Priorities for Privatization of Kosovo’s Electricity Distribution Network and Supply

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Abstract

- Historically nationalizes industries have had low performances
- Privatization increased dramatically efficiency and effectiveness
- For these reason Government decided to privatize Electricity Distribution and Supply
Problem background

- High level of Losses for 10 years of operation
- That shows Continues Inefficiency and ineffectiveness
- Need for change and improvement

Source of Data KEK J.S.C
Problem background - continue

- Incremental increase of peak load demand 42 MW per year
- In Previous years, increase in peak demand is not followed by investments

Source of Data KEK J.S.C
Regional Experience

- Kosovo has highest losses, followed by Albania and Macedonia.
- This level of loses will have negative impact in final selling price of KEDS j.s.c.

Source of data: www.erranet.org
Overall energy structure in Kosovo

- There are many players in Energy/Electricity Sector in Kosovo
  - Based in Low of Regulatory (July 2004)
  - Ministry of energy and Mines Dec. 2004
  - Establishment of KOSTT.j.s.c Independent Transmission System and Market Operator (July 2006)
Governments Policy in Energy Sector

- Implementing its policy based in Law of Energy and Law of Electricity through Ministry of Energy and Mines
- LPoE (law on publicly owned enterprises) through Ministry of Economy and finances
- Implementing politics and strategies for sustainable development of energy sector in Kosovo, to ensure continues supply with electricity for household customers and businesses.
Role of Energy Regulatory Office

- Role of Regulatory in process of privatization is:
  - Providing advice to the Government on its privatization strategy and energy policy
  - Participating in preparation of the tendering documents
  - Meeting with potential bidders
  - Demonstrating its skills as regulatory
Continue

- The Regulator’s most important role in a privatization is to provide potential strategic investors with regulatory reassurance in three areas:
  - Tariff
  - Process
  - Licenses
Hierarchy of actors in Kosovo’s Electricity Market

Source of Data: KEK J.S.C
Type of Privatization KEDS J.S.C Asset

There are three types of privatizations, [17]

- Share issue privatization (SIP) - selling shares on the stock market
- Asset sale privatization - selling the entire firm or part of it to a strategic investor,
- Voucher privatization - shares of ownership are distributed to all citizens, usually for free or at a very low price.
Priorities for privatization

- The top three priorities in this project are considered to be:
  - 1. Legislation and regulation for distribution
  - 2. Economic and electricity demand growth
  - 3. Technical and commercial losses in distribution network

- Furthermore, the following priorities will also need to be considered:
  - 4. Global finance for electricity investments
  - 5. Distribution technologies and infrastructure
  - 6. Distribution area, customers and population density
Priority 1: Privatization and regulation for Distribution network, Cases of Privatization

- Regulation by contract, a new approach, to privatize Electricity Distribution Network.
- To be sustainable, regulation by contract must achieve three goals:
  - to protect customers from monopoly prices
  - prevent inferior quality of service
  - attract investors who will make the investments to provide better service and affordable prices.
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- Georgia Case, India Case
- Sharing of the Risk
- Regulatory contract will ultimately affect one of three things:
  - a) the price that it can charge,
  - b) the cost that it can cover, and
  - c) the quality of electricity that it can sell
Continue

- Pass-through of power-purchase costs
- Loss reduction targets.
- Obligation to supply.
- Dealing with Disputes
  - The local court system.
  - International arbitration.
  - Mediation. Alternative Dispute Resolution
  - Expert Panel.
  - A specialized appeals tribunal
The European Union on the one hand and SEE in another hand

This treaty and the Athens process that preceded it are “text book” examples of an initiative that:

European Community Directives 2003/54/EC and 2003/55/EC are:
  (i) From 1 January 2008, all non-household customers; and
  (ii) From 1 January 2015, all customers.
Priority 2: Electricity and Peak load demand growth

- Two scenarios of electricity demand growth
  - First scenario: 6% per year by 2020
  - Second scenario: Starting from 6.5% and slight decrease in 3.5% by 2020

- Two scenarios for Peak load demand growth
  - First scenario: 6% increase per year
  - Second scenario: 4.9% increase per year
Electricity demand Growth

Scenario 1: 6% increase per year
\[ Y = 2591.9e^{0.0606x} \]

