

**AMENDMENT TO PROJECT FICHE 8 (02.15) "FURTHER SUPPORT FOR KOSOVO'S PARTICIPATION
IN THE ENERGY COMMUNITY OF SEE"**

<p>MODIFIED 2008 Project Fiche Kosovo (UNSCR 1244/99) IPA centralised programme</p>
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1. Basic information

- 1.1 CRIS Number:** 2008/020-094
- 1.2 Title:** Further Support for Kosovo's Participation in the Energy Community of SEE
- 1.3 ELARG Statistical Code:** 02.15
- 1.4 Location:** Kosovo

Implementing arrangements:

- 1.5 Contracting Authority:** The European Commission Liaison Office to Kosovo
- 1.6 Implementing Agency:** The European Commission Liaison Office to Kosovo, except for activity 2 which will be implemented by joint management with the EBRD.

1.7 Beneficiary Institutions:

Project activity/component	Beneficiary institution	Contact point responsible for project/activity coordination
Further Support for Kosovo's Participation in the Energy Community of SEE	<ul style="list-style-type: none"> • Kosovo Transmission System and Market Operator KOSTT • Ministry of Energy and Mining (MEM) • Ministry of Environment and Spatial Planning (MESP) 	<ul style="list-style-type: none"> • Director of Department for Project Management & Engineering, KOSTT • Director of Energy Department, MEM • Director of Housing and Construction Department, MESP

- 1.8 Overall cost:** EUR 31.412 million. (VAT excluded)
- 1.9 EU contribution:** EUR 11.912 million.
- 1.10 Final date for contracting:** Three years after the signature of the financing agreement between the European Commission and the Kosovo Authorities.
- 1.11 Final date for execution of contracts:** Three and a half years after the final date for contracting.
- 1.12 Final date for disbursements:** One year after the final date for the execution of contracts.

2. Overall Objective and Project Purpose

2.1 Overall Objective:

The overall objective is to support Kosovo's institutions in developing a competitive and transparent internal energy market compliant with the requirements of the Energy Community of Southeast Europe (ECSEE).

2.2 Project purpose:

The purpose of the project is to promote energy efficiency and use of renewable energy resources; and to upgrade the electricity transmission system in line with the requirements of the Energy Community Treaty (EnCT).

2.3 Link with: European Partnership (and its action plan); SAp/STM

The *European Partnership* calls for making progress in meeting commitments under the Athens Memoranda¹ and Energy Community of South East Europe (ECSEE).

The Working Group on Energy established by the Prime Minister has developed an *Action Plan for the European Partnership Implementation* with emphasis on the commitments undertaken in the framework of the ECSEE including the security of supply and implementation of *acquis* on energy, environment and competition. In the context of the Energy Community Treaty, the contracting parties including Kosovo have to implement the Generally Applicable Standards² of the European Community including requirements of the UCTE³ related to the technical operation of the transmission network operators.

EC Progress Report for Kosovo 2007 highlights the need for further progress in establishing and implementing the legal framework set out by the EnCT. The report recognises the need for raising funds to implement the Kosovo Programme on Energy Efficiency and Renewable Energy Resources, and the need to upgrade electricity networks and improve the supply.

In the STM Energy Sector Meeting held in September 2007 it was concluded that reforms should include, *inter alia*, enhancing transmission and distribution networks in order to ensure full integration with the regional and European networks, and decreasing the technical losses to the level of international standards by 2010-2012.

2.4 Link with the Multi-Annual Indicative Planning Document (2007-09) for Kosovo (MIPD)

The "European Agenda" section of the MIPD emphasises the need for capacity building and Kosovo's gradual approximation of legislation, along with implementing measures, in the context of European standards. Support for Kosovo's participation in regional initiatives is identified as a priority, including support to establish and/or enhance the necessary structures, legal basis and requirements for Kosovo's full participation in the regional energy market. And under the socio-economic requirements of the MIPD, good governance and developing infrastructure in the energy sector is identified as a main priority.

Kosovo, as a member of Energy Community Treaty, is required to implement measures to foster development in the area of energy renewable resources and energy efficiency.

2.5 Link with National Development Plan

1 Athens Memoranda on establishing the regional energy market in southeast Europe signed in 2002 and 2003.

2 As a part of the Treaty establishing the Energy Community (Title II – The Extension of the *acquis communautaire*, Chapter VI – Compliance with generally applicable standards of the European Community), Articles 21-23.

3 UCTE - Union for Coordination of the Transmission of Electricity.

The project links to the priorities identified in the mid-term expenditure framework (MTEF 2008-2010)

In the MTEF 2008-2010 prepared by the Kosovo Government, the upgrade of the transmission network is a high priority in order to comply with the international technical standards, to accommodate the new generation capacities, and to ensure reliability and security of supply.

Integration in the regional energy market through active participation in the Energy Community Treaty is a key priority in the European Partnership Action Plan for Kosovo and in MTEF.

2.6 Link with national/ sectoral investment plans

The *Kosovo Energy Strategy 2005-2015*, approved in 2005 by the Assembly of Kosovo, identifies challenges for Kosovo in complying with and implementing all the commitments arising from the establishment and operation of the ECSEE. A key objective of the strategy is implementing market reforms in compliance with *acquis* as defined in the Energy Community Treaty and raising awareness and promoting the efficient use of energy and the use of renewable energy resources. Based on the requirements of the Law on Energy, the Ministry of Energy and Mining launched a three year programme for energy efficiency and renewable energy resources.

The Kosovo Environmental Action Plan 2006-2010 highlights the energy sector as the biggest polluter because power generation is entirely dependent on lignite fuel. It goes on to identify actions on energy efficiency and the introduction of energy renewable resources as priorities for a cleaner environment.

A key objective in the Kosovo Energy Strategy 2005-2015 is the reinforcement and upgrade of the transmission network to improve the quality of supply and the security of the grid as a prerequisite for integration in the regional energy market. Actions leading towards this include reducing constraints and losses by adding additional transmission capacity.

3. Description of project

3.1 Background and justification:

There are major problems on both the demand and supply side of the energy sector.

The demand for electricity in Kosovo since 1999 has exceeded the forecasts in the studies for the energy sector strategy funded by the World Bank (ESTAP I, 2001). Much of this arises from poor levels of payment and the theft of electricity, accentuated by weak law enforcement and institutional support. Inefficient and/or wasteful consumption of electricity is also a problem. Over 60% of electricity demand is for household consumption, although demand expected to grow further with the privatisation of Socially Owned Enterprises and other investments.

