Kosovo Democratic Party
PIU	Project Implementation Unit
CEZ	Czech Republic Electricity Producer
GWh	Giga watt hours
EU	European Union

## **EXECUTIVE SUMMARY**

The Kosovo government, with the support of the World Bank and USAID, is determined to privatize the Electricity Distribution and Supply Company, the Kosova B thermal power plant, and lignite capacity, and is committed to going ahead with the construction of the Kosova e Re power plant. All these projects are being implemented without necessary studies on alternative sources of energy, reduction of commercial and technical losses, and improvement in energy-efficiency measures.

Any country seeking entry into the European Union must address several key issues in developing its energy strategy, including the well-being of its citizens, improvement in quality of life, and safeguarding environmental protection. Despite the infusion by Kosovar and international institutions of more than 1 billion euros into the country's energy sector over the past decade, these quality-of-life and environmental issues have not been measurably advanced. The European Union acquis requires would-be member countries to meet the EU's latest energy policy objectives, which include protection of the environment as a key element. However, the Kosovar government and Assembly have failed to address the EU requirements in the current national energy strategy, and a plan for Kosovo's actions in this regard is lacking. Simply put, the problems of the country's energy sector are far from being resolved.

In 2002 UNMIK signed the "Athens Memorandum," which led to the establishment of the Kosovar energy community. It was expected by all that this event would lead to the formation of a coherent energy strategy that would be congruent with EU requirements. The Kosovar government, being the only stakeholder in the country's energy sector, declared its commitment to moving ahead with the construction of the New Kosova (Kosova e Re) power plant. Yet significant problems still hinder that progress. Among these problems are a lack of well-researched strategies, rampant environmental pollution, sluggish economic development, and a lack of transparency on the part of local and international agencies and representatives.

This research paper presents a thorough analysis of the perspectives and roles of the main stakeholders that influence Kosovo's energy sector. It goes on to analyze the country's energy strategy, the energy market model, and the privatization process. It concludes by addressing some of the open issues of energy efficiency and alternative energy sources.

Those involved in the development of Kosovo's energy sector have yet to show any credible results. The Energy Strategy, drafted by the government in cooperation with the World Bank, USAID, the European Commission, and others, fails to address quality-of-life issues. Instead, it focuses solely on lignite power generation capacities. The whole process of developing new generation and distribution capacities has been marred by lack of transparency, discordance between international agencies and powers, and a failure to consult with civil society organizations.

Lignite power generation is the highest and only priority – The Kosovar government is rushing through the process of privatization because of the budgetary crisis it is facing. This process races on even in the face of the government's failure to pursue any studies on alternative sources of energy and to implement energy efficiency measures. As one might expect, the government's partners in the energy sector have different priorities, and therefore they are offering and pursuing different (and often conflicting) solutions. At the governmental level, questions are seemingly not being asked, let alone answered. These include the following: Beyond the production of energy, what level of environmental

standards should the government be supporting? Should the Kosovar government set energy efficiency as a higher priority than increased energy production? How do the different approaches affect citizens' well-being? Will they even meet the country's energy demands? These are the questions that citizens of Kosovo, along with various local and international stakeholders, are asking.

The government finds the World Bank's approach very appealing, with its calls for a new lignite power plant. But there was no consideration to promote alternative sources of energy prior to the promotion of lignite. Complicating all this is the fact that the International Finance Corporation has not made public the business plan for the privatization of the Kosovar Electricity Distribution and Supply Company (KEDS), and USAID consultants, unqualified as they are, have ended up acting as the decision makers.

Failure to address alternative energy sources in the energy strategy – Kosovo's energy strategies have narrowly and solely focused on lignite as the source for the production of electricity. Consequently, the new Kosovo's National Energy Strategy covering the period from 2009 to 2018 cannot be described as anything other than a lignite strategy. It includes no study on alternative forms of energy and no plans for future regional energy exchange. Further, it has no plans which would allow for the achievement of EU goal to reduce CO2 emissions by 20 percent, no plans to improve energy efficiency by 20 percent, and no plans to use renewable resources for 20 percent of electricity production by 2020. The Kosovo Assembly and the appropriate parliamentary committee should insist that the government redraft a new strategy taking the foregoing into consideration.

A market model that creates monopoly – The Energy Market Model developed by the government in 2010 has never been made public, and the privatization of generation and distribution capacities is being carried out hastily in order to avoid the budgetary crisis the government is expecting. The privatization of distribution is expected to be complete by the end of 2011, and of generation by early 2012.

Lack of vision translated into an ineffective privatization process – By insisting on utilizing coal to meet the country's energy needs, Kosovo seems to be falling away from fulfilling stated EU requirements that would otherwise pave its way for future entry. The process of privatizing the distribution and generation sectors was initiated years ago but has never come to fruition. So far, the failure of the government to deal with this issue in a timely fashion has led some credible foreign investors, such as RWE Energy and CEZ Group, to withdraw from the process. Currently, the government has prequalified some companies that lack proven management skills for projects of this size, and those choices do not bode well for the country's efforts necessary to meet EU environmental standards. Because neighboring countries have engaged competent Western companies in their pursuit of sound energy strategies and therefore will certainly surpass Kosovo's meager efforts, Kosovo will suffer the consequences with regard to stifled technology advancement and fiercer competition.

Open issues that need to be considered while addressing the strategy and privatization – Even though Kosovo's Energy Strategy has failed to attract regional cooperation, the country has already begun investing in a 400 kV line with Albania, which will create better opportunities for cooperation and will secure a more reliable power supply. Investment in a grid connecting Kosovo with Albania is needed. Yet even if such a project were to commence today, the energy grid within Kosovo is so poorly maintained that losses from both grids would constitute up to 43 percent of the energy produced. That calculates to be over a hundred million euros annually. These inefficiencies result in great technical and commercial losses

for Kosovo Energy Corporation. The inefficient use of energy can be observed in households, where 35 percent of the energy consumed is for heating, testifying to the fact that residential buildings have poor insulation and require immediate remedy. The Kosovo Action Plan for Energy Efficiency 2010–2018 predicts an increase of 9 percent in energy efficiency by the end of 2018. This figure is still considerably below the 20 percent EU requirement.

