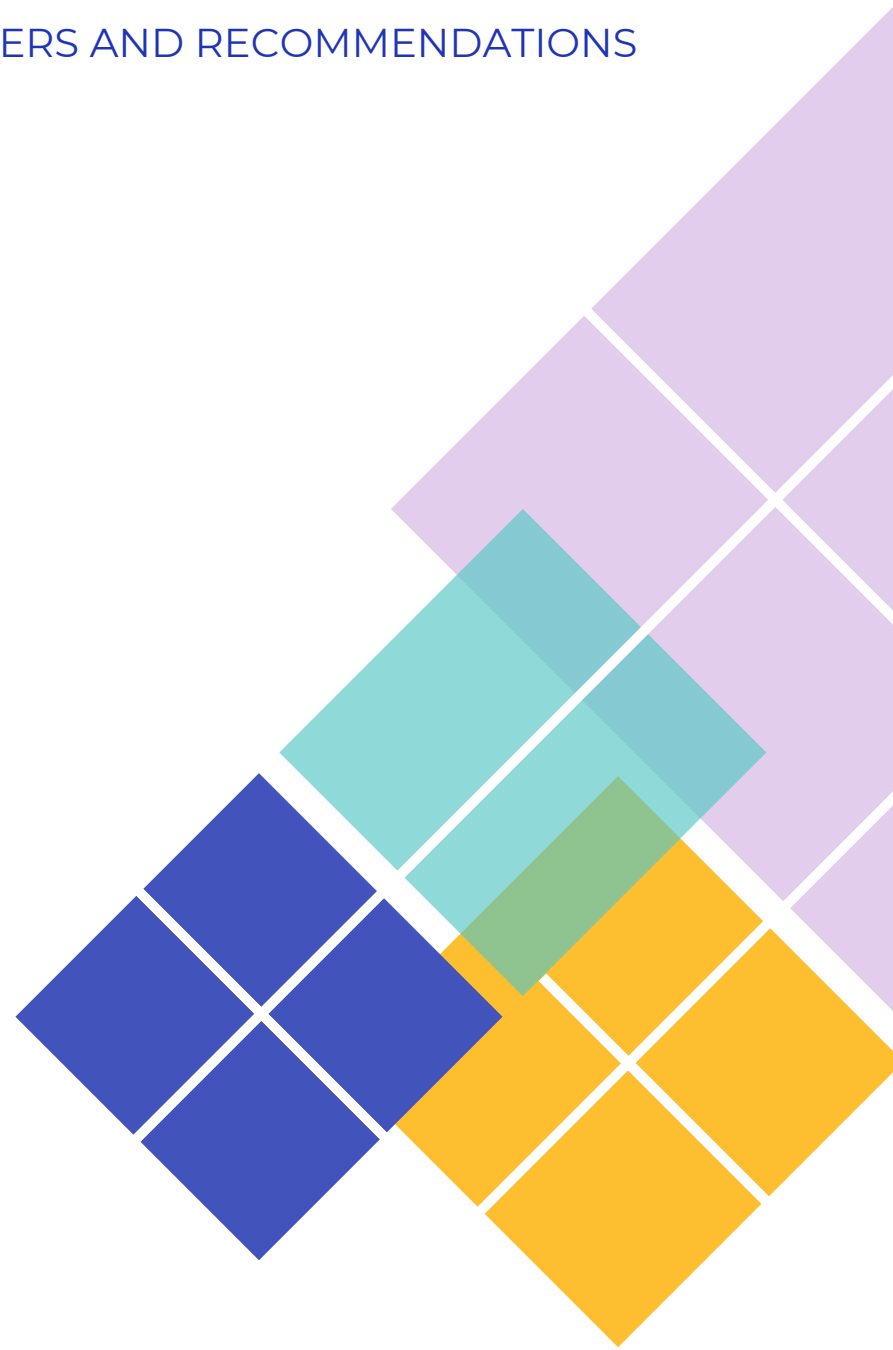
CorrWatch

LICENSING IN THE ENERGY SECTOR

CHALLENGES, BARRIERS AND RECOMMENDATIONS



THEMATIC REPORT
05/2024

Title: LICENSING IN THE ENERGY SECTOR
Challenges, barriers and recommendations

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INTRODUCTION

Licensing in the energy sector in Kosovo is a key process for the development of sustainable energy sources and the fulfillment of international objectives set by the European Union. Kosovo has obligations to reach targets for renewable energy and to reduce greenhouse gas emissions in accordance with European agreements and standards. These targets require large investments in green technologies, including the installation of photovoltaic systems, wind turbines and other renewable energy plants. To realize these objectives, an efficient and transparent licensing structure that facilitates investment and guarantees sustainable and equitable development in the energy sector is essential.

The licensing process in Kosovo for the energy sector includes several steps and strict rules that must be followed by new investors and operators. The complexity of the procedures and the long time required to obtain the necessary authorizations and permits are resulting in the loss of interest of potential investors. In addition, the limited infrastructure and insufficient administrative capacities of the responsible institutions, together with the lack of coordination between the responsible actors, are only complicating licensing further. A fair and simple licensing is essential for attracting investors and for the sustainable development of the energy sector. Improving the licensing process will contribute to creating a more favorable environment for investment and general development of energy infrastructure.

This thematic report on licensing in the energy sector in Kosovo provides a detailed analysis of the current situation and specific recommendations for improving the procedures as a whole. The main findings of the report include the need for simplification and acceleration of licensing procedures, digitalization, as well as improving the administrative and technical capacities of the responsible institutions. The report also recommends strengthening the legal and regulatory framework to ensure a more favorable environment for investment in renewable energy. The implementation of these recommendations is the key to meet Kosovo's energy objectives and to guarantee a stable and independent energy future for all consumers while simultaneously contributing to increased transparency and accountability from the parties involved regardless of their operating level.

METHODOLOGY