Improving the payment for electricity and reducing losses (both technical and commercial losses/theft) are strategic objectives of KEK (Kosovo Electrical Corporation). However, initially there was little progress in meeting them. The weak financial position of KEK meant that the maintenance of existing assets was minimal whereas new investment projects are implemented only if funds are available from the Kosovo Consolidated Budget (KCB) or international donors. In November 2005 UNMIK and PISG established a Joint Task Force (JTF) to provide institutional support to KEK on improving revenue collection and the reduction of losses. As a result the revenue collection improved from about 60% in the first

quarter to 82% in the third quarter of 2007. However, the sustainability of this improvement is not certain. The lack of investment in the electricity network affects the quality and security of supply in many areas of Kosovo, which impacts negatively the revenue collection.

Whilst there is some progress on revenue collection, demand side management remains a challenge. In early 2007 the Ministry of Energy and Mining (MEM) launched a Programme on Energy Efficiency and Energy Renewable Resources 2007-2009 but the implementation is slow due to lack of funds. The programme includes a portfolio of projects to promote energy efficiency measures in different sectors and for creating the environment for investments in energy renewable resources. In parallel MEM has developed the secondary legislation on energy efficiency as required by the Law on Energy in Kosovo and the Energy Community Treaty. The MEM has developed indicative targets for 2007-2016 for the use of renewable energy resources. However, the legal framework for participation of the private sector through authorisation or tender procedure is not yet fully developed.

The Energy Community Secretariat⁴ (ECS) has established a Task Force on Energy Efficiency⁵ with the aim to produce a detailed action plan on energy efficiency concerning the contracting parties of the Energy Community Treaty, including Kosovo. The Kosovo institutions will be required to prepare action plans for the implementation of EC Directives on energy efficiency and implementation plans for other requirements deriving from the Task Force. The Regional Energy Demand Planning study (funded by USAID) indicates a high growth of electricity demand in the region, consequently the development of policies and implementation of energy efficiency measures is a top priority in the agenda of the Athens Forum. The energy efficiency action plans will complement the roadmaps for electricity and gas already developed by the Energy Community. The Ministry of Energy and Mining has developed a long-term national action plan for energy efficiency (NAPEE) which includes measures to promote energy efficiency in the sector of small and medium enterprises (SMEs) through soft loans from the International Financing Institutions (IFIs) and possibly grants.

Businesses are significant consumers of energy, therefore energy and cost saving is of their interest. Hotel and restaurant owners/operators, as well as enterprises with large buildings have to handle buildings and facilities where energy efficiency measures can be implemented and renewable energy sources can be used. The new activity will be a direct contribution agreement to EBRD relating to the establishment of the EU Sustainable Energy Financing Facility – SEFF for SME's in Kosovo. The new activity will be "Promoting Energy Efficiency in SMEs". SEFF has for specific objectives to contribute to the establishment of the facility combining EU grant funds with EBRD credit financing to local financial intermediaries for on-lending in the SMEs sector for financing of energy efficiency and small scale renewable energy investments.

The loans or finance leases offered to SMEs should be for the purpose of:

- Investments on the energy demand side which will contribute to the improvement of the energy performance of SME business operation, included thermal rehabilitation of building used by SMEs;
- Investment in renewable energy technologies on the energy supply or demand side;
- Expansion investments of manufacturers, supplies and installers of energy efficient technologies, materials, equipments.

4 The Energy Community Secretariat is based in Vienna. Its duties and responsibilities are determined in the Energy Community Treaty TITLE V – Institutions Of The Energy Community, Chapter V.

5 The decision for establishing the Task Force on EE was taken at the 5th Permanent High Level Group (PHLG) of the Energy Community Meeting, 28th June 2007.

EU grant funds will be used for TA support in preparation & verification of SME/beneficiaries projects, investment incentives (10-20% of the sub-loan amount) which is considered to be a valuable tool for making EE projects attractive for SMEs and administrative costs of financial intermediaries operating the on-lending scheme.

On the supply side there is insufficient generation capacity arising from under investment in the past. In the winter Kosovo can only generate about 70% of demand. Moreover, the transmission network has insufficient capacity and is limited at about 80% of the current demand. This inhibits the use of imports to make good the deficit in generation capacity, not to mention the current difficulties of sourcing and purchasing electricity imports in the region.

The transmission network faces major constraints in different areas throughout Kosovo. Insufficient capacity leads to transmission lines and substations getting overloaded resulting in more electricity losses which in turn affect the security of network operation. The major constraints (bottle necks) in the transmission network are in the western and eastern parts of Kosovo. The KfW funded project for a new substation Peja 3 will increase the capacity in the western part of Kosovo and will improve the quality of supply in that area. The Development and Investment Programme of KOSTT identified the need for a new substation Ferizaj2 as a solution for improved supply in the south-eastern part of Kosovo. Substations Peja3 and Ferizaj2 are also necessary to avoid bottle necks in the internal transmission network thus improving the security of network operation as a whole.

Under the Energy Community Treaty, Kosovo has to comply with the Generally Applicable Standards which include requirements of the UCTE for security of the transmission network. Failures in the Kosovo transmission network could cause disturbance in the operation of other neighbouring networks in the region. For example, in summer 2007 an interconnection line tripped in Bulgaria and caused a complete black out in Kosovo and in some other parts of the region.

Currently the financial sustainability of KOSTT depends on the transmission tariff set by the Energy Regulator. KOSTT is member of SETSO (South East European Transmission System Operators), but is not yet participating in the inter-TSO compensating mechanism (ITC mechanism) which would generate income from electricity transit through the Kosovo network. In addition KOSTT is not yet entitled to apply for IFI loans so it faces a big challenge in developing its infrastructure as planned and in complying with international standards.

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

The project will have an impact on energy supply by implementing measures for better demand side management. Project Component 1 will increase the general public awareness on energy efficiency and use of renewable energy resources, and will produce savings for some public sector consumers (mostly municipalities) and SMEs through a more efficient use of electricity for the selected public buildings and SMEs in this project, thus leading to lower bills. By promoting energy efficiency in SMEs there will be a direct impact on competitiveness of the SMEs in the domestic market and wider, this will enable lower cost of operation and lower cost of production which leads to competitive prices of the final products. This will also have an impact on reduction of CO₂ emissions by reducing energy consumption.

The implementation of energy efficiency measures represents a complementary approach to supply alternatives (reduction of imports or less new generation capacities) and impact on environment. The project will inform the public and will raise awareness about the benefits from the energy savings and will contribute to changing the consumer behaviour.

Project Component 2 will increase the capacity of electricity transmission, thus enable a more reliable electricity supply to some 80,000 consumers in south east Kosovo. It will also reduce losses in the whole transmission network by 60% (calculated at EUR 0.5 m/year) and will reduce the amount of undelivered energy to the costumers (calculated at EUR 2.8m/year). This will have an impact on the quality of supply and will improve the financial situation of KOSTT.

In addition, the project has an important impact on cross border cooperation in the context of integration in the regional energy market. The Energy Community Treaty is intended to increase cross border (regional) energy trade by creating a single market covering the Member States and South Eastern Europe. The project will increase the potential for competition of SMEs in the region which will contribute to a wider regional economic development and cooperation.

