A POLICY REPORT BY GROUP FOR LEGAL AND POLITICAL STUDIES

NO. 04 – JUNE 2012

# Between privatization, deregulation and liberalization:

## — The failures of energy market strategy in Kosovo and European Union benchmarks

GROUP FOR LEGAL AND POLITICAL STUDIES

KOSID

Kosovo Civil Society Consortium for Sustainable Development

Konsorciumi Kosovar i Shoqërisë Civile për Zhvillim të Qëndrueshëm

ABOUT GLPS

Group for Legal and Political Studies is an independent, non-partisan and non-profit public policy organization based in Prishtina, Kosovo. Our mission is to conduct credible policy research in the fields of politics, law and economics and to push forward policy solutions that address the failures and/or tackle the problems in the said policy fields. GLPS is a member of the Kosovo Civil Society Consortium for Sustainable Development (KOSID).

Policy Report 04/2012

# Between privatization, deregulation and liberalization: The failures of energy market strategy in Kosovo and European Union benchmarks

June 2012



GROUP FOR LEGAL AND POLITICAL STUDIES

Group for Legal and Political Studies
'Rexhep Luci' str. 10/5
Prishtina 10 000, Kosovo
Web-site: www.legalpoliticalstudies.org
E-mail: office@legalpoliticalstudies.org
Tel/fax.: +381 38 227 944

Rockefeller Brothers Fund
Philanthropy for an Interdependent World

"This publication was supported through a Rockefeller Brothers Fund grant. The opinions, findings, and conclusions or recommendations expressed herein are those of the Author(s) and do not necessarily reflect those of the RBF."

# BETWEEN PRIVATIZATION, DEREGULATION AND LIBERALIZATION: THE FAILURES OF ENERGY MARKET STRATEGY IN KOSOVO AND EUROPEAN UNION BENCHMARKS

## I. INTRODUCTION

There is a set of academic as well as policy–based arguments that assert that the privatization of publicly-governed assets is critically important for transition economies. The evidence suggests that market-oriented reforms, in many regards, require the involvement of private capital. In Kosovo, as in many European transition economies, privatization and market reforms in specific sectors are simultaneously conditioned by internal and external factors, namely, the market needs and EU standards-driven integration process. The energy market reforms comprise one of the most significant challenges. This said, EU member states' electricity market has been fashioned according to the EU single electricity market principles of competition. That being said, in Kosovo, energy market reforms and privatization of energy assets should aim to attract private sector participation in the energy industry, to enhance the efficiency and quality of services, and should help shape a free and competitive market model.

The electricity industry in many transition and post-communist economies was characterized by shortages in terms of capacity and 'the need for massive investment in generation and the extension of networks'.[1] Therefore, the energy reforms and particularly the privatization of some energy industry assets was mainly aimed at improving efficiency, access and reliability of the energy industry [2] as well as establishing a competitive market. Economic benefits and the progress of privatization reforms in the energy sector varied with the general economic development of a given country. Thus, whether privatization and liberalization was advantageous for a given country depended mostly on the market structure, public policies and market players. For example, in transition and post-communist economies, market reforms and especially privatization of public undertakings was a 'major tool of economic policy' and was implemented as a set of macro-economic reforms aiming to liberalize a given product market.[3] Liberalization of the electricity market, according to Coleman and Heroes, 'can be understood as a set of transactions where actors seek, through reforms, to further their interests both in the electricity market and in other arenas. The outcome is decided by the interests the actors have in the issues at stake, and by the control each actor has over these issues'.[4] Thus, liberalization of electricity markets requires a multidimensional approach which should not be limited to the involvement of private investments in the specific sector, but should aim to establish a group of actors that can compete in pursuit of their interests and enhance their market power. It should be noted that there are only few specific exemptions that might justify the government in maintaining some authority over the electricity market and postponing the gradual introduction of competition in electricity markets. In particular, reasons related to market structure, legal

[1] Bergara et al. in Michael Pollitt, 'Evaluating the evidence on electricity reform: Lessons for the South East Europe (SEE) market', Utilities Policy 17 (2009) 13–23.
[2] Michael Pollitt, 'Evaluating the evidence on electricity reform: Lessons for the South East Europe (SEE) market', Utilities Policy 17 (2009) 13–23.
[3] Narjess Boubakria, Jean-Claude Cossetb, and Omrane Guedhami, 'Liberalization, corporate governance and the performance of privatized firms in developing countries', Journal of Corporate Finance 11 (2005), 767– 790.
[4] Coleman and Heroes in Atle Midttun, Electricity liberalization policies in Norway and Sweden: Political trade offs under cognitive limitations, Energy Policy, Vol. 24, No. 1 (1996), 53-65.

framework, lack of clear policy orientation as well as insufficient political will all together influence the trend of market liberalization in any given country.[5] However, in Kosovo, the recent energy market reforms should now be focused on increasing private investment and liberalizing the energy market.

This analysis first explains the structure of Kosovo's energy market, its institutional setting, and the aims and energy strategy of the Government. Second, it answers why the electricity market reform has a macro-economic impact and why liberalization of the energy market according to EU rules is important for Kosovo's market development. And finally, the analysis moves to explain the EU market model and the Kosovo approach towards electricity market. This analysis concludes with the finding that the current government's strategy and policy for the development of Kosovo's electricity market are in contrast to the EU energy competition benchmarks and are not supportive of the gradual liberalization and efficient structuring of the energy market in Kosovo.

## II. KOSOVO ENERGY MARKET STRUCTURE

The electricity industry in Kosovo is dominated by a publicly-owned and vertically integrated company, KEK. Currently KEK has a dominant position in almost all the phases of the Kosovan electricity market, whereby the generation, distribution and retail are all coordinated within this one integrated company. Due to Kosovo's commitment to the Energy Community Treaty for South-Eastern Europe, as of 2006, the transmission system operator is unbundled from the production, distribution and supply stage of the electricity value chain controlled by KEK, and currently is managed by KOSST, a separate public company. In regards to generation, around 98% of production is carried out by two thermal power plants (TPP), namely, Kosovo A and Kosovo B, with a total installed capacity of 800 MW and 678 MW respectively.[6] It should however be noted that not all of the installed infrastructure are available for use due to structural/mechanical failures, and continuous repairs. Kosovo A, the oldest power plant, planned to be decommissioned in 2017, reaches an approximate net generation capacity of 350 MW, out of 800MW installed capacity. Due to the damages in the turbine rotors and continuous mechanical failures, Kosovo's B plant net generation is 500-540 MW, out of 678 MW installed capacity.[7] An approximate of 2% of power comes from two Hydro Power Plants (HPP), Ujmani and Lubardhi, with a net generation of 32 MW and 8 MW, out of 35 MW and 9 MW total installed capacities respectively. The HPP Ujmani is managed by the Iber- Lepenci, a publicly-owned company. It should however be noted that the net imports of energy in Kosovo, from 2001 have varied between 5 and 17 percentage points of the total annual consumption, with a wide distinction between and within years.[8]

