

ENERGY GOVERNANCE FACT SHEET: KOSOVO

Last updated: 15 April 2016

KEY ISSUES:

- The Ministry of Finance is systematically breaching the right of Energy Regulatory Office as an independent agency to manage its own funding sources.
- There continues to be substantial lack of transparency in public procurement and large projects.
- The management of SOEs and of energy projects is considered inefficient by European standards. SOEs have become synonymous with corruption, incompetence, nepotism, and affiliation employment. There are vaguely defined requirements for education and professional experience for board members of SOEs, which lead to political appointments.
- The unbundling process in the energy sector has been characterized by a lack of transparency and inclusive debates.
- New energy related draft laws in line with the third energy package are not publically available.

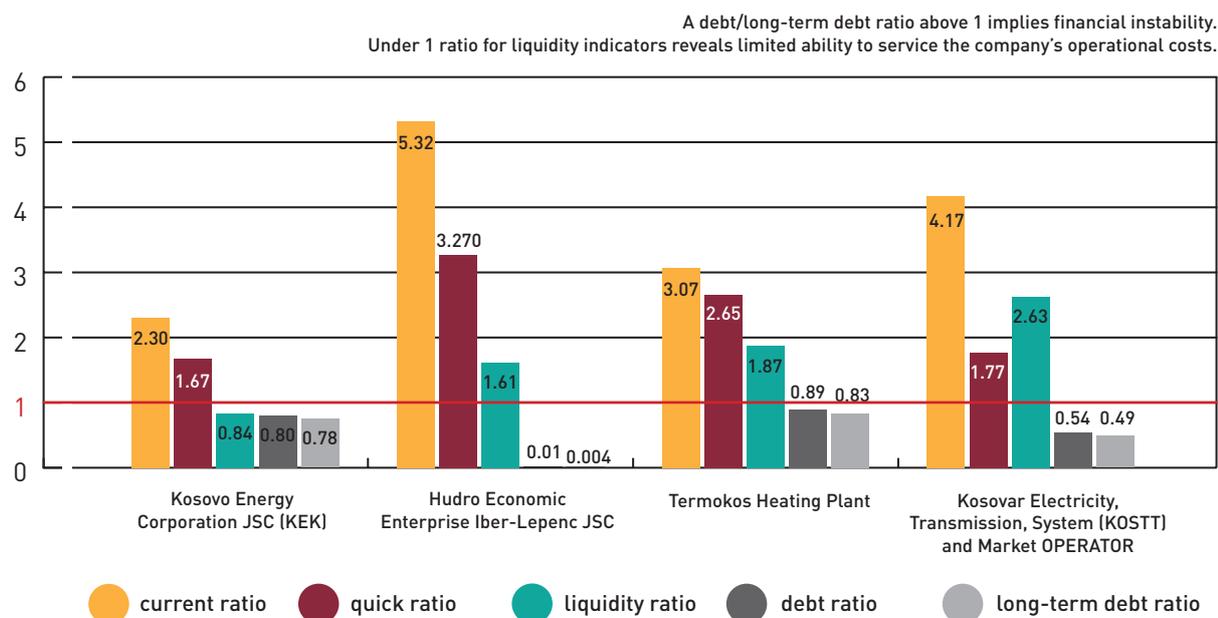
SOURCE: Regional Energy Governance and State Capture Assessment Report, SELDI, 2016.

**TABLE 1: State of electricity sector liberalisation
(eligibility, market opening, price regulation and unbundling)**

Price regulation	All electricity tariffs are administratively regulated and no plans for power price liberalisation have been initiated.
Eligibility	As of 1 January 2015, all customers are eligible to choose a supplier of their choice.
Market opening	As a result of price regulation both in generation and supply of electricity, wholesale and retail market opening has not been implemented. In practice, the Kosovo Energy Corporation (KEK) sells all the electricity produced at regulated prices to KESCO (Kosovo Electricity Supply Company) which acts both as a regulated wholesale buyer and retail public supplier of all customers.
Unbundling	Kosovo does not fulfil the requirements for unbundling of the Third Energy Package. The transmission system operator KOSTT is unbundled as prescribed by the EU Second Energy Package. Legal unbundling of the distribution system operator KEDS (Kosovo Energy Distribution Services) from the supply activity is in effect from 1 January 2015 when the licence for public electricity supply was transferred from KEDS to KESCO.

SOURCE: Progress Report on the Implementation of the Energy Acquis of the European Energy Community, 2015.

CHART 1: Financial Ratios (2014)



SOURCE: Author's calculations based on the Annual Financial Reports of the SOEs

TABLE 2: Energy Acquis Implementation by Measure

Primary Laws	No Progress
Complementary Legal Acts	Progress on Track
Organised Day-Ahead Market	No Progress
National Balancing Market	Progress on Track
Price Deregulation	Pending
DSO Unbundling	Significant Progress
TSO Unbundling	No Progress
NRA Independence	Progress on Track

SOURCE: European Energy Community Progress Report, 2015.

POLICY RECOMMENDATIONS:

- Establish the financial independence of the ERO from the executive.
- Include in the law specific articles regarding the independence of the national regulatory authority and the selection procedures of the regulator's board members.
- The financial management of KEK should be improved, establishing a functioning control system and creating a transparency in revenue management.
- Improve the functioning of the Competition Agency.

SOURCE: Regional Energy Governance and State Capture Assessment Report, SELDI, 2016.

PUBLIC PROCUREMENT:

Public procurement activities in Kosovo have great impact on the economic development of the country. The value of procurement activities in the last five years has averaged 18 percent of GDP. State owned enterprises (SOEs) are obliged to draft annual plans and carry out auditing with external auditors. In addition, all the SOEs, including those in the energy sector, are obliged to call the bidding and tendering processes in compliance with the Law on Public Procurement. Lowest price criterion continues to dominate the overall value of total number of contracts. The remaining contracts are awarded based on most economically advantageous tender criterion. However, big concerns remain about the objectivity of contract award criteria. Open procurement procedure has been used in the biggest number of contracts signed over the last five years. However, in many reports and investigations from the media, it has been stressed that members of political parties have been selected in the boards of SOEs, hence breaching the prescriptions of the law. Anecdotal evidence suggests that the influence of political parties in power is significant both in employment of relatives and political party members in SOEs, as well as awarding of tenders to close businesses.

SOURCE: Regional Energy Governance and State Capture Assessment Report, SELDI, 2016.



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