3.3 Results and measurable indicators:

Results for Component 1:

- a. Cost-effective energy efficiency measures (insulation, replacements of doors and windows, combined solar based heating system, rehabilitation of boilers and/or steam distribution systems, etc) are implemented and energy auditing is performed to measure the energy savings in the selected public buildings and SMEs.
- b. Lower operational cost of selected SMEs (10-20 SMEs) as a result of implementation of cost effective energy efficiency measures.
- c. Energy management systems are introduced in SMEs;
- d. Energy renewable resources and cogeneration of heat and electricity are introduced in selected public buildings and in at least 10-20 SMEs.
- e. Environmental improvements as a result of energy efficiency and use of renewable energy resources
- f. Increased public awareness on energy savings and use of renewable energy, and environmental improvements
- g. Energy auditing process is established

Results for Component 2:

- a. Improved quality of power supply in southeast Kosovo
- b. Increased security of Kosovo and regional transmission network, compliance with UCTE rules and Energy Community Treaty
- c. Reduction of losses and bottlenecks in the transmission network
- d. Improved financial situation in KOSTT as a result of loss reduction and better supply of electricity for consumers

Measurable indicators for Component 1:

- a. Data on energy savings measured at the beneficiary buildings 30-50% (unit cost of energy savings 1,5 to 3 Eurocent/kWh)⁶
- b. Reduced energy consumption in SMEs by at least 30%;

⁶ Accurate data on energy savings and emission reduction will be determined in the Study on Energy Efficiency measures (funded under CARDS) which will identify concrete measures for implementation.

- c. Lower electricity bills and lower bills for other fuels for heating and production in SMEs;
- d. The management of SMEs have adopted energy policies and have appointed energy managers;
- e. Electricity bills are reduced in the public buildings in the range of 20 to 30%
- f. Data on environmental impact (30-50% reductions in CO₂, SO₂, NO_x) of introducing renewable energy and energy efficiency measures
- g. Broadcasting video and radio clips 3-5 times a day in various local TV and radio stations some 60 billboards, some hundreds of posters for all Kosovo municipalities, leaflets and other means of providing information to the public
- h. 30-50 energy auditors trained as trainers

Measurable indicators for Component 2:

- a. Compliance with UCTE security criteria (N-1 criteria)
- b. Improved supply for some 80,000 consumers in Kosovo
- c. Transmission losses reduced by 60% (the current level of losses over 5% losses)
- d. KOSTT's estimated financial saving of EUR 3 million/a achieved from the reduction of losses and bottle necks

3.4 Activities:

Under the CARDS Programme an assessment study will be carried out to prepare for the implementation of Activity 1 under IPA 2008 described below. The assessment study will include energy audit in some ten public buildings (schools, kinder garden, hospital or public health building) that regularly pay electricity bills, and will identify a range of cost-effective energy efficiency (EE) measures that will be implemented in three or four selected public buildings. The EE measures where possible will promote the use of renewable energy resources (e.g. solar panels for heating/cooling purpose). The study will include energy management plans for those buildings and will assess the possibility for using small scale generation from renewable energy resources. The study will assess the environmental impacts and benefits related to energy savings and use of renewable energy resources.

Component 1 Promoting Energy Efficiency and Renewable Energy Resources

➤ **Activity 1 of the project includes three complementary sub activities:**

- ***Activity 1.1 Energy Efficiency Measures and Renewable Energy Resources in Public Buildings***

The Kosovo Programme for Energy Efficiency and Renewable Energy Resources prepared by the Ministry of Energy and Mining sets out actions for introducing energy efficiency in various sectors as education, transport, industry, agriculture, etc.

Activity 1 implements the 'house in order' action of the Ministry's programme, which includes implementation of energy efficiency measures in public buildings as a demonstration project in the process of introducing energy efficiency.

This activity complements the EC funded regional programme on Energy Efficiency Finance Facility and contributes in the implementation of the energy efficiency action plan prepared by the Energy Community Task Force on Energy Efficiency.

This activity 1 includes implementation of cost-effective energy efficiency measures in selected public buildings such as: insulation, replacing doors/windows, improving heating/cooling systems, lighting, etc. Based on the outcomes of the assessment study

mentioned above the activity will include using renewable energy resources such as installation of solar thermal applications, solar-assisted space heating and cooling systems, etc. This activity follows up on the implementation of the Kosovo Programme for Energy Efficiency and Renewable Energy Resources.

- ***Sub-activity 1.2.1 Public Awareness Campaign for Promoting Energy Efficiency and Energy Renewable Resources***

The high demand growth for electricity reflects the need to change consumers' behaviour. Given that households account for 65-70% of total demand, a general public awareness on energy savings would have the greatest impact on changing consumer behaviour.

A communication strategy will be prepared to promote energy saving measures and related potential benefits including environmental impacts. The campaign is intended to provide information for the general public on environmentally friendly energy production. The communication strategy will be followed up by the campaign design and implementation plan, which will provide detailed information on all activities (round table discussions with various stakeholders, preparation of TV and radio clips, the schedule of broadcasting clips, etc) and materials (posters, leaflets, TV and radio clips, etc) that will be used for the campaign. The campaign materials will be distributed in the whole territory of Kosovo to maximise the outreach of consumers in various urban and rural areas. By the end of campaign a survey will be conducted to evaluate the impact on general public awareness.

Various studies carried out under CARDS programmes will be used to inform the campaign.

This sub-activity follows up on the EC funded activity 'Public awareness campaign for improving revenue collection and improving energy efficiency' carried out in 2007.

- ***Sub-activity 1.2.2 Training Programme for Energy Auditors***

As a signatory of the Energy Community Treaty and member of the Task Force on Energy Efficiency, Kosovo has to implement the acquis on energy efficiency. Pursuant to Article 10 of the Law on Energy No. 2004/8, the Ministry of Energy and Mining prepares and implements policies on energy efficiency, including energy audits and energy saving development plans. To encourage energy auditing MEM has prepared secondary legislation on End-Use Energy Efficiency and Energy Services, and for Energy Audits.

The purpose of secondary legislation on Energy Audits⁷ is to establish an energy auditing system in Kosovo, including the process of certification of energy auditors and main requirements for the energy auditing process. The legislation obliges consumers to obtain energy audit reports from the certified energy auditors⁸ and submit them to MEM. To enforce the auditing process the MEM will coordinate closely with the Ministry of Trade and Industry and with the local government.

This project activity includes support to MEM on establishing an energy audit system through a training programme for trainers for energy auditors, testing and certification of trainers by a competent and certified energy service company.

This sub-activity includes a 'train the trainers' component in the first phase for up to 50 trainers, and implementation of further training by the trained trainers under the supervision of the project implementer in the second phase.

7 Administrative Instruction 03/2007 on energy auditing.

8 Based on the secondary legislation the certification of auditors will be done by a professional body appointed by the MEM and chaired by a professional from the University of Pristina. The secondary legislation includes the criteria for certification.