[5] For example see Anders Larsen, Lene Holm Pedersen, Eva Moll Sørensen, and Ole Jess Olsen 'Independent regulatory authorities in European electricity markets', Energy Policy 34 (2006), 2858–2870.
[6] Daniel M. Kammen, Maryam Mozafari and Daniel Prull, 'Sustainable Energy Options for Kosovo: An analysis of resource availability and cost', Energy and Resources Group-Goldman School of Public Policy, Renewable and Appropriate Energy Laboratory, University of California, Berkeley, January 15, 2012.
[7] World Bank, 'Background Paper: Development and Evaluation of Power Supply Options for Kosovo', December 2011.
[8] World Bank, 'Background Paper: Development and Evaluation of Power Supply Options for Kosovo', December 2011.

| Power Generation Structure in Kosovo | | | | | | |
|---|---|---|---|---|---|---|
| **Generation Unit** | **Owner** | **Installed Capacity (MW)** | **Available Capacity Min. (MW)** | **Max. (MW)** | **Year of construction** | **(Planned) Decommissioning** |
| **Kosovo A1** | KEK | 65 | 0 | | 1962 | 2007 |
| **Kosovo A2** | KEK | 125 | 0 | | 1965 | 2002 |
| **Kosovo A3** | KEK | 200 | 100 | 130 | 1970 | 2017 |
| **Kosovo A4** | KEK | 200 | 100 | 130 | 1971 | 2017 |
| **Kosovo A5** | KEK | 210 | 100 | 135 | 1975 | 2017 |
| **Kosovo B1** | KEK | 339 | 189 | 260 | 1983 | 2030 |
| **Kosovo B2** | KEK | 339 | 189 | 280 | 1984 | 2030 |
| **HPP Ujmani** | Iber-Lepenci | 35 | 32 | | 1983 | NA |
| **HPP Lumbardhi** | Private | 8.80 | 8.00 | | (1957) 2007 | NA |
| **HPP Dikanci** | Private | 1.34 | 1.32 | | (1957) 2010 | NA |
| **HPP Radavci** | Private | 0.28 | 0.28 | | (1934) 2010 | NA |
| **HPP Burimi** | Private | 0.48 | 0.47 | | (1948) 2011 | NA |
| | | | | | | |

Table 1, explaining power generation capacities in Kosovo

The transmission system in Kosovo is managed by KOSTT j.s.c (KOSTT), a publicly owned company, which is responsible for the transmission of electric power on the high voltage electric networks, namely, 400 kV, 220 kV and 110 kV lines, with a total length of 1141.305 km. Moreover, KOSST is responsible for managing the transmission system within Kosovo as well as managing the transmission lines within 'Montenegro (400 kV line), Macedonia (400 kV line), Albania (220kV line) and Serbia (400 kV, 220 kV and 110 kV lines). This management role also includes allowing for transit, imports and exports of electricity'.[9]

The distribution and retail (Kosovo Electricity Distribution and Supply Company (KEDS)) is owned by KEK. The distribution and supply/retail side is divided across seven districts, responsible for the development of new distribution network facilities, maintenance and reconstructions of existing distribution network facilities, consumer services and billing of electricity. The KEDS supplies 416,000 distribution-connected customers. The Kosovo Government, on the basis of its energy strategy, among others, launched the privatization of the Kosovo Electricity Distribution and Supply Company (KEDS) with the aim of reducing technical and commercial losses, and improving the efficiency as well as the quality of services. However, as we shall argue, the Kosovo Government energy market model, and particularly the strategy to privatize the Kosovo Electricity Distribution and Supply Company and transfer ownership to a single company that will own both the distribution and retail market, does not adhere to the EU

[9] Daniel M. Kammen, Maryam Mozafari and Daniel Prull, 'Sustainable Energy Options for Kosovo: An analysis of resource availability and cost', Energy and Resources Group-Goldman School of Public Policy, Renewable and Appropriate Energy Laboratory, University of California, Berkeley, January 15, 2012.

electricity directive rules of unbundling, market liberalization and competition in electricity markets.

| Total Energy Flow in Kosovo 2010 | | |
|---|---|---|
| **Generation Units/Imports** | **GWh Flow (net)** | **Total Participation** |
| **Kosovo A** | 1,740 | 90% |
| **Kosovo B** | 3,271 | |
| **HPP Sources** | 114 | 2% |
| **Imports** | 470 | 8% |
| | | |
| **Total** | **5594 GWh** | **100%** |

Table 2, explaining the energy flow in Kosovo during 2010

It is noteworthy to mention that the transmission and distribution losses including commercial losses in Kosovo are particularly high, wherein approximately 37 percent of both overall generated and/or imported electricity is lost.[10] These losses, for example, Romanian distribution and commercial losses in 2005 reached an approximate 12% of the overall generated electricity. Compared to other western European countries, even this was extremely high.[11] Moreover, a recent study on sustainable energy options for Kosovo acknowledged that reducing distribution and commercial losses to acceptable levels as well as a refurbished Kosovo B can help eliminate the need for new lignite-fired power plant base load generation.[12]

In 2010, the Kosovo Assembly approved the new energy strategy for the periods up to 2018. This strategy contains a number of policy directions that aim to both reduce the role and influence of the Government and regulatory office over the generation and distribution systems and determine the structure of the electricity market in Kosovo. The energy strategy therefore relies on five strategic goals. First, it requires the expansion of new power generation capacities. The plan is to authorize the private investments in a new lignite-fired power plant, which will consist of two units with a total capacity of 2 X 300 MW, (referred to as 'Kosovo e Re Power Plant', hereinafter KRPP). Moreover, according to the Ministry of Energy, a new power plant unit, if not a new power plant, will need a total installed capacity of 400 MW to meet Kosovo electricity demand as by 2018.

Second, the new strategy aims to engage private investment in the rehabilitation as well as environmental upgrade of the 2X340 MW Kosovo B power plant (currently de-rated to 560MW). Third, according to the strategy, a new lignite mine will be built to meet the lignite demands of KRPP and Kosovo B. At this point, it should be noted that the new Kosovo power plant (KRPP), according to the government strategy, will be an extension to the Kosovo B power plant. In other words, both power plants (new Kosovo power plant (2X300 MW) and rehabilitated Kosovo B (2X340MW) will be owned by a single private company, which will be fuelled by the lignite from the new lignite mine (the Sibovc south mine).

[10] Sierra Club, 'Kosovo power project: Issues of non-compliance with the Department of Treasury's guidance to MDBS for engaging with developing countries on coal-fired power generation', May, 2012.
[11] See for more D. Kennedy, 'South-East Europe Regional Energy Market: challenges and opportunities for Romania', Energy Policy 33 (2005), 2202–2215.
[12] Daniel M. Kammen, Maryam Mozafari and Daniel Prull, 'Sustainable Energy Options for Kosovo: An analysis of resource availability and cost', Energy and Resources Group-Goldman School of Public Policy, Renewable and Appropriate Energy Laboratory, University of California, Berkeley, January 15, 2012.

