‘KOSOVA E RE’ TPP:
-A new plant with an old vision-

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Background of the project

- First energy strategy in 2005 ‘planted’ the new TPP idea – ‘Kosova C’ 2100 MW
- 2009, ‘Kosova e Re’ 1000 MW
- By 2010 it was 600 MW
- Trigger in 2010 (non-exhaustive list):
  - Very high demand prediction  
  - Lignite was considered the least-cost option  
  - Low rate of RES development – only with feed-in tariff  
  - Very high import prices (regional prices)  
  - Plan for decommissioning Kosova A
- KS Gov concluded arrangements with the investor in Dec 2017 – 500 MW

Reality check in 2017/18
Demand in KS

KOSTT Generation adequacy 2011-2020

KOSTT Generation adequacy 2017-2026
Agreement in Dec 2017 - view from 2011

Source:
Background Paper: Development and Evaluation of Power Supply Options for Kosovo
Dec 2011

Background paper was prepared by a team from the consulting firm DHInfrastructure and reviewed by World Bank staff
Summary of Kosova e Re arrangements: ECS findings

- Gov guarantees purchase and price (target 80 EUR/MWh) through a state owned company (NKEC) established for this purpose
  - Guaranteed return @ non-market price for 20 years
  - NKEC pays declared availability + plus electricity produced
- NKEC assumes all the risks (credit, market risk, regulatory, tax) and some of the costs traditionally associated with the generator (use of system, imbalances)
- Take or pay clause (lignite), tax and VAT exemptions, transfer of land …

All amount to State aid and require a review by the State Aid Commission in Kosovo

- Article 11 of the KS State aid law requires notification of any potential State aid element in line also with acquis on competition
Follow-up

• Contractual arrangements were made available to ECS only after their publication

• ECS sent a letter to the Ministry expressing concerns on the State aid issues

• Feedback received on 16 July 2018 – but State aid concerns raised were not addressed

• The contracts are still not notified to the State Aid Commission and it seems there is no intention to do so

• This constitutes ad breach of the Kosovo Law and Energy Community acquis – this may trigger initiation of infringement procedures
How will consumers feel the pain?

• NKEC has now long physical position as of 2023/2024 + all the commercial, regulatory and credit risks

• Regulator recently proposed that all these risks are transferred to consumers through Security of Supply levy
  – Consumers will pay for all the costs (fixed and O&M + other + CO2) through a fee defined by the Regulator (levy is fully margined)
  – NKEC will still have to sell the electricity in the market – this is not further defined
  – NKEC will effectively be a regulated offtaker (yearly reconciliation)
    – Electricity is sold at a higher price – the levy is reduced
    – Electricity is sold at a lower price – the levy is increased
## How will NKEC sell the power?

<table>
<thead>
<tr>
<th>NKEC selling electricity physically</th>
<th>Pros</th>
<th>Cons</th>
</tr>
</thead>
<tbody>
<tr>
<td>Forward yearly of multi yearly contracts</td>
<td>Can get stable forward price / not exposed to short term volatility</td>
<td>Significantly exposed on operation and outages of GenCo and no capital to hedge it</td>
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<tr>
<td>Forward monthly contracts</td>
<td>Reduce the exposure on outage and also less exposed to short term volatility</td>
<td>Exposed to seasonal volatility</td>
</tr>
<tr>
<td>Day-ahead market</td>
<td>Contributes to liquidity in the market and less exposed on outages of GenCo</td>
<td>Entirely exposed to short term volatility, even negative prices</td>
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*This only includes perspective of NKEC and not the impact on KEK’s business or Supplier(s) in Kosovo*
**Impact on the market**

- NKEC (on DAM) will probably need to offer electricity at zero price
  - Merit order will push KEK on the right side: sometimes in the money, sometimes out – KEK does not have the flexibility to be in and out (if we consider the impact of RES this is aggravated)
  - *Btw: ERO on its PSO considers 1MW of CG more valuable from the Security of Supply point of view, than 1MW of KEK*
  - KEK will be obliged to hedge on forward basis to cover its costs – can they?
- KS will on certain periods (summer/night) export very cheap power (probably below marginal costs)
  - consumers in KS pay the difference
- Likely to push the regional prices down – reduce generators welfare in region and consumers welfare in KS
  - KS and region are very well interconnected
  - This impact will be even more significant once CO2 payments kick in (23 EUR/ton of CO2 – for lignite close to 1:1 for MWh)
Thank You!

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