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Payments for Electricity Consumption in the Northern Municipalities in Kosovo



June 2022

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Introduction

Since the end of war, the issue of payments for electricity consumption in the northern municipalities of Kosovo has remained unresolved. As such, from 1999 to 2017, expenditures for the electricity consumption in the four northern municipalities of Kosovo (North Mitrovica, Leposavic, Zubin Potok and Zvečan) were designated as "energy losses" by the Energy Regulatory Office (ERO) and, similar to other network losses, billed in customer tariffs to the rest of Kosovo. During this period, the distribution of electricity in these municipalities was conducted illegally by the Serbian power utility company (Elektroprivreda Srbije (EPS)), through its subsidiary, Elektrokosmet. This utility company did not have a license to conduct such business, since according to the Energy Regulator in Kosovo, the only licensed utility company for energy distribution was the Kosovo Electricity Distribution Services (KEDS).¹

In order to provide a solution to this situation, Kosovo and Serbia signed the Energy Agreement in 2013, followed by an agreement in 2015 on the implementation of the initial one, providing for the establishment and operationalization of a new electricity supply company for the four northern municipalities. This utility company was required to be registered in Kosovo and would buy and sell electricity to serve customers in the northern municipalities. In 2019, "ElektroSever" utility company (owned by EPS) was registered in Kosovo, and subsequently in 2020, applied with ERO for a license to supply electricity. The process of reviewing the license application and the licensing from ERO has been done on 24th of June 2022, in accordance with the agreement achieved in Brussels between Kosovo and Serbia.²

To date, electricity costs in these municipalities have been paid by the citizens of the rest of Kosovo, and subsequently the Kosovo Transmission System Operator (KOSTT) and the and government subsidies. As noted above, until December 2017, the energy supplied to these municipalities was accounted as "energy losses"; however, at the end of 2017, pursuant to an issue raised by the Ombudsperson and respective decision of the judicial bodies, it was decided that this "loss" shall not be covered by billing the citizens, but by KOSTT. Until now, KOSTT has been using its own revenues to cover the energy consumed in the four northern municipalities. Furthermore, in 2020 and 2021 financial assistance was requested from the Assembly³ and funds were allocated from the Kosovo budget to cover a part of these expenditures.⁴ However, in the meeting of June 21, 2022, between Kosovo and Serbia in Brussels, an agreement was reached on this matter. Specifically, the two sides agreed on the approval of a roadmap for the implementation of the energy agreements reached in 2013 and 2015.⁵ Through this new Agreement, citizens in the northern municipalities will be billed and will pay for their own electricity consumption.

1 Energy Regulatory Office. 2020 Annual Report. Source: <https://bit.ly/3xVD10d>

2 Koha.net, 2022. "Elektroseverit" i jepet licenca për furnizim të veriut me energji elektrike. Source: <https://bit.ly/39SQA7t>

3 This request was made to the Parliamentary Committee on Economy, Industry, Entrepreneurship and Trade and after approval by the Committee, it was put to a vote at the Assembly.