## Conclusions

KIPRED, GAP and FIQ point to the need to modify Kosovo's energy strategy in a more transparent manner, one that results in a plan that serves the interests of the citizens and reflects EU standards on the environment. The strategy should be based on two foundational premises:

1. The process must be transparent – The stakeholders (amongst others the World Bank) should ensure the transparency of the privatization process of public enterprises in Kosovo, especially the privatization of generation and distribution of electrical energy and energy market modeling. This can be done by conducting public discussions and incorporating comments from these forums into policy. This would ensure competence and accountability on behalf of all companies and entities involved.
2. The process must effectively and measurably result in the use of alternative sources of energy and energy-efficient mechanisms – To begin with, the Energy Strategy 2009–2018 should be updated to include thorough studies on alternative sources of energy. Next, the Action Plan on Energy Efficiency 2010–2018 should be revised to be in line with the EU criterion of a 20 percent increase in energy efficiency by 2020. Efforts must also be made to decrease technical and commercial energy losses and improve the insulation in residential buildings throughout Kosovo.

## 1. INTRODUCTION

The energy sector is very problematic in Kosovo. Despite local and international investment, Kosovo lives in a continual energy crisis characterized by pollution-producing lignite power generation, an old and inefficient transmission and distribution grid, and high technical and commercial losses. Long-promised energy-efficiency measures have not been established. Because of this, demand for electricity in the country is artificially high, and the citizens of Kosovo continue to face energy blackouts on a regular basis.

These power outages, an everyday occurrence in Kosovo since 1999, are one of the main obstacles to the country's economic development. Due to the lack of a reliable energy supply, many planned investments in Kosovo never materialize, and existing industry is at risk.

The current facilities for energy generation, especially the Kosova A thermal power plant, remain the biggest polluters in Kosovo. Environmental damage is caused not only by the ash released into the atmosphere, which has led to fatalities among the population living around the thermal power plants, but also by carbon dioxide emissions, the exploitation of coal, and the industrial use of water, a scarce resource in Kosovo.

As part of its efforts to overcome the energy crisis, Kosovo has compiled a National Strategy on Energy, which the Kosovo Assembly adopted in April 1<sup>st</sup>, 2010. Unfortunately, this strategy focuses mainly on boosting power generation capacity by increasing the mining of lignite, failing to sufficiently consider the issues of energy efficiency or alternative sources of energy production.

In this study, prepared by three research institutes,<sup>1</sup> the main issues of the National Strategy on the energy sector will be analyzed, with a focus on certain critical problems that are obvious within the National Strategy. Our goal is to promote development of the energy sector while considering the well-being and health of Kosovo's citizens, improving of the quality of life in the country, safeguarding environmental protection, and promoting Kosovo as an attractive country for foreign investment.

This study, which has been supported by a large network of non-governmental organizations in Kosovo,<sup>2</sup> identifies the strategic areas of the energy sector, analyses the Kosovo government's actions as well as those of other stakeholders, and puts forward concrete recommendations on how current developments in the sector can be improved in order to move into line with European Commission standards.

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<sup>1</sup> Kosovar Institute for Policy Research and Development (KIPRED), GAP Institute (GAP), and the Forum for Civic Initiatives (FIQ).

<sup>2</sup> This study was also supported by Balkan Investigative Reporting Network (BIRN), Youth Initiative for Human Rights (YIHR), Internews Kosova, DokuFest, Kosovo 2.0, Prishtina Institute for Political Studies (PIPS), International Crisis Group (ICG)

## 2. A BRIEF HISTORY

The Kosovo energy system has a history spanning several decades. In 1922 Kosovo inaugurated its energy development by opening its first underground coal mine. That mine provided coal until 1958, when surface digging of lignite began in the Mirash mine. Today the Mirash mine, the Bardh mine, and the Sibovc South West mine are Kosovo's main sources of coal for energy, supporting a total annual production of approximately 7 million tons of lignite. By 1960, the first coal-based thermal power plant was under construction. This was the Kosova A thermal power plant, whose first unit had an installed capacity of 65 MW. Kosova A had constructed four other units by 1975, reaching a total installed capacity of 800 MW. Between 1977 and 1984, the second thermal power plant, Kosova B, was built, with a total capacity of 678 MW from two generating units.

For a long time, Kosovo participated in the energy system of the former Yugoslavia. During that period, energy production in Kosovo was concentrated on lignite-based production (thermo), with a small contribution from water-based production (hydro). Kosovo's own energy supply came both from the Kosova thermal power plants and from other sources of energy production located throughout the territory of the former Yugoslavia.<sup>3</sup>

In the '90s, during Yugoslavia's dissolution, the energy system of the country received very little maintenance or investment. From 1989 to 1999 most local experts were unable to work. However, in mid-June 1999, when the last war with Serbia ended, Albanian workers started coming back to Kosovo and were able to return to their jobs. After a decade of neglect, the energy sector received investments first from international and then from local institutions in order to revive the country's energy capacity.

In the postwar period the power sector received a large infusion of international aid. While accurate figures on this are not available, it is estimated that more than 1 billion Euros have been invested since 1999. However, even these funds have not been sufficient to resolve the problems of the country's energy sector.

From 1999 to 2006 the Kosovo Trust Agency held the shares of the main energy company of the country, KEK J.S.C., and managed the energy sector. During this time, the sector was under partial supervision by local managers, but most of its management was conducted by international companies. Companies that intervened at different times to manage KEK included Mott McDonald (UK), Électricité de France (France), SwedPower (Sweden), and ESB International (Ireland). A number of locals have held managerial positions since 2006. Despite the investment and aid coming from abroad and from home, problems and difficulties were never completely overcome.