Fourth, through the energy strategy, the Kosovo Government announced its plans to further unbundle Kosovo Energy Corporation (KEK). The unbundling model applied by the government is only aimed at reducing the government's role and responsibility over the distribution and supply chain, and does not adopt an EU electricity market model for Kosovo. The Government essentially launched the privatization of the distribution and supply branch. According to the Government tender dossiers, the plan is to sell the Kosovo Distribution and Supply Company to a single private company. Since the distribution is a natural monopoly and could not operate within a competitive setting, we argue in the following section that the private company's exclusive control over both distribution and the retail system fully impedes competition in the upstream market of electricity generation and the downstream market of energy retail/supply.[13] The final critical aspect of the Kosovo energy strategy relates to Kosovo's commitment to decommission the Kosovo A power plant and provide for private investments in renewable energy sources, such as small hydropower plants, wind and solar energy, etc. Yet again, through decommissioning of the Kosovo A power plant, the company owning both the new Kosovo power plant and Kosovo B power plant will control roughly 98% of the energy production resources in Kosovo, eliminating the potential for competition.

In general, the Kosovo Government energy strategy is very limited in terms of market-reform related objectives. In addition, the action plan and the policy guidelines embedded in the strategy are limited to measures that ensure the construction of a new power plant via an authorization procedure, transfer of ownership of the current generation assets to private companies, and launching the privatization of the current distribution and supply system. Moreover, since the concept of energy market liberalization is intended to 'create conditions in which the coordinating role of state ownership and planning is challenged and replaced by markets', [14]the government's strategy is rather purposeless, adding that it fails to meet most of the EU energy market reform objectives.

In the following section of the analysis we will first explain the main factors that drive the liberalization of energy markets in EU countries and argue that the liberalization of the energy market has a wide impact in the overall macro-economic context. Second, we will illustrate the EU model of liberalization and deregulation of energy markets to finally determine the extent to which Kosovo's strategy on energy is incompatible with the EU single electricity market rules and principles.

## III. WHY LIBERALIZE ENERGY MARKETS: AN EU PERSPECTIVE ON RULES AND MODELS

There is a set of arguments that shows electricity reforms to be important in terms of their impact on consumers, power producers, and the promotion of efficient markets. As argued by Pollitt, the electricity market reforms in European countries are very distinct due, in part, to the clear reform model offered by the European Union and the 'access to large amounts of technical assistance' provided by the European Union member states.[15] Reforms in the neighbouring European Union

[13] Spanjer in Eberhard Bohne, 'Conflicts between national regulatory cultures and EU energy regulations', Utilities Policy 19 (2011) 255-269.

[14] John Bower (2002) 'Seeking the Single European Electricity Market: Evidence from an Empirical analysis of wholesale market process.' EL 01, Oxford Institute for Energy Studies, July 2002.

[15] Michael Pollitt, 'Evaluating the evidence on electricity reform: Lessons for the South East Europe (SEE) market', Utilities Policy 17 (2009) 13–23.

energy markets have mainly focused on developing policies based on the free market model. As evidence suggests, energy market reforms in European Union countries mainly aim to: a) 'shift the role of states from asset ownership and operation to sector policy and regulation', b) 'liberalise potentially competitive market segments', c) 'establish clear, transparent and accountable regulatory framework', d) 'eliminate any existing end user tariff subsidies as they both distort the market and do not contribute towards rationalisation of the use of energy', e) 'establish a non-discriminatory and, if possible, supportive framework for renewable energy sources (RES)'.[16] Of course, compared to Kosovo energy strategy, which is based on privatization and transformation of public ownership only, these reform models are far more comprehensive and concerned with the establishment of a freely competitive electricity market.

Experiences form different EU candidate countries have shown that the liberalization of energy markets is driven by a number of factors. For example, in some countries, the energy market reforms and particularly the liberalization of energy markets is conditioned by the rapid growth of electricity demand, though some argue that these projections tend to legitimize the construction of new power plants.[17] To that extent, Kosovo's strategy on energy and the Kosovo government tend to emphasize the Kosovo electricity demand in order to legitimize its plans to build the new lignite-fired power plant. Foreign influence, heightened and important due to many states' objective of EU membership, is another factor that has incentivized the liberalization of energy markets in European countries.[18] Fiscal problems, in terms of inability of the country to finance the expansion of the energy demand as well as the need to tackle high inefficiency of the state-run monopolies and energy industries, is another important factor that has prompted the liberalization of the energy market.[19]

On the other hand, the liberalization of energy markets is understood as a complex as well as long-term process that consists of five key elements. The first important step to liberalization is commercialization, that is, the introduction of profit-oriented rules that govern the management of assets and daily business of publicly-owned companies.[20] Via commercialization, publicly-owned companies are able to recuperate costs via pricing, which in many cases results in an increase of the economic efficiency of the company.[21]

The second step to liberalization of energy market is the privatization or the transfer of state-run assets to private companies.[22] However, as evidence suggests, many countries choose to retain shares over a specific sector of the company. For example, in the electricity industry, usually, the generation and the commercial part (retail/supply) of the vertically integrated companies are privatized and opened to competition. The transmission and distribution systems, because of the natural monopoly characteristics, are not privatized, and states continue to retain shares and control over those sub-sectors.[23] Experience shows that these sub-sectors remain

---

[16] See for more Konstantinos D. Patlitzianas, Haris Doukas, Argyris G. Kagiannas, and Dimitris Th. Askounis, 'A reform strategy of the energy sector of the 12 countries of North Africa and the Eastern Mediterranean', Energy Conversion and Management 47 (2006), 1913–1926

[17] Erkan Erdogdu, 'Regulatory reform in Turkish energy industry: An analysis', Energy Policy 35 (2007), 984–993.

[18] Erkan Erdogdu, 'Regulatory reform in Turkish energy industry: An analysis', Energy Policy 35 (2007), 984–993.

[19] Erkan Erdogdu, 'Regulatory reform in Turkish energy industry: An analysis', Energy Policy 35 (2007), 984–993 .

[20] Jamasb, Pollitt, Rousaki et al., Vine et al., Williams and Ghanadan in Jacek Kaminski, 'The impact of liberalization of the electricity market on the hard coal mining sector in Poland', Energy Policy 37 (2009), 925–939.

[21] Ibid. 19.

[22] Ibid, 19.