4 Free Europe, 2021. KOSTT: Kosova vazhdon ta furnizojë veriun me rrymë. Source: <https://bit.ly/3xZChar>

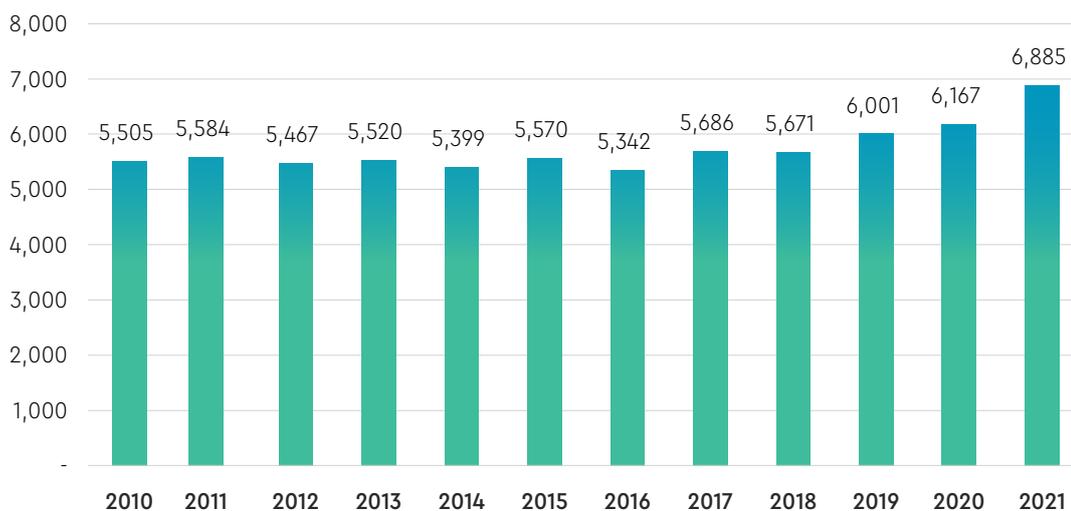
5 Koha.net, 2022. Udhërrëfytyesi i plotë për Marrëveshjen e energjisë në veri [DOKUMENT]. Source: <https://bit.ly/3xGYZD0>

Energy consumption and total value paid for northern municipalities over the years

In Kosovo, electricity production is from thermal power plants and to a lesser extent from hydropower plants, wind turbines, solar power plants, and imports. Since domestically produced energy does not cover energy demand at the time of peak demand, there is a need for imports. During 2021, there was an international energy crisis, affected by low gas reserves in European stocks due to restrictions on gas supply by Russia, gas demand in Asia, and increased demand for electricity as a result of economic recovery after the pandemic.⁶ The crisis featured a significant uptick in electricity prices in the second half of 2021, with prices on the Hungarian electricity exchange reaching 376 EUR/MWh. This increase in prices was also reflected in Kosovo, considering that there was an increase in electricity consumption in December 2021 by 10.8% compared to the previous year, consequently leading to a greater need for imports. According to ERO records, during December 2021 alone, electricity imports amounted to EUR 32.3 million.⁷

Over the years, the demand for electricity in Kosovo has been steady, with a slightly more pronounced increase in the last three years.

Figure 1. Demand for Electricity in Kosovo over the years (GWh)