Today, the Kosovo government remains the main and only shareholder in its country's energy sector. In cooperation with other stakeholders such as the World Bank (WB), the United States Agency for International Development (USAID), the European Council, and other actors, the government prepared the Kosovo National Strategy on Energy 2009–2018, with the objectives of overcoming chronic problems with the power supply and meeting the demands of local consumers. This strategy focuses mainly on developing the country's energy sector by supporting projects for lignite-based energy generation, on and raising the level of investments with private capital, specifically through the privatization of this sector.

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<sup>3</sup> Kosovo Energy Corporation J.S.C. (<http://www.kek-energy.com>).

### **3. INVOLVED ACTORS**

From 1999 to 2006 the privatization of socially owned enterprises was led by international institutions, but today this process is handled by Kosovo's leaders, with the support of important financial and political international institutions.

Most of the civil organizations in Kosovo support the process of privatization as a concept, with the understanding that private investment in major capital projects is crucial for economic development. However, experiments in privatization so far have shown that local institutions, even when supported by international institutions and organizations, have not managed this process appropriately. Therefore, even nine years after the initiation of the privatization process, there is still no privatization success story in Kosovo and the country has not introduced credible international companies into the market.

#### **3.1. Government of the Republic of Kosovo**

All central public enterprises are currently the property of the Republic of Kosovo and are managed by the Kosovo government. The Kosovo Energy Corporation, the Transmission System and Market Operator are central public enterprises, with the government the sole shareholder. The Kosovo government is the chair of two government commissions on privatization: the Project Steering Committee, which is responsible for the privatization of power generation,<sup>4</sup> and the Commission for the Privatization of Distribution and Supply.<sup>5</sup>

According to the Law on Public Enterprises,<sup>6</sup> the shares of a central public enterprise can be sold if the government adopts a written decision authorizing the Government Commission for privatization to proceed with the tendering process and the sale of shares, on the condition that this decision is adopted by a simple majority vote in the Kosovo Assembly.<sup>7</sup> The sale of public enterprise shares has been implemented within several countries of the region in previous years, with the aim of realizing more efficient management and increasing competition due to private capital involvement. According to the Kosovo government, with the adoption of the Energy Strategy 2009–2018 the Kosovo Parliament has given permission to the government to proceed with the privatization of power generation and distribution. However, the Energy Strategy does not specify what percentage of shares may or will be sold.<sup>8</sup> The Kosovo Assembly has yet to discuss this topic and provide clarity.

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<sup>4</sup> Executive Decision no. 2006/6 reached by the Special Representative of the Secretary General (SRSG) on the 17<sup>th</sup> of March 17, 2006.

<sup>5</sup> Government Decision no. 08/39, of the 8<sup>th</sup> of October 8, 2008.

<sup>6</sup> Law no. 03/L-087.

<sup>7</sup> Article 9.1 of Law no. 03/L-087 on Public Enterprises.

<sup>8</sup> The strategy for the privatization of KEK, which was discussed by the Kosovo Assembly in 2010, includes the option for the sale of shares.

### 3.2. Role of the World Bank

With the objective of creating a more suitable environment for private investors to develop the quarrying of lignite and the construction of new energy production capacity based on lignite, the World Bank Board of Executive Directors approved the “Lignite Power Technical Assistance Project (LPTAP)” on September 13, 2006, for which it initially allocated 8.5 million U.S. dollars.

This project was initially categorized as a B category project, which implies that it does not involve significant environmental issues. As such, from its initial stages the project has not focused on the critical environmental issues that accompany the development of the new power plant project named “Kosova e Re”, which foresees the opening of a new lignite mine and construction of a new lignite based power plant. The consequences of this inaccurate categorization have been negative, as no attention has been paid to assessing the environmental effects and overall coal costs related to the opening of the plant or its new lignite mine.

In order to ensure effective implementation of the LPTAP project, former SRSJ Soren Jesen-Petersen established the Project Steering Committee (PSC).<sup>9</sup> According to the executive decision, the Project Steering Committee comprised the prime minister, the minister of energy and mines (MEM), the minister of environment and spatial planning (MESP), the minister of economy and finance (MEF), the minister of labor and social welfare (MLSW), the Energy Regulatory Office (ERO), the Independent Commission for Mines and Minerals (ICMM), the Kosovo Trust Agency (replaced by the Kosovo Privatization Agency), the Office of SRSJ, and the Head of UNMIK Pillar IV. The latter two have not been members since Kosovo declared independence in 2008.

The composition of the PSC has recently shifted with the change in the national administration. The former chairperson of the Project Steering Committee has made allegations against transaction advisers and certain monitoring members of the committee, such as the World Bank and USAID.<sup>10</sup> This conflict between this former chairperson and other actors involved is further evidence of the controversy that surrounds this project, and brings into question whether the project as currently envisioned is the best solution for Kosovo.

Current members of the PSC include monitors from the donor community and institutions active in Kosovo: the World Bank, USAID, the European Commission Liaison Office (ECLO), the International Civilian Office (ICO), and the KfW banking group. **There was no place reserved in this committee for members of NGOs, not even as monitors. Furthermore, all the decisive documents for the project have remained unpublished and are unavailable to the public or to NGO’s for review.** The implication is that from the outset the project was not designed to be transparent. The European Parliament has raised the issue of NGO participation in these important activities<sup>11</sup> with the Kosovo Parliament, requesting the Kosovar institutions to allow more significant participation of these organizations.

Globally, the World Bank is currently looking at its own strategy on energy. Under the

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<sup>9</sup> Executive Decision no. 2006/6.

<sup>10</sup> Interview of the MP Justina Pula in the “Koha Ditore” newspaper on the 25<sup>th</sup> and 26<sup>th</sup> of April 25–26, 2011.

