

**The Illinois Commerce Commission (ICC)
and
The Energy Regulatory Office of Kosovo (ERO)**

Partnership Activity

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**United States Agency for International Development (USAID)
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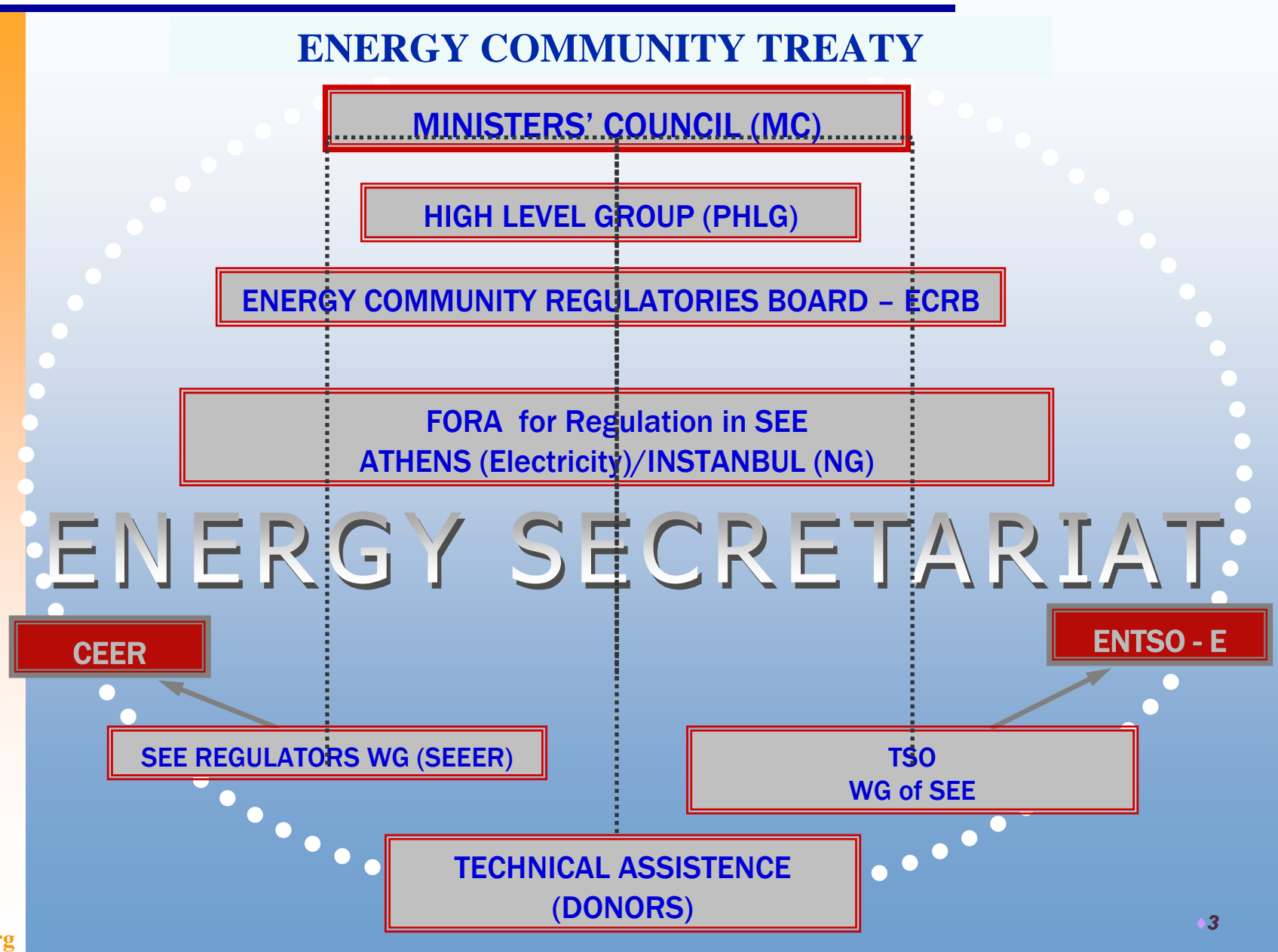
Regional and market developments in Kosovo