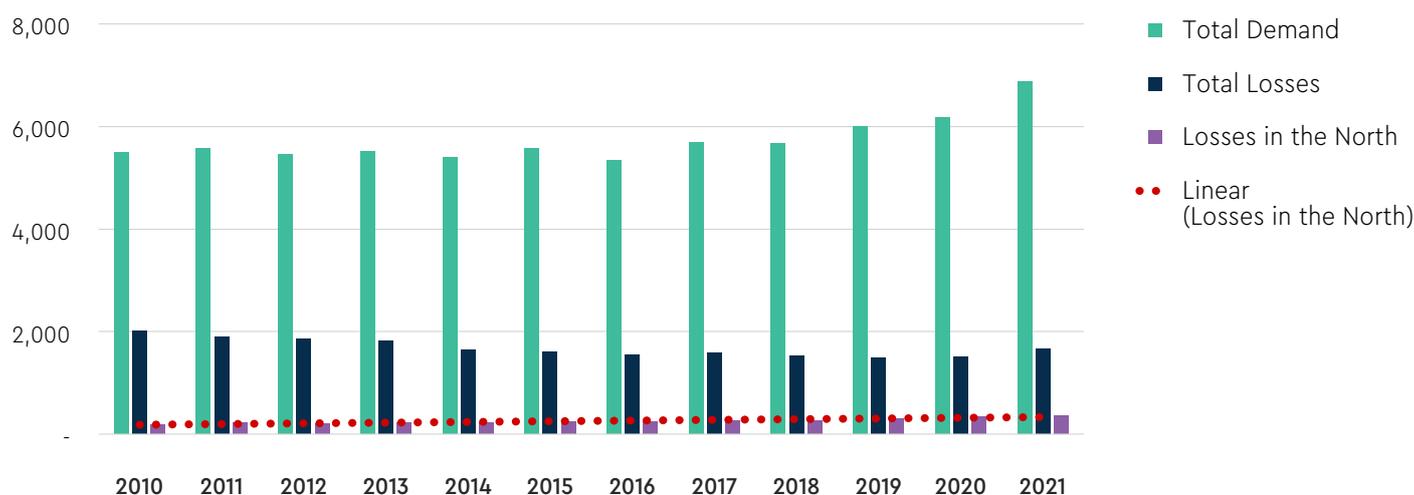
Source: Energy Regulatory Office, 2022

One challenge that persists in the energy market, despite investments in the distribution network over the years, is the high level of losses. This is due to the aging of the network, length of overhead lines, quality and type of conductors and transformers, equipment load, and their maintenance. During 2021, technical losses amounted to 12.46% of total distribution demand, while non-technical (commercial) losses were 6.16% of total distribution demand. Until 2017, energy consumption in the northern municipalities was accounted as commercial energy loss; while from December of that year, it was listed as 'unbilled energy'.⁸

⁶ Energy Regulatory Office. 2021 Annual Report. Source: <https://bit.ly/3xyDWT4>

⁷ Ibid.

⁸ Energy Regulatory Office. 2021 Annual Report. Source: <https://bit.ly/3xyDWT4>

Figure 2. Electricity losses and electricity demand (GWh)

Source: Energy Regulatory Office, 2022

According to ERO records, average energy losses in the northern municipalities were about 260 GWh (average of total losses 1,700 GWh) per year. From 1999 to 2017, these costs were included in the invoices billed to customers in other cities of Kosovo. It is estimated that the utility bills of citizens in this period were about 3.5% more expensive.⁹ According to the data shown in the table below, from 2011, energy consumption in these municipalities was increasing, averaging about 5% per year. However, in the last two years there is a higher upward trend, of about 14% and 11%, respectively. Compared to the annual difference in total electricity demand in Kosovo, it is noted that in 2020 there was a relatively low increase of demand at 2.8%, which could be due to the lockdowns enforced for certain periods during the pandemic. The justification for this increase in energy consumption in the northern municipalities was attributed to the concentration of cryptocurrency mining there, as such mining equipment require significant amounts of energy (one rig can spend up to EUR 150 of electricity per month). According to data on imports for 2017–2018, cryptocurrency mining rig imports amounted to EUR 3 million.¹⁰

Table 1. Energy consumed in northern municipalities (GWh) and annual difference (%)

2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
185.33	213.71	210.84	218.15	229.67	246.55	251.94	265.29	271.92	294.29	334.74	371.69
-20.4%	15.3%	-1.3%	3.5%	5.3%	7.3%	2.2%	5.3%	2.5%	8.2%	13.7%	11.0%

Source: Energy Regulatory Office

Considering the lack of electricity supply at the end of 2021, the Government under its "Emergency Measures on Energy Supply" prohibited cryptocurrency mining throughout the territory of Kosovo.¹¹ During this period, many rigs were seized by Kosovo Customs, finding a number of them had not been cleared through customs.