[23] See for example the case of the Netherlands, Rolf Kunneke and Theo Fens, 'Ownership unbundling in electricity distribution: The case of The Netherlands', Energy Policy 35 (2007) 1920–1930.

highly controlled and regulated in countries where the transmission and distribution systems have been privatized.[24]

The unbundling or separation of regulated activities from those competitive activities is the third important element of liberalizing electricity markets.[25] In general, the electricity industry can be divided into four different stages, namely, a) generation/production, b) transmission/high and medium voltage network, c) distribution/low voltage network, and d) supply/retail services. All four stages possess dissimilar economic characteristics. For example, the generation and supply/retail sectors are more likely to be naturally competitive, 'as the technology allows more than one firm on the market…'.[26] On the other hand, transmission and distribution network industries historically operate as natural monopolies, and, as such, are often highly regulated by governments. The main idea behind liberalization and deregulation is 'to separate the potentially competitive stages from those with natural monopoly characteristics, subjecting the latter to regulation in order to avoid the creation of monopolistic rents'. [27] In general, the unbundling or separation of transmission and/or distribution stages makes it essential to establish rules that ensure comparable, equal and non-discriminatory access to the power grid. This brings us to the fourth element of liberalization, that is, the duty of state authorities to establish rules and implement practices that enable consumers to acquire electricity directly from the producers, 'with the addition of a transmission charge'.[28] In other words, a Third Party Access (hereinafter TPA) regime enables wholesalers, retailers and, generally, authorized consumers to have a direct and unhindered access to the grid (transmission and distribution network).

The fifth, and for some the last, step of liberalizing markets is enhancing competition. Energy reforms and the liberalization of markets are most often successful due, in part, to the ability of a given market to be competitive which benefits both participating companies and consumers. A competitive energy market is characterized by the prevailing right of consumers to choose their supplier, competition in the wholesale market (competition between producers), unhindered entry of new competitors, and competitive supply markets.[29]

## IV. EU ENERGY DIRECTIVES AND KOSOVO'S APPROACH TO ENERGY MARKET REFORM

Within the European Union, the focus of energy reforms has been to apply the premises of competitive market economics to the electricity industry, which was predominantly characterized by vertically integrated companies that managed all stages of the electricity industry.[30] This logic certainly implies that the stages of electricity industry must be separated while specific sub-

[24] Berit Tennbakk, 'Power trade and competition in Northern Europe', Energy Policy 28 (2000) 857-866.
[25] Jamasb, Pollitt, Rousaki et al., Vine et al., Williams and Ghanadan in Jacek Kaminski, 'The impact of liberalization of the electricity market on the hard coal mining sector in Poland', Energy Policy 37 (2009), 925–939.
[26] Alessandra Ferrari and Monica Giulietti, 'Competition in electricity markets: international experience and the case of Italy', Utilities Policy 13 (2005) 247–255.
[27] See for more Jamas, Pollitt, Rousaki et al., Vine et al., Williams and Ghanadan in Jacek Kaminski, 'The impact of liberalization of the electricity market on the hard coal mining sector in Poland', Energy Policy 37 (2009), 925–939.
[28] Jamasb, Pollitt, Rousaki et al., Vine et al., Williams and Ghanadan in Jacek Kaminski, 'The impact of liberalization of the electricity market on the hard coal mining sector in Poland', Energy Policy 37 (2009), 925–939.
[29] See for example Olga Gore, Satu Viljainen, Mari Makkonen, and Dmitry Kuleshov, 'Russian electricity market reform: Deregulation or re-regulation?', Energy Policy 41 (2012), 676–685.
[30] Michael Pollitt, 'Evaluating the evidence on electricity reform: Lessons for the South East Europe (SEE) market', Utilities Policy 17 (2009) 13–23.

sectors of the industry are opened to competition.[31] The main aim, therefore, was to establish a single electricity market based on the principles of deregulation and competition.[32] Adopting the European Union energy market model is especially important for those countries aspiring to join the European Union, due to their obligation to harmonize their national legislation with EU rules and principles. Kosovo must do the same.

There are three regulatory phases that characterize the EU's energy market reform. The first phase is characterized by the adoption of the directive 96/92/EC which aimed to gradually introduce competition in the electricity market and diversify the electricity markets and products.[33] Three basic directions were made compulsory to member states. The directives required member states to unbundle different production stages and introduce a compulsory third-party access regime (the right of access to network).[34] Moreover, these directives supported the gradual introduction of the consumers' right to buy electricity directly from the producers and acknowledged that the introduction of transparent rules for the building new power plant is critical.[35]

In the second legislative package, the European Commission adopted the directive 03/54/EC which replaced the previous directives. Compared to the old electricity directive, the 2003 directive was more explicit in terms of the objectives that should be achieved. It prescribed a number of rules regarding the unbundling of vertically integrated companies, wherein it compelled member states to apply separation rules which ensure the independence of companies acting in different stages of the electricity industry (in order to separate the production and supply chains from the transmission and distribution of energy, and open the former for competition).[36] Via effective unbundling, member states could assure that companies owning and operating the grind have no direct production or supply-related interests.[37] In addition, the second electricity directive defined an exhaustive set of rules for and relating to: a) third parties access to the energy networks, b) establishment of independent national energy regulators and their powers, and c) 'the immediate opening of the market to all customers, with

---

[31] Newbery in Michael Pollitt, 'Evaluating the evidence on electricity reform: Lessons for the South East Europe (SEE) market', Utilities Policy 17 (2009) 13–23.

[32] Bowen in Štefan Bojnec and Drago Papler, 'Deregulation of electricity distribution market in Slovenia' Paper presented at the 6th International Conference of the Faculty of Management 'Managing the Process of Globalisation in New and Upcoming EU Members', Slovenia, 24–26 November 2005, and Olga Gore, Satu Viljainen, Mari Makkonen, and Dmitry Kuleshov, 'Russian electricity market reform: Deregulation or re-regulation?', Energy Policy 41 (2012), 676–685.

[33] Ralf Muller, Martin Steinert, and Stephanie Teufel, 'Successful diversification strategies of electricity companies: An explorative empirical study on the success of different diversification strategies of German electricity companies in the wake of the European market liberalization', Energy Policy 36 (2008), 398–412.

[34] Eberhard Bohne, 'Conflicts between national regulatory cultures and EU energy regulations', Utilities Policy 19 (2011) 255-269.

[35] Alessandra Ferrari and Monica Giulietti, 'Competition in electricity markets: international experience and the case of Italy', Utilities Policy 13 (2005) 247–255, and Berit Tennbakk, 'Power trade and competition in Northern Europe', Energy Policy 28 (2000) 857-866

[36] See for more: Directive 2003/54/EC of the European Parliament and of the Council of 26 June 2003 concerning common rules for the internal market in electricity and repealing Directive 96/92/EC; Sandor Szabo, Arnulf Jager-Waldau, 'More competition: Threat or chance for financing renewable electricity?', Energy Policy 36 (2008), 1436–1447; Eberhard Bohne, 'Conflicts between national regulatory cultures and EU energy regulations', Utilities Policy 19 (2011) 255-269; and, Alessandra Ferrari and Monica Giulietti, 'Competition in electricity markets: international experience and the case of Italy', Utilities Policy 13 (2005) 247–255.