Prepared by
ESMS department



Regional Market Issues

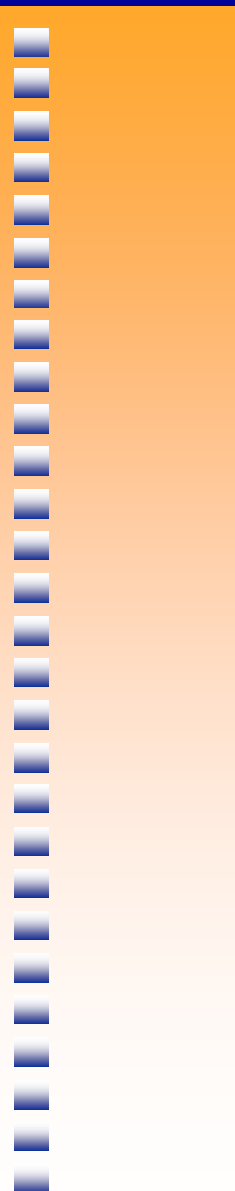
European Energy Organizations



What is it provisioned by the Treaty

- ❖ The implementation of “*Acquis Communautaire*” in energy, environment, competition and renewables to the country of SEE
- ❖ The power to implement measures & legally binding decisions, particularly in the areas of:
 - *Cross-Border Trading*
 - *Security of Supply, “uniform right of supply” of all energy consumers*
 - *The harmonisation and compliance of the regional market rules*
 - *The mutual recognition of Licenses*
 - *Renewable Energy Sources*
- ❖ No VAT or other form of Taxes on energy exchanges between EU and SEE
- ❖ Regulation of imports/exports to and from third countries which are not participants in the Treaty
- ❖ Mutual Assistance in case of Power Outages

Barriers of Market Opening

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- ❖ Small size of Energy Markets (Countries)
 - ❖ Implementation of internal market legislation – different levels of progress
 - ❖ High political uncertainty & instability because of recent historical circumstances
 - ❖ Big differences in the economic development between the countries of SEE:
 - Low Income
 - Low and subsidised energy prices
 - Low quality, poorly maintained energy infrastructure
 - Uneven economic and legal frameworks
 - ❖ Divergent IT platforms

National obligation imposed by Treaty

National Institution

- Independent Institution for:
 - a) policy*
 - b) regulation*
 - c) system operation (TSOs)*
- Independent DSOs

National Markets

Unbundling utilities & market opening – phased approach:

1st January 2008
for all
non-household customers

Market opening

1st January 2015
for all
customers

- ❖ Regulated TPA and development of transparent and unbundled transmission & distribution tariffs
- ❖ Development & Monitoring of licenses for facilities and Market Participants
- ❖ Preparation of grid codes based on non-discriminatory access
- ❖ Adoption of competition legislation for energy sector

Regional Commitments

Regional and other commitments of the Signatory Parties

- ❖ Harmonisation of Market Rules
- ❖ Transmission Access Framework (ITC & CM)
- ❖ Publication of Market Information / Transparency
- ❖ Application of CEER (ERGEG) and ENTSO-E guidelines for cross-border trade, transmission tariffs & congestion management
- ❖ Establishment of SEE CAO
- ❖ Dispute Resolution mechanisms at regional level
- ❖ Transparent Authorization Procedures for the new infrastructure
- ❖ Establishment of common rules for the transmission, distribution, supply and storage of natural gas
- ❖ Creation of regional integrated energy market → integration into pan European market

3rd Energy Liberalisation Package

❖ **Effective unbundling: clear preference for ownership unbundling (separation of production and supply from transmission networks).**

- Alternative option: an independent system operator where companies retain ownership of network but operations are controlled by a fully independent entity.

❖ **Third country companies**

- To acquire shares or control of an EU network, will have to demonstrate that they comply with the same unbundling requirements as EU companies.