<sup>11</sup> The conclusions of the interparliamentary meeting between the EU Parliament and Kosovo Assembly May 19–20.

proposed changes, the World Bank will continue to act as a supporter of energy projects but will not invest in coal-based energy projects in member states that are part of the International Bank for Reconstruction and Development (IBRD) or in countries classified as “*IDA-blend*.”<sup>12</sup> It will support coal-based energy projects in member countries of the International Development Agency (IDA), but only when all other alternatives have been exhausted.

Kosovo, an IDA member, is eligible to receive technical and financial assistance for development of lignite energy capacities. **However, according to the Criteria for Screening of Coal Projects under the Strategic Framework for Development and Climate Change of the World Bank, an investment of the World Bank in a coal-based project can happen only if all other alternative forms of energy have been taken into consideration, such as hydro, solar, wind, and geothermal energy, and other very specific measures are taken to address energy accountability. According to its own policy regulations, the World Bank must conduct adequate studies into each of these possibilities before engaging in a project based on coal.** These are the criteria for when a coal-based project can be considered:

1. There is demonstrated developmental impact of the project, including improving overall energy security, reducing power shortage, or increasing access for the poor
2. Assistance is being provided to identify and prepare low-carbon projects
3. Energy sources are optimized, looking at the possibility of meeting the country’s needs through energy efficiency (both supply and demand) and conservation
4. After full consideration of variable alternatives to the least cost (including environmental externalities) options, and when the additional financing from donors for their incremental cost is not available
5. Coal projects will be designed to use the best appropriate available technology to allow for high efficiency and, therefore, lower GHG emissions intensity
6. An approach to incorporate environmental externalities in project analysis will be developed.

In Kosovo, the World Bank has not followed these steps. The WB project in Kosovo is oriented almost exclusively toward lignite energy. This is made clear by the very title of the project—the Lignite Power Technical Assistance Project (LPTAP)—and by the name of its WB-created site on the Internet, which is “LignitePower.com.”<sup>13</sup> The WB, in cooperation with the Kosovo government, is pushing for the privatization of energy generation without carrying out other necessary studies and before addressing the issue of energy accountability. There are as of now no WB studies on alternative energy sources, technical and commercial losses have not yet been tackled, energy efficiency is not a priority, and very little is being done in terms of developing projects that aim to address issues related to this field. It is not known what kind of technology will be used to reduce the carbon emissions from coal burning, and there has been no study or calculation of the cost-benefit ratio of this project in comparison to other possible projects.

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<sup>12</sup> The “blend” category is used to classify countries that are eligible for IDA resources on the basis of per capita income but also have limited creditworthiness to borrow from the IBRD.

<sup>13</sup> <http://www.lignitepower.com>.

Furthermore, WB has not provided any information related to the costs that Kosovo will have to pay for the Carbon emissions when it joins EU. This calculation has a significant economic impact. Being aware of the increasing tariffs EU countries will be paying for carbon emissions, the WB should at least provide different scenarios that account for this cost. Besides it, this then should be scaled with other projects that could be developed in order to provide an accurate overview of what projects would cost the Kosovar consumers less.

Therefore, before proceeding with the privatization of lignite and generating capacity, the WB should conduct the necessary studies on alternative energy and should invest in energy-efficiency measures and in reducing technical and commercial losses, all in line with its Operational Policies and its Climate Change Approach (Strategy).

### **3.3. International Finance Corporation (IFC)**

The IFC is involved in the process of the privatization of the Kosovar Electricity Distribution and Supply Company (KEDS). Its role is to advise the Kosovo government on privatization options for the company. The IFC has recently submitted to the government a business plan that contains different scenarios under which KEDS can be privatized. This plan has not been discussed with NGO's or with the Kosovar public. The document itself contains very important information on what the future electricity tariffs will be for the consumers, and on how the government will be involved in terms of providing subsidies to the private company to cover commercial losses or in terms of necessary power imports, all of which affect the taxpayers and add to the final electricity tariff consumers will have to pay. Furthermore, this document contains important information relating to the Energy Market Model of Kosovo.

An area that is left out of discussion in this document<sup>14</sup> is the issue of labor. This is of significance to the employees of KEK. Labor unions representing employees of the company have not yet been contacted by the IFC or the government to discuss the fate of current employees, in spite of their regular requests to meet with involved stakeholders and receive information on what is intended. According to USAID, which is also involved in the process through its advisers, up to two-thirds of current employees will not be retained within the new privatized company. If this is the case, the IFC has failed to comply with its own standards for the implementation of such projects.<sup>15</sup>

### **3.4. European Commission and the Energy Community**

In 2002 the UN Mission in Kosovo (UNMIK) signed a Memorandum of Understanding for the Establishment of the Joint Energy Market in Southeastern Europe and for its integration into the European energy market, which is known as the "Athens Memorandum." This led to the establishment of the Energy Community, whose treaty was again signed by UNMIK on behalf of Kosovo on October 25, 2005.<sup>16</sup>

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<sup>14</sup> According to Bernard Atlan, head of the IFC team in the KEDS project.

<sup>15</sup> Performance and Labor Standards of the IFC.

<sup>16</sup> [http://www.energy-community.org/portal/page/portal/ENC\\_HOME](http://www.energy-community.org/portal/page/portal/ENC_HOME).

Under the Energy Community Treaty guidelines, Kosovo began the restructuring of KEK and the establishment of regulatory authorities. The restructuring process began in 2005,<sup>17</sup> and continued in 2008 under the new government.<sup>18</sup> The first stage of this process involved separating seven nonessential business units from the corporation and spinning them off as socially owned companies under the appropriate contractual terms. Later, coal production, energy generation, distribution, and sale were also spun off. On July 1, 2006, the public company for electrical energy transmission was established.

The process of spinning off the energy pyramid continued in 2008, with the separation of coal and energy production from its distribution and sale. This resulted in the establishment of a new public company for energy distribution and supply, the Kosovo Energy Distribution and Supply Company J.S.C. (KEDS), the shares of which were also held by the Kosovo government. The Kosovo government then decided to sell the shares of this new enterprise through a tender procedure.<sup>19</sup>

The European Commission Liaison Office (ECLO) is involved in the energy sector in Kosovo through the Secretariat of the Energy Community Treaty. The Secretariat represents the ECLO in meetings with commissions on the privatization of energy sources. The ECLO has expressed its concerns with the market model that is being discussed. It has concerns about both the possible limitations on competition and the environment, specifically in terms of implementation of EU Directives on the environment.