This sub activity complements the GTZ funded training programme for a professional body that will certify energy auditors in Kosovo (see above footnote 9).

➤ **Activity 2 Promoting Energy Efficiency in SMEs**

This activity relates to the establishment of an EU Sustainable Energy Financing Facility for SMEs in Kosovo, combining EC grant funds of up to EUR 3 million with EBRD credit financing of up to EUR 12 million to local financial intermediaries for on-lending in the SME sector for financing of energy efficiency investments and small scale renewable energy investments.

The eligible projects for investments will include:

- i. Investments on the energy demand side which contribute to the improvement of the energy performance of SMEs' business operations, including thermal rehabilitation of buildings used by SMEs for business purposes.
- ii. Investments in renewable energy technologies on the energy supply or demand side.
- iii. Expansion investments of manufacturers, suppliers and installers of energy efficient technologies, materials, equipment.

EU grants funds would be used to finance the following key components of the programme:

1. **Technical assistance (TA)** to support the programme implementation would be awarded, following EBRD Procurement Policies and Rules, and EBRD would manage the TA consultants. Two separate consultants would be envisaged as follows:

(i) **TA for project preparation** includes support at sub-borrower level to assist with energy performance assessments or energy audits, project preparation and implementation support. For projects involving rehabilitation of buildings, the requirements of the EC Buildings Directive will be applied, including certification by accredited Energy Experts. Some limited assistance will also be provided to the participating financial intermediaries (PFIs), particularly with respect to training of relevant staff on eligibility requirements, awareness raising, marketing and pipeline development.

(ii) **TA for project verification** to check that projects are implemented in accordance with the investment plan. For buildings projects, an ex-post energy certification in accordance with the Buildings Directive will be performed.

2. **Investment Incentives:** An investment incentive in the range of 10% to 20% of the sub-loan amount would be payable to SMEs following implementation of an eligible energy efficiency or renewable energy investment. Incentive payments for SMEs in Kosovo are seen as a necessary precondition for the success of the credit line facility, as they are a valuable tool for making energy efficiency projects attractive for SMEs and to help prioritise such projects over other investment opportunities/needs that SMEs normally prioritize, such as those for capacity expansion and revenue enhancement.

3. **PFI Administrative Fee:** An administrative fee equal to up to 2% of each signed sub-loan would be payable to the PFIs. This incentive is needed to compensate the PFIs for the additional costs and risks associated with such restricted purpose on-lending.

Component 2: Construction of Ferizaj 2 (400kV/110kV) Substation

This Component 2 includes the construction of a new 400/110kV substation Ferizaj2 for the purpose of improving the quality of supply and increasing the transmission network security.

The Development and Investment Programme 2007-2012 for KOSTT was prepared under the CARDS 2005 programme. It was based on a study of the existing condition of the transmission network in Kosovo and on the electricity market forecasts for the region of Southeast Europe. It also took into account the power generation plans for the region and for Kosovo. KOSTT's objective is to undertake the necessary infrastructure investment to comply with the UCTE requirements, in particular to fulfil the security criteria in the network (the so-called N-1 criteria) which is a prerequisite for participation in the regional electricity market.

Another priority for KOSTT is to reduce the electricity losses to the acceptable standards by 2010 and this requires big infrastructure investments.

The construction of a new Ferizaj 2 substation will significantly improve the quality of supply for the south eastern part of Kosovo and will contribute to reduction of losses and higher efficiency, and will contribute to eliminating transmission network constraints.

It includes design and construction of the substation, switchyard, and overhead lines for connection of the substation in 400kV and 110kV grid. The Beneficiary KOSTT and MEM will prepare all necessary documentation for obtaining permits for the construction of substation and for the overhead lines.

Contracting arrangements

Component 1

Activity 1

- Activity 1.1 (investment)
One supply contract (for sub activity 1.1.1) and one framework contract (sub-activity 1.1.2)
- Activity 1.2 (institution building)
Two service contracts (for sub-activity 1.2.1 and 1.2.2) are envisaged to implement the above sub activities.

Activity 2

- Contribution agreement under joint management with EBRD
The Description of Action is to be submitted by EBRD the first half of 2011.

Component 2

- Activity 2.1 (investment)
One work contract
- Activity 2.2 (investment)
One Framework Contract

One work contract for design, construction and commissioning of the substation Ferizaj2 (400kV/110kV) and related overhead lines for the connection of substation in the high voltage transmission grid, and one framework contract for supervision of the site works.

For better coordination of project activities and timely implementation it is recommended that the project is implemented under a single Works Contract managed by the ECLO as the Contracting Authority. The Ministry of Economy and Finance (MEF) has confirmed the co-funding of 50% of the project estimated budget including tax. MEF is required to create a separate trust account which will pay the invoices submitted by the project implementer (the Contractor) after the approval of ECLO and KOSTT.

The Beneficiary KOSTT has sufficient technical capacity to supervise the day to day activities of the Contractor on-site. However a project coordinator/supervisor will be hired under a framework contract to coordinate and supervise the overall project activities and to support the project team in KOSTT. During the Defect Liability Period the KOSTT experts will handle with the Contractor any faults or defects in the supplies.

The technical specifications for the whole project scope will be prepared by end 2008/early 2009 under a framework contract funded under CARDS programme. The tendering for Component 2 will commence in Q1 of 2009.

More information on the details of the contracting arrangements is provided at Annex 5.

Project management and administration

The European Commission Liaison Office to Kosovo will manage the procurement, implementation, quality control, reporting and coordination with other donors of the development assistance and of the financial and technical cooperation related to the actions described in this project fiche, taking remedial actions if and when needed.

The Contractors and Team Leaders engaged through the contracts for this project will have the authority to run the project activities on a day-to-day basis under the supervision of the Commission Office. The Contractor's/Consultant's primary responsibility shall be to ensure that the project produces the required outputs, to the required standards of quality and within the specified constraints of time and cost. The team leader and others will also address cross-cutting issues. A detailed description of the works and duties of the team leaders and key experts will be elaborated in the Technical Specifications and Terms of Reference, in line with this project fiche.

Project Steering Committees will be responsible for the overall direction of the project and comprise of representatives from the beneficiary institutions and the Commission Office.

Monitoring will be performed centrally by the Commission. The project may be evaluated at the interim or ex-post stages under the supervision of Commission's Evaluation Unit. The project may be audited by Court of Auditors - in line with the standard European Commission procedures.

