POLICY ANSWERS

Brief about Kosovo's Draft Energy Strategy 2022-2031

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Table of Contents

1 Introduction

The energy sector, especially electricity production, continues to remain one of the most problematic sectors in Kosovo*. Consumers face low-quality and unstable electricity supply, which has become a barrier to Kosovo's economic development. As a result of the sector's improper management for more than two decades, Kosovo continues to depend heavily on unplanned electricity imports. In circumstances where a portion of the current generating capacities are operating at their limits due to significant technological and time-related depreciation, the energy treatment issue becomes even more urgent. However, such urgency should not in any way hinder proposed solutions from passing through a filter that weighs costs and benefits qualitatively in terms of alternative choices.

At the same time, with the global energy supply crisis, which is also being felt with all its severity in Kosovo, the development strategy for the energy sector for the period 2022-2031 is being discussed. The draft Energy Strategy in Kosovo is designed to apply a new approach through investments in current production capacities, the transformation towards renewable energy sources, and higher integration of Kosovo's energy sector into the regional and international market to meet the growing consumption needs. In this context, the draft strategy has aroused interest not only among energy experts, civil society, and political forces but also among the general public and has been accompanied by opposing debates. Therefore, a higher level of local consensus is still desirable for this important document.

The Riinvest Institute has been following these discussions and organised a panel discussion on this document on 4 November 2022, as part of the 'Green Talks' debates and the Green Action Space platform which was launched in collaboration with the Kosovo Foundation for Open Society (KFOS). This brief analysis aims to outline the main issues arising from this discussion and other debates in society, as well as to offer some recommendations and suggestions regarding the draft strategy.

*This designation is without prejudice to positions on status, and is in line with UNSC 1244/1999 and the ICJ Opinion on the Kosovo Declaration of Independence.

2 General situation of the energy sector in Kosovo

The energy sector in Kosovo, mainly based on fossil energy sources - namely coal, is facing serious problems in meeting the needs of consumers. Currently, over 80 percent of the needs are met by the Kosovo A power plant (built in the 1960s) and Kosovo B (built in the 1980s), both of which are at the end of their technical lifespan. This results in frequent unplanned interruptions. Both power plants need to be renovated to meet the required emission standards.

The installed capacity from renewable sources is modest; however, there has been an increase in recent years. By 2021, a capacity of 137 MW of wind power generation units has been put into operation in Kosovo, resulting in a wind power share of 9 percent of the installed capacity. Hydro-energy is also an important element of the power system, with a 6.5 percent share of the total installed capacity.

Electricity consumption has continued to increase in recent years. Primary energy consumption increased at an average annual rate of 1.4 % between 2008 and 2020. The largest share of final energy consumption comes from households (40 % in 2020). Energy consumption in this category is closely linked to the heating sector, where energy demands increase exponentially during the winter season. As a result, local production in this period does not cover the demand, which then needs to be covered by imports. This issue is particularly problematic in conditions when electricity prices have increased significantly.

In general, the development of Kosovo's energy sector has lagged behind due to a lack of investments for almost four decades, while post-war interventions have been more focused on maintaining the functionality of outdated and poorly managed power plants than on addressing developmental challenges. Therefore, the transition imposed through the Green Agenda finds Kosovo largely unprepared and facing serious problems in meeting the demands of the energy system on the one hand and the needs of consumers on the other hand. A positive circumstance is that Kosovo has good interconnections with regional energy networks and is estimated to be among the strongest in Europe. Consequently, deepening cooperation with neighbouring economies, especially Albania, is essential to ensure these interconnections' efficient and market-based functioning.

The main challenges of the energy sector include, among others, the obsolescence of energy production capacity and the lack of flexibility to accommodate renewable sources, fragility due to dependence on imports from foreign markets, high energy intensity, increasing domestic demand pressure, and environmental pollution. In addition to these mainly internal challenges, the energy sector also faces external challenges related to large fluctuations in energy prices in international markets as a result of wider geopolitical developments such as COVID-19 and the Russian invasion of Ukraine. These create significant pressure on the state budget to subsidise energy imports in an effort to keep prices for consumers at affordable levels.

3 Views on the draft energy strategy of Kosovo 2022-2031

The views presented about the draft strategy, which were also emphasised by panellists during the discussion at the Riinvest Institute, start from the context in which this strategy is being discussed, and especially from the requirements of Kosovo's commitment to the Green Agenda for the Western Balkans and recent geopolitical developments.

The draft strategy has an ambitious vision for the energy sector and is formulated as follows: *'A CO2-free energy sector by 2050, integrated into the Pan-European market, ensuring the security of electricity supply and affordability for citizens*.' Based on this vision and the analyses made for the energy sector, the main goals and strategic objectives (main policy directions) that ensure the achievement of this vision have been identified. At the core of the draft strategy is: (a) increasing supply security (through increasing system flexibility; increasing energy efficiency to reduce demand; promoting renewable energy; strengthening regional cooperation, among others); (b) achieving sustainability and climate neutrality (through increasing energy efficiency to reduce energy consumption; decarbonisation and promoting renewable energy; limiting the negative impact of the energy sector on human health and the environment, among others); (c) improving competitiveness (through strengthening regional cooperation and functioning of the market; creating incentives for energy savings, among others); and (d) maintaining affordability (through increasing efficiency; promoting self-consumption; reducing prices as a result of increased market competitiveness; protecting consumers in need; increasing workforce skills in this sector, among others).