For the draft of this report, quantitative and qualitative methods were used to provide an in-depth and comprehensive analysis of the licensing process in the energy sector in Kosovo. Initially, official legislative documents were analyzed that include the regulations and laws of the main institutions involved in the decision-making process for obtaining a license in the energy sector. This step has included the review of laws in force, regulations of the Energy Regulatory Office (ERO), documents of the OST (KOSTT) and DSO (KEDS), as well as national plans and strategies for energy. In addition to the analysis of these documents, a detailed assessment of the existing procedures was also carried out to identify the main obstacles and challenges faced by applicants in this sector.

In addition to the analyzes mentioned above, data have been collected and processed from debates and various advocacy forums, not only during the implementation of the CorrWatch project, but also from interviews with representatives of companies and businesses in the energy sector. This comprehensive methodology aims to ensure that the report's findings and recommendations are useful to all actors in the energy sector, including decision-making institutions, investors and the business community. INDEP has met and interviewed central and municipal level institutional actors, business representatives, potential investors, as well as energy consultants and engineers. These interviews allowed us to gather knowledge, learn details that the legislation often does not provide and gain expertise in this field. In addition, to obtain first-hand information, our monitors actively participated in the procedures for granting permits and licenses, thereby increasing the accuracy and reliability of the report's findings and recommendations.

LICENSING IN THE ENERGY SECTOR

WHAT DO WE MEAN BY LICENSE?

Licensing in the energy sector is a regulated process that defines the conditions and criteria for the operation of companies and individuals wishing to produce, transmit, distribute or supply electricity. This process is ensured by regulatory authorities such as the Energy Regulatory Office (ERO) in Kosovo, which oversees and administers licenses for all entities operating in this sector. Licensing includes a series of documents and procedures that must be completed to ensure that energy activities are carried out in accordance with legal standards and technical regulations. This also includes environmental impact assessment and compliance with national energy policies. Documents and legislation governing licensing in the energy sector include laws and regulations adopted by national authorities and regulatory bodies such as ERO. The Law on Electricity, the Law on Renewable Energy and other relevant regulations describe in detail the procedures and criteria for obtaining licenses. In addition, international regulators and European Union directives also influence licensing policies and practices in Kosovo. These documents ensure that the licensing process is transparent, fair and in line with the highest international standards, supporting the development of a sustainable and efficient energy sector.