3.5 Conditionality and sequencing:

- A letter of commitment for allocation of 50% of the budget for Component 2 is submitted by the Minister of Economy and Finance (MEF) to the Minister of Energy and Mining. MEF is required to create a trust account for 50% of the project value and the required amount for taxes.
- Government's support, particularly support of the Ministry of Energy and Mining, Ministry of Environment and Spatial Planning, and Ministry of Local Government on the implementation of project and on the implementation of the requirements of the Energy Community Treaty (action plans on energy efficiency and use of renewable energy resources)
- Government's support on enforcing the legislation for promoting investments in energy efficiency and renewable energy. The Government should consider establishing an energy efficiency fund for promoting investments in this area.
- Government's lead on coordination of donors/IFIs' activities related to this project and Energy Community Treaty (KfW, World Bank, USAID)

- KOSTT arrangements of all legal procedures to allow construction (e.g. construction permits and any other required permits).

3.6 Linked activities

Since 1999 over EUR 415 million of EC assistance (including investment, training, management support and technical assistance, and institutional support) has been provided for the development of the energy sector in Kosovo. The table below summarises the past EC assistance relevant to this project:

Name of project (Amount EUR million)	Start End	Activities/Results
KOSTT (EUR 10 million under CARDS)	2002-2006	High voltage metering system Local Scada (System for Control and Data Acquisition) for Kosovo B substation Supply of power transformers for Kos A and Kos B substations
Energy Regulatory Office (EUR 1.9 million under CARDS and EUR 1.0 million under IPA 2007)	Feb2005- Sep 2007 Sep 2008- Dec 2010	Technical support provided to ERO to develop and implement energy regulatory frameworks, market rules, mechanisms and procedures for the establishment of a competitive energy market in Kosovo.
KEK Incorporation (EUR 3 million)	2005	Incorporation of KEK and district heating companies, unbundling and full separation of transmission function
KOSST (EUR 2.5 million under CARDS and EUR 1.0 million under IPA 2007)	Feb2006- Aug 2007	Support the restructuring of the Kosovo Energy system in line with the Energy Community Treaty through the establishment and development of an independent Transmission System and Market Operator.
Ministry of Energy and Mining (EUR 2.1 million under CARDS and EUR 1.0 million under IPA 2007)	Apr2005- May 2008	Institutional capacity Support to the MEM to: formulate an Energy Strategy; and to prepare secondary legislation; programme for energy efficiency and renewable; fulfilling Energy Community Treaty requirements.
Feasibility studies and assessments (EUR 2 million)	Jan 2007- Aug 2007	Feasibility study for lignite fired power plant in Kosovo and related transmission (in support of the LPTAP project funded by the World Bank); Assessment Study on Renewable Energy Resources; Options Analysis Study for investment in the new power plant and coal mine; and studies for pollution mitigation measures in the Kosovo B power plant.
KOSTT- (EUR 2,2 million CARDS)	Jun 2007- Dec 2008	Replacement of relay protection system in Kos B and Pristina 4 transmission substations
EIB	2007-2011	Energy Efficiency Finance Facility 2007 for implementation of energy efficiency and renewable energy credit line in Western Balkans including Kosovo

Other donors' projects supporting energy sector are:

- USAID supports the Ministry of Energy and Mining through resident advisors who provide policy guidance and technical assistance to improve MEM's outreach to investors and ensure its compliance with regional energy agreements. This assistance is part of a

bigger project ‘Kosovo Economic Development Initiative’ in support to Kosovo Government. USAID has started follow up projects to support relevant government entities on steps for privatising POEs including KEK. This programme includes support to MEM and the Project Steering Committee for developing a new power plant Kosovo C project to ensure that the LPTAP (World Bank funded) project progresses in a transparent and professional manner. This programme includes technical assistance to ERO through a resident advisor to ensure that it develops into a strong independent and well functioning regulator. Since 2005 USAID has supported the ERO through a resident advisor on its Board. Since January 2007 USAID has also provided management advisors to KEK with focus on improving the performance of networks and supply, and on improving billing and collection. A task of this project is the preparation of the strategy for privatising the distribution and supply divisions of KEK.

- USAID has funded a Regional Energy Demand Planning that identifies substantial financial savings from energy efficiency investment. In addition USAID prepared a study on Energy Community Stocktaking on Energy Efficiency which provides information on what has been done by individual contracting parties of the Treaty on energy efficiency and will provide a detailed list of actions required to fill the gaps in legal/regulatory framework, mechanisms necessary to implement them, etc.
- KfW is supporting KOSTT to improve the transmission infrastructure – in particular the project for a new transmission substation Peja 3 and the construction of the new 400kV transmission line to Albania. These projects will contribute to the security of supply in Kosovo and to the overall regional grid reliability. In addition KfW is an implementing partner of the EC funded horizontal programme for Energy Efficiency Finance Facility which includes Kosovo.
- The World Bank is providing technical assistance to the Ministry of Energy and Mining (Lignite Power Technical Assistance Project-LPTAP project), and to KOSTT. The project supports the development of new generation capacities in Kosovo. World Bank has supported the establishment of KOSTT (ESTAP III project), has designed the organisational scheme and has developed the technical codes. The World Bank is also preparing a new technical assistance project for KOSTT. The technical assistance provided by EC and World Bank is closely coordinated with KOSTT. Under the LPTAP project the World Bank has planned support on preparing feasibility study for a new hydropower station HP Zhur in Kosovo, and on developing a strategy for investments in energy efficiency and renewable energy sources.

Donor	Projects	Start End
KfW	Construction of a new transmission substation Peja3. EUR 15.25 million (incl. EUR 4.75 million KCB co-funding).	Nov 2006- Mid 2008
	Refurbishment of a coal excavator for opening the new mine for existing power plants (EUR 8 million)	Oct 2006- Feb 2009
	Construction of a new 400kV interconnection line Kosovo-Albania (under a grant agreement EUR 12,5million)	Nov 2007-2010
	Regional fund for investments in energy efficiency and renewable energy sources (under EC funded Energy Efficiency Finance Facility)	2007-2011
USAID	Advisory services for MEM	2005 – Jul 2007
	Follow on Economic Development activity (under procurement)-	Aug 2007-

	includes support to MEM and ERO	Aug 2009
	Short term advisory services to ERO	2005-2006
	Network and Supply Project-KEK (\$4.7 million)-envisaged extension till 2011 to support the privatisation of KEK	Jan 2007- Dec 2008
	Assistance on privatisation of KEDS	Nov 2009-2011
World Bank	Lignite Power Technical Assistance Project (LPTAP) \$8,5 million	July 2007 -July 2009
	ESTAP III – (Technical Assistance to KOSTT) \$2,5 million	Mar 2006- May 2007
	New Technical Assistance Project for KOSTT under preparation	2008-2009

3.7 Lessons learned

- *Changing consumer behaviour:* coordinated and ongoing action is necessary to influence and change consumer behaviour, but also to improve the customer care in KEK. A public awareness campaign on the benefits from energy savings will contribute on this issue. This will also contribute to revenue collection improvement.
- *Coordination:* Close consultation among the many stakeholders in the energy sector and a collaborative approach are essential to ensure that all these stakeholders are fully informed, and support the reforms to be carried out.
- *Prioritising investment needs:* As the energy sector is highly capital-intensive it is vital that investments in the sector are properly prioritised ensuring that investments have the maximum impact in realising the objectives for the sector. It is also important to ensure that economic benefits are realised from a regional, as opposed to a purely national energy market perspective.
- *Ownership:* Experience of previous energy sector reform projects in Kosovo has shown the importance of counterpart and public ‘ownership’ of reform projects. This project helps Kosovo Institutions in implementing sector reforms and builds further the capacity for the sustainable development of the sector and its integration in the Energy Community.