❖ **New agency for co-operation of national energy regulators**

- Decision-making powers over cross-border issues, dispute resolution between national regulators and exemptions from new infrastructure investment requirement to provide access to third parties.

❖ **National regulators**

- Stronger powers and more independence for national regulators.
- New body would develop commercial and technical codes and security standards and plan investment at EU level.

❖ **Greater transparency of pricing, demand forecasts, balancing requirements**

Amendments of the EU Directives

- ❖ In April 2009 the European Council adopted the new rules on the internal energy market
- ❖ The new legislation is expected to:
 - Strengthen the EU's internal energy market
 - Give the consumers more protection and benefit of the lowest possible energy price
 - Promote the sustainability by stimulating the energy efficiency
- ❖ Member states have 18 months to transpose the new rules into national law



National Market Issues

Why market is needed?

❖ **To promote the competition and increase the efficiency**

- Higher standards of customer service and lower prices emerging via increased competitive pressures

❖ **Market opening is required by:**

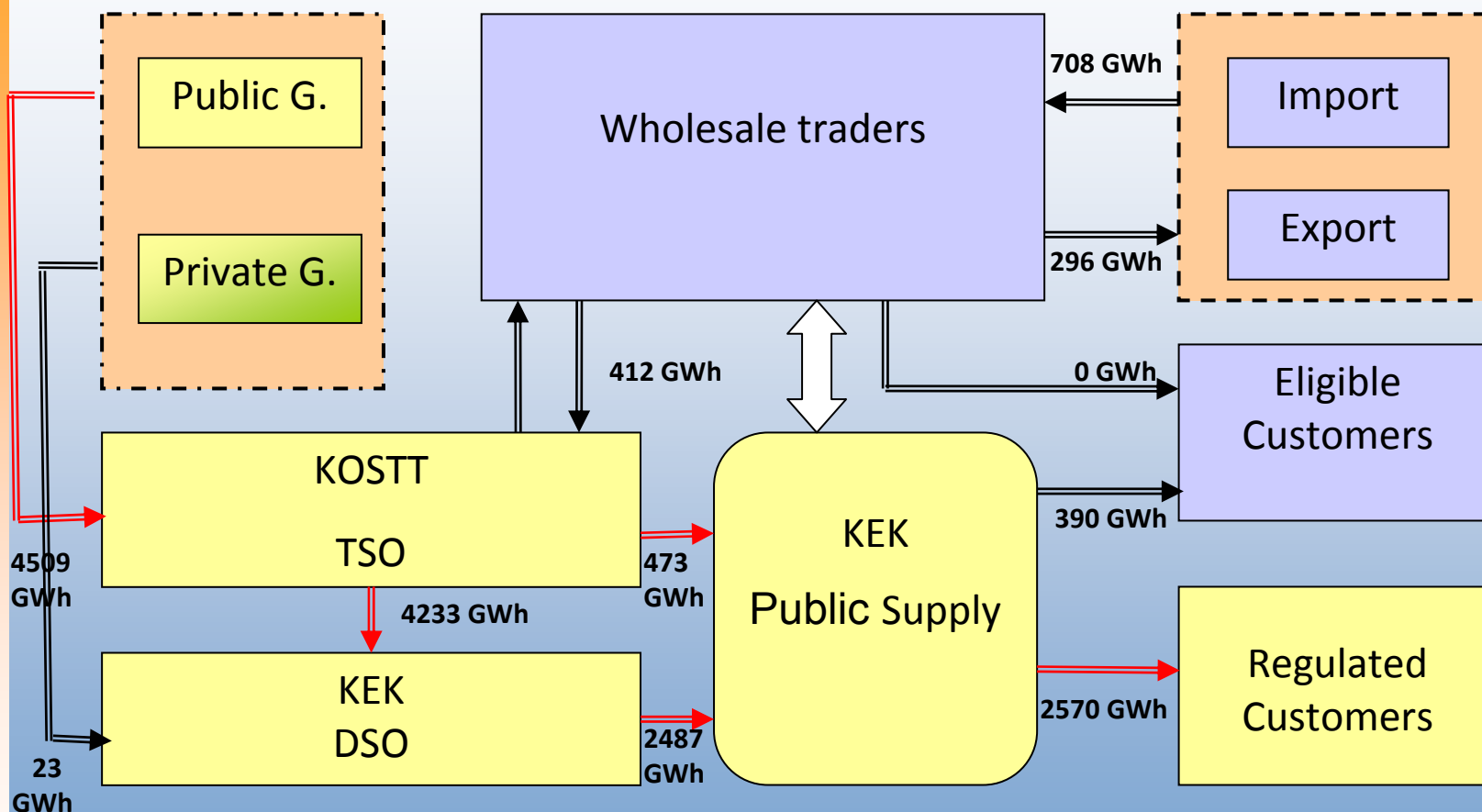
- Laws of Kosovo
- EU directives and regulations
- Regional market of electricity
- Foreign Investors and donors

