

2010 Annual Programme — Project Fiche 9
Energy Sector Reform

1. Basic information

- 1.1 CRIS number: 2010/022-452
 1.2 Title: Energy sector reform
 1.3 ELARG statistical code: 03.15
 1.4 Location: Kosovo*

Implementing arrangements

- 1.5 Contracting authority: European Commission Liaison Office to Kosovo
 1.6 Implementing agency: n/a
 1.7 Beneficiary:

Project activity/component	Beneficiary institution	Contact point responsible for project/activity coordination
1. Institutional support for the Energy Regulatory Office (ERO)	Energy Regulatory Office (ERO)	Mr Nysret Avdiu, Power Market Expert in ERO e-mail: navdiu@ero-ks.org
2. Support for participation by KOSTT in the regional energy market	Kosovo Transmission System and Market Operator (KOSTT)	Mrs Resmije Ahma, Director for Regulatory Affairs in KOSTT e-mail: resmije.ahma@kostt.com

Financing

- 1.8 Overall cost (VAT excluded): EUR 2.0 million
 1.9 EU contribution: EUR 2.0 million
 1.10 Final date for contracting: 2 years following the date of conclusion of the financing agreement
 1.11 Final date for execution of contracts: 2 years after the final date for contracting
 1.12 Final date for disbursements: 1 year after the final date for execution of contracts

2. Overall objective and project purpose

2.1 Overall objective

The overall objective is to contribute to Kosovo's energy sector reforms in accordance with the requirements of the Energy Community Treaty.

* Under UNSCR 1244/1999.

2.2 Project purpose

The purpose is to support ERO with further development and implementation of the regulatory framework and to strengthen the capacity of KOSTT to participate in the regional energy market and in the European Network of Transmission System Operators for Electricity (ENTSO-E).

2.3 Link with European Partnership/Stabilisation and Association Process Dialogue/Progress Reports

The priorities set by the European Partnership Action Plan (EPAP) for Kosovo include implementing commitments stemming from the Energy Community Treaty (priority No 88), developing a legislative and regulatory framework to encourage mixed investments in the power sector (priority No 146) and integrating into the regional energy market (priority No 147). This project will support the specific action taken under the EPAP to implement these priorities.

The European Commission Progress Report for 2009 identifies weaknesses in ERO's institutional and legislative capacity and emphasises the need for progress on the regulatory framework, for further investment in infrastructure and for improving demand management, as well as the need to improve bill collection and network transparency. It recognises the losses incurred to KOSTT due to the non-participation of the TSO in the regional mechanisms for cross-border electricity transmission.

2.4 Link with the Multiannual Indicative Planning Document (MIPD)

The priorities for European integration in the MIPD for 2009-11 tie in with supporting development of strategies and policies compatible with European standards in the energy field and supporting participation by Kosovo in regional initiatives, including support to establish and/or enhance the necessary structures, legal basis and requirements for full participation by Kosovo in the Energy Community Treaty.

The expected results stated in the MIPD are to improve security of supply by strengthening the transmission network and its transparent use, to provide assistance for Kosovo to participate in regional cooperation mechanisms (the Energy Community Treaty), to support development of renewable energy sources and to improve energy efficiency.

2.5 Link with National Development Plan

Two of the strategic objectives of the energy strategy for Kosovo for 2009-18 are to continue reforms in compliance with the Energy Community Treaty and to develop further the transmission capacity and connections with the regional network.

2.6 Link with national/sectoral investment plans

The objective of the MTEF¹ for 2009-11 for the energy sector is to support implementation of the energy strategy for Kosovo by facilitating investments in upgrading the electricity transmission network in compliance with international technical standards, in order to ensure reliability and security of supply.

3. Description of project

3.1 Background and justification

¹ Medium-Term Expenditure Framework.

Kosovo's institutions have made some progress towards meeting the requirements of the Energy Community Treaty relating to the *acquis* on energy efficiency, renewable energy and electricity.