4. Indicative Budget (amounts in EUR million)

			SOURCES OF FUNDING									
			TOTAL EXP.RE		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)
Component 1 - Activity 1			2.112	2.112	100							
Activity 1.1			1.312	1.312	100							
Contract 1.1.1 (supply)		x	1.112	1.112	100							
Contract 1.1.2 (framework)		x	0.200	0.200	100							
Activity 1.2			0.800	0.800	100							
Contract 1.2.1 (service)	x		0.300	0.300	100							
Contract 1.2.2 (service)	x		0.500	0.500	100							
Component 1 - Activity 2			15.000	3.000	20	12.000	80			12.000		
Contract 2 (contribution Agreement)		x	15.000	3.000	20	12.000	80			12.000		
Component 2			14.300	6.800	47	7.500	53	7.500				
Contract 2.1 (works)		x	13.600	6.100	45	7.500	55	7.500				
Contract 2.2 (framework)		x	0.700	0.700	100							
TOTAL IB			0.800	0,800	100							
TOTAL INV			30.600	11.112	36	19.500	64	7.500		12.000		
TOTAL PROJECT			31.412	11.912	38	19.500	62	7.500		12.000		

Note:

- (1) In the Activity row "X" is used to identify whether IB or INV
- (2) Expressed in % of the **Total** Expenditure (column (a))

5. Indicative Implementation Schedule (periods broken down per quarter)

Contracts	Start of Tendering (tender launch)	Signature of contract	Project Completion
Component 1: Activity 1			
Contract 1.1.1 - Supply	Q1 2009	Q4 2009	Q4 2010
Contract 1.1.2 - Framework	Q4 2009	Q4 2009	Q4 2010
Contract 1.2.1 - Service	Q1 2009	Q4 2009	Q4 2010
Contract 1.2.2 - Service	Q1 2009	Q4 2009	Q4 2010
Component 1 : Activity 2			
Contract : Contribution agreement	N.A.	Q1 2011	Q4 2013
Component 2			
Contract 2.1 - Works Contract	Q1 2009	Q4 2009	Q4 2012*
Contract 2.2 - Framework	Q4 2009	Q4 2009	Q4 2011

6. Cross cutting issues

6.1 Equal Opportunity (gender mainstreaming)

The project will promote participation of women in beneficiary organisations and will identify the effects/impacts/opportunities on and for women.

The public awareness campaign will target the different social groups throughout Kosovo including women. The campaign materials (TV and radio clips, newspapers, posters, etc) will be designed to respond to the specific needs of women thus contributing to improving energy savings in the household sector.

The team of experts involved in the project must possess relevant skills to ensure effective mainstreaming of gender equality and minorities inclusion/participation.

6.2 Environment

This project will promote environmental improvements through energy savings and through energy efficiency measures.

The Energy Community Treaty includes the requirement for compliance with acquis on environment, renewable energy resources and energy efficiency. Under the CARDS programme, EC assistance has contributed to mitigating pollution from the thermal power plants in Kosovo, thus moving towards compliance with the provisions of the acquis. The Energy Strategy of Kosovo defines a set of priorities regarding the protection of the environment and pollution mitigation, and the implementation plan (for which technical assistance will be provided) provides for both legal measures, and investment in pollution mitigation measures.

* Including DLP (Defect Liability Period). The Beneficiary (KOSTT) will handle with the Contractor any faults or defects in supplies during DLP. Technical Specifications for Works (Design& Build) will be prepared under a FWC (under CARDS) by end of 2008.

Technical assistance provided to the Ministry of Energy and Mining under IPA 2007 covers the areas of improving energy efficiency, demand-side management and promoting wider use of renewable energy that will have a direct environmental benefit in reducing wasteful/inefficient consumption of electricity.

6.3 Minorities

The project will promote energy efficiency, renewable and environmental improvements Kosovo wide. The target groups will include minority community. Materials for the public awareness campaign will be provided in minority languages (Serbian and Turk).

ANNEXES

Annex I Log frame

Annex II Amounts contracted and Disbursed per Quarter over the full duration of Programme

Annex III Description of Institutional Framework

Annex IV Reference to laws, regulations and strategic documents:

Annex V Details per EU funded contract (*) where applicable:

ANNEX I: Logical framework matrix in standard format

Project Title: Further Support for Kosovo's Participation in the Energy Community of SEE		Programme name and number	
Sector: Energy		Contracting period: (see section 1.10)	Disbursement period : (see section 1.12)
		Total budget: EUR 31.412 million	IPA budget: EUR 11.912 million
Overall objective	Objectively verifiable indicators	Sources of Verification	
The overall objective is to support Kosovo's institutions on developing a competitive and transparent internal energy market compliant with requirements of Energy Community of Southeast Europe (ECSEE)	<p>Requirements of the Energy Community Treaty and Task Force on Energy Efficiency are implemented</p> <p>Legal and regulatory framework to promote investments in energy efficiency and renewable energy sources are enforced</p>	<p>Monitoring reports prepared by the Energy Community Secretariat (for the European Commission and Ministerial Council of the Energy Community).</p> <p>EC progress reports on Kosovo</p> <p>Governments report on implementation of EU Partnership/ Action Plan for Energy</p>	
Project purpose	Objectively verifiable indicators	Sources of Verification	Assumptions
The purpose of the project is to promote energy efficiency and use of renewable energy resources, and to upgrade the electricity transmission system in line with the requirements deriving from the Energy Community Treaty (EnCT)	<p>Energy efficiency measures identified in the assessment study are implemented</p> <p>Implemented actions in the EnC Treaty Road Maps</p> <p>Public awareness campaign implemented</p> <p>Energy Auditors are trained</p> <p>KOSTT's compliance with UCTE criteria</p>	<p>Detailed monitoring reports on the Road Maps/ Actions Plans, prepared by the Energy Community Secretariat and Task Force on Energy Efficiency</p> <p>MEM Progress reports on implementation of Kosovo Programme for Energy Efficiency and Renewable Energy Resources</p> <p>MESP reports on environmental improvements from efficient use of energy</p> <p>Public awareness implementation plan and final report</p>	<p>There is commitment of the beneficiary staff to implement road maps</p> <p>Secondary legislation on energy efficiency adopted and enforced</p> <p>Government coordinates the activities of donors and IFIs on energy efficiency</p>
Results:	Objectively verifiable indicators	Sources of Verification	Assumptions
<p><i>Activity 1 results:</i></p> <p>a. Cost-effective energy efficiency measures (insulation, replacements of doors and windows, combined solar based heating system, etc) are implemented and energy auditing is performed to measure the energy savings in the selected public buildings.</p> <p>b. Energy renewable resources are introduced in selected public buildings.</p> <p>c. Environmental improvements as a result of energy efficiency and use of renewable energy sources</p> <p>d. Increased public awareness on energy savings and use of renewable energy, and environmental improvements</p>	<p>Electricity bills are reduced to demonstrate energy saving after the implementation of energy efficiency measures</p> <p>Data on environmental impact of introducing renewable energy sources and energy efficiency measures</p> <p>Public awareness campaign materials (billboards, TV and radio clips, posters, etc)</p>	<p>The energy management plans for selected buildings are prepared</p> <p>Progress reports of the Contractor and supervising engineer</p> <p>MEM's action plan on energy efficiency as required by the Task Force on Energy Efficiency</p> <p>Progress report on the implementation</p>	<p>Government ensures support of the MESP and Ministry of Local Government on the implementation of relevant actions set in the action plan for energy efficiency and renewable energy sources as required by the Treaty</p> <p>KEK improves the revenue collection and reduces the losses</p> <p>KEK improves the customer care services</p> <p>KOSTT coordinates activities in Component 2</p>