However, the expertise, time, money and effort it takes to create a functioning competitive market must not be underestimated

Market Monitoring

- ❖ Liberalization of electricity market enables competition and reduction of prices and costs through economization and efficiency
- ❖ Some activities however remain regulated
- ❖ Market in the energy sector in Kosova is based on bilateral contracts
- ❖ ERO
 - monitors the market's functioning to ensure transparency and non-discriminatory criteria
 - Analyzes the effects of market liberalization on regulated electricity prices
 - Takes part in the working group on market liberalization, together with MEM, KOSTT and KEK
 - Takes part in regional working groups that aim at the liberalization and better functioning of the regional market

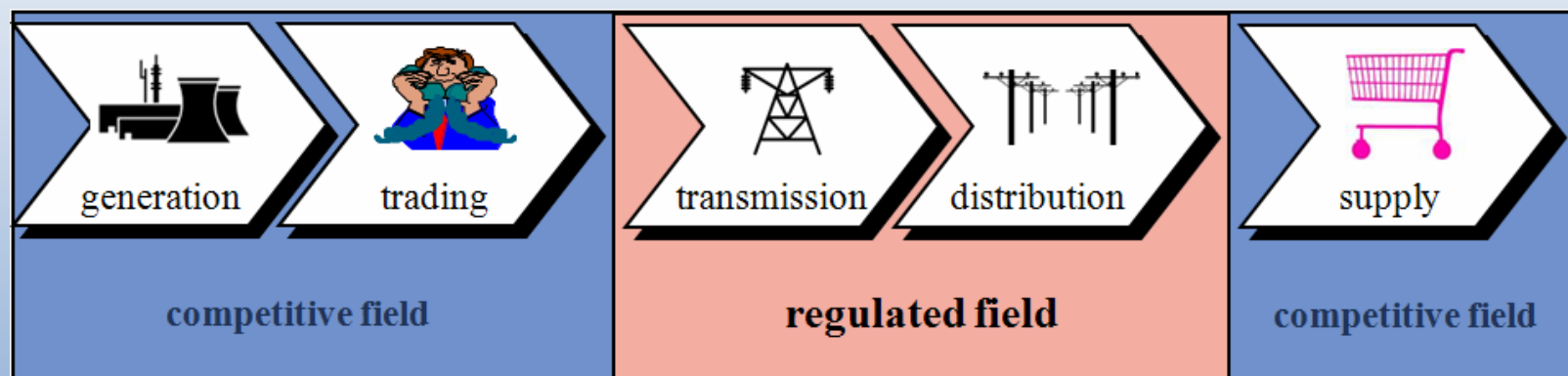
Energy Market in Kosova 2008



Unbundling

❖ Market comprises from:

- Competitive field
- Regulated field



KEK's Unbundling

- ❖ KEK is the national, vertically integrated electricity power utility company of Kosovo. It covers mines, lignite coal-fired power plants, and distribution and supply.
- ❖ Huge amount of money have been already provided to KEK JSC in the period of 2000-2009, from Budget of Kosovo and donors
- ❖ KEK JSC still has
 - massive technical and non-technical losses
 - low collections and inoperable generation
 - insufficient and unstable power supply.
- ❖ In addition to improving the billing and collections of KEK, a considerable capital investment is necessary for improving electricity distribution and supply in Kosovo

