

## MULTI ACTOR PARTNERSHIP FOR AN ENERGY TRANSITION IN KOSOVO

### SECURITY OF SUPPLY IN THE ENERGY TRANSITION

#### Kosovo Recommendations Paper of MAP Core Team

December 2020 – MAP Core Team

### Background

**The transition towards sustainable, renewable energy supply and diversification of the energy mix is a major worldwide trend.** It is happening for a variety of reasons, many of them also valid for the Western Balkans. Among them are:

(a) concern about the negative effects of climate change, for example on fresh water availability and agriculture, on the frequency and intensity of extreme weather events, (b) the mis-use of energy supply as a political weapon by some countries; (c) the health damage to humans from coal power plants. As a result, the price for renewable energy sources (RES) is falling continuously: In regions with good conditions for wind and solar, power production costs have fallen to 2-3ct/kWh. This is making them ever more competitive with conventional means of energy production. Renewables are also desirable for other reasons: The RES sector employs nowadays many more people globally than the conventional means of power production per unit of power produced.<sup>1</sup> RES offers an advantage in terms of more value added to the economy, as well as a better overall health and economic productivity, an increase in jobs, start-ups and business innovation, more financial opportunities for rural communities, additional investment opportunities for diaspora, and benefits for peace building processes between countries.<sup>2</sup>

**The European Union has defined its strategy for becoming carbon-neutral until the year 2050** - the European Green Deal - and is defining more ambitious GHG reduction goals on the way, e.g. for 2030. This will also directly affect Kosovo and the whole Western Balkan region, as the EU conditions for trade of goods and energy will be adapted to these goals, e. g. through a carbon border adjustment mechanism. Since the EU is the largest export market for Kosovo, it is important to react early to this future risk of Kosovo goods and services being subjected to a carbon tax at the EU border and, in this way, becoming less competitive on the EU market. This risk can be avoided by using less carbon-intensive energy sources in Kosovo.

<sup>1</sup> IRENA, Renewable Energy and Jobs, 2017, page 5. Retrieved from:

[https://www.irena.org/documentdownloads/publications/irena\\_re\\_jobs\\_annual\\_review\\_2017.pdf](https://www.irena.org/documentdownloads/publications/irena_re_jobs_annual_review_2017.pdf)

<sup>2</sup> Based on the study: "Phasing in Renewables Towards a prosperous and sustainable energy future in Kosovo: challenges and possible solutions", by Germanwatch and Balkangreenfoundation. Can be accessed online here:

[http://balkangreenfoundation.org/file/repository/Study\\_BGF\\_Germanwatch.pdf](http://balkangreenfoundation.org/file/repository/Study_BGF_Germanwatch.pdf)

As a full member of the Energy Community Treaty, Kosovo has committed itself to implement the rules of the EU energy market, the so-called energy acquis, in its own energy policy and legal framework. Since the EU is striving for more renewables and less carbon-intensive economies in its energy policy, Kosovo cannot ignore this trend, but must follow to respect its treaty obligations and avoid being sanctioned by the treaty's other members.

**The Kosovo government is already actively engaged in RES development in the overall energy mix.** Concerning the power sector, the government modeling includes a large-scale phase-in after 2019, a coverage of more than 50% of the overall power demand with RES by 2040 and a 100% coverage by the year 2060.<sup>3</sup> These ambitious government plans have shown first results, as key RES projects have been implemented or are about to be finalized in Kosovo recently (Kitka wind farm/32MW of capacity/in operation since 2018, Bajgora wind farm/105 MW/under construction with operation planned for 2021) and more are planned (e. g. solar thermal power plant). These government plans as well as flagship projects serve as a basis for this recommendations paper. This recommendation paper can also be used by policy makers to embark on a faster phase-in of RES.

**Embarking faster in RES development could make Kosovo a frontrunner in the region** and further improve its performance in the context of international obligations, particularly those that derive from the implementation of the EU Energy Acquis.

### Objective of these recommendations and project context

**The objective for drafting this recommendations paper is to support the government of Kosovo in the implementation of government plans for a RES phase-in** – especially for drafting the revision of the Energy Strategy, the National Energy and Climate Plan (NECP) and the concept for RES development. This paper has been drafted, jointly agreed upon in 2019 and updated in Oct 2020 by the core team of a multi-actor-partnership (MAP core team), which consists of experts/important actors of the Kosovo energy sector, such as: the Energy Regulatory Office, Transmission System Operator, Ministry of Economy and Environment, Renewable Energy Association, the Assembly of Kosovo, Civil Society Organizations that are active in energy and sustainable development.

#### The core team:

- jointly studied German and European experience on methods and practical steps Kosovo can undertake to implement ambitious government plans for a RES phase-in;
- provides Kosovo-specific assessment of up-to-date European RES know-how and combines the knowledge of different actors and expert institutions;
- focuses on the power sector, in order to provide useful in-depth assessment of a priority area.