The energy sector is governed by the Law on Electricity, the Law on Energy and the Law on Energy Regulators, which were adopted in 2004 but are now under review for full compliance with the third EU energy package. In 2009 the Law on Natural Gas and the Law on District Heating were promulgated, but the relevant secondary legislation and regulations are still needed. There is no infrastructure for natural gas in Kosovo. However, the energy strategy envisages developing infrastructure to supply gas from the SEE regional gas ring project² which would connect Kosovo to interconnection points in the former Yugoslav Republic of Macedonia and Serbia. At the request of the Energy Community Secretariat, the Ministry of Energy and Mining (MEM) responded to a questionnaire on development of the gas transmission network and demand scenarios. A draft law on energy efficiency has been prepared but not yet approved.

In September 2009 the government of Kosovo approved the energy strategy for 2009-18 which envisages development of new power generation units fired by lignite (the new Kosovo power plant — NKPP³) by a public-private partnership mix of investment. Preparations and transactions for the NKPP project are being supported by advisors funded by the World Bank. The private investor⁴ in the NKPP is expected to be selected by the end of 2010. The strategy also envisages privatisation of electricity distribution and supply functions (Kosovo Electricity Distribution and Supply — KEDS) in 2011. At present these distribution and supply functions are amongst the responsibilities of the power utility KEK JSC⁵. With the assistance of a transaction advisor (from the IFC arm of the World Bank), the government is working on full unbundling of KEDS from KEK JSC, which is expected to be completed by the end of 2010. Both transactions will imply changes to the current power market model and market rules and to the regulatory framework.

The Energy Regulatory Office (ERO) has developed a sound regulatory framework, with the support of EU-funded technical assistance. However, the transactions for the NKPP and KEDS will imply further revision of the regulatory framework. In turn, developments stemming from the Energy Community Treaty related to the energy efficiency *acquis*, renewable energy, natural gas, etc. will require further improvements to the regulatory framework. Further development of the regulatory framework for renewable energy is required, including feed-in tariffs and certificates of origin. ERO will also need to develop the regulatory framework for the gas sector, based on the recently promulgated Law on Natural Gas.

Since 2006 transmission system operation (TSO) and market operation (MO) are performed by the legally unbundled operator KOSTT⁶. Based on the Law on Electricity, KOSTT has obtained two licences issued by the Energy Regulatory Office (ERO), one for transmission

² The World Bank/KfW South-East Europe Gasification Study (October 2007 and revised in November 2008).

³ The NKPP project includes privatisation of the existing Kosovo B power plant. However, the Kosovo Assembly has not yet decided whether the Kosovo B plant should be part of the package or should be kept under public ownership.

⁴ In March 2010 the Steering Committee for the NKPP project announced the shortlist of four consortia interested in investing in the project.

⁵ KEK JSC — Kosovo Electricity Corporation — is a joint stock company (JSC) established in December 2005 after incorporation of the vertically integrated company KEK with four core businesses: coal-mining, power generation, distribution and supply.

⁶ KOSTT — Kosovo Transmission System and Market Operator.

system operation, the other for market operation. KOSTT has developed a grid code and technical standards complying with generally acceptable standards (GAS), as required under the Energy Community Treaty. Since it was established, KOSTT has been actively participating in the SETSO⁷ regional task force of TSOs as observer, and in other technical working groups with a view to developing regional mechanisms such as coordinated auctioning at regional level. However, KOSTT was not allowed to participate in the inter-TSO mechanism for compensating for the transit of electricity through the Kosovo transmission grid and for allocation of interconnection capacity due to the ongoing border dispute between the Kosovo government and the Republic of Serbia. Currently, the Serbian operator EMS⁸ continues to bear the costs but also to receive the payments for the management of the capacities at the borders. This is estimated to imply a financial loss for KOSTT.

The market operation function is still at an early stage of development. The market rules have been developed by KOSTT and approved by ERO and are being implemented in two phases, starting with a transition phase before moving on to full implementation. This two-phase approach was decided mainly because the full market rules presuppose a surplus of production over demand, which is currently not the case in Kosovo.

The development of new generation capacity (NKPP) and privatisation of electricity distribution and supply (KEDS) will imply changes in market design and, consequently, in the market rules which will have to be implemented by KOSTT. In addition, KOSTT will have to prepare and implement connection agreements with the new market entrants in the generation and distribution network. KOSTT will need assistance with implementing the new market design and market rules and connection agreements.

During 2010 KOSTT expects to submit its application for membership of the European association of TSOs — ENTSO-E. KOSTT has made and needs to continue to progress on preparing the transmission system for compliance with UCTE technical criteria. KOSTT would need further support therefore to increase its capacity to implement requirements stemming from membership of ENTSO-E effectively.

