Energy Charter Secretariat

Restructuring, Privatisation: The Road Ahead

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Restructuring and Privatisation in the Kosovo Energy Sector

By Kevin McCann – Kosovo Trust Agency

1. The situation in Kosovo is so unique that general principles for restructuring and privatisation hardly apply. Why?
    - Kosovo is a unique environment – an attempt at nation-building by the international community. After the war there was hardly any institutional or organisational structure. No police force, public administration, self-governing structures. Public services were devastated and like everything else, had to be completely rebuilt along with much of the physical infrastructure.
    - Conflict remains entrenched and has not been resolved since the end of the war. Post war Kosovo still marked by the absence of peace e.g. March 17 conflicts.
    - Kosovo has all of the problems in the energy sector associated with transition economies; chronic and sustained under-investment leading to significant de-capitalisation of the system's assets; poor technical performance and high system losses in electricity networks; large-scale environmental degradation resulting from poor technical base, lack of investment and weak institutions; huge energy inefficiency in the production, transport, supply and consumption of energy etc.
    - These problems are overlaid with political, social, economic and institutional weaknesses resulting from ethnic conflict and post conflict reconstruction processes.
    - Substantial Federal investment in Kosovo only began in 1970 and went into steady decline from 1980 onwards. Kosovo worst hit by decline of Yugoslav economy.
    - There does not appear to be a clear 'roadmap' for resolving the final status of Kosovo. Compounded by the fact that essential measures to conduct negotiations with Serbia are deeply unpopular with the Albanian Kosovar population.
    - First Dialogue Group meeting on Co-operation on Energy Issues between Pristina and Belgrade met on Wednesday 4th March in Pristina. Confidence building meeting – general discussion between experts for possible areas of co-operation on both sides. Some protests against these discussions. 17 March events – major set-back for dialogue of any kind.
2. Privatisation in general has been a highly contentious issue in Kosovo and has strained relations between government institutions, donor organisations and other stakeholders. Privatisation only being considered for a select number of potentially

viable SOE's. Privatisation of POEs would be too big a challenge for the political and administrative structures under present circumstances.

3. But restructuring Kosovo energy sector into a competitive market is an obligation of the Athens process. At present there is an MoU whereby signatories undertake to introduce market reforms within an accepted time schedule (e.g. regulator, independent systems operator (ISO), independent distribution operator (DSO) etc). Work is being undertaken to transform the MoU into a binding international treaty. Reform of the electricity sector in Kosovo is being forced by MoU.
4. There is still no energy law in Kosovo although it is expected to be enacted in 2004.
5. Energy regulator has been physically established for 3 years but without legislative base.
6. Capacity of energy utility (or other utilities) to adequately respond to regulatory requirements is extremely limited.
7. KEK is integrated monopoly covering coal production for the power stations, generation, transmission and distribution.
    - Historic under-investment – very poor technical conditions in the system
    - Low payment by customers and high level of technical and non-technical losses
    - Lack of institutional support (law enforcement and courts) for improved payment discipline, prosecution for electricity theft, illegal reconnections etc. – (weak institutions).
    - Presently, the electricity company (KEK) is paid for approximately a third of delivered energy, another third is billed but not paid and another third is 'commercial losses' or theft.
    - 11% of KEK's customer base (34,000 customers) is located in the ethnic enclaves which are mostly not even billed.
    - 17% of KEK's customer base (50,000 customers), are 'social registration cases' exempt from payment.
    - 28% of the customer base is effectively outside of the company's ability to collect revenue from. Privatisation would not be an attractive option for investors constrained by such an operational environment.
    - Population dynamic – more than half the population is under the age of 25 years – need employment, prospects for the future. Requires investment and dynamic economy – not possible with an electricity system struggling from one crisis to another.
8. Kosovo has some advantages – major lignite resources (approximately 10,000 million tons of lignite – believed to be the richest lignite deposit in Europe). Kosovo used to be a net exported to the integrated Yugoslavian grid – no reason why given investment climate, IPPs cannot be created to exploit lignite reserves and export power to the region. In practice this will take some time but in any case, maybe less time that the arrival of circumstances enabling the privatisation of Kosovo's existing energy system.
9. New energy laws provide the basis for regulated unbundling of the utility in compliance with the Athens MoU.