Licensing is important because it provides a clear and stable framework for the operation of the energy sector, protecting the interests of consumers and ensuring stable and quality energy supply. A well-organized licensing process helps create a fair and competitive market where energy companies can operate on equal terms. Furthermore, licensing guarantees that all activities in the energy sector are monitored and controlled to prevent abusive practices and ensure that energy providers fulfill their obligations to consumers and the environment. This control is essential for the sustainable development of the sector and for the fulfillment of national and international objectives for clean energy.

LICENSE APPLICATION PROCEDURES

Procedures for applying for a license in the energy sector vary based on the power of the installed capacity as well as based on the type of applicant, which can be a household or business consumer. For individual (domestic) consumers, the overall process takes less time and is considered simpler, while for businesses, especially those with more than 10 MW of installed capacity, the procedures are considered more complicated. This change in documentation includes technical plans, environmental impact studies (including the EIA Report), construction permits and environmental permits. To ensure compliance with regulations and standards, it is imperative that all documents are complete and accurate. In the following, the steps for applying for a license are described in abbreviated points, including the responsible institutions.

LICENSING PROCEDURES FOR PV SYSTEMS UP TO 7kW

REQUEST FOR POWER INCREASE - DSO

This form contains all the necessary data to estimate the power required for the solar system that the applicant wants to connect to the grid, as well as the increase in the current power of the meter that he owns.

REQUEST FOR ELECTRICITY CONSENT - DSO

This request includes the application for the approval of the use of electricity that will be generated by the solar photovoltaic system and the capacity allowed for installation.

REQUEST FOR PROJECT APPROVAL AND ENTRY PERMIT- DSO

The customer submits the planned project for the installation of the system and in case the documentation is in order, the Consent in question and permission to connect to the network is obtained.

APPLICATION FOR SELF-GENERATOR - ERO

It is the procedure for the official application to be classified as a self-generator, qualifying for benefits and returning excess energy to the grid. The application for this procedure is made through the official website of ERO.

REQUEST FOR TECHNICAL ACCEPTANCE - DSO

This request includes the inspection and technical approval of the solar system by the responsible authority, that is, OSSH-sw.

REQUEST FOR CHANGING THE METER - DSO

It is reviewed if it is necessary to make changes to the official documentation for the customer's meter. If everything is in order, the team from DSO carries out the switch of the meter from a conventional meter to a two-way meter.

AGREEMENT FOR PROSUMER - DSO

This document formalizes the agreement between the customer and the energy supplier regarding the exchange of electricity between the two parties.

CONTRACT FOR PROSUMER - DSO

The contract is finalized, which includes all the details and conditions of cooperation between the customer and the energy supplier.

LICENSING PROCEDURES FOR PV SYSTEMS ABOVE 7kW

When the power of the photovoltaic system exceeds the capacity of 7kW, the procedures for licensing are noted to be a little more complicated. In addition to the above-mentioned documents, two additional ones are needed. These can be provided in the relevant municipality.

BUILDING PERMIT- MUNICIPALITY

The construction permit from the municipality is the official document that allows the construction of a structure in the territory of a municipality, being equipped with the permit and the necessary permits for the implementation of the project.

ENVIRONMENTAL CONSENT- MESPI

This document ensures that the construction and operation of the PV System is in harmony with the criteria and procedures defined for environmental protection.

PRINCIPAL CONSENT/ TSO

This document is needed if the facility is located near high voltage lines. The required document, which has an additional cost, is obtained from the TSO.

For new generating capacities up to **5 MW**, licensing is carried out through the mediation of **DSO**. Meanwhile, for new generation capacities **below or equal to 10 MW**, licensing can also be done through the **DSO**. In this case, when the installed power capacity is higher, additional documents are needed such as:

Title deed of the project location;

Certifikata e biznesit e kompanisë të kontraktuar për ndërtim;

Feasibility study, detailed;

Environmental Permit or Water Permit as well as Construction Permit;

Once the necessary documents and permits have been obtained, the investor must apply for Authorization to ERO including payment of applicable taxes. The application with all accompanying documents must be submitted in written form in one original copy and one copy in electronic form. In addition, the investor is also responsible for announcing the project in two (2) daily electronic newspapers. If ERO finds that the applicant has met all the requirements, it will issue an Authorization Decision for a duration of twenty-four (24) months, confirming the investor's right to start construction. The deadline can be extended for one (12) additional months, if justified by the Investor.