[37] Sandor Szabo, Arnulf Jager-Waldau, 'More competition: Threat or chance for financing renewable electricity?', Energy Policy 36 (2008), 1436–1447, and, Ekaterini N. Iliadou, 'Electricity sector reform in Greece', Utilities Policy, 17 (2009), 76–87.

the exception of the domestic ones for whom the deadline was 2007'.[38] Therefore, the main idea of the directive was to force the energy industries within EU member states to become more efficient, guarantee fair competition, as well as encourage new investments and access for new market entrants in different stages of the energy industry (see table 3).[39] That being said, with the aim of opening up vertically integrated companies, the EU institutions introduced measures that encourage the unbundling/separation of transmission and distribution from competitive assets (namely production and supply), promote non-discriminatory third-party access to power networks, gradually develop the right of all consumers to choose their suppliers, and help establish independent regulatory mechanisms that can control and orient market participants (see table 3).

Of note is the fact that the European Commission regularly monitored the progress of market deregulation and liberalization. To that aim, it identified a number of obstacles that member states faced with regard to the opening of electricity markets. Countries aiming to adopt the European Union electricity market model should consider these obstacles when implementing their own reforms.[40] According to assessment reports, during the first and second phase of market opening, and due to the weak enforcement of EU electricity directives at the state-level, the following challenges have been identified:

a) 'excessively high network tariffs, which form a barrier to competition by discouraging third party access, and may provide revenue for cross subsidy of affiliated businesses in the competitive market';
b) 'a high level of market power of existing generation companies combined with a lack of liquidity in wholesale and balancing markets which is likely to expose new entrants to the risk of high imbalance charges, network tariff structures which are not published in advance or subject to ex-ante approval, this may lead to uncertainty and create costly and time consuming disputes unless combined with full ownership unbundling';
c) 'insufficient unbundling, which may obscure discriminatory charging structures and lead to possible cross subsidy';[41]
d) 'deliberate state interference motivated by a desire to support so-called national energy champions'; and,
e) 'lack of interest by dominant players or governments to build additional transmission lines to facilitate cross-border trade'.[42]

These obstacles are valuable when analysing and prescribing energy market reforms, particularly for transition economies like Kosovo. That being said, the challenges that Kosovo will face during

---

[38] It should however be noted that according to this directive non-domestic consumers gained third-party access to the transmission and distribution systems as of July 2004 and household consumers achieved the same on July 2007. See Jacek Kaminski, 'The development of market power in the Polish power generation sector: A 10-yearperspective', Energy Policy 42 (2012), 136–147; Alessandra Ferrari and Monica Giulietti, 'Competition in electricity markets: international experience and the case of Italy', Utilities Policy 13 (2005) 247–255; Sandor Szabo, Arnulf Jager-Waldau, 'More competition: Threat or chance for financing renewable electricity?', Energy Policy 36 (2008), 1436–1447; and, Eberhard Bohne, 'Conflicts between national regulatory cultures and EU energy regulations', Utilities Policy 19 (2011) 255-269.

[39] Laura N. Haar and Nicolae Marinescu, 'Energy policy and European utilities' strategy: Lessons from the liberalisation and privatization of the energy sector in Romania', Energy Policy 39 (2011), 2245–2255

[40] Markus Gampert and Reinhard Madlener, 'Pan-European management of electricity portfolios: Risks and opportunities of contract bundling', Energy Policy 39 (2011), 2855–2865.

[41] See for more Stefan Speck and Machiel Mulder, 'Competition on European Energy Markets: Between policy ambitions and practical restrictions', CPB Netherlands Bureau for Economic Policy Analysis, Document No. 33, July 2003.

[42] See Fereidoon P. Sioshansi, Electricity Market Reform: What Have We Learned? What Have We Gained?, The Electricity Journal, Vol. 19, No. 9 (2006), 1040-6190.

market reform depends on the reform model that will be adopted. Before explaining why Kosovo's energy market reform, in particular, is not in compliance with the EU electricity market model and highlighting why Kosovo energy's market model is likely to fall short, we will explain two more important principles of the EU electricity market model that were introduced in the third legislative package.

The third electricity directive (2009/72/EC), among others, introduced two significant changes regarding the transmission and distribution unbundling requirements and the national energy market regulators' powers and independence (see table 3).[43] As to the first, the directive contains only three available models for transmission unbundling, that is, the ownership unbundling, the independent system operator, and the independent transmission operator.[44]

Under the Ownership Unbundling model, the transmission owner and transmission system operator pertain to a single legal entity that is independent in ownership from any production and supply company participating in the market.

The Independent System Operator model assumes that member states are in compliance with the directive if the transmission owner is part of a vertically integrated company. However the transmission system is controlled 'by an Independent Transmission System Operator, an entity which is independent in ownership from the vertically integrated undertaking'.[45] Moreover, it should be noted that under this model the transmission system owner has no right to grant or manage the third-party access regime.

The last model, in the transmission system unbundling model, as defined by the directive, the Transmission System Operator is a legal entity which both owns as well as controls the transmission system. While the Transmission System Operator can remain part of a vertically integrated undertaking, it should ensure that the former is independent in terms of its identity, management, staffing and decision-making powers.

On the distribution stage, the directive authorizes three unbundling models, namely legal unbundling, functional unbundling and account unbundling. In the legal separation model, member states, notwithstanding the fact the vertical integrated company owns the distribution network, should ensure that the Distribution System Operator and distribution activities are performed by a separate network company.[46] Thus, the vertically integrated company may choose the legal form of the Distribution System Operator, but it must still ensure a sufficient level of functional independence from other parts of the vertically integrated company.[47] Functional Unbundling, therefore requires that the Distribution System Operator have separate

---

[43] Eberhard Bohne, 'Conflicts between national regulatory cultures and EU energy regulations', Utilities Policy 19 (2011) 255-269, and Directive 2009/72/EC of the European Parliament and of the Council of 13 July 2009 concerning common rules for the internal market in electricity and repealing Directive 2003/54/EC.

[44] Eberhard Bohne, 'Conflicts between national regulatory cultures and EU energy regulations', Utilities Policy 19 (2011) 255-269, and Directive 2009/72/EC of the European Parliament and of the Council of 13 July 2009 concerning common rules for the internal market in electricity and repealing Directive 2003/54/EC.

[45] Department of Enterprise, Trade and Investment, 'Consultation on Implementation of Unbundling Provisions of the 2009 Electricity Directive (2009/72/EC), December 2009.