According to the government's perspective, achieving these goals is also possible due to rapid technological developments in this sector. Furthermore, according to the government, this strategy opens doors for private investors as it creates predictable legal and regulatory frameworks.

On the other hand, Civil Society Organisations (CSOs) have expressed their evaluations and criticisms of the draft strategy. In general, CSOs have positively evaluated and welcomed this draft strategy as one of the first and concrete steps towards addressing the energy issue in Kosovo, especially regarding its ambitions to increase the generation of energy from renewable sources from the current 6 % to 32 % of the total production in 2031. However, CSOs have criticised their limited involvement in the working groups during the development of the strategy. Nevertheless, the clear orientation of the draft strategy to promote renewable energy sources has been welcomed.

The private sector has also positively evaluated the steps taken by the government towards reducing the excessive energy dependence on lignite sources. Specifically, generating a clearer perspective for the future has been considered positive compared to the past. However, the private sector has addressed two main points that require the proper attention of the government: making appropriate investments in energy infrastructure and state intervention in the costs of investment loans in this sector.

There have been significant dilemmas and criticism about the lack of investment in gasification, which makes Kosovo stand out from the whole region and beyond in this aspect. The draft strategy foresees the installation of energy storage capacity through batteries. This will help improve the system's flexibility and integrate variable renewable sources, but it will also be necessary to meet the energy reserve requirements of the European Network of Transmission System Operators for Electricity (ENTSO-E), and to some extent, it will help reduce the import of electricity.

4 Recommendations about the draft energy strategy of Kosovo 2022-2031

In the following, there are some of the suggestions and recommendations presented by the Riinvest Institute, which stem from the evaluation of the draft Energy Strategy in Kosovo for 2022-2031:

- The final version of the Energy Strategy should also include two important sectors that represent the largest energy-consuming groups: (i) the transport sector and (ii) the industrial and commercial sectors. According to the draft strategy, measures to address the objectives related to these sectors will be examined in the Transport Strategy and the Industry Strategy. Neglecting these sectors is a handicap for this strategy.
- The draft Energy Strategy should carefully consider the options for building a natural gas-based system in Kosovo. Such an analysis, according to the draft strategy, is being conducted in the Gas Master Plan and the feasibility study for the gas interconnection pipeline between North Macedonia and Kosovo, but it should also be reflected in the strategy. Additionally, the draft strategy should include the possibility of lignite gasification in Kosovo.
- The draft energy strategy should also examine in more detail the opportunities for (co)investment in electricity generation capacities in the region, especially in hydro resources in Albania. The strategy highlights that Kosovo also has the option of utilising the gas infrastructure planned in Albania (connection to TAP or access to the LNG terminal in Vlora), and that the gas infrastructure in the region and in Greece offers opportunities for (co)investment in electricity generation capacities. However, this needs to be further detailed.
- Taking into account the positive environmental effects such as reducing emissions into the atmosphere and reducing energy losses through distribution, it is considered necessary to accelerate and expand the cogeneration heating project in the capital and other urban centres. This need should be addressed as a priority.
- Given the large reserves of lignite in Kosovo, the strategy should contain an obligation for institutions, the energy sector, and academic and scientific circles, regarding long-term policies and strategies for valorising this great natural resource in harmony with technological and scientific developments and environmental protection requirements, which address the use of lignite in energy generation through the process of coal liquefaction or other chemical processes.
- The strategy should include an obligation for institutions to anticipate the steps in creating a comprehensive registry of consumers in need, so that the subsidy offered by the government targets these categories to reduce the impact of tariff increases and not to be applied as an indirect subsidy for all consumers through electricity tariffs.
- Future energy consumption projections should be taken into account through the integration of consumption balances. The integration of consumption balances should include households, industry, and other services. By having a clear picture of future energy consumption, the adaptation and planning of energy capacities would be more accurate.

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ABOUT POLICY ANSWERS

POLICY ANSWERS (R&I POLICY making, implementation ANd Support in the WEsteRn BalkanS) supports policy coordination in the Western Balkans and with the EC and the EU. 14 partner organisations, representing network nodes in the region and EU expert organisations, support policy dialogue through formal meetings (such as ministerial and steering platform and ad-hoc policy meetings), monitoring and agenda setting, capacity building and implementation of the EU's Western Balkan Agenda, as well as the alignment of thematic priorities. The project implements regional pilot activities and offers an information hub based on the westernbalkans-infohub.eu online information platform. The partners provide analytical evidence via monitoring and mapping activities of the stakeholder ecosystem, of the implementation of the Western Balkans Agenda and of the Western Balkans' integration into the European Research Area as well as via strategic foresight. POLICY ANSWERS also allows for tailored and targeted capacity building activities in the Western Balkans as well as regional alignment of priorities in relation to the digital transformation, the green agenda and towards healthy societies. Pilot activities provide learning opportunities on policy and programme level and reach out to final beneficiaries related to improved academia-industry cooperation, researcher mobility, inclusion of youth in policy processes, promotion of research infrastructures and increased innovation skills in all areas.

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