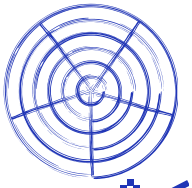
Upon issuance of the authorization decision, the ERO requires that within 30 days the RES investor (applicant) submits a financial guarantee, issued by a commercial bank or insurance company, which will cover the period from the issuance of the authorization to in finalizing the construction of the energy project. The necessary documents for securing the Authorization from the Office of the Energy Regulator are:

Application form (name, address, applicant status and project name);

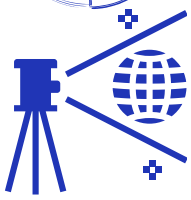
Proof of payment for the Environmental Consent service;

Business Registration Certificate;

Certificate on rights to real estate;



Copy of the plan and coordinates in the Ref System of Kosovo;



Land survey plan by licensed surveyor;

The contract for the use of cadastral parcel in case the parcel is not owned by the applicant;

Consent from the Municipality for the project or notification - information according to the Municipal Development Plan;

The EIA report based on the criteria established in the EIA Law;

Decommissioning plan in case of project failure

Simplified project based on the criteria established by the EIA Law for the proposed project, description of the project, description of the impact of the project on the environment.

Completed Questionnaire;

Construction Permit;

RES investors who decide to build new generation capacity above 5 MW are required to apply for a Generation License, in accordance with the Law on the Energy Regulator and the Rule on Licensing of Energy Activities in Kosovo.

FOR NEW ELECTRICITY GENERATING CAPACITIES WITH AN INSTALLED CAPACITY OF 5 MW, NO PRODUCTION LICENSE IS REQUIRED

Currently, RES investors in Kosovo can sell their electricity production produced by RES under a Regulated Framework or under market conditions. The Regulated Framework provides a reference price approved by the Regulator and guarantees an MBE with the Market Operator. Investors can choose to sell their output at unregulated prices based on open market conditions, which does not guarantee a power purchase agreement with the market operator.

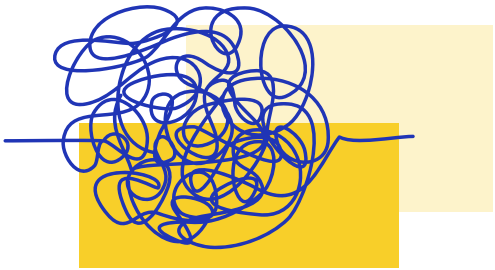
According to the Regulated Framework, as specified in the Rule for Support Schemes, the Power Purchase Agreement for investors will have a minimum duration of 1 (one) year and may last until the validity period of the investor's generation license issued by ERO. However, if the investor is not required to obtain a Generation License, the duration of the Power Purchase Agreement shall be limited to a maximum of fifteen [15] years. The term of completion of all processes can last up to 6 calendar years.

CHALLENGES AND BARRIERS TO LICENCING

The energy sector in Kosovo faces a number of challenges and barriers that affect its development and operation. These problems involve various aspects, which require attention and solutions to ensure a stable energy supply. The installation of a solar photovoltaic system can face various challenges, ranging from the local context, environmental circumstances, legality and economic conditions. Some potential challenges a client may encounter during this process are illustrated below, starting with:

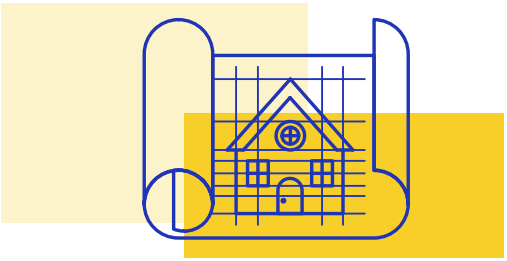
HIGH INVESTMENT COST

One of the main challenges for many customers is the high initial investment required to install a solar system. Although the cost of installation has come down in recent years, there is still a significant upfront cost that customers must bear. It is worth noting that small systems have a higher price per kWp than large systems, which often puts off individual investors.