KEK JSC Unbundling and Privatization

- ❖ Government decision Nr. 01/36 set in motion:
 - Legal unbundling of KEK's Distribution, Network and Supply divisions from Mining and Generation, by no later than 31 March 2009.
 - Government Privatization Committee (PC) appointed under the POE Law article 9.2 to coordinate sale of Distribution and Supply as one company
 - However KEK's unbundling took place on August 2009.

Renewable Energy in Kosovo

❖ Administrative Instruction 06/2007 requires

- to implement Directive 2001/77/EC on Indicative Targets for the consumption of electricity from RES

❖ The indicative targets currently in place are the following:

Nb.	Energy Source	Indicative targets for consumption of energy from renewable resources (GWh)									
		2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
1	Hydro	125.84	134.56	145.03	156.31	167.01	178.40	190.50	203.18	216.67	230.39
2	Wind	0.00	0.00	0.00	32.56	68.73	108.51	151.89	199.80	252.14	309.94
3	Solar	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
4	Biomass	0.00	0.00	0.00	0.00	11.63	17.45	19.77	23.26	29.08	29.08
	TOTAL	125.84	134.56	145.03	188.87	247.37	304.36	362.16	426.24	497.88	569.40

❖ Small Scale Hydro Power Plants (up to 10MW capacity)

- MEM estimates Kosovo's total Small Hydro Power Plant (sHPP) Capacity at 64MW, generating approximately 291 GWh annually.

❖ Wind, Solar, Biomass and other Resources

- Tariff Methodology have to be amended

Eligible Customers (EC)

- ❖ MEM sets criteria for obtaining EC status at the beginning of each year through an administrative instruction
- ❖ The chronology of obtaining the right of eligible status :
 - From 1st January 2006 – consumers connected at 110 kV and higher
 - From 1st January 2007 – consumers connected at 35 kV and higher
 - From 1st January 2008 – consumers connected at 10 kV and higher with own line
 - From 1st January 2009 – consumers connected at 10 kV and higher
 - From August 2009 – All non-household consumers
- ❖ ERO issues public notification upon which the customers may apply for the EC status;
- ❖ Procedure on Eligible Customers is underway

So far two customers have obtained the Eligible Customer status

Efficiency of the Energy

- ❖ Ministry of Energy and Mining establish
 - Law on the Energy Efficiency
 - Operation Plan and annual indicative targets for the increase of the efficiency
- ❖ Ministry of Economy and Finance propose
 - Fiscal policies for the national producer who contribute in the increase of the efficiency
 - Customs policies for the import of raw material and for the final products which are needed in the implementation of the projects of efficiency
- ❖ National and International Institution
 - To provide support and donation for realization of the concrete projects related to the efficiency
- ❖ Non-Governmental Organization
 - Increase of awareness on benefits of rational utilization of energy and usage of alternative energy resources.

Demand Side

❖ *To promote awareness and to give useful tips for energy saving such as publish leaflet, media (TV, Radio and Newspapers) for:*

- Energy conservation within industry
- Energy conservation in commercial buildings by management
- Energy conservation in residential and commercial buildings by developers, building engineer and architect

❖ *DSM Initiatives*

- Energy Enterprise – KEK has implemented a number of initiatives to increase awareness of efficient electricity usage among the local community

Measures

To achieve objectives of efficiency on Demand Side is needed to:

- ❖ Greater awareness of energy conservation and environmental improvement
- ❖ Provide readily available, pre-purchase information on energy consumption and efficiency to allow customers to choose more efficient products as:
 - Fluorescent lamps
 - Washing machines
 - Electric water heaters
 - Room coolers
 - LCD monitors, etc.

Output of the abovementioned:

- Save energy and improve the environment