[46] Barbara Baarsmaa, Michiel de Nooija, Weero Kosterb, Cecilia van der Weijden 'Divide and rule: The economic and legal implications of the proposed ownership unbundling of distribution and supply companies in the Dutch electricity sector', Energy Policy 35 (2007), 1785–1794; Michael Pollitt, 'The arguments for and against ownership unbundling of energy transmission networks', Energy Policy 36 (2008) 704–713, and Commission Staff Working Paper, 'Interpretative Note on Directive 2009/72/EC concerning common rules for the internal market in electricity: The Unbundling Regime', Brussels, 22 January 2010.

[47] S. van Koten and A. Ortmann, 'The unbundling regime for electricity utilities in the EU: A case of legislative and regulatory capture', Energy Economics 30 (2008), 3128–3140, and Commission Staff Working Paper, 'Interpretative Note on Directive 2009/72/EC concerning common rules for the internal market in electricity: The Unbundling Regime', Brussels, 22 January 2010.

accounts, and all operational and management activities must be fully separated from the vertical integrated company.[48] A functional unbundling of a distribution system operator is considered to be complete, provided that the latter has: a) applied a full management separation - individuals managing the distribution system operator do not participate in the vertically integrated company structure and are not responsible for the 'day-to-day operation of production, transmission or supply activities'[49], b) effective decision-making rights - distribution system operator must be independent from the vertically integrated company and its parts especially with regard to assets that controls, and c) apply a compliance program -that is a framework which ensures that the 'network activities as a whole, as well as individual employees and the management of the DSO, comply with the principle of non-discrimination'.[50]

The third and the bare minimum separation requirement that must be respected by every distribution system operator is the account unbundling. Thus, as by the directive, the account unbundling model entails that the distribution system operator must have separate accounts from generation and supply activities, mainly to prevent 'cross subsidization'.[51]

All these models of unbundling, at both transmission and distribution stage, intend to provide a degree of structural and functional separation of network operation tasks from both the production and supply value chain. The models of unbundling chiefly aim to remove 'any conflict of interests between producers, suppliers and transmission system operators' and eliminate the incentive for vertically integrated companies to discriminate against competitors, in regards to access to the grid and access 'to commercially relevant information and as regards investments in the network'.[52] Therefore, the Kosovo energy market model should not be an exception to this trend.

The second important change introduced by the third electricity directive relates to the independence of national energy regulators. Originally, the second directive prompted member states to establish national energy regulators. Different practices applied by member states resulted in variations among national regulatory offices in terms of competences, structures and levels of independence. As such, the third electricity directive from the EU institutions put an emphasis on the independence of national energy regulators. Under this directive, the national energy regulators have to be functionally and legally independent form any public and/or private entity. Its staff, persons responsible for its management should act independently from any market related interest, and when carrying out the regulatory tasks, must ensure that its staff does not take direct or indirect instructions from government and other public or private entities. Specifically, the directive compels member states to assign the following duties to the national energy regulator:

---

[48] S. van Koten and A. Ortmann, 'The unbundling regime for electricity utilities in the EU: A case of legislative and regulatory capture', Energy Economics 30 (2008), 3128–3140, and Commission Staff Working Paper, 'Interpretative Note on Directive 2009/72/EC concerning common rules for the internal market in electricity: The Unbundling Regime', Brussels, 22 January 2010.

[49] Commission Staff Working Paper, 'Interpretative Note on Directive 2009/72/EC concerning common rules for the internal market in electricity: The Unbundling Regime', Brussels, 22 January 2010.

[50] Commission Staff Working Paper, 'Interpretative Note on Directive 2009/72/EC concerning common rules for the internal market in electricity: The Unbundling Regime', Brussels, 22 January 2010.

[51] S. van Koten and A. Ortmann, 'The unbundling regime for electricity utilities in the EU: A case of legislative and regulatory capture', Energy Economics 30 (2008), 3128–3140.

[52] See Commission Staff Working Paper, 'Interpretative Note on Directive 2009/72/EC concerning common rules for the internal market in electricity: The Unbundling Regime', Brussels, 22 January 2010.

1. ‘duties in relation to tariffs for access to transmission and distribution networks: fixing or approving, in accordance with transparent criteria, transmission or distribution tariffs or their methodologies’;
2. duties in relation to unbundling: ensuring that there are no cross-subsidies between transmission, distribution, liquefied natural gas, storage, and supply activities;
3. duties in relation to the general oversight of energy companies: ensuring compliance of transmission and distribution system operators, system owners (where relevant) and electricity or gas undertakings, with their obligations under the Directive and other relevant European Union legislation including cross-border issues;
4. duties in relation to consumer protection: helping to ensure, together with other relevant authorities, that the consumer protection measures, including those set out in Annex I, are effective and enforced; publishing recommendations, at least annually, in relation to compliance of supply prices with Article 3; ensuring access to customer consumption data’.

Here again, of note is the fact that the third directive took a step further in compelling member states as well as potential EU candidate countries and EU candidate countries to advance and liberalize their energy markets. In addition, the energy-market reform model serves as a toll to verify the level of liberalization and market opening within European Union member-states and EU-aspiring countries, including Kosovo (see table 3).

| EU Electricity Reform Model | | | | | | | |
|---|---|---|---|---|---|---|---|
| | | Private Company | Private Company | Public Company | | | |
| Competitive stage of electricity energy | | Duty to introduce competition between producers | | | | Competitive stage of electricity energy | |
| **Principles of EU Model** | | | | | | | **Principles of EU Model** |
| Introduce competition among producers | | Producer A | Producer B | Producer C | | Involve private investments/guarantee the access of potential competitor in the production market | Unbundle production from transmission and distribution |
| | | | | | | | |
| Unbundle/separation between transmission and distribution from production value chain | | Transmission System Operator (Regulated Natural Monopoly) | | | | Regulated activity | Apply un-discriminatory and equal third-party access regime, transmission level |
| Competition in the wholesale market | | **Wholesale Energy Market Bilateral contracts** | | | | Review and supervise the application of rules on TPA and competition | Establish independent energy regulators |
| Unbundle/separation between distribution from retail/supply value chain | | Distribution System Operator (Regulated Natural Monopoly) | | | | Regulated activity | Apply un-discriminatory and equal third-party access regime, distribution level |
| Introduce Retail/Supply Market | | Private Company **A** | Private Company **B** | Private Company **C** | | Competitive stage of electricity energy | |
| Competition among retailers/supplies | | | | | | Competition in the Retail/Supply Market | |
| Introduce gradually the right of consumer to choose the supplier | | Household Consumers | Household Consumers | Eligible Consumers | | | The right of consumers to buy electricity directly from Producers |
| | | Duty to introduce competition between suppliers | | | | | |

Table 3, explaining the EU electricity reform model

Yet from a different perspective, Kosovo's energy market reform is portrayed as weak in terms of their objectives and isolated in terms of accomplishing the requirements of the EU electricity market model. That being said, there are three important aspects of the Kosovan energy market model that reveal that the latter must comply with the EU energy market model.