COMPLICATED ADMINISTRATIVE PROCEDURES

The process of obtaining permits and licenses for the installation of a solar system is long and filled with administrative procedures. This can add time and financial cost to customers.



LACK OF BUILDING PERMIT

Since most of the old buildings in Kosovo were built without a permit, this makes it impossible to install a photovoltaic system with a capacity of more than 7 kW. Also, in cases where the object is built with a permit, but it is in the vicinity of the voltage lines, the application for Electrical Approval to make the object prosumer can be almost impossible.

HIGH EQUIPMENT SHIPPING PRICES

The high shipping costs of solar equipment significantly increase the total cost of installing a solar system for customers. These additional costs negatively affect the affordability and attractiveness of investments in renewable energy.

LOCATION AND SPACE AVAILABLE

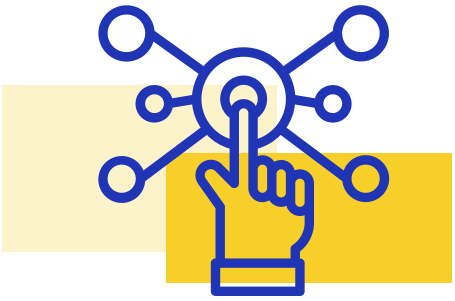
Installing a solar photovoltaic (PV) system can be problematic due to insufficient sunlight exposure, improper roof orientation, limited space, adverse weather conditions, regulatory restrictions, grid connection issues, and community resistance. These factors affect the efficiency, feasibility and overall effectiveness of the system in generating electricity.

LACK OF A ONE STOP SHOP

For customers who do not have enough knowledge about solar photovoltaic systems, the lack of information and knowledge can be a challenge. This can result in wrong decisions and choosing a system that is not the best fit for their needs.

INVESTMENTS AND FINANCIAL RISK

Large photovoltaic projects require significant initial investment. Project companies must have access to sufficient financial resources and be able to manage the financial risks associated with such projects. Large projects trade energy in the energy network and the company must take the risk based on the low trading price that can be offered to the customer by ERO.



DIGITALIZATION

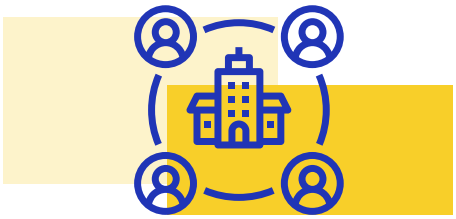
Large photovoltaic projects require significant initial investment. Project companies must have access to sufficient financial resources and be able to manage the financial risks associated with such projects. Large projects trade energy in the energy network and the company must take the risk based on the low trading price that can be offered to the customer by ERO.

LIMITED WORKFORCE

Large photovoltaic projects require careful project management to ensure the work is completed on time and within budget. Design companies must have the right teams and resources to manage the efficiency of their projects and as a result of the current situation in Kosovo and the educational process, the workforce and finding adequate and trained people is becoming impossible.

LACK OF HUMAN RESOURCES

KEDS faces challenges related to the lack of human resources to carry out the licensing process efficiently and effectively. Lack of specialized personnel and limited investments in infrastructure and technology cause delays in the licensing process.



LACK OF INTER-INSTITUTIONAL COOPERATION

The lack of inter-institutional cooperation can further complicate the process of installing solar photovoltaic systems. Without effective coordination between different institutions, bureaucratic procedures can become more complicated and delayed, creating unnecessary obstacles for clients and investors.

NOT HARMONIZED LEGISLATION

Changes in laws and government policies related to solar energy can cause difficulties for KEDS in interpreting and implementing the new rules. This can create uncertainty and delays in the process of connecting solar systems to the grid, negatively affecting investments and development of renewable energy.