### 3.5. USAID

USAID bases its involvement in Kosovo on three main pillars: economic growth, democracy and governance, and youth and education. USAID has a stake in the Kosovo energy sector through its economic growth pillar. There are three main areas of USAID involvement in Kosovo:

1. Encouragement of private-sector economic growth
2. Strengthening of the economic institutions responsible for ensuring fiscal sustainability
3. Reliable energy supply

The main idea behind the privatization of the distribution and supply businesses came from USAID consultants in KEK J.S.C. These consultants were involved in the daily work of the corporation after 2006. Initially, their involvement frequently exceeded the terms of their contractual obligations.<sup>20</sup> Reference is made to their involvement in the tender process of the corporation, acting as bid evaluators, and their acting in a management capacity in specific departments (especially Auditing), among other activities. USAID is directly involved in the committee for the privatization of the Distribution and Supply Company.<sup>21</sup> Additionally, USAID cooperates and assists the World Bank in the Technical Assistance Project for the new thermal power plant and the sale of the Kosova B thermal power plant.<sup>22</sup>

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<sup>17</sup> Decision of the Kosovo government no. 2005/06.

<sup>18</sup> Government Decision no. 04/36.

<sup>19</sup> Government Decision no. 03/38.

<sup>20</sup> Reports in daily newspapers in Kosovo of the signing of tender evaluation processes by consultants.

<sup>21</sup> <http://www.keds-piu.org/sq/project-advisors>.

<sup>22</sup> [http://www.lignitepower.com/index.php?option=com\\_content&view=category&layout=blog&id=36&Itemid=88&lang=sq](http://www.lignitepower.com/index.php?option=com_content&view=category&layout=blog&id=36&Itemid=88&lang=sq).

## 4. KOSOVO ENERGY STRATEGY

In 2005 the Kosovo Assembly adopted an Energy Strategy for the years 2005–2015. This strategy was reviewed in 2009, and the Kosovo government sent for Assembly approval an updated Energy Strategy for 2009–2018. Following months of discussion in the Kosovo Assembly, the Energy Strategy for 2009–2018 was approved by the Kosovo Assembly on April 1, 2010.

Similar to the Energy Strategy for 2005–2015, this updated strategy also focuses mainly on lignite and the production of energy from lignite, leaving aside the question of alternative sources of energy. The Kosovo Energy Strategy 2009–2018 (hereinafter referred to as the Strategy) includes lignite capacity studies, assessment of the current situation in the two thermal power plants, and consideration of new possible investments in lignite, but does not include any study on alternative forms of energy such as wind, solar, and geothermal energy. Additionally, the Strategy does not include any detail on the possibility of implementing energy projects outside the country in an effort to establish a regional energy exchange. The objectives of eliminating high energy losses in the grid, both technical and commercial, and of improving energy efficiency have also been largely ignored. It must be said that Kosovo does not have a comprehensive strategy; it has a lignite strategy.

An energy strategy that is valid for the period up to 2018 should contain studies on alternative energy sources. These are especially crucial when considering that in accordance with the requirements of the European Union, EU member states and states aspiring to become part of the EU should achieve a 20 percent ratio of energy production from renewable sources, increase energy efficiency by 20 percent, and reduce CO<sub>2</sub> emissions by 20 percent by 2020, an energy agreement known as the 20-20-20 principle.

**Likewise, the Kosovo Assembly should require the government to prepare a new strategy looking forward to 2020, specifically in terms of how to meet these requirements.**

In addition to the strategy itself being incomplete, the process of its adoption has been irregular and questionable. In the Kosovo Assembly session of April 1, 2010, the Commission for Economy, Trade, Industry, Energy, and Telecommunication, as a functional commission, reviewed the Energy Strategy 2009–2018 and added its own recommendations for the adoption of the Strategy, which included these five items:

1. Lignite resources must be made available for utilization in accordance with the new energy generating capacity and in harmony with the development interests of Kosovo.
2. The government should create a legal environment for competition and encourage the free market in the energy sector.
3. The Kosova B thermal power plant is not to be included in the tender package together with Kosova e Re, but should remain operative in accordance with the Energy Strategy that was discussed within the Assembly.
4. Construction of new generating capacity is to be done on the basis of the long-term interests of Kosovo, beginning with 1,000 megawatts, with the possibility of constructing other capacity that meets the requirements and the energy balance of the countries in the region.

5. The Kosovo government must match the action plan with the Energy Strategy adopted for the period 2009–2018.

The Assembly adopted the Energy Strategy for 2009–2018, along with the five recommendations of the parliamentary commission, with changes to Recommendation 3. However, the current state of Recommendation 3 remains unclear. In the April 1, 2010, session, the Assembly considered numerous proposals, such as not including the Kosova B thermal power plant in the tender package with the Kosova e Re thermal power plant; involving a private investor in Kosova B different from the one in the new thermal power plant; and the government's proposal, that Kosova B be included in the tender package with Kosova e Re. The decision of the Assembly president, no. 03-V-272, reformulates Recommendation 3 by giving the government permission to include the revitalization of Kosova B in the tender package of Kosova e Re, even though in the initial strategy sent by the government to the Assembly no such possibility was expressly mentioned.

Recommendation 1 is also in question. According to the explanations of the parliamentary commission members, this recommendation was made with the objective of identifying what lignite mining capacity will be given to investors in relation to the power production capacity.<sup>23</sup> This recommendation was supported by the government. On the other hand, as we will see further on in this analysis, in the call for investor prequalification, the lignite mining capacity for the new quarrying site is included in the tender package.

