‘KOSOVA E RE’ TPP:

-A new plant with an old vision-

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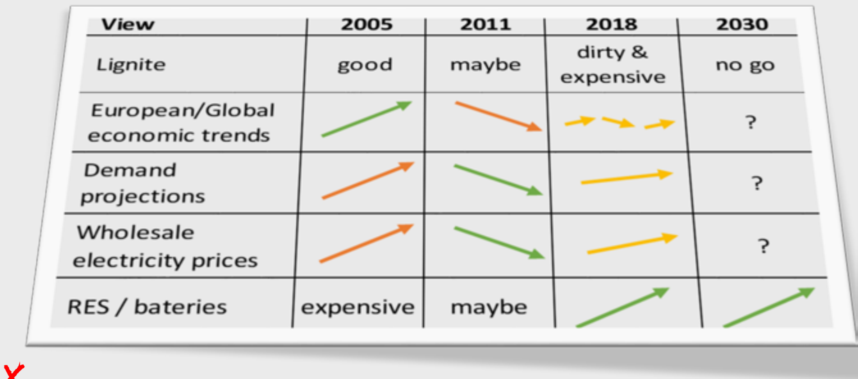
Background of the project

- 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**

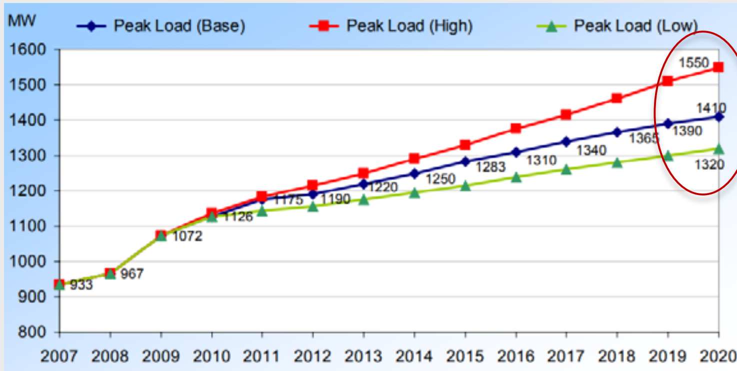


View	2005	2011	2018	2030
Lignite	good	maybe	dirty & expensive	no go
European/Global economic trends	↗	↘	→ → →	?
Demand projections	↗	↘	→	?
Wholesale electricity prices	↗	↘	↗	?
RES / bateries	expensive	maybe	↗	↗