CONCLUSIONS

The electricity sector in Kosovo is insecure. The lack of backup generating resources and the dependence on the existing plants in Obiliq is only increasing the instability of the security of the sector, as well as the continuous supply of electricity. Although during the last decade there have been significant improvements in the energy infrastructure and incentives in this sector, the reduction of carbon emissions has not decreased. Moreover, various factors such as inflation, poor collection rate due to illegal use of electricity, lack of planning, non-harmonisation and lack of proper inter-institutional decision-making, along with the global energy crisis, are leading Kosovo towards an abyss which risks remaining without a stable supply of electricity for an indefinite period of time.

In order to meet the established objectives, it is urgent to remodel the support schemes, review the licensing procedures for renewable energy sources, as well as invest in concrete energy efficiency programs. The transition from fossil materials to renewable resources requires a coordinated effort and sustained support from the government, relevant institutions and the final consumers themselves. Licensing procedures, which are often complicated, cause considerable difficulties for investors and operators. In this context, the digitalization of the licensing process is vital for increasing transparency and easing the administrative burden. A successful implementation of this will bring rapid progress in the business and investment environment.

The challenges of the electricity sector in Kosovo require a comprehensive approach to be effectively addressed. The reduction in the price of investments, the rapid increase in investment return and the framing of support schemes in the energy market in Kosovo have attracted foreign investors, who are expressing great interest in investing in the country. However, to capitalize on this interest and ensure a sustainable energy future, it is essential that the government creates a favorable regulatory environment, improves the transparency and efficiency of licensing processes, and strengthens inter-institutional cooperation. These measures will help address existing challenges and ensure a stable and secure electricity supply for the future.

RECOMMENDATIONS

Deepen cooperation and coordination between key institutions for obtaining permits such as ERO, MMPHI and ME and municipal level officials. The active involvement of representatives of officials at the municipal level and informing them in time regarding the changes made in the legal framework regarding the provision of relevant permits and licenses, represents an essential element for the development of the energy sector. This inclusiveness would contribute to a more transparent and responsible process in the planning and implementation of policies and measures in the energy sector.

Establish a ONE STOP SHOP. A one stop shop would facilitate this process by providing a single source for information, advice and comprehensive services, helping customers make the right choices for their specific needs. Also, investors would save time and resources by avoiding the need to go to multiple institutions to meet licensing requirements. This would also contribute to reducing the administrative burden for businesses and institutions, facilitating the process and increasing transparency in the entire licensing process.

Draft a favorable tax policy for products aimed at promoting renewable energy and to encourage investments in the energy sector. Through the introduction of appropriate tax reforms, the government can encourage the flourishing of the market of enterprises that promote green energy by contributing to the promotion of healthy competition in the domestic market. Consequently, in addition to strengthening the energy sector, this would affect the creation of new jobs while promoting economic development at the same time.

Digitize the license application procedure from DSO. A digital platform for applying for a license would help to avoid individuals going to the respective municipalities, making the process of submitting the documentation easier and faster. Also, digitalization would minimize the opportunities for misuse and corruption in this sector, while increasing the level of transparency and equity in licensing as a whole.

Special programs should be drafted and various trainings should be organized by government institutions in order to increase the workforce in the energy sector. In the near future, their skills would contribute to the acceleration of the energy transition while simultaneously creating opportunities for increased employment and innovation in the energy sector.

- Develop support policies and programs for citizens who are interested in investing in the clean energy sector. Continuous subsidization, provision of grants, interest-free loans, tax waivers, as well as providing assistance not only from a "One Stop Shop", would increase the participation of citizens in clean energy in the total generation of the country. In this way, Kosovo would move with accelerated and safe steps towards reaching the goals set for 2031 and 2050.

- Appoint a representative responsible for monitoring and assessing the environmental impact of various projects, which apply for a Municipal Permit for the purpose of licensing, in the Department of Urbanization in each municipality. In this way, the monitoring and assessment of the environmental impact of various projects at the local level, through a representative appointed in each municipality for this purpose, will increase transparency in the licensing process, ensuring an accurate record of data and updated information on certain projects. This will also reduce the possibility of misuse and potential disputes, guaranteeing a more accurate and honest determination of the environmental impact of urban plans.

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