Scenario 2: Starts with the 6.5% and Drops to 3.5%

Source of data: KEDS j..s.c, forecast has been done by author of capstone
Peak Load demand Growth

$y = 661.34e^{0.0425x}$

Source of data: KOSTT j..s.c, forecast has been done by author of capstone
Collection rate and Accumulated receivables

- Significant improvement in collection rate
- Improvement of financial conditions in the company
- Also increase in accumulated receivables

Source of data: KEDS j.s.c
Economic Growth

- Predicted rate of economic growth of 7.3% in real terms requires investments shown in Figure.
- The investment numbers given should be interpreted as year 2008 euros.

Source of data: Macroeconomic department-MEF
Big customers of electricity

- There are four big customers of electricity; NEW.co Ferronickel L.LC, Sharrcem Gmbh, Trepça, and Coal Mines.
Priority 3: Technical losses

- **Scenario 1**: Forecast level of losses will be 14% by 2020, with incremental yearly decrease by 0.24%.

- **Scenario 2**: Incremental decrease is predicted to be 0.8% per year, in 2020 level of technical losses will fall in reasonable level of 8%.

Source of data: KEDS j.s.c – forecast has been done by author of capstone
Commercial losses

- Scenario 1: Predicts average incremental decrease will be 0.96% per year. Hence in 2020 level of these losses will reach level 15%.
- Scenario 2: Predicts level of average incremental decrease of losses is forecasted to be 2.3%, to reach level of (zero) 0% in 2020.

Source of data: KEDS j.s.c – forecast has been done by author of capstone.
Priority 4: Global Finance for investments in Electricity Distribution

- Like other private sector investors and commercial lenders, IFC:
  - Seeks profitable returns
  - Prices its finance and services in line with the market; and
  - Fully shares risks with its partners
Future CAPEX and OPEX

○ Are needed huge amount of CAPEX
  ● To increase capacities of the network
  ● To meet Peak Load and electricity demand of customers

○ Are needed huge amount of OPEX
  ● Improvement in maintenance if the equipments (active and continues improvement)
  ● Improvement in operation of the equipments
Priority 5: Distribution Technologies and Infrastructure

- SCADA system
  - SCADA – MTU control centre
  - Communication network
  - Remote controlled stations
  - Terrain equipments
- Importance of implementation of SCADA in KEDS j.s.c
Priority 6: Number of Customers

- KEDS j.s.c has 402,541 customers throughout Kosovo, in this number are not included number of customers in northern part of the country.
- Average incremental increase of customers per year was 16,833.
- In 2020 this number is expected to be 676,867, following increase trend of this number in past 10 years.

Source of data: KEDS j.s.c – forecast has been done by author of capstone.
Average electricity consumption per customer in distribution from 2000 to 2009

- Average consumption in 2003 per consumer per month, before commercial losses was 1004 kWh and after commercial losses was 695 kWh.
- Average consumption in 2009 evaluated and it was 760 kWh before commercial losses and 524 kWh per month after commercial losses.

Source of data: KEDS j.s.c
Northern Part of Kosovo - Unsolved Issue

- In Figure part of network in which KEDS .j.s.c can not operate since 1999 is colored in red.
- The part of network where is operating KEDS j.s.c is colored in blue.

Conclusions

- Years of inefficiency were the main reasons that “pushed” the government to launch the process of privatization
- Improvements in quality of services, and supply
  - important impact in the development of the entire economy
- Technical & commercial losses are expected to decrease faster after privatization
  - impact in evaluation of assets of the company
- Impact of Global finance is very high
Recommen(dations

- Government should privatize KEDS j.s.c to the company that has more than 30 years experience in electricity distribution and supply, in a competitive market.
- Increased investments to meet peak load demand and demand for electricity, to increase value of distribution asset sale.
- Before privatization government as owner should upgrade infrastructure of the distribution company as much as possible with intention to decrease losses.
- Regulator should up-date the tariff methodology and other rules, to create an attractive long-term stable market environment.
- Covering of Purchase cost, due to fluctuation of the electricity price in spot market.
Special thanks to!

- Brian H Bowen PhD.
- my consultants and colleges
- and my Family
Thank You for your Attention!

Questions?
Comments!
Observations!