3.2 Assessment of project impact, catalytic effect, sustainability and cross-border impact

The project will support activities that will have an impact on security of supply by facilitating investment in power generation from lignite or renewable energy sources, with due consideration to the environmental performance and impact assessment. Furthermore, the project will have an impact on improving the quality of service provided by the energy suppliers (including electricity, gas and district heating) and will enhance the mechanisms and procedures for consumer protection.

The SEE Energy Community Treaty is intended to increase cross-border trade in energy by creating a single market covering the Member States and South-Eastern Europe.

3.3 Results and measurable indicators

Results

Activity 1 — Institutional support for the Energy Regulatory Office (ERO)

⁷ SETSO — South-East European Transmission System Operator.

⁸ EMS — Serbian Transmission System Operator.

- Regulatory framework for electricity, district heating and natural gas is updated and completed.
- Regulatory procedures ensure transparency, competition and customer protection.
- ERO exercises regulatory responsibilities effectively.

Activity 2 — Support for participation by KOSTT in the regional energy market

- Participation in the regional market and in preparations for membership of ENTSO-E.
- Technical and operational capability of transmission system operator and market operator improved.
- KOSTT fully implements the applicable regulatory requirements of the Third Package and in particular ownership unbundling for the TSO.

Measurable indicators

Activity 1 — Institutional support for the Energy Regulatory Office (ERO)

- Updated rules/regulations for gas and electricity adopted and published.
- Number of measures completed on the electricity and gas road maps of the Energy Community.
- Tariff reviews for electricity and district heating completed on schedule, including a review of the tariff adaptation methodology.
- Number of applications for authorisation for renewable energy generation processed.
- Number of licences reviewed and issued to energy enterprises.
- Number of customer complaints registered and resolved.

Activity 2 — Support for participation by KOSTT in the regional energy market

- Transmission losses reduced and demand management improved.
- Capacity for system security planning and implementation improved.
- Number of new applications for connection to the transmission system.
- Number of staff trained on tariff application.
- Compliance by KOSTT with licence conditions for transmission system operation and for market operation.

3.4 Activities

Activity 1 — Institutional support for the Energy Regulatory Office (ERO)

The energy sector in Kosovo is governed by the Law on Energy, the Law on Energy Regulators, the Law on Electricity, the Law on Natural Gas and the Law on District Heating. The primary legislation (the Laws on Energy, Energy Regulators and Electricity) is under review in the light of legal requirements imposed by the Energy Community Treaty and ongoing developments related to restructuring and private-sector involvement in power generation and in privatisation of electricity distribution and supply. As a participant in the Energy Community, Kosovo is required to comply with the *acquis* on energy, the environment, competition and renewables.

The Energy Regulatory Office (ERO) has received considerable EU support for setting up the Office and a sound regulatory framework. However, the revised primary legislation will imply changes in the regulatory framework (licensing, tariff methodology, market rules, market monitoring issues, dispute resolution procedures, etc.). The ongoing restructuring of

the sector and involvement of the private sector will require additional revision of the regulatory framework.

Furthermore, in the light of development of the gas networks in the region under the Energy Community Treaty, ERO will need to focus on putting in place a regulatory framework that will facilitate investment in natural gas infrastructure.

As a relatively small and young institution, ERO needs medium-term assistance to help it deal effectively with developments relating to regional electricity and gas markets.

Activity 2 — Support for participation by KOSTT in the regional energy market

KOSTT has a role in the regional electricity market and related mechanisms established under the Energy Community Treaty. In the last two years, with the support of EU-funded assistance under IPA 2007, KOSTT has focused on preparing the system for compliance with the technical standards and with requirements for membership of the association of European TSOs, ENTSO-E. Good results have been achieved on upgrading technical and management skills on planning and operating transmission systems. KOSTT has also developed transitional electricity market rules, which were adopted by ERO, along with technical codes in accordance with the existing legislation and methods and procedures for regulatory reporting and financial management.