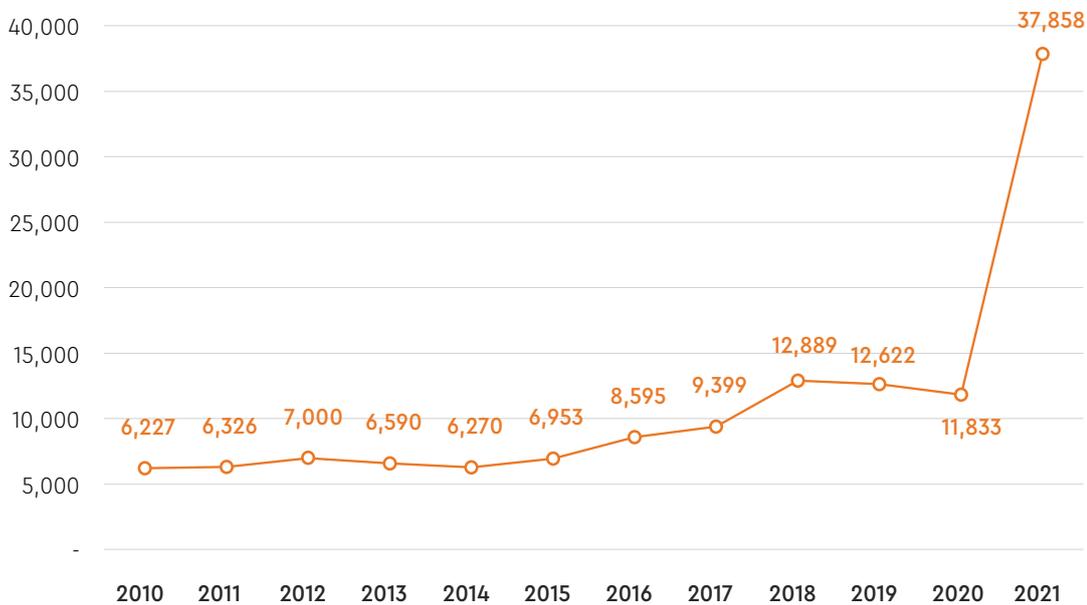
⁹ Free Europe, 2021. KOSTT: Kosova vazhdon ta furnizojë veriun me rrymë. Source: <https://bit.ly/3N0m356>

¹⁰ Kallxo, 2021. Fakte se si ndikoi biznesi i kriptovalutave në rritjen e kërkesës për rrymë në katër komunat veriore. Source: <https://bit.ly/3xAeY5B>

¹¹ Office of the Prime Minister, 2021. 51st Government Meeting Source: <https://bit.ly/3N0m9cY>

If we were to conduct a value-based examination of the cost of energy consumed in the north over the years, we would see that for a period of ten years, an average of EUR 11 million per year were spent to cover this cost, while in total, there were EUR 132.5 million spent. By 2018, this cost was under EUR 10 million; while since 2018, it has picked up, reaching the highest value in 2021, in the amount of about EUR 38 million.

Figure 3. Consumption value of energy in the northern municipalities (EUR, million)



Source: Energy Regulatory Office, 2022

At the end of 2017, the payment for energy consumed in the northern municipalities was made by the public enterprise Kosovo Transmission System Operator (KOSTT), from its own revenues, as well as with assistance from the Government subvention, as approved by the Assembly of Kosovo. In 2020, KOSTT requested financial assistance from the Assembly, which was approved through the Law on Budget with the allocation of EUR 10 million. The Ministry of Economy during 2020, submitted an Action Plan for the normalization of distribution and supply of electricity in northern Kosovo.¹² Representatives of ERO and KOSTT, in May 2020, held discussions on this matter with the Parliamentary Committee on Human Rights, Gender Equality, Missing Persons, and Petitions. In this meeting was discussed the inability to extend operations in this part, and thus energy was drawn from the European interconnection grid, thereby causing Kosovo to incur liabilities to the European Network of Transmission System Operators (ENTSO). In this regard, since KOSTT is already independent from the Serbia, Northern Macedonia, and Montenegro regulatory block, and has entered into a regulatory bloc with Albania, ENTSO required Kosovo to guarantee that there would be no more power diversions in the system. For this reason, KOSTT requested financial assistance from the Assembly, aiming to put an end to penalties from the international network.¹³ Similar to 2020, again in 2021, KOSTT covered energy expenditures in the northern municipalities from its own budget to the tune of EUR 34 million, and the rest was covered by Government subvention of EUR 7.6 million. According to ERO reporting, in 2021 a total of EUR 41.8 million were spent for this reason.¹⁴