<p>e. Energy auditing process is established</p> <p><i>Activity 2 results:</i></p> <p>a. Improved quality of power supply in southeast Kosovo</p> <p>b. Increased security of Kosovo and regional transmission network, compliance with UCTE rules and Energy Community Treaty</p> <p>c. Reduction of losses and bottle necks in the transmission network</p> <p>d. Improved financial situation in KOSTT as a result of loss reduction and better supply of electricity for consumers</p>	<p>30-50 trained and certified trainers on energy auditing</p> <p>No constraints in the transmission network in south eastern part of Kosovo</p> <p>Improved network security - compliance with UCTE security criteria (N-1 criteria)</p> <p>Improved supply for 80,000 consumers in Kosovo</p> <p>Transmission losses reduced by 60% and over EUR 3 million/a savings for KOSTT</p>	<p>of the campaign</p> <p>Energy Audit Reports submitted to MEM by the consumers</p> <p>MEM update programme for energy efficiency and renewable resources</p> <p>KEK reports on supply regime</p> <p>KOSTT reports on electricity dispatch</p>	
Activities	Means	Costs	Preconditions
<p>Component 1 Promoting Energy Efficiency Measures in Public Buildings and the use of renewable energy resources</p> <p>Activity 1</p> <p>1.1 Energy efficiency measures implementation</p> <p>1.2.1 Public Awareness Campaign</p> <p>1.2.2 Training Programme for Energy Auditors</p> <p>Activity 2</p> <p>Promoting Energy Efficiency in SMEs</p> <p>Component 2 Construction of Ferizaj 2 substation</p>	<p>Two service contracts, one FWC and one Supply contract</p> <p>One Contribution Agreement under Joint Management with EBRD.</p> <p>One works contract and one framework</p>	<p>EUR 2.112 million for Activity 1</p> <p>EUR 1.312 million for Activity 1.1</p> <p>EUR 0.8 million for Activity 1.2</p> <p>EUR 3 million</p> <p>EUR 6.8 million for Component 2 (co financing 50%)</p>	<p>Beneficiaries allocate sufficient staff to the project activities</p> <p>Government provides financial and political support to KEK on improving revenue collection</p> <p>Government's and KOSTT commitment for 50% co-financing for component 2.</p> <p>EC Derogation for negotiated procedure for component 3 with the implementing partner LDK consultants</p>

Pre conditions:

- Government's and KOSTT commitment to co-finance 50% of the budget for Component 2 in 2009 and the required amount for tax
- MEF creates a trust account for co-funding that will pay the invoices for 50% of the bill of quantities/works
- KOSTT obtains the required permissions for construction of the substation and for the overhead lines
- Government's support, in particular the support of the Ministry of Energy and Mining, Ministry of Environment and Spatial Planning, and Ministry of Local Government on the implementation of project and on the implementation of the requirements of the Energy Community Treaty (road maps/action plans including energy efficiency and use of renewable energy resources)
- Government's support on enforcing the legal and regulatory framework, and for promoting investments in energy efficiency and renewable energy. The Government may consider establishing an energy efficiency fund for promoting investments in this field.
- Government's lead on the coordination of donors/IFIs' activities related to projects/investments on energy efficiency and renewable energy, and Energy Community Treaty (KfW, World Bank, USAID).
- Government's commitment on ensuring the viability of KEK, including assistance to the utility to increase revenue collection and financial support to KEK from the Kosovo Budget, if necessary.

ANNEX II: Indicative planning of the amounts (in EUR million) contracted and disbursed by quarter for the project (cumulated)

	2009	2010				2011				2012				2013			
Contracted	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Contract 1.1.1	1.112																
Contract 1.1.2	0.2																
Contract 1.2.1	0.3																
Contract 1.2.2	0.5																
Contract 2 (Contribution Agreement)						3.0											
Contract 2.1	6.1																
Contract 2.2	0.7																
Cumulated TOTAL	8.912	8.912	8.912	8.912	8.912	11.912											
Disbursed																	
Contract 1.1.1	0.2		0.2	0.3	0.412												
Contract 1.1.2	0.12				0.08												
Contract 1.2.1	0.18				0.12												
Contract 1.2.2	0.3				0.2												
Contract 2 (Contribution Agreement)						1.2			0.75				0.75				0.3
Contract 2.1	2.0						1.2		1.1		1.1		0.7				
Contract 2.2	0.2		0.14		0.13		0.13		0.1								
Cumulated TOTAL	3.0	3.0	3.34	3.64	4.482	5.782	7.112	7.112	9.062	9.062	10.162	10.162	11.612	11.612	11.612	11.612	11.912

*EC funding EUR 7.5 million (or 50% of estimated total budget)

ANNEX III: Description of Institutional Framework

Since 1999 the energy sector in Kosovo is managed by UNMIK. The assets of the power corporation KEK as a public owned utility are under the trustee of the Kosovo Trust Agency (KTA) established by UNMIK Pillar IV in 2002.

In 2003 UNMIK established the Energy Office as a predecessor of the Ministry of Energy and Mining and in 2004 established the Energy Regulatory Office. Three laws were promulgated in June 2004, the Law on Energy, Law on Electricity and Law on Energy Regulator. In Dec 2004 a new Ministry of Energy and Mines (MEM) was established with responsibilities set out in the Law on Energy. MEM designs strategies and policies for sector development, whereas ERO develops the regulatory framework to enable the creation of a competitive and transparent energy market.