However, further capacity-building is needed in KOSTT for reviewing and implementing the market rules in the light of the privatisation of KEDS and the concession for the new power generation unit. A step by step approach to achieving membership of ENTSO-E⁹ is important and participation in the regional technical and commercial mechanisms (compensation for transmission, congestion management and balancing mechanism) will place new obligations on KOSTT to operate efficiently on the integrated regional market. KOSTT will need further support to increase its technical capacity so that it can become a competent player on the market, meeting the requirements of the Energy Community Treaty and ENTSO-E.

This project therefore includes technical support on implementation of connection charging methodology and connection agreements in the transmission network, further support on long-term forecasting of demand for electricity, support on market operation and on review and implementation of market rules in the light of new developments on the electricity market (privatisation of the distribution network and new generation capacity), reviews of operational codes and further support on financial and regulatory issues.

Security of supply, one of the priorities of European energy policy, implies strengthening transmission system capability and improving management of energy flows on the electricity markets. One objective of the Kosovo energy strategy for 2009–18 is fully to integrate Kosovo's transmission grid into the regional and European energy network, in compliance with the Energy Community Treaty.

⁹ ENTSO-E is the newly formed European Network of Transmission System Operators for Electricity which has replaced all six previous European TSO associations (including the UCTE) and now includes 42 TSOs from 34 countries. UCTE — the Union for the Coordination of Transmission of Electricity — previously coordinated the activities of transmission system operators in 22 European countries, including those in the Balkans.

3.5 Conditionality and sequencing

- Government commitment to implement the requirements of the Energy Community Treaty, including consultation with the European Commission and the Energy Community Secretariat on reviewing and/or preparing new legislation before adoption.
- Government commitment to ensure the operational and financial independence of the Energy Regulatory Office.
- Government commitment to ensure professional members on the Board of KOSTT and the Board of ERO.
- Harmonisation of the draft law on energy efficiency with the *acquis* in consultation with the Energy Community Secretariat and promulgation of the law by 2011.
- Establishment of the Energy Efficiency Agency in 2011 as an independent and professional agency responsible for implementing the government's strategy and policies on energy efficiency and use of renewable energy sources. Adequate funding from Kosovo's consolidated budget should be earmarked for the Agency's running costs for at least one year of operation.
- Implementation of the Third Package with a special view on TSO unbundling and independence of the regulator.

3.6 Linked activities

EU-funded linked activities

Project	Start/End	Activities/Results
Support for KOSTT (EUR 13 million under IPA 2009; EUR 7.5 million under IPA 2008; EUR 1.0 million under IPA 2007)	2009-2010 2010-2012 2010-2012	Assistance to KOSTT (IPA 2007). Construction of Ferizaj 2 substation (IPA 2008). Replacement of high-voltage equipment in Prizren 2 substation (IPA 2009). IT equipment for market operation (IPA 2009).
Assistance to the Energy Regulatory Office (ERO) (EUR 1.0 million under IPA 2007)	2009-2010	Technical support provided to ERO to develop and implement an energy regulatory framework for establishment of a competitive energy market in Kosovo.
Assistance to the Ministry of Energy and Mining (MEM) (EUR 1.0 million under IPA 2007)	2009-2010	Institutional support to the MEM on implementing Energy Community Treaty requirements, updating the energy strategy and preparing policies to promote energy efficiency and renewable energy sources and secondary legislation on energy efficiency.
Training for energy auditors and public awareness campaign (EUR 0.8 million under IPA 2008)	2009-2010	Training of energy auditors and establishment of an energy auditing process in Kosovo. Public-awareness campaign to promote efficient use of energy and renewable energy sources.

Other donors' projects supporting the energy sector

- USAID is providing support under the Kosovo Economic Development Initiative for privatisation of publicly owned enterprises, including KEK. This programme includes support for the MEM and the Project Steering Committee for developing the new Kosovo power plant (NKPP) project. USAID is providing management support to the

power company KEK, with the aim of improving the performance of networks and supply, and supporting the privatisation of distribution and supply functions (KEDS). In addition, USAID is providing assistance on coordinating issues related to privatisation of KEDS with relevant stakeholders (government, ERO and KOSTT) and other related donor-funded projects. USAID is also funding the feasibility study on the investment required in the existing Kosovo B power plant to comply with environmental standards (the Large Combustion Plant Directive).