Therefore, the Energy Strategy, in addition to including studies of alternative energy sources, should also be amended to clarify the decision of the Assembly on the inclusion of Kosova B in the tender package with Kosova e Re, to identify how lignite mining will be privatized, and to enforce the need to improve energy efficiency by reducing the loss of electric energy in the grid.

## 5. ENERGY MARKET MODEL

Another of the most important energy documents, in addition to the Kosovo Energy Strategy, is the Energy Market Model. In May 2010, the Kosovo government asked the Ministry of Energy and Mines and the Ministry of Economy and Finance to establish and instruct a working group to review and revise the Energy Market Model.<sup>24</sup> Two months later the government adopted a new Energy Market Model according to the proposal of that working group.<sup>25</sup> This concept was never made public, even after demands by civil society representatives.<sup>26</sup> Making this concept public and the inclusion of civil organizations in this

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<sup>23</sup> See the discussion of the CETIET member Mr. Et'hem Ceku in the plenary session of April 1, 2010, on the Energy Strategy.

<sup>24</sup> Kosovo Government Decision no. 7/125 of May 18, 2010.

<sup>25</sup> Kosovo Government Decision no. 7/135 of July 28, 2010.

<sup>26</sup> In August 2010 the GAP Institute, as part of the GAP Monitor project on the reporting of Kosovo government decisions, forwarded a request to the MEM and the MEF to gain access to the Concept Electrical Energy Market Model adopted on July 28, 2010; however, it did not receive an answer to this request. Civil societies have requested the opening of the process on the energy market modelling in the meetings held with the European Commission, the World Bank, and USAID; however, there was no willingness to make this process transparent.

process are basic and necessary requirements for democratic decision making. Claims that the market model will include guarantees for investors that the government will cover all their losses for 20 consecutive years contradict the Kosovo government's arguments that privatization of distribution and generation will bring economic development. They also contradict the EU principles of a free market economy and bring the "free market" dangerously close to a monopoly.

**In order to run the energy market as effectively as possible in the following years, the process must be made transparent; NGO and independent experts must be included in this process.**

## **6. PRIVATIZATION PROCESS AND METHOD**

The Kosovo government, with the support of its international partners, has divided the privatization of energy sources and infrastructure into two phases: 1) privatization of distribution and 2) privatization of generation. These two processes were initiated years ago, but their core elements have undergone continuous changes as result of government policies. This has caused some credible investors to lose interest and walk away from the processes.

The privatization process is now being hurried along because of Kosovo's budget crisis. The government has announced that the winner of the privatization process for distribution and supply will be announced in September 2011, with the financial settlement to be made in December 2011. For the privatization of generation, the winner is expected to be announced in March 2012 and the financial settlement to be made in October 2012.<sup>27</sup> It seems obvious that privatization is now more focused on budgetary issues than on the resolution of energy problems or on sustainable development.

### **6.1. Generation**

The lignite-based thermal power project was initiated in 2005 by the Kosovo Democratic League (LDK) and the Alliance for Kosovo's Future (AAK), which were in power at the time. The project entailed the construction of a thermal power plant that would produce up to 2,100 MWh of electrical energy. Proposals were collected in 2006, and four large global consortiums were prequalified. This project was later delayed with the shift in government in 2008, a new governing coalition having been formed between the LDK and the Kosovo Democratic Party (PDK). When the project was reviewed again, plans were made for the construction of a lignite-based thermal power plant, but energy output was downgraded to 1,000 MWh. This project never moved forward. It came to a halt immediately after the Copenhagen Conference on World Climate in 2009, at which conference parties agreed on new regulations for any construction of coal-based thermal power plants. After this conference, the Kosovo government agreed to review the project once again, this time proposing a plant of 600 MWh capacity and also opening a new lignite mine (the Sibovc mine, which contains up to 990 million tons of lignite).

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<sup>27</sup> Economic Development Vision 2011-201, adopted in the Kosovo government on April 18, 2011 ([http://www.gapmonitor.org/data/Image/Aprovimi\\_i\\_Vizioni\\_i\\_Zhvillimit\\_Ekonomik.pdf](http://www.gapmonitor.org/data/Image/Aprovimi_i_Vizioni_i_Zhvillimit_Ekonomik.pdf)).

Currently the World Bank is involved in Kosovo energy through its financial support of the Lignite Plant Technical Assistance Project (LPTAP). The role of the World Bank is expected to increase with the provision of a Partial Risk Guarantee and possible provision of financial support in the supervision of the works to open the new lignite mine and construction of new power plant. The managing body of the project is the Project Steering Committee, whose main duty is the coordination and supervision of the Project Management Group. The transaction adviser for this project is PricewaterhouseCoopers.<sup>28</sup> The Kosovo government has prequalified four international companies for this project:

- Consortium Adani Power/PT Adani Global from India and Indonesia
- Consortium AES Electric Ltd./Demir Export A.S. from the USA and Turkey
- The Park Holding Submission from Turkey
- Consortium PPC/Contour Global LLP from Greece and the UK/USA

Experts in this field and representatives of civil society have raised concerns over these companies' lack of experience in managing a project of these proportions. Additionally, the implementation of this project is in conflict with some EU rules that Kosovo has made a commitment to implement and that come from the Energy Community Treaty, including reduction in the levels of ash, NOx, SOx, and other particles. However, the levels of pollution and CO2 gas emission the plant may produce are not limited by any of the rules, as Kosovo is not a signatory of UNFCCC and the Kyoto Protocol.

Energy Community Treaty	Kosova e Re Thermal Power Plant	
	Fulfillment	Nonfulfillment
Acquis on energy	X	
Acquis on environment		X
Acquis on competition		X

Due to a lack of information, it is difficult to calculate the cost of constructing the new thermal power plant. Implied public health costs and mining costs, among other important data, are missing. The project in its current phase does not provide any meaningful information on the level of pollution that it will cause, and does not provide specifics on the technology that will be used. Without this data there is a significant threat to the well-being of affected communities. Furthermore, privatization of the existing Kosovo B plant to the same private investor represents creation of a power generation monopoly, which goes against the EU initiative to open up the energy market in the Balkans.