<sup>3</sup> Ministry of Economic Development, Transition of the Energy Sector in Kosovo, Newsletter 2 - November 2018, retrieved from: [http://mzhe-ks.net/repository/docs/Newsletter-No\\_2-ENG.pdf](http://mzhe-ks.net/repository/docs/Newsletter-No_2-ENG.pdf)

These recommendations have been drafted with the three-year long ‘Multi-Actor Partnership for an Energy Transition in Kosovo’ project. This project provides the actors named above with information, know-how and facilitation.

### **Introductory remark: Interconnectivity and markets for a more sustainable energy sector**

**In the Western Balkan region, energy autarky is a dominant paradigm.** Security of supply is perceived by many countries as coming through self-reliance.

**This approach is outdated. Security of supply in today’s decarbonizing world cannot be guaranteed on the basis of an isolated, fragmented regional market, nor can it be achieved by a single country alone, solely relying on its own measures.** This has been shown by several scientific and policy studies, inter alia the WB options study for the power supply of Kosovo.<sup>4</sup>

**The Western Balkans need a broader and more sustainable, symbiotic and interconnected system.** For substantive change to happen, a switch in policies is necessary. This is already facilitated today by financing mechanisms of the EU or international financial institutions such as: EBRD, WBIF, the World Bank and KfW through concrete measures of interconnectivity and particularly in close cooperation with the members and the secretariat of the Energy Community Treaty, a contracting party to which Kosovo is a member. However, we would recommend strengthening this support, and the process needs to be accelerated by the actors responsible for the energy sector in the country. Otherwise, Kosovo could fail to meet its energy transition goals as well as its obligations in the international cooperation framework. The new EC Economic and Investment Plan, the EU Enlargement Package 2020 and particularly the Commission’s presented guidelines for implementing the Green Agenda in the Western Balkans offer strong possibilities in this regard, and Kosovo should offer a convincing strategic plan for its energy transition to its international partners.

The core team recommends that in order to achieve such an acceleration and facilitation for an effective energy transition in Kosovo, a combination of both concrete technical measures as well as a set of conducive policy measures described below in this document should be followed.

Kosovo has made significant progress in the market coupling with Albania and ENTSO-E-integration. This success is a very important step for the backup of a RES phase-in and a reliant energy supply and systems security on the whole. Meanwhile, it also makes the deployment of new fossil capacity a problematic step from a point of view of economic viability. A comprehensive analysis of the regional capacity market should be done.

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<sup>4</sup> World Bank (2011): Background Paper: Development and Evaluation of Power Supply Options for Kosovo - December 2011

## Challenges and solutions for the power sector

**Amongst the core challenges for the Kosovo power sector are:** dependency on fossil fuels, the rate of phasing in of renewables capacities, slow integration into the regional energy market mainly due to political factors (internal and external), lack of substantial balancing reserve capacities (conventional or renewable) in the TSO system and a lack of a coordinated joint planning of the power sector by the relevant actors in unison.

**Some of the most pressing solutions awaiting the energy sector in Kosovo and the region** have been identified as a more integrated cross-border planning, the need for sector coupling between electricity and other sectors such as heating and transport, hard and soft measure implementation to facilitate the integration of the electricity markets and its liberalization. Kosovo needs a stricter regulating process of the Distribution System Operator and the enforcement of existing rules, especially concerning RES connectivity and balancing the grid, particularly in connecting prosumers. Other challenges that have to become solutions ideally to be enforced in the near future are: the increase in human resources development in the energy sector, capacity development, de-risking investment for Renewable Energy Sources, the development of a well-designed auction based and ideally a premium based RES sector, enabling market forces to dictate the price, rather being directed by the state.

**Energy efficiency** remains a significant issue in the demand side management, since the average energy intensity in Kosovo remains 3-4 times higher than the average energy intensity in the EU. Additionally, as a member of the Energy Community, Kosovo has committed itself to implement the energy chapter of the EU acquis by aiming to reduce energy consumption by 32.5 percent until 2030. Despite the energy efficiency projects implemented in the public buildings, households account for 60% of the energy consumption which makes investing in energy efficiency for households and especially the private sector of high importance. Standard instruments as Energy Service Companies (ESCOs) should be analysed, best practices selected and implemented in Kosovo.

### PHASING IN RENEWABLES - STRATEGIC RECOMMENDATIONS:

**Ownership of different stakeholders and a diversification of risks in building generation capacity should be increased.** The more people and organizations profit from the energy transition, the more public support and additional economic benefits can be reaped.

**De-risking investment.** An important step in facilitating the integration of renewable capacities in the energy sector is through a de-risking (financial) mechanism. This is particularly important and a very positive signal towards investors in the RES sector, through offering them reassurance in their investments. Donors and financial institutions from the EU should be addressed for support.