The first relates to the model of privatization and the authorization of new generation capacities. According to Kosovo's energy strategy, the government of Kosovo, on the basis of authorization, has initiated tendering procedures for the construction of a new lignite-fired power plant (the so-called new Kosovo power plant, henceforth KRPP) consisting of two units with a total capacity of 2 X 300 MW. In addition, the strategy highlights that the new Kosovo power plant will be an extension of the (existing) Kosovo B power plant. In other words, a single (winning) private company which will own the new Kosovo power plant (2X300 MW) will also acquire full ownership over the rehabilitated Kosovo B (2X340MW). This model certainly stands against the EU market reform model, which supports competition in the generation/production of the electricity sector as necessary to accomplish liberalization of the energy market. Therefore, the main idea here should be to separate the new power plant from the exiting Kosovo B power plant. Through this model, the power production companies will be able to compete in the energy wholesale market and/or involve themselves in bilateral contracts with independent retail/supply companies, wholesale companies, distribution companies, and with different categories of eligible consumers.[53] In addition, this proposed model will help to expand the competition in the supply stage, which serves as a strategy to empower consumers who can then choose between rival suppliers.[54] Of note, four other power production companies which represent roughly 2% of the total energy production operate in Kosovo's energy market. Due to their small installed capacities, the likelihood that these companies can compete in the energy market and influence energy prices are extremely low (table 4). Moreover, keeping in mind that the Kosovo A power plant will be decommissioned by 2017, an approximate total of 98% of the power production will be carried out between the new Kosovo Power Plant and the Kosovo B power plant (see table 4). Here again, the market power of the company that will own both power production facilities will be extremely high and introduction of competition in the generation stage of the electricity value chain becomes nearly impossible without the separation of new Kosovo power plant from the exiting Kosovo B power plant (see table 4).

[53] Erkan Erdogdu, 'Regulatory reform in Turkish energy industry: An analysis', Energy Policy 35 (2007), 984–993 .
[54] M. Ringel, 'Liberalising European electricity markets: opportunities and risks for a sustainable power sector', Renewable and Sustainable Energy Reviews 7 (2003), 485–499.

<table>
<tr><th colspan="6">Kosovo Energy Market Model</th></tr>
<tr><td></td><td></td><td>Public Company</td><td>Private Company<br>(apx. 97% of the power production to be carried-out by a single company as by 2017)</td><td></td><td></td></tr>
<tr><td></td><td></td><td>Kosovo A<br>Power Plant<br>(End of activity as by 2017)</td><td>Kosovo B Power Plant &<br>New Kosovo Power Plant</td><td></td><td></td></tr>
<tr><td>Competitive stage of electricity energy</td><td>←·→</td><td colspan="2">↕ (No) Duty to introduce competition between producers ↕</td><td>←·→</td><td>Competitive stage of electricity energy</td></tr>
<tr><td>(No)competition among producers<br>(no price competition)</td><td>←·→</td><td>Producer<br>A<br>(End of activity as by 2017)</td><td>Producer<br>B<br>approximately 95% - 98% market share</td><td>←·→</td><td>Private investments merger of the exiting Kosovo B PP and New Kosovo PP</td></tr>
<tr><td>Impossible to guarantee the access of potential competitor in the production market</td><td></td><td>↕</td><td>↕</td><td></td><td>Unbundle production from transmission and distribution</td></tr>
<tr><td>Unbundle/separation between transmission and distribution from production value chain</td><td>↕←·→</td><td colspan="2">Transmission System Operator<br>(Regulated Natural Monopoly)<br>KOSTT publicly owned company</td><td>←·→</td><td>Applicable un-discriminatory and equal third-party access regime, transmission level<br>(Regulated activity)</td></tr>
<tr><td>(No)competition in the wholesale market</td><td>←·→</td><td colspan="2">↕ Wholesale Energy Market<br>Bilateral contracts ↕</td><td>↕←·→</td><td>Energy regulator<br>Review and supervise the application of rules on TPA and competition</td></tr>
<tr><td>No application of the unbundling regime<br>(Unbundle/separation between distribution from retail/supply value chain)</td><td>↕←·→</td><td colspan="2">↕ Distribution System Operator<br>(Regulated Natural Monopoly)<br>+<br>Supply/Retail Market ↕</td><td>←·→</td><td>Apply un-discriminatory and equal third-party access regime,<br>distribution level<br>(Regulated activity)</td></tr>
<tr><td>No Retail/Supply Market</td><td>←·→</td><td colspan="2">Private Company<br>A<br>(a single supply/retail company acting in the market)</td><td>←·→</td><td>Competitive stage of electricity energy</td></tr>
<tr><td>No-competition among retailers/supplies<br>(no price and quality of services competition)</td><td>←·→</td><td colspan="2">↑ ↑ ↑</td><td>←·→</td><td>No-competition in the Retail/Supply Market</td></tr>
<tr><td>Impossible to introduce gradually the right of consumer to choose the supplier<br>(single Supply/Retail company acting in the market)</td><td></td><td>Household Consumers</td><td>Household Consumers</td><td>↕←·→</td><td>The right of consumers to buy electricity directly from Producers<br>←·→<br>Not applicable</td></tr>
<tr><td colspan="2"></td><td colspan="2">↕ (No) duty to introduce competition between suppliers ↕</td><td></td><td></td></tr>
</table>

The second important issue relates to the unbundling regime as well as the gradual introduction of competition in the supply stage of the energy industry. As to the unbundling of the production and supply chains of the electricity industry from the energy transmission system operator and distribution system operator, the Kosovo energy market strategy has implemented a model which varies between objectives applied vis-a-vis transmission system operator and distribution system operator. Due to Kosovo's obligations concerning the Energy Community Treaty, the transmission system operator was separated from KEK in 2006 and is owned by a separate publicly-owned company. To that extent, unbundling the transmission from the generation and supply side has been achieved. However, on the distribution side, the Kosovo Government launched the privatization of the distribution and supply branch of the Kosovo Electricity Company (a vertical integrated company which also owned the distribution network and supply operator). The aim however is to privatize the Kosovo distribution and supply company assets, wherein they will be owned by a single company (see table 4). However, within the EU market model, the separation of distribution from supply intends to provide a degree of functional separation of network operation tasks, managed by the owner of the distributions system operator, from the supply electricity value chain (for more on EU reform model see table 3 above). Moreover, the model of unbundling in Kosovo must remove any conflict of interest between the distribution system operator and suppliers and eliminate the incentive for companies that own distribution networks to retain full control over the supply market.[55] Due to the fact that the distribution system is considered a natural monopoly, granting exclusive ownership to a single private company over both distribution and supply (a competitive segment of the energy market) removes the possibility for real competition in the supply side of the electricity market.