- KfW is supporting KOSTT on improving the transmission infrastructure. In 2008 a grant agreement was signed for construction of the new Peja 3 transmission substation (400/110 kV) and of a 400 kV transmission line to Albania. These projects will contribute to security of supply in Kosovo and to the overall reliability of the regional grid. In addition, KfW is the only IFI operating in Kosovo in the Western Balkans Investment Framework (WBIF) co-funded by the European Commission which covers preparation of energy investment projects.
- The World Bank is providing technical assistance to the government in the Lignite Power Technical Assistance Project (LPTAP) preparing for the new power plant, the new coal-mine and, possibly, for privatisation of the existing Kosovo B plant. As part of the LPTAP, the feasibility study for the new HP Zhur hydropower station in Kosovo (300 MW) has been prepared.

3.7 Lessons learned

- *Continuity and complementarity:* As the energy sector is highly capital-intensive, it is vital that reforms are coupled with investment in the sector in order to make a greater impact in terms of the objectives for the sector. It is also important to ensure that economic benefits are achieved from a regional, as opposed to purely national market, perspective.
- *Coordination:* Close consultation between the many stakeholders in the energy sector and a collaborative approach are essential to ensure that all stakeholders are fully informed and support the reforms to be carried out.
- *Ownership:* The involvement of beneficiaries as counterparts in projects is crucial for 'ownership' of projects. This project will help Kosovo institutions to implement energy reforms and build further capacity for sustainable development and integration into the Energy Community in South-East Europe.

4. Indicative budget (amounts in EUR million)

			SOURCES OF FUNDING									
			TOTAL EXP.	IPA EU CONTRIBUTION		BENEFICIARY CONTRIBUTION					PRIVATE CONTRIBUTION	
ACTIVITIES	IB (1)	INV (1)	EUR (a)=(b)+(c)+(d)	EUR (b)	% (2)	Total EUR (c)=(x)+(y)+(z)	% (2)	Central EUR (x)	Regional/ local EUR (y)	IFIs EUR (z)	EUR (d)	% (2)
Activity 1: Institutional support for ERO			1.0	1.0	100							
Contract 1 — Service	X		1.0	1.0	100							
Activity 2: Support for KOSTT			1.0	1.0	100							
Contract 2 — Service	X		1.0	1.0	100							
TOTAL IB			2.0	2.0	100							
TOTAL INV												
TOTAL PROJECT			2.0	2.0	100							

NOTE: Amounts net of VAT

(1) In the Activities column use 'X' to identify whether institution building (IB) or investment (INV).

(2) Expressed in % of the **total** expenditure (EXP) (column (a))

5. Indicative implementation schedule (periods broken down by quarter)

Contracts	Start of tendering	Signature of contract	Completion of project
Contract 1	Q1 2011	Q3 2011	Q2 2013
Contract 2	Q1 2011	Q3 2011	Q2 2013

6. Cross-cutting issues

6.1 Equal opportunities

This project will promote participation by women, minorities and vulnerable groups in beneficiary organisations. Its effects and impact on them and the opportunities it creates for them will be identified.

Equal opportunities will be ensured in the management and individual components of the project. The team of experts involved in the project must possess relevant skills to ensure effective mainstreaming of gender equality and inclusion of and participation by minorities.

6.2 Environment

In line with the Energy Community Treaty, this project will address all requirements related to the *acquis* on the environment and will build the institutional capacity for implementation. The assistance with development of the regulatory framework will apply environmental standards appropriately in the licensing and authorisation procedures and will address the tariff review process for all energy enterprises. The environmental impact assessment will be one of the criteria for determining the projects in KOSTT's investment plans.

6.3 Minorities

This project will target minority groups by contributing to better electricity supply. In addition, affordability and social concerns will be taken into account in the review of electricity and district heating tariffs carried out by ERO.

ANNEXES

Annex I- Log frame in standard format

Annex II- Amounts contracted and disbursed per quarter over the full duration of the programme