¹² Energy Regulatory Office, 2020. 2020 Annual Report. Source: <https://bit.ly/3xCTDbG>

¹³ Assembly of Kosovo, 2020. Record of the Meeting of Human Rights, Gender Equality, Missing Persons, and Petitions Committee. Source: <https://bit.ly/3O5LovS>

¹⁴ Energy Regulatory Office, 2021. 2021 Annual Report. Source: <https://bit.ly/3Oi2Opm>

These multimillion payments made over the years have had a large impact on the energy market in Kosovo. Initially, by directly billing the citizens for much more than they actually spent, and then by putting a financial strain on KOSTT and the public budget. Moreover, as noted above, by diverting power to cover energy consumption in the northern municipalities from the European interconnection grid, KOSTT incurred liabilities to ENTSO. Operating as a regulatory area from 2020, KOSTT has the responsibility to balance the system and cover any power diverted in the system. Additionally, in its reporting to ERO, KOSTT stated that in 2020, realization of capital investments was 36%. They reported that the deferment of capital projects was, inter alia, also due to financial problems related to the supply for the northern part.¹⁵

Apart from the issue of non-payment of electricity bills, it has been reported that in the northern municipalities there have not been any payments made on consumed water and tax obligations. Consumers in these municipalities are supplied with drinking water by the Regional Water Company "Mitrovica," but do not pay their bills with this company. Since 1999, it is estimated that the debt accrued for such bills is EUR 15 million. Further, a large number of businesses operating there are not registered with the Kosovo Business Registration Agency, and consequently do not pay their dues. According to reported data, out of 981 businesses registered in these municipalities, only 255 of them pay taxes to the Tax Administration of Kosovo.¹⁶

¹⁵ Energy Regulatory Office, 2020. 2020 Annual Report. Source: <https://bit.ly/3zFszLH>

¹⁶ Gazeta Ekonomia. Qytetarët dhe bizneset në veri të Kosovës vazhdojnë të mos i paguajnë faturat e rrymës, ujit dhe tatimet. Source: <https://bit.ly/3MYU6KT>