The model applied by the Kosovo Government intends to allow a single company to control both the distribution system operator and supply stage (see table 4). This affects another principle of the EU energy market model, that is, the obligation of states to ensure the gradual introduction of the freedom of household consumers to choose between alternative suppliers. As emphasized by the Singh, one of the biggest challenges of energy market liberalization is to 'to establish a choice to smaller consumers in picking up an alternate supplier'.[56] According to the EU market reform model, a free supply/retail consumer category should be established, that can provide for the gradual introduction of the consumers' right to directly engage in energy-trading activities without any obstacles (through third party access).[57] For example, in Slovenia, the energy market has been gradually deregulated for large industrial electricity users, medium and smaller industrial users and, finally, electricity markets for household electricity consumption has been fully liberalized.[58] The same holds true with regard to all other EU member states and Norway. We argue that that through proper separation of distribution from supply/retail activities, energy market reforms can ensure a gradual transformation of the market structures that allows

[55] See for more Sandor Szabo, Arnulf Jager-Waldau, 'More competition: Threat or chance for financing renewable electricity?', Energy Policy 36 (2008), 1436–1447.
[56] Anoop Singh, 'Towards a competitive market for electricity and consumer choice in the Indian power sector', Energy Policy 38 (2010) 4196–4208.
[57] Jamas, Pollitt, Rousaki et al., Vine et al., Williams and Ghanadan in Jacek Kaminski, 'The impact of liberalization of the electricity market on the hard coal mining sector in Poland', Energy Policy 37 (2009), 925–939.
[58] Štefan Bojnec and Drago Papler, 'Deregulation of electricity distribution market in Slovenia' Paper presented at the 6th International Conference of the Faculty of Management 'Managing the Process of Globalisation in New and Upcoming EU Members', Slovenia, 24–26 November 2005.

for new specialized retail agents to access the market.[59] The argument therefore relies on the fact that opening the production, wholesale and retail market directly affects the opportunity of end-users/consumers to choose their supplier.[60] Lastly, of note is the argument that the market is a monopoly if there is one supplier/retailer in the market (as would be the case within the Kosovo energy market after privatization of the DSO) regardless of the fact that the distribution system may be separated from the generation and transmission.[61] Current charts as well as the objectives set forth for Kosovo's energy market reform suggest that implementation of such reforms, as they currently stand, will not succeed in developing market structures that fit and adhere to the EU energy market model (see table 4).

## POLICY RECOMMENDATIONS

The Kosovo's Energy Strategy is very limited in terms of market-reform related objectives as well as very poor in terms of providing for the establishment of a market model according to the EU single electricity market system. Having in mind Kosovo's EU integration aims, the European Union energy reform model must serve as a transformation formula via which Kosovo shapes its energy market. To that aim, Kosovo institutions should implement the following measures:

1. First, implement an energy market reform which intends to involve many private investments in the energy industry, deregulate and liberalize the energy market via separating potentially competitive stages of electricity industry from those natural monopoly characteristics. Avoiding the establishment of private monopoly in both production and supply/retail stages of the electricity industry value chain should be the overarching aim of the new energy strategy.

2. Second, according to the current energy strategy, a single private company which will own the new Kosovo power plant (2X300 MW) will also acquire full ownership over the existing Kosovo B (2X340MW). In addition, having in mind that Kosovo A power plant will be decommissioned by 2017 and due to the inability of other power production companies, which represent roughly 2% of the total energy production in Kosovo, to compete in the energy market and influence energy prices, the market power of the new company that will own both power production facilities will be extremely high and introduction of competition in the generation stage of the electricity value chain becomes nearly impossible without the separation of new Kosovo power plant from the exiting Kosovo B power plant. Therefore, the new energy strategy should comply with the EU market model and provide for the separation of the new power plant from the exiting Kosovo B power plant. This model, on the other hand, will help expand the competition in the supply stage, which serves as a strategy to empower consumers who can then choose between rival suppliers, power production companies will be able to compete in

[59] Serdal Bahçe and Erol Taymaz, 'The impact of electricity market liberalization in Turkey "Free consumer" and distributional monopoly cases', Energy Economics, 30 (2008), 1603–1624, and Richard Green, 'Electricity liberalisation in Europe—how competitive will it be?'. Energy Policy, 34 (2006), 2532–2541.
[60] Christophe Defeuilley, 'Retail competition in electricity markets', Energy Policy 37 (2009), 377–386, and Stefan Speck and Machiel Mulder, 'Competition on European Energy Markets: Between policy ambitions and practical restrictions', CPB Netherlands Bureau for Economic Policy Analysis, Document No. 33, July 2003.
[61] Berit Tennbakk, 'Power trade and competition in Northern Europe', Energy Policy 28 (2000) 857-866.

the energy wholesale market and/or involve themselves in bilateral contracts with independent retail/supply companies, wholesale companies, distribution companies, and with different categories of eligible consumers.

3. Third, while the privatization model applied by the government is only aimed at reducing the government's role and responsibilities over the distribution and supply chain, it does not fashion the energy distribution and supply market as by the EU electricity market model. Our proposal of course is that the new Kosovo energy strategy should provide for the unbundling of the distribution from supply, and apply an unbundling model which offers a degree of functional separation of network operation tasks, managed by the owner of the distribution system operator, from the supply electricity value chain. This unbundling model must help remove any conflict of interest between the distribution system operator and suppliers and eliminate the incentive for companies that own distribution networks to retain full control over the supply market since it removes the possibility for real competition in the supply side of the electricity market.

4. Fourth, an EU-fashioned unbundling model should also expand the competition in the supply stage as well as serve as a strategy to empower consumers who can then choose between rival suppliers. Thus, the new energy strategy should compel the Government of Kosovo to ensure the gradual introduction of the household consumers' right to choose between alternative suppliers. The new strategy should help establish a free supply/retail consumer category, that is, the gradual introduction of the consumers' right to directly engage in energy-trading activities without any obstacles. Via ensuring a proper separation of distribution from supply/retail activities and a gradual transformation of the market structures will allow for new specialized retail agents to access the energy market.

POLICY REPORTS

Policy Reports are lengthy papers which provide a tool/forum for the thorough and systematic analysis of important policy issues, designed to offer well informed scientific and policy-based solutions for significant public policy problems. In general, Policy Reports aim to present value-oriented arguments, propose specific solutions in public policy – whereby influencing the policy debate on a particular issue – through the use of evidence as a means to push forward the comprehensive and consistent arguments of our organization. In particular, they identify key policy issues through reliable methodology which helps explore the implications on the design/structure of a policy. Policy Reports are very analytical in nature; hence, they not only offer facts or provide a description of events but also evaluate policies to develop questions for analysis, to provide arguments in response to certain policy implications and to offer policy choices/solutions in a more comprehensive perspective. Policy Reports serve as a tool for influencing decision-making and calling to action the concerned groups/stakeholders.

Group for Legal and Political Studies
'Rexhep Luci' str. 10/5
Prishtina 10 000, Kosovo
Web-site: www.legalpoliticalstudies.org
E-mail: office@legalpoliticalstudies.org
Tel/fax.: +381 38 227 944