Annex III- Description of institutional framework

Annex IV - Reference to laws, regulations and strategic documents

Annex V- Details per EU-funded contract

ANNEX I: Logical framework matrix in standard format

LOGFRAME PLANNING MATRIX FOR Project Fiche Energy sSector Reform		Programme name and number: IPA 2010	
		Contracting period expires: See Section 1.10	Disbursement period expires: See Section 1.12
		Total budget: EUR 2.0 million	IPA budget: EUR 2.0 million
Overall objective	Objectively verifiable indicators	Sources of verification	
To contribute to Kosovo's energy sector reforms in accordance with the requirements of the Energy Community Treaty.	Action specified in the Energy Community road map for electricity taken by institutions in Kosovo and KOSTT. The regulatory framework for electricity is completed and fully aligned with the <i>acquis</i> .	Progress Reports by the Energy Community Secretariat. Energy laws and associated secondary legislation.	
Project purpose	Objectively verifiable indicators	Sources of verification	Assumptions
To support ERO with further development and implementation of the regulatory framework and to strengthen the capacity of KOSTT to participate in the regional energy market and in the European Network for Transmission System Operators for Electricity (ENTSO-E).	Requirements stemming from the primary legislation implemented in the regulatory framework. Increased investment in electricity infrastructure, including power generation, transmission and distribution networks. KOSTT staff actively participating in the regional and ENTSO-E working groups for technical and commercial questions related to transmission system operation and market operation. KOSTT staff capable of handling any technical problems in system and market operation. KOSTT staff capable of reporting in accordance with regulatory requirements.	Reports, papers, etc. prepared by ERO for regional working groups, fora, conferences, etc. ERO's annual report. Official announcements on ERO website. Rules, decisions, licences, working papers and other regulatory output produced by ERO. ENTSO-E reports. Regular monitoring reports produced by KOSTT departments for planning, operations and development. Transmission Development Plan for 2009-18. KOSTT's annual report. ERO's annual report.	Government commitment to implement fully the <i>acquis</i> and the requirements of the Energy Community Treaty. Government creates conditions for attracting investment in energy infrastructure.
Results	Objectively verifiable indicators	Sources of verification	Assumptions
Activity 1 — Institutional support for ERO 1. Regulatory framework for electricity, district heating and natural gas is updated and completed. 2. Regulatory procedures ensure transparency,	Activity 1 Updated rules/regulations for gas and electricity adopted and published.	Reports by ENTSO-E. Reports by the Energy Community Secretariat.	ERO has decision-making and financial independence. ERO is sufficiently staffed.

<p>competition and customer protection.</p> <p>3. ERO exercises regulatory responsibilities effectively.</p> <p>Activity 2 — Support for KOSTT</p> <p>1. Participation in the regional energy market and in ENTSO-E.</p> <p>2. Technical and operational capability of transmission system operator and market operator improved.</p> <p>3. KOSTT has fully implemented the applicable regulatory requirements.</p>	<p>Number of measures completed on the electricity and gas road maps of the Energy Community.</p> <p>Tariff reviews for electricity and district heating completed on schedule.</p> <p>Number of applications for authorisation for renewable energy generation processed.</p> <p>Number of licences reviewed and issued to energy enterprises.</p> <p>Number of customer complaints registered and resolved.</p> <p>Activity 2</p> <p>Transmission losses reduced and demand management improved.</p> <p>Capacity for system security planning and implementation improved.</p> <p>Number of new applications for connection to the transmission system.</p> <p>Number of staff trained on tariff application.</p> <p>Compliance by KOSTT with licence conditions for transmission system operation and for market operation.</p>	<p>KOSTT's annual report.</p> <p>ERO's report on compliance with licence conditions.</p>	<p>Successful privatisation of distribution system and public supplier with the support of other donor-funded assistance.</p> <p>KOSTT obtains membership of ENTSO-E in 2011.</p> <p>KOSTT has the financial means to implement the requirements of the grid code.</p>
<p>Activities</p>	<p>Means</p>	<p>Costs</p>	<p>Assumptions</p>
<p><u>Activity 1 — Institutional support for ERO</u></p> <p><u>Activity 2 — Support for KOSTT</u></p>	<p>2 Service contracts, 24 months duration</p>	<p>EUR 2.0 million</p>	<p>ERO has decision-making and financial independence.</p> <p>ERO coordinates assistance from donors involved in complementary regulatory activities related to privatisation/concession of new generation units and distribution/supply.</p> <p>No undue delays from ERO or third parties with work carried out under the project.</p> <p>Good coordination between KOSTT and stakeholders on the path to membership of ENTSO-E.</p> <p>ERO and KOSTT continue a positive</p>

			<p>approach and dialogue to seek a long-term solution to new asset investment.</p> <p>KOSTT ensures coordination with other donor activities related to privatisation of distribution/supply and related implications for connection agreements and market rules.</p> <p>KOSTT management continues to seek long-term solution for investment funding.</p>
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Preconditions:

- Government support to ensure the financial and operational independence of ERO.
- Government commitment to ensure professional members on the Board of KOSTT and the Board of ERO.
- Harmonisation of the draft law on energy efficiency with the *acquis* in consultation with the Energy Community Secretariat and promulgation of the law by 2011.
- Establishment of the Energy Efficiency Agency in 2011 as an independent and professional agency responsible for implementing the government's strategy and policies on energy efficiency and use of renewable energy sources. Adequate funding from Kosovo's consolidated budget should be earmarked for the Agency's running costs for at least one year of operation.

ANNEX II: Amounts (in EUR million) contracted and disbursed by quarter for the project

Contracted	2011 Q1	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1
Contract 1	1.0								
Contract 2	1.0								
Cumulated	2.0								
Disbursed									
Contract 1			0.2		0.35		0.35		0.1
Contract 2			0.2		0.35		0.35		0.1
Cumulated			0.4	0.4	1.1	1.1	1.8	1.8	2.0

ANNEX III: Institutional framework

Following the signing of the Athens Memorandum in 2003 establishing the regional electricity and gas markets in South-East Europe (SEE), in 2004 the Energy Regulatory Office (ERO) was established by the Law on Energy Regulators. The Ministry of Energy and Mining (MEM) was established in December 2004 by Annex XIII to UNMIK Regulation No 2005/15 amending UNMIK Regulation No 2001/19 on the Executive Branch of the Provisional Institutions of Self-Government in Kosovo. The MEM is responsible for energy policy and strategy development, preparation of the programme implementing the energy strategy and coordination of stakeholder activities to implement this policy and strategy. The MEM's detailed roles and responsibilities are clearly defined in Law No 2004/8 on Energy and in Annex XIII to UNMIK Regulation No 2005/15.

Three laws were promulgated by UNMIK in June 2004: the Law on Energy, the Law on Electricity and the Law on Energy Regulators. These laws are currently being amended to ensure full compliance with the *acquis*, as required under the Energy Community Treaty for South-East Europe.

In the energy sector a monopoly is held by the Kosovo Energy Corporation — KEK, which is a joint stock company with four core functions: coal-mining, power generation, distribution and supply. The distribution and supply businesses are prepared for full unbundling from KEK into a separate company KEDS which is expected to be privatised by 2011.

The power transmission function was unbundled and an independent transmission system and market operator (KOSTT) was established in July 2006.

Both KEK and KOSTT are publicly owned enterprises (POEs). Under the Law on POEs, the Ministry of Economy and Finance (MEF) is responsible for planning and monitoring the performance of all POEs in Kosovo.

ANNEX IV: Laws, regulations and strategy papers

- Law on Energy, June 2004
- Law on Electricity, June 2004
- Law on Energy Regulators, June 2004
- Law 2009/03-L-133 on Natural Gas
- Energy Community Treaty, 2005
- KOSTT's grid code, technical standards for equipment, market rules, licence for transmission system operation, licence for market operation
- Law 2003/4 on Spatial Planning
- Law 2003/9 on Environmental Protection
- Law 2004/5 on Trade in Petroleum and Petroleum Products
- Law 2004/42 on Scientific Research Activity
- Regulation 2005/13 on the long-term allocation of socially owned immovable property managed by the municipalities in Kosovo
- Law No 02/2005 on Foreign Investments
- Government Decision No 06/2005 on restructuring KEK JSC
- Government Decision No 04/36, 2008 on unbundling KEK JSC
- Government Decisions No 03/38, 2008 and No 08/39 on establishment of an Energy Distribution and Supply Company and its privatisation by public tendering
- Law No 03/2008 on Public Enterprises
- Government Decisions No 11/39 and No 13/39 on property policies for central public enterprises
- Law No 36/2004 on Competition
- Government Decision No 02/40, 2008 on the possibility of developing the hydropower plant in Zhur
- Law on Expropriation
- Law on District Heating
- Law on Public-Private Partnerships and Concessions

➤ European Partnership/Stabilisation and Association Process Dialogue/Progress Reports

- European Partnership Action Plan (EPAP)
- EPAP 2.1.3: Regional issues and international obligations
- EPAP 2.3.2: Sectoral policies
- European Commission Progress Report for Kosovo, 2009

➤ MIPD 2009-11

2.3.1.1 Objectives and choices

Axis 1: Political criteria

Improving **the performance of Kosovo's public administration** and pursuing the civil service reform should be priorities of EU assistance, so as to create an effective and professional public administration at all levels which is able to design and implement a coherent and interconnected body of legislation and to provide efficient public services across Kosovo in a transparent and accountable manner.

