

Kosovo Energy Sector Strategy Briefer

Issue

Kosovo inherited a communist-era electricity system suffering from decades of neglect and insufficient investment. As a result, the country experiences continued blackouts and must often resort to expensive and unreliable electricity imports. The lack of a reliable power supply not only creates a significant drain on the public budget (€100 million or 3 percent of GDP per year), but also has been cited by businesses as a major impediment to private investment and stimulating private sector-led growth at a time when the country faces 45 percent unemployment, with even higher unemployment among 15 to 25-year-olds (75 percent).

The Kosovo energy strategy adds new power generation capacity without which, existing, dirty units are highly likely to remain operational. By 2017, Kosovo has agreed to close one of those units, Kosovo A, a 1960s communist-era plant, which is possibly the worst single point source of air pollution in Southeast Europe. Reliance on the existing, inadequate facilities would also mean continued use of diesel generation and fireplace coal by many households and businesses. The energy sector's drain on the government's budget also adversely affects the provision of social services for the poorest—education, health care, etc. Kosovo has few resources, other than lignite, to provide the base load capacity needed to make up for the loss of Kosovo A and future growth in the economy. Kosovo's transportation and market access are severely limited by Serbia and other non-recognizers.

Strategy for the Energy Sector

Kosovo has an overall strategy designed to restore energy security and reliability, reduce harmful local pollutants (SO_x, NO_x, and particulate matter) by 75 percent to 90 percent; end reliance on roughly 150 MW of back-up diesel generators and some burning of coal in household fireplaces and furnaces common in Kosovo; and reduce the currently high levels of power theft and energy losses.

- **Kosovo is IDA-eligible.** With a 2009 GNI per capita of \$3,200 (World Bank data), Kosovo is one of the poorest countries in Europe.
- **Conventional energy sources.** Kosovo does not have any known oil or gas reserves. However, it has significant lignite deposits. A pipeline infrastructure does not exist in the country to import oil or gas and, if developed, would likely

Five Part Program

Donors have been helping Kosovo meet a five part energy strategy for the sector.

1. **Close Kosovo A** by 2017 or earlier, consistent with Kosovo's commitments under the Energy Community Treaty, a treaty regarding energy security and rehabilitation and signed by South East European countries and the EU. This would result in substantial reductions in CO2 and harmful local pollution emissions. However, unless new capacity is developed, the Government of Kosovo is not expected to be able to close Kosovo A, without severe energy shortages. But even the 2017 date is of concern given the serious health impacts of current emissions levels.
2. **Rehabilitate Kosovo B** to allow it to meet EU environmental standards and operate more efficiently and reliably. USAID carried out a feasibility study through a contract with TetraTech that demonstrates the viability of rehabilitation that would result in large improvements in environmental performance. It would also add up to 100MW of available capacity to the two units.
3. **Develop new generation to provide stable base load power and replace Kosovo A.** Kosovo has estimated that it will need 600MW of new capacity. Due to the relatively small size of the system, studies have recommended 2x300MW as appropriate size units for system security and economic and operational reasons. This proposed power plant would also entail investment in a new, modern lignite mine to serve both Kosovo B and New Kosovo.
4. **Privatize KEK DSO distribution system** to improve energy efficiency, reduce losses and strengthen price incentives for more efficient energy use.
5. **Develop alternative energy sources.** The World Bank is planning an overall assessment of other renewable fuels for energy generation including an examination of the potential for a hydro unit. In addition, distribution privatization will positively impact energy efficiency efforts, electrical losses (due to theft), and improve price incentives for a more efficient energy system. The Zhur hydro unit would be a high-cost peaking only plant. Wind and biomass resources potential is under investigation, but does not appear very promising compared to Bulgaria, Albania, and other countries in the region.