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USAID Support to Kosovo's Energy Sector

Role of Regulation to Secure Kosovo's Energy Security

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Economic Growth Office



National
Association of
Regulatory
Utility
Commissioners

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USG Position:

- The United States Government Supports Kosovo in Pursuit of Viable, Efficient Energy Sector as Cornerstone of Stability and Economic Development
- Successful Energy-Sector Reform is *INDISPENSIBLE* for Kosovo's Future Prosperity



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Successful Reform Policies will Yield:

- Environment Conducive for Attraction of Private (Foreign) Investment
- Investment in New Mining and New Generation
- Maximization of Private-Sector Involvement in Energy Industry



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Context:

- Kosovo's Lignite Deposits represent Comparative Advantage that should be Exploited
- Domestic Capital and Expertise Insufficient to Ensure Sector Viability and Expansion



Context - Critical-Path Items:

- 1) Financial and Operational Sustainability of Domestic Industry:
 - Sector revenues must be sufficient to cover its long-run marginal costs (through cost-reflective tariff levels and effective collection enforcement)
 - Sector assets cannot be mis-used as a source of funding for subsidies



Context - Critical-Path Items (cont.):

2) Kosovo's Legal, Regulatory, and Policy Framework MUST Support Sector's Development:

- I. ERO must be endowed with Authority and Autonomy, while remaining Accountable to Stakeholders in Fulfilling its Mandate;
 - Competent Appointments to ERO Board Urgent Priority
 - Adequate Financing of ERO to Ensure Staff Competence Essential
 - Budget Autonomy to Ensure Political Autonomy



Context - Critical-Path Items (cont.):

2) Kosovo's Legal, Regulatory, and Policy Framework MUST Support Sector's Development (cont.):

II. Property-Rights Enforcement MUST be Supported by Law-Enforcement:

- a) Rigorous Prosecution of Crimes against KEK's Property and Persons
- b) Criminalization of Electricity Theft
- c) Universal Application of Rule-of-Law



Context - Critical-Path Items (cont.):

- 3) Domestic Industry Rehabilitation, Restructuring, and Privatization is **INDISPENSIBLE** for Attraction of Private-Sector Investment in New Mining and Generation:
 - I. KEK's Solvency Essential to Manage Market Risk Perception of Kosovo-C Developer
 - II. KEK's Mining and Generation to be Separated from Distribution Functions



Context - Critical-Path Items (cont.):

4) KOSOVO-C:

Kosovo is in Urgent Need of New Generation Investment;

- I. The Kosovo-C Process is Best Option for Timely Completion of New Generation Investments
- II. Government MUST Continue Expression of Support for Kosovo-C Development. Reversal of Government Policy vis-à-vis Kosovo C will Deter Investment and Alienate Foreign Direct Investment.



USAID's ACTIVITIES:

- Resident Support to ERO – Capacity Development and Operational Support (BearingPoint, NARUC/ERRA)
- Resident Support to MEM, Kosovo-C Project Office and PSC (BearingPoint)
- Resident Support to KEK Management (PA Consulting, USEA)



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Objectives – Where are we going?

- Lowest Possible Costs
- Service Quality Expectations
- Acceptable Environmental Consequences



The Characteristics

- Industry Competition
- Consumer Choice
- Incentives for Efficiency and Investment



The Enabling Environment

- Rule of Law
- Competent Enforcement Authorities
- Independence of Decision-Making



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The Challenges

- Nascent Institutions
- Vested Interests
- Resistance to Paradigm-Shift



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The Opportunities

- Easily Demonstrated Benefits
- International Best-Practices
- Government Commitments



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Approach and Program

- Dialogue with Stakeholders
- Support for Legislation
- Development of Institutional and Human Capacity



The Outcome

- **Rationalized Industry**
- **Private-Sector Capital**
- **Sector Long-Term Sustainability and Economic Benefits**



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THANK YOU