Axis 2: Economic criteria

Improving **good governance of public utilities and developing infrastructure** in order to promote business-related activities and enhance the quality of public goods and services. The areas of energy, transport, the environment, education, health, information technology and digitalisation of television have to be developed as cornerstones of future economic growth.

Axis 3: European standards

Supporting Kosovo to participate in **regional initiatives**, including support to establish and/or enhance the necessary structures, legal basis and requirements (e.g. in the areas of safety, security and air traffic management) for Kosovo's full participation in the Energy Community Treaty and the South-East European Transport Observatory, with a particular focus on development of a comprehensive energy and transport strategy, the European Common Aviation Area Agreement and adoption of the relevant single European sky *acquis* in the framework of the 'Implementation of the single European sky in South-East Europe' (ISIS) initiative.

➤ National Development Plan

Energy strategy 2009-18 — Strategic goals

- To develop and implement policy, strategy and the legal framework for reforming and restructuring the energy sector in line with the EU *acquis*.
- To promote and support development of a competitive energy market which will be integrated into the EU energy market in the future.
- To promote restoration of the financial viability of the energy enterprises.
- To ensure security of energy supply to customers at the lowest cost and in the most environmentally friendly manner.
- To encourage exploration and development of new reserves of lignite and other minerals.
- To develop and implement policy, strategy and the legal framework for the mining sector.
- To promote private investment in the energy and mining sectors in the form of public-private partnerships.

➤ Reference to national/sectoral investment plans

Medium-Term Expenditure Framework (MTEF) 2009-12 — Objectives

- Continuing the restructuring and reforms of the energy sector, with the purpose of increasing efficiency in the energy sector.
- Securing the credibility of energy generation capacity by providing a reliable supply.
- Modernising the transmission and distribution network, by ensuring integration with the regional and European energy system by 2011.
- Addressing the environmental consequences of existing thermal power plants, including repairing old mines and ash dumps with strict application of international environmental protection norms.

ANNEX V: Details per EU-funded contract

Activity 1 — Institutional support for ERO

Result 1. Regulatory framework for electricity, district heating and natural gas is updated and completed.

1.1 Review and complete rules on licensing and tariff methodology for electricity, district heating and natural gas.

Result 2. Regulatory procedures ensure transparency, competition and customer protection.

2.1 Assist with reviewing new licence applications for electricity, district heating and natural gas.

2.2 Assist with review/approval of authorisations for new generators based on renewable resources.

2.3 Implement tariff reviews.

2.4 Assist with dispute settlement and handling customer complaints.

Result 3. ERO exercises regulatory responsibilities effectively.

3.1 Implement internal quality management procedures.

3.2 Assist ERO with participating in regional bodies and working groups established under the Energy Community Treaty.

Activity 2 — Support for KOSTT

Result 1. Participation in the regional market and in ENTSO-E.

1.1 Response by KOSTT to all queries from the ENTSO-E technical evaluation teams.

1.2 Assist with implementation of the electricity road map and requirements of the Energy Community Treaty.

Result 2. Technical and operational capability of transmission system operator and market operator improved.

2.1 Training for transmission system development staff.

2.2 Assist with developing long-term transmission development plan and demand forecasting.

2.3 Assist with market operation, balancing settlements and invoicing and interconnection capacity allocation.

2.4 Assist with review and implementation of market rules.

2.5 Assist with reviewing the applications for connections to the transmission grid and with preparing the connection agreement; prepare any required adjustments in the grid code.

2.6 Review and amend the market rules with a view to new entrants to the electricity market.

Result 3. KOSTT has fully implemented the applicable regulatory requirements.

3.1 Assist the regulatory and finance departments on the regulatory principles and methodologies and regulatory accounting.

3.2 Assess the suitability of financial recording and reporting systems.

3.3 Assist with tariff regulatory review.