**Donor alignment is important and should be carried out in a more proactive and in a synergistic way so as to help the RES sector develop faster.** This should be done by the line ministries in Kosovo. Important to note is the progress through infrastructural developments/investments from international financial institutions and international programmes such as KfW, EBRD, MCC, etc.

**Long term strategic planning for the introduction of a Carbon Border Adjustment Mechanism (CBAM) by the EU.** This new mechanism by the EU would put a carbon price on imports of certain goods from outside the EU.

**Transparency is core for the energy sector** and a more proactive approach is needed in bureaucratic easement so as to allow the energy policies to be more conducive in the terrain (f. ex. one-stop-shop).

**New innovative, cutting edge technology** should be stimulated through pilot-projects, driven strongly through internal and international support. The sheer economics behind it and the employment effect it creates, as well as the multiplier effect it bears on the overall economy make the RES sector an important player in the energy market.

**A political culture of innovation needs to be developed.** New approaches should be tried out and tested, and solutions should be developed to facilitate the complex transition of energy towards green energy.

**The new paradigm for a reliable power system should be flexibility.** Therefore, parallel to new RES capacities, investments should be focused on balancing infrastructure to make the RES viable (balancing reserve capacities/systems, storage).

**Assess carbon pricing/taxes suitable for Kosovo's standards.** As a first step, proper study should be conducted for the initial (lower) carbon pricing which may be increased gradually in the future.

**KEK should be incentivized to invest in green energy** in order to diversify its portfolio and to prepare for decarbonization. The objective and long-term vision of KEK should be in line with a carbon free long-term future.

**Two studies needed regarding RES integration:** 1) Least cost study for transitioning to a RES mix taking into consideration the current situation; 2) Assessing the network conditions for RES. The 25% and 30% targets should be analysed further in the pricing context for final users of energy.

## Concrete policy steps Kosovo should undertake:

- a study on consequences of the CBAM for trade and energy relationships. The CBAM will most probably strongly affect the development path of Kosovo.
- introducing a CO<sub>2</sub>-price in all sectors (see study WB / ERA, starting on a low level) to develop the framework for an energy sector in line with European decarbonizing efforts;
- piloting incentives for local municipalities developing hybrid energy projects in the fields of agriculture; solar-, wind-, (environmentally sustainable) hydro-, generation; waste utilization, biogas/biomass;
- incentivizing renewable cooperatives and associations with the aim of establishing energy cooperatives, starting with a pilot project;
- establishing a De-risking Fund for Renewables - first by improving the (expert) capacity for assessment/financing, and second by approaching potential donors and possible financing mechanisms, and being in line with national legislation;
- building more political acceptance for the energy transition, this measure can be implemented by offering concrete incentives to the wider integration of the prosumer schemes into the society, through the developing of a market prosumer scheme;
- developing and training TSO capacity, through cross-border regional cooperation, exchange of delegations, experiences, new insights. Pragmatic solutions for KOSTT in ENTSO-E membership should be a priority;
- revision of the Feed-in Tariffs - Support Scheme to be changed into competitive schemes with accessible and attractive exceptions for cooperatives and low-scale projects for which a review of the relevant legislation is required;
- testing more favourable support mechanisms to kick-start biomass-biogas capacities in the country, ideally with testing a pricing for dispatchability;
- development of a flexibility market / a market for ancillary services incentivizing the private sector as well;
- building up of research and development capacities in the country to conduct studies for the energy sector.
- Feasibility studies for the Smart City concept should be developed.
- Amending and Supplementing the Procurement Law on Energy Efficiency equipment, where the most advanced and efficient products should not have the criterion of the cheapest price.
- Private sector involvement in the energy policy making together with the institutions of the Government of Kosovo is crucial, otherwise the adoption of laws and regulations out of context, from the countries of the region will make the development of projects impossible.

### **Practical/technical measures and first steps to be implemented:**

- storage technology to be developed and improved based on market signals.
- testing and encouraging the use of new, innovative storage technologies to smoothen out instant irregularities in the grid, such as: hydrogen, steel, electric railway - gravity train wagons (stones), new balancing hydro capacities, large batteries.
- human capacity development in all energy sector entities to respond to energy transition requirements by role and responsibilities specifically to the challenges of operating KOSTT in terms of new obligations.
- development and improvement of the forecast and modelling sector of entities involved within the energy sector in accordance with their roles and responsibilities.
- biomass/biogas energy integration in waste management planning and strategies, as well as practical capacities to be piloted.
- flexibilization of demand - Introduction of new DSM - Demand Side Management practices, Pricing Flexibility, smart metering introduction in the DSO system.
- transparent planning in the energy sector - public and open participation of all affected stakeholders in the energy sector, open and online access to data.
- strategic impact assessment - economic feasibility in regards to environment adaptation of the Emissions Trading System - forecasting of CO<sub>2</sub> tax adoption in the longer run on the energy sector.
- joint studies on energy transition and baseline assessment with other Western Balkan countries.