

## The Energy Regulatory Office of Kosovo

### Fifth Partnership Activity: Regulatory Assessments and Discussions at ERO

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### Recent Regulatory Developments at ERO

Ms. Perparim Kabashi

ERO Board Member

## Establishment and Mandate of ERO

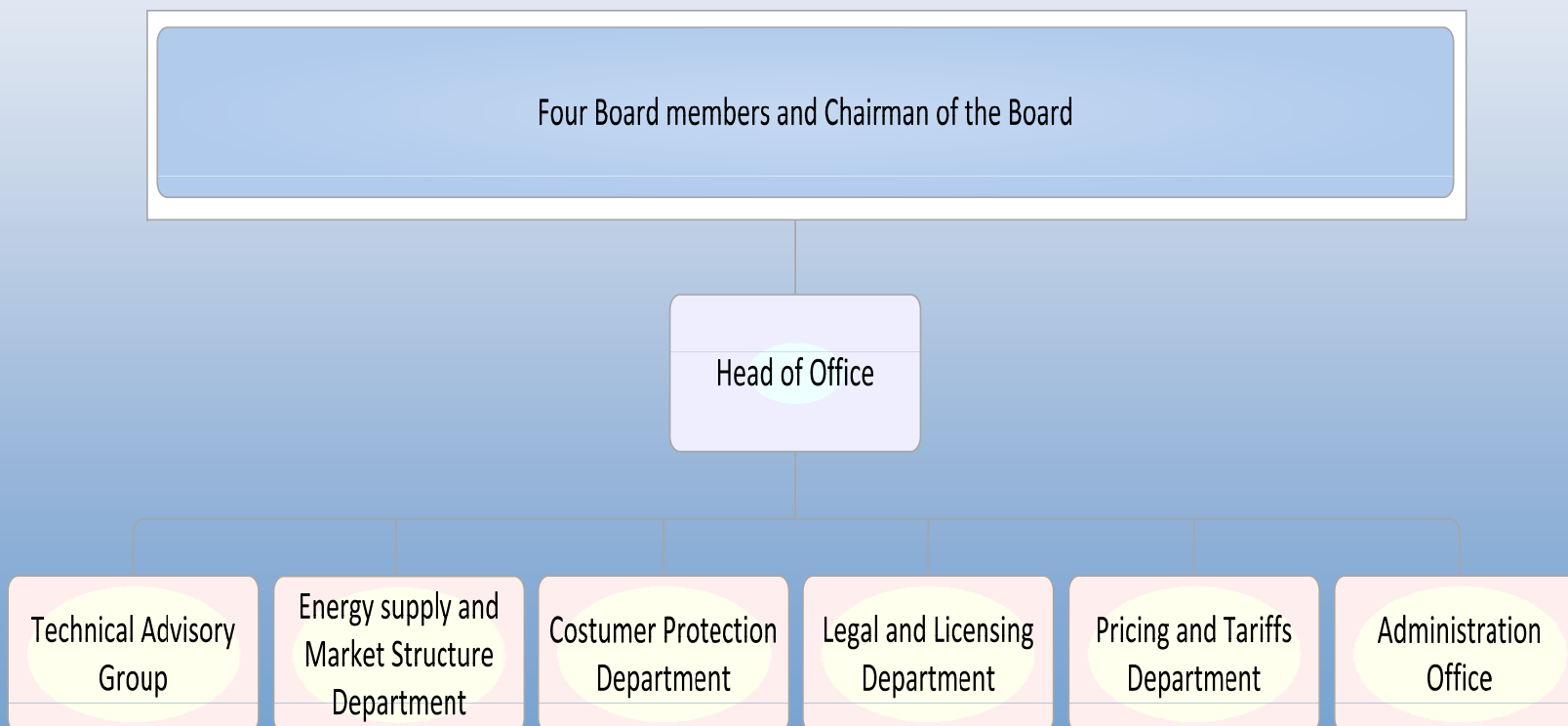
- ❑ Established by the Kosovo Law no. 2004/9, on the Energy Regulator, and in compliance with of EU Directive 2003/54
- ❑ Is mandated with Economic Regulation of the energy sector (electricity, heat and gas)
- ❑ Energy Regulatory Office (ERO) is an independent body reporting to the Assembly of Republic of Kosovo

## ERO Responsibilities (1)

- ☐ Develop and approve secondary legislation
- ☐ Licensing and monitoring of the energy activities
- ☐ Approval of tariffs
- ☐ Settlement of disputes
- ☐ Approval of technical codes, procedures and methodologies (prepared by the licensee)

## Organizational chart of ERO

- ❑ ERO is directed by a Managing Board, and is made up of four (4) departments, a technical advisory group and an administration office
- ❑ The Managing Board is composed of five (5) members, including the Chairman of the Board who is also the Head of ERO



## Licenses issues by ERO

Based on the duties and responsibilities set forth by the Law on Energy Regulator, ERO may issue, modify, suspend and withdraw licenses for the conduct of activities by energy companies and, pursuant to the Rule on Licensing, has the authority to issue licenses for the following activities:

- |                              |             |
|------------------------------|-------------|
| ➤ generation of electricity, | 4 licenses  |
| ➤ generation of heat,        | 2 licenses  |
| ➤ transmission of electr.    | 1 license   |
| ➤ market operator            | 1 license   |
| ➤ distribution of elect.     | 1 license   |
| ➤ distribution of heat       | 2 licenses  |
| ➤ public supply of elec.     | 1 license   |
| ➤ supply of heat             | 2 licenses  |
| ➤ supply/trade of elect.     | 13 licenses |

## Secondary legislation developed and approved by ERO

- Tariff Methodology for the Electricity Sector
- Rule on Principles of Calculation of Tariffs in the Electricity Sector
- Rule on licensing of energy activities
- Rule on General Conditions of Energy Supply
- Rule on Authorization Procedure for Construction of New Generation Capacities, Gas Lines, Direct Electric-Energetic Lines and Direct Pipelines
- Rule on Disconnection and Reconnection of Customers in Energy Sector in Kosovo
- Rule on dispute Settlement Procedure in the Energy Sector

## Electricity Tariff Review 5 (ETR5)

- ❑ Set tariffs for 1 April 2011 – 31 March 2012
- ❑ Followed same process and methodology as in previous years
- ❑ Licensees' proposals represented an increase of 3.9% in average tariffs
- ❑ Final approved tariffs unchanged from existing levels

## Major ERO activities in 2010

ERO Board has approved:

- Rule for the Establishment of a System of Certificates of Origin for Electricity produced from Renewable Energy Sources, from Waste and Co-generation in Combination with Heat in a Single Generating Unit
- Rule on the Support of Electricity for which a Certificate of Origin has been Issued and Procedures for Admission to the Support Scheme
- Quality standards for power utilities
- Transmission Development Plan 2010-2019



## Other major recent ERO activities

- ❑ Three Energy Laws have been amended in the National Assembly – Laws on Energy, on Energy Regulator and on Electricity
- ❑ By September of 2011, all secondary legislation has to be harmonized with primary legislation
- ❑ ERO is preparing the following rules:
  - Rule on Pricing for District Heating (DH) Sector;
  - DH Tariff Methodology.
  - Public participation
- ❑ Ongoing development of Regulatory Framework for co-generation:
  - Identification of instruments and the scheme for support of co-generation;
  - Modification of the draft Rule for support of RES-E
  - Pricing / Tariff Methodology for co-generation

## Performance of regulated industries

### Continuing improvements in electricity industry performance during 2010:

- consumption grew by 4.4%
- generation from Kosovo sources grew by 5%
- total distribution losses maintained at 41.2%
- collection rates increased from 79.7% to 86.9%
- SAIDI value of 95.65 hours and SAIFI value of 38.83

### Major improvements in district heating industry performance:

- The DH Termokos supply to customers was 70.575 MWth, which is 37.20% lower than planned supply
- The DH Gjakova supply to customers was 12.545 MWth, which is about 30% lower than planned supply
- Average collection rate for the heating sector is about 57%, representing a decrease of 4% from last season
- Ongoing project: Improvement in the DH sector – Phase I: Rehabilitation of DH Systems of Prishtina, Gjakova and Mitrovica; Phase II: Prishtina Co-generation Project.



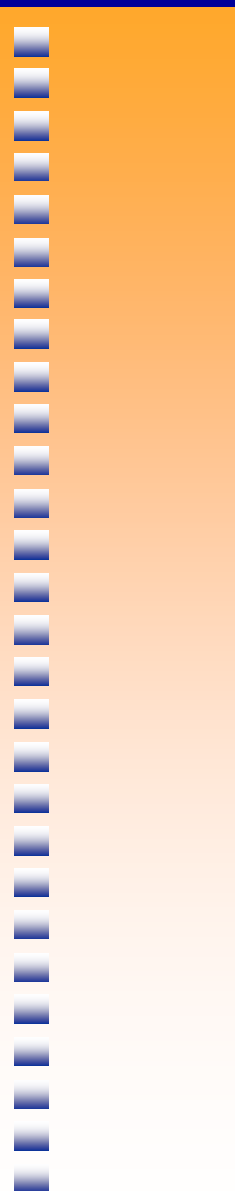
## KRPP and KEDS transactions

- ❑ Establishment of new MineCo and GenCo as public private joint ventures to
  - develop new lignite mine
  - build and operate Kosovo e Re Power Plant (2x300MW) – expected commissioning by 2016-17
  - rehabilitate existing Kosovo B power plant (600MW) by 2016-17
- ❑ Privatization of retail supplier and distribution as Kosovo Electricity Distribution and Supply (KEDS)
- ❑ GenCo will have 20-year PPA with Public Supplier

## Pressures on tariffs

- ❑ Strong pressures for large increases in tariffs
- ❑ Advisors on KEDS transaction are concerned to raise cash flows and business valuation
- ❑ Large-scale investment in mining, generation and transmission and distribution networks will need to be financed
- ❑ Government planning to reduce subsidies
- ❑ Removal of all operating subsidies would have led to a 15.2% tariff increase in 2011

## Major challenges for ERO in 2011-12

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- ❑ Ensuring the regulatory framework facilitates the KRPP and KEK transactions, while continuing to protect customers and meet ERO's legal duties
  - ❑ Accommodating the KRPP transaction with its long-term PPA, while ensuring compliance with Kosovo's international obligations to open up its electricity markets to competition
  - ❑ Allowing recovery of justified and reasonable costs, while avoiding tariff shocks and excessive increases in tariffs



# Thank you for your attention