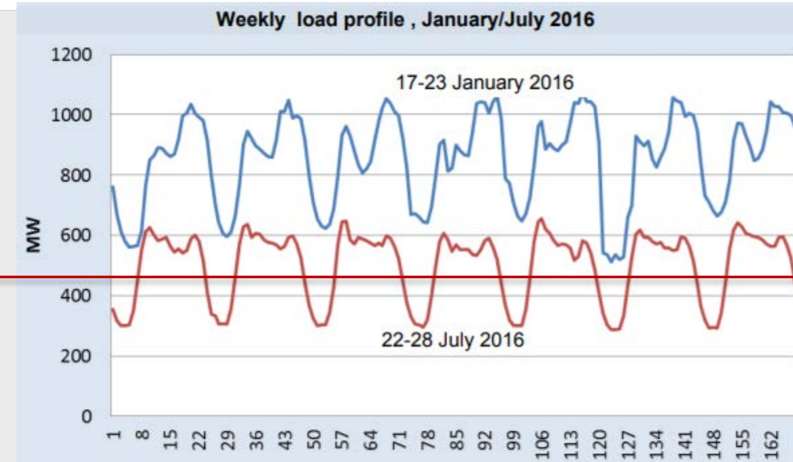
Reality check in 2017/18

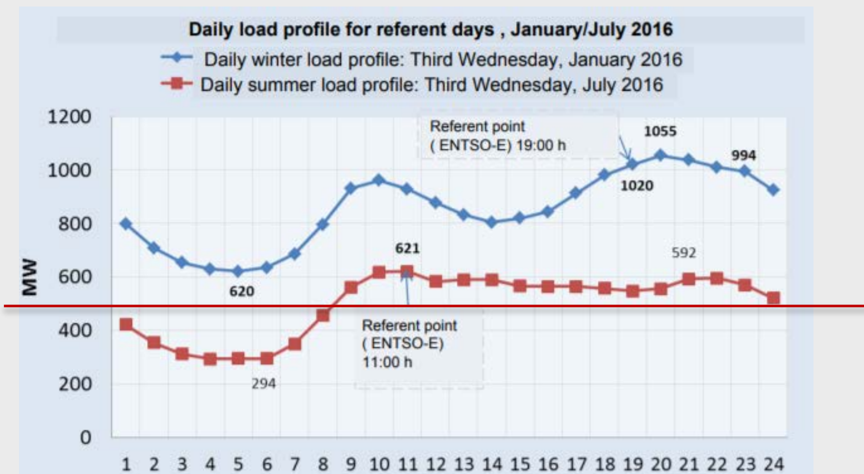
Demand in KS

KOSTT Generation adequacy 2011-2020



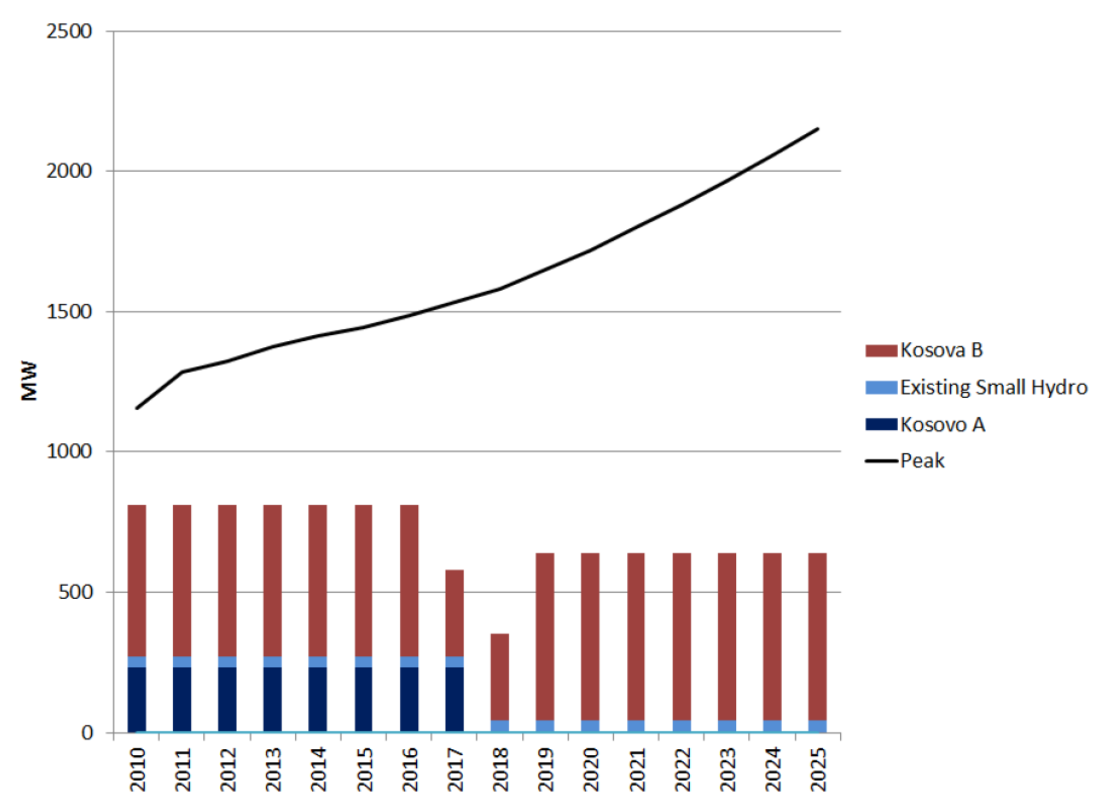
KOSTT Generation adequacy 2017-2026





Agreement in Dec 2017 - view from 2011

Figure 3.2: Peak Demand-Supply Gap



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?

NKEC selling electricity physically	Pros	Cons
Forward yearly of multi yearly contracts	Can get stable forward price / not exposed to short term volatility	Significantly exposed on operation and outages of GenCo and no capital to hedge it
Forward monthly contracts	Reduce the exposure on outage and also less exposed to short term volatility	Exposed to seasonal volatility
Day-ahead market	Contributes to liquidity in the market and less exposed on outages of GenCo	Entirely exposed to short term volatility, even negative prices

**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 CO_2 payments kick in (23 EUR/ton of CO_2 – for lignite close to 1:1 for MWh)

Thank You!

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