Furthermore, under the proposed development Kosovo will not be able to achieve targets set by the European Commission in its 20-20-20 principle. Kosovo currently has no plans to reduce CO2 emissions by 20 percent, improve energy efficiency by 20 percent, and use

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<sup>28</sup> In addition to these, John T. Boyd Company and PB provide their services as transaction advisers, while Hunton & Williams and IPA cover the legal advising part and ERM & CSA Group provide advisory services on the environment.

renewable resources for 20 percent of its electricity production by 2020.<sup>29</sup> This new thermal power plant may present a serious problem as Kosovo looks to integrate into the EU, taking into consideration the EU objectives on significantly reducing CO2 emissions in the decades to come (20 percent by the year 2020, 50 percent by the year 2050, and 80 percent by the year 2080).

The construction of the thermal power plant also presents a serious risk for potential investors in the field of renewable energy. The discouragement of potential investors by government officials has already been recorded unofficially.<sup>30</sup>

KIPRED, GAP, FIQ, and other civil organizations are concerned about the fact that the Kosovo Energy Strategy is not based on a full study of alternative energy and has few prospects for projects focused on developing cleaner energies. Furthermore, Kosovo has not developed a market model that provides healthy competition in the field. Additionally, full data on costs and benefits of the implementation of the projects in question are missing. By not providing complete and accurate data on the benefits and costs for the development of projects foreseen in its Energy Strategy, Kosovo risks developing projects that could be damaging to the country and that will, among other things, result in dangerous pollution of the environment, high health care costs, an inefficient energy system, lack of clean energy, and failure to achieve European objectives in the field of energy production.

## **6.2. Kosovar Electricity Distribution and Supply Company**

The electricity distribution and supply businesses are part of the Kosovo Energy Corporation J.S.C (KEK), of which the Kosovo government is the sole shareholder. The government has decided<sup>31</sup> to spin out the distribution and supply process from the lignite production and generation units of KEK and privatize it.

The privatization project is being managed by the Project Implementation Unit (PIU), which is a technical project management body that also serves as the technical secretariat of the Privatization Committee. The PIU reports directly to the Privatization Committee and is tasked with the daily implementation, management, and supervision of the project. The Privatization Committee, established by Decision 08/39 of the Kosovo government, is responsible for implementing the project in accordance with government objectives.

The privatization of electricity distribution networks in other Balkan countries has resulted in their sale to Western companies, as was the case with CEZ from the Czech Republic in Albania, EVN of Austria in Macedonia, and A2A SpA of Italy in Montenegro. The four consortiums that are currently prequalified to take over the production process in Kosovo are Calik Holding and Limak Holding from Turkey, Elsewedy Electric from Egypt, and Consortium TAIB – Yildizlar from Bahrain.

Also, though the stated goal of privatization is to increase efficiency and competition, with the privatization of the supply service and the distribution grid to a single entity, the Kosovo

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<sup>29</sup> The Kosovo Energy Strategy 2009–2018 foresees that until 2016, only 7 percent of the energy produced will be from renewable sources.

<sup>30</sup> Interview with potential investors from whom bribes were demanded by government officials.

<sup>31</sup> Through Government Decisions 03/08 and 08/09.

government will narrow the possibility of competition in the field of electricity supply in the future.

Most important, the business plan that is being discussed for the new company has not been discussed openly and remains unknown to the public. This documentation contains crucial information on future electricity tariffs, government subsidization in the coming years for power imports and for commercial losses, the plan on decreasing technical losses, and other important aspects that are directly connected with the tariffs consumers will have to pay in the end.

On the other hand, the project for the privatization of the distribution and supply businesses could contradict EU rules according to the Energy Community Treaty, as the privatization process partially conflicts with the *acquis* on energy and is completely in conflict with the *acquis* on competition.

## **7. ADDRESSING OPEN ISSUES**

### **7.1. The 400 kV line with Albania**

In the Kosovo Energy Strategy, there has been no consideration of the regional possibilities of coordination and cooperation of energy systems.

The Kosovo government has declared the 400 kV line Kosovo–Albania to be of general national interest.<sup>32</sup> Investments in this line were first made at the beginning of May 2011 and will total approximately 34 million euro. The construction of this line is expected to improve the energy supply in Kosovo, especially in wintertime, and will enable the exchange of energy between these two countries. The German government has allocated a grant of 16.5 million euro, while the German Development Bank (KfW Entwicklungsbank) has issued a soft loan for the sum of 17 million euro for the construction of this energy line.

This project may affect Kosovo positively in terms of a more secure power supply during times when Albania has reserves. This development needs to be considered prior to going ahead with any other plans to establish new electricity projects in Kosovo.

### **7.2. Investments in Energy Efficiency**

Kosovo belongs to the list of countries that are energy-inefficient.<sup>33</sup> Very little progress has been made so far in improving energy efficiency. According to the Action Plan on Energy Efficiency 2010–2018, households are the biggest consumer of energy (63 percent). Approximately 35 percent of the energy being produced is used for heating dwelling spaces. This figure is indicative of the poor insulation in residential buildings throughout Kosovo. Therefore, any discussion of energy production should emphasize proper insulation of residential buildings. Improving energy efficiency reduces energy demand, which means a smaller plant would likely meet demand.

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<sup>32</sup> Decision 04/140 of the Kosovo government on August 18, 2010.

<sup>33</sup> The World Bank Group, *Energizing Sustainable Development: Energy Sector Strategy of the World Bank Group*, March 16, 2011.

Although achievement of the 20 percent measure of energy efficiency by 2020 is one of the requirements of the European Union, the Kosovo Action Plan for Energy Efficiency 2010–2018 set as an objective 9 percent by 2018. This objective is too low, and if this pace continues, Kosovo will not be able to achieve the energy-efficiency goal of 20% until 2030.