Conclusion

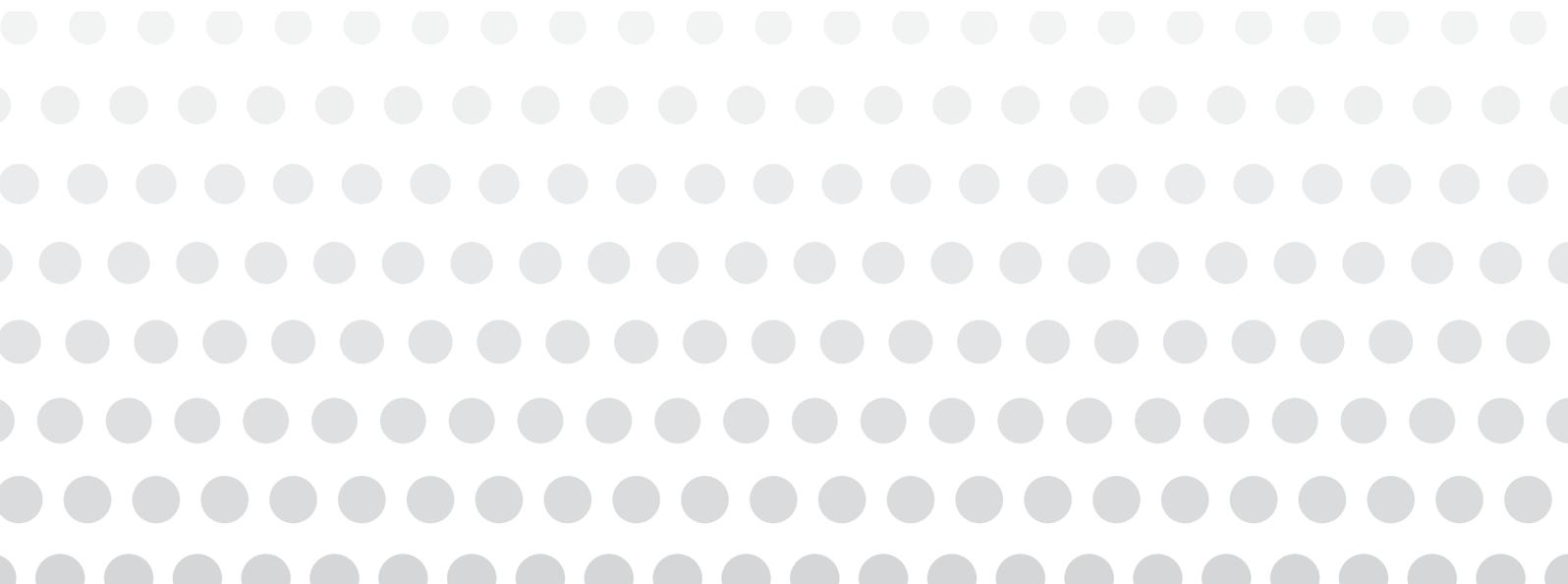
The issue of electricity consumed in the northern municipalities of Kosovo has been outstanding from 1999 to June 2022. This happened because the Kosovo Electricity Distribution Company (KEDS) did not operate in these areas, and consequently could not collect revenues through customer billing. For this reason, from 1999 to 2017, the costs of such expenditures were designated as "energy losses" and were consequently billed to consumers in other cities of Kosovo. After this period, when the Court of Appeals ruled to discontinue this practice, these costs were covered by KOSTT and with financial assistance by Government subvention. On average, the amount required to cover such costs is EUR 11 million per year.

In an effort to resolve this political issue, in 2013, the Energy Agreement was signed in Brussels between Kosovo and Serbia, providing for the establishment of a new company registered in Kosovo, for the supply of electricity to northern municipalities. Consequently, in 2019, "Elektrosever" was registered in Kosovo, and in 2020 submitted its license application documents to ERO. However, licensing from ERO was issued on 24th of June 2022, based on the new agreement achieved in Brussels between Kosovo and Serbia. This agreement was reached on 21 June of this year, where the two sides agreed to a roadmap¹⁷ to further the implementation of energy agreements reached in 2013 and 2015. According to the roadmap, ERO is obliged to issue a license for the supply of electricity in the northern municipalities to "Elektrosever," and afterwards, "Elektrosever" will provide the latest data available on customers to KEDS and KOSTT. Furthermore, within a certain timeframe, "Elektrosever", will sign the required technical agreements with KEDS and KOSTT regarding service delivery. Other details on terms and conditions are specified in the Energy Agreement¹⁸ of 2013. With the implementation of this Agreement, citizens in the northern municipalities will be billed and will pay for their own electricity consumption.

Since an agreement on the energy issue with Serbia has already been reached, GAP Institute recommends to ensure an adequate and timely implementation of this agreement from all parties involved. Moreover, considering the hike in consumption in these municipalities in recent years, one recommendation would be to increase the number of controls by relevant authorities regarding cryptocurrency mining. More specifically, since cryptocurrency mining is not legally prohibited, enforce customs clearance process checks for the rigs used in cryptocurrency mining.

¹⁷ Koha.net, 2022. Udhërrëfytyesi i plotë për Marrëveshjen e energjisë në veri [DOKUMENT].
Source: <https://bit.ly/3xGYZD0>

¹⁸ Free Europe, 2013. Marrëveshja për Energjinë. Source: <https://bit.ly/39HPU4S>





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