In 2005 within the framework of reforms in the sector, the vertically integrated power company KEK was transformed into a joint stock company incorporating four core businesses: coal mines, power generation, network and supply. The transmission function was unbundled from KEK and a fully separate transmission system and market operator was established in 2006. Both KEK and KOSTT are managed by a Board of Directors (BoD). In KEK BoD the majority of members are Government representatives, where as KOSTT Board is still chaired by KTA. The new Government elected in January 2008 is in the process of proposing new members for the Boards of POEs including KEK and KOSTT. The new members will be professionals in the relevant fields and not Ministers as it was the case in KEK in 2007.

ANNEX IV: Reference to laws, regulations and strategic documents

Reference list of relevant laws and regulations:

- **Law on Energy, June 2004**
Secondary legislation for energy efficiency
- **Law on Electricity, June 2004**
Grid Code, 2007
- **Law on Energy Regulator, June 2004**
Rule on Authorization for Construction of New Generation Capacities
Rule on Prices and Tariffs

Reference to AP /NPAA / EP / SAA

- Kosovo Action Plan For The Implementation Of European Partnership 2006
- Energy Community Treaty for Southeast Europe
- Union for Coordination of Transmission of Electricity (UCTE) Operation Handbook (http://www.ucte.org/ohb/cur_status.asp)
- Task Force on Energy Community calls for implementation of Directive 2002/91/EC on the energy performance of buildings, Directive 2005/32 for eco-design requirements for energy-using products, and Directive 2006/32/EC on Energy End Use Efficiency and Energy Services.
- Stabilization and Association Process Tracking Mechanism Energy Sector Meeting held on 18th September 2007

Reference to MIPD

The project links to MIPD priorities and objectives identified for socio-economic requirements for improving good governance, institutional capacity building, and infrastructure development in energy area.

Reference to National Development Plan

In the Draft Kosovo Development and Strategy Plan the Energy Working Group identifies as main objectives the upgrade of transmission network that will enable Kosovo Transmission Network integration in the regional energy market, energy efficiency and the use of renewable energy resources.

Mid-term Expenditure Framework 2008-2010 highlights the needs for investments in KEK and KOSTT infrastructure to achieve a reliable and good quality supply of electricity.

Kosovo Environmental Action Plan 2006-2010 identifies as a priority energy efficiency and use of renewable energy sources to reduce the impact of the energy on environment

Reference to national / sectoral investment plans

The project links to the following sectoral strategies and plans:

- Kosovo Energy Strategy 2005-2015
- Strategy Implementation programme 2006-2008
- Kosovo Programme for Energy Efficiency and Renewable Energy Resources
- KOSTT Business Plan 2007-2012
- Kosovo Transmission Network Investment and Development Programme 2007-2012

ANNEX V: Details per EU funded contract (*) where applicable:

Component 1 Promoting Energy Efficiency and Renewable Energy Resources

- **Sub-activity 1.1.1 (Supply and installation contract)**

This sub activity includes implementation of energy efficiency measures as identified in the assessment study (funded under CARDS programme).

The assessment study will examine about ten public buildings which will include schools, kinder gardens, hospital or public health buildings. In those buildings energy audits will be performed and energy management plans will be prepared with recommended cost-effective energy efficiency measures. Energy efficiency measures will include installation of solar panels for the purpose of heating-cooling systems as demonstration project for promoting the use of renewable energy resources. Energy efficiency measures will include improving the lightning system, insulation of walls and/or roof, replacement of windows and/or doors, etc.

The study will assess the environmental impact of proposed energy efficiency measures. As part of the study, technical specifications for implementation of energy efficiency measures will be prepared for a Supply and installation Contract. Under a framework contract a supervising engineer will be contracted for the supervision of supplies and installation works during the project implementation.

- **Sub-activity 1.1.2 (Service Contract)**

Tasks in this sub activity to be performed by the Contractor include:

- a) consumer survey to define the average energy profile of consumers
- b) preparation of the communication strategy to define different target groups depending on energy profile and actions
- c) prepare the design based on target groups and based on actions defined in the strategy
- d) implementation plan for the public awareness campaign
- e) evaluation of the results and impact of the campaign

- **Sub activity 1.2.1 (Service Contract)**

Tasks included in this sub activity to be performed by the Contractor are:

- a) preparation of the training programme for 'train the trainers' on energy auditing
- b) preparation of selection criteria for the trainers
- c) Implementation of the training programme
- d) Supervision of the trainers on training other energy auditors

Activity 2 Contribution Agreement under joint management with EBRD on "Promoting Energy Efficiency in SME's"

This new activity will be a contribution agreement under joint management with EBRD relating to the establishment of an EU Sustainable Energy Financing Facility (SEFF) for SMEs in Kosovo. The new activity will be "Promoting Energy Efficiency in SMEs.

Background Information

The project "SEFF", to be funded through the IPA Instrument has for specific objective to contribute to the establishment of the facility combining EU grant funds of up to EUR [3.0] million with EBRD credit financing of up to EUR [12] million to local financial intermediaries for on-lending in the SME sector for financing of energy efficiency and small scale renewable energy investments.

The local financial intermediaries (Participating Financial Intermediaries-PFI) are considered to be: Commercial banks, leasing companies and micro-finance institutions under private sector ownership and control, registered and operating in Kosovo. Whereas, the eligible beneficiaries (sub-borrowers) Sub-borrowers must be private enterprises, firms, businesses, sole proprietors or other private legal entities.

Component 2 (Works Contract)

It will be performed under a Works Contract under the management of the ECLO. Technical specifications for the project will be prepared under a framework contract funded under CARDS programme. The co-funding of 50% of Contract value will be kept in a trust account to be created by the Ministry of Economy and Finance, which will be used for payment of some project activities.

The project scope includes: design and construction of the substation and overhead lines for connection of the substation in the transmission network (at 400kV and 110kV voltage level), site testing and commissioning.

- Reference list of feasibility study for the *constructing works* part of the contract as well as a section on investment criteria
 - Survey of the Present State of the Kosovo Transmission Network and its Investment Requirements, EC funded study in 2006
 - Project impact on Kosovo transmission network, KOSTT 2008
 - Kosovo Transmission Network Investment and Development Programme 2007-2012, EC funded 2007
- **Investment criteria** (applicable to all infrastructure contracts and constructing works):
 - Rate of return

Based on transmission network simulations, assuming a peak load 1150MW in winter 2009 when the implementation of the project starts, and assuming a peak load of 1250MW in winter 2011 when the project is completed the following are the cost benefits realised from the project:

- Reduction of technical losses 60%, or 20,370MWh or EUR 0,5 million/year
- Reduction of undelivered energy to consumers EUR 2,8 million/year
- Total cost benefit EUR 3,3 million/year

Based on above the investment will be fully repaid in 4- 5years.

- **Co financing** 50% of the total estimated budget and the required amount for taxes
- **Ownership of assets** (current and after project completion)

The owner of assets is KOSTT, the Kosovo Transmission System and Market Operator, currently under the custody of the Kosovo Trust Agency.