The Kosovo government and the Kosovo Parliament are considering the Law on Energy Efficiency, and it is expected to be adopted by the Assembly in the coming months. Comments on the content of this law have been offered by civil societies during the public debate period. The adoption of the law would pave the way for the establishment of the Energy Efficiency Agency and would ensure a more meaningful inclusion of municipal assemblies in increasing energy efficiency.

### **7.3. Reducing losses in the grid**

Energy losses are currently very high. According to the Energy Strategy 2009–2018, from the gross consumption in 2007 of 4,582 GWh of energy, only 2,425 GWh (53 percent) was billed; from this billed energy, an amount covering only 1,843 GWh (76 percent) was collected. In 2007 the commercial losses were 1,333 GWh, equivalent to the entire production of Kosova A, all production from the hydro power plants and part of Kosova B production. These losses represent €9 million for KEK J.S.C., a sum that would have allowed it to cover all its operational costs and energy imports, as well as part of the capital investments that were made during this period. From 2007 to now, very little has been done to prevent these losses. The latest figures indicate that 42 to 43 percent of produced energy is lost.

Therefore, before new generating capacity is built, these commercial and technical losses must be stemmed. The government must assess the realistic demand for energy and what additional energy capacity is required.<sup>34</sup>

### **7.4. Studies on alternative energy sources**

According to its own Operational Policies, the World Bank invests in coal energy only in cases where studies conclude that a country has no other sufficient sources of energy. In Kosovo, the WB has not done any studies on solar, wind, or geothermal energy capacity. The Kosovo Energy Strategy 2009–2018 is a coal-based strategy. Even though the Strategy indicates that alternative studies will be carried out, so far these studies have not been initiated. The WB must conduct a study on alternatives before engaging with any lignite project, in accordance with its Operational Policies.

### **7.5. Resettlement**

The construction of the new lignite-based power plant is connected to the opening of a new lignite mine, the Sibovc mine. A smaller mine, named Sibovc South West, which will be sold to the company that wins the bid for the construction of the new plant, has already been

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<sup>34</sup> Item 3.2 of the Energy Strategy 2009–2018.

opened. The Kosovo Energy Corporation (KEK) has already bought land from the inhabitants in the area to start opening the large Sibovc mine. This acquisition has not been done in accordance with the World Bank Operational Policy on land acquisition and resettlement.<sup>35</sup> World Bank regulations apply to all procedures surrounding the Sibovc mine resettlement, which is why a Resettlement Policy Framework had to be endorsed by the government of Kosovo. The purchase needs to be reviewed and people who sold their property for the purpose of opening the new mine need to be paid fairly per World Bank policies.

Furthermore, Kosovar law currently lacks legislation that explicitly defines policy for involuntary resettlement. Law No.03/L –139 On Expropriation of Immovable Property comes closest to providing guidelines for issues of resettlement; that said, this law falls short of meeting the World Bank regulations on involuntary resettlement, as outlined in WB Operational Policy 4.12, in numerous ways. Reforms to current Kosovar law are of the utmost importance, as they could potentially provide the sole guidelines for the entire resettlement process in the new Sibovc mining area.

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<sup>35</sup> WB OP 2.14 “Involuntary Resettlement.”

## 8. CONCLUSIONS

1. Privatization of public enterprises in Kosovo has been a nontransparent process, without any public discussions and without involving the civil society. One of the most nontransparent processes is that of the privatization of generation and distribution of electrical energy and energy market modeling.
2. The Energy Strategy 2009–2018 is a strategy based almost exclusively on lignite and has not been accompanied by necessary studies on alternative sources of energy. Its adoption on April 1, 2010, was both hasty and ambiguous.
3. Companies prequalified for the purchase of generation and distribution capacity do not have sufficient experience in managing large energy projects, especially not in the production of clean energy. Most of the bidding companies are non-European companies.
4. Technical and commercial losses of energy are high, and so far nothing has been done to prevent these losses.
5. The Action Plan on Energy Efficiency 2010–2018 does not fulfill the EU criterion of a 20 percent increase of energy efficiency by 2020.
6. The sale of the new lignite field and the inclusion of the Kosova B thermal power plant with the construction of the Kosova e Re plant go against the principles of a free market and competition. Accordingly, Kosovo risks creating a monopoly in the field of energy. This is in conflict with the European Union principles.
7. The involvement of the WB in the construction of a new thermal power plant before studies on alternative sources of energy are conducted and without addressing energy losses and energy efficiency goes against the principles of the World Bank itself, proclaimed recently in the draft strategy of the WB and stipulated in its Operational Policies.

## 9. RECOMMENDATIONS

1. The Energy Strategy 2009–2018 needs to be redrawn and amended with necessary studies on alternative energy sources to reflect the EU goals in the field of energy.
2. Studies on alternative energy sources must be conducted by the World Bank or under its supervision prior to the development of any other lignite-based project; these include studies on solar energy capacity, wind energy capacity, and energy capacity from geothermal sources.
3. Energy efficiency, reduction of technical and commercial losses of energy, and investment in transmission lines with neighboring countries need to be pursued prior to the development of any lignite-based project.
4. Concrete plans and appropriate implementation mechanisms for achieving EU objectives for 2020 need to be defined and implemented immediately, including increasing energy efficiency by 20 percent, producing 20 percent of energy from renewable energy sources, and reducing CO<sub>2</sub> emissions by 20 percent.
5. The Energy Market Model should be made public and discussed with the public and independent energy experts prior to being approved and enforced. The market model should guarantee a sustainable energy supply, encourage competition, and promote the diversification of energy sources.
6. The process of privatization of generation and distribution should be transparent and should allow for the participation of civil society in privatization commissions.
7. The Kosova B thermal power plant should be separated from the package of the new thermal power plant project and should be an individual project involving private capital.
8. The separation of the distribution grid from the supply business needs to be analyzed and reviewed in order to ensure competition in the field of electricity distribution and supply to consumers in the future.