

Kosovo, a Western Balkan country sitting on more than 14 billion tonnes of proven lignite reserves, the fifth largest in the world, will now have to decide which road to take after the Kosova e Re project, which had dominated its energy plans for over a decade, fell through. Kosovo has found itself at a crossroads after power developer ContourGlobal began an arbitration process, seeking compensation over a scrapped project to build a 500-megawatt coal-fired power plant. Efforts to move the project forward also sidelined the development of renewable energy to a very large extent, despite Kosovo's commitments to reach a 25 percent share of renewable energy in gross final consumption by 2020.

Environmental campaigners, who filed a complaint with the Energy Community, the body transposing the European Union's energy rules to countries participating in the European energy market, challenging the legality of the Kosova e Re contract, welcomed the move. They argued that under the deal, the Kosovar government had committed to buying the total output of the plant and warned the deal would have strained the state budget, led to higher costs for consumers and most importantly added to air pollution. They say the project's collapse should be an opportunity for the country to explore alternatives and move towards greener pastures.

Political turmoil delays Kosovo's energy transition

Air pollution in Kosovo, which almost entirely relies on power supply from two ageing coal-fired power plants – Kosova A and Kosova B – which are among Europe's worst polluters, often reaches unhealthy levels that are sometimes higher than those found in Beijing. The two power plants, with a total current capacity of around 950 megawatts (MW), supply more than 90 percent of Kosovo's 1.8 million-population. The outdated Kosova A should have been shut already, but successive governments had insisted on waiting for the construction of Kosova e Re. To reduce its reliance on coal, its emissions footprint and speed up energy transition towards a carbon-neutral economy in accordance with the EU's requirements, Kosovo has committed to increase the share of renewables in its energy mix, but up till now there has been a political bias in favour of lignite, the dirtiest form of coal, as opposed to renewables.

The government of previous prime minister Albin Kurti, during whose tenure the Kosova e Re project was abandoned, had publically condemned plans to build the plant but it was overthrown in March and the new government led by Avdullah Hoti took over in June. However, the Kosovo Constitutional Court ruled in December that a June parliamentary vote to elect the new government was illegitimate, pushing Kosovo into an early vote in January or February 2021. The new government will have to decide on the country's energy future.

Kosovo was planning to finalize its National Energy and Climate Plan (NECP), a framework for driving the decarbonisation of the economy in line with the 2015 Paris Agreement, by the end of 2020. But Deputy Minister of Economy and Environment Burbuqe Deva said in December the plan would be submitted to the government in the first half of 2021.

As part of the plans, Kosovo aims to increase its renewable generation capacity to 150 MW of wind, 250 MW of hydropower, 30 MW of solar and 20 MW of biomass by 2026. But investors and environmental campaigners say the quotas for wind and solar should be increased. In December, Kosovo's grid operator KOSTT signed connection agreements for two wind farms and a solar plant in the eastern municipality of Kamenica with a combined capacity of 99.6 MW, which are expected to come online in 2024. The deal was signed with renewable power developer Air Energy 2. Construction is planned to begin next year and the connection of new facilities to the grid in 2024, said KOSTT. Kosovo has already started benefiting from a cleaner electricity supply. Currently, the country has 34 MW of wind and 7 MW of solar.

Hydropower a damaging distraction

Kosovo also has 83 MW of hydropower capacity. By 2018, it only had 11 hydropower plants under 10 MW, accounting for just 2.7 percent of its electricity output. However, the controversy surrounding them has been just as high as in the rest of the Western Balkans. Developers in the hydropower sector are opposed by activists, who accuse them of destroying the environment while constructing the plants on small rivers. In December 2020, opposition political party Vetëvendosje! also filed a complaint against the Ministry of the Environment and the regulatory authority in Kosovo over two power plants operated by Austria's Kelag, on the Lumbardhi river near the town of Decan, part of a national park. In mid-October three hydropower plants operated by Kelag were disconnected from the grid over the failure to meet the environmental requirements. But KelKos, a local subsidiary of Kelag, was given a permission to restart operations at two of the plants at the beginning of November, even though it still had not met the environmental requirements.

In December, a court ruled in favour of Vetëvendosje! and again suspended the plants' permits. Fitore Pacolli, a Kosovo MP, said the two hydropower plants pose a hazard to a river basin in western Kosovo. The ministry issued water and environmental permits without securing water supply for domestic and agricultural consumption, as required by the legislation, said Pacolli. He said that KelKos obtained the permits even though it has failed to build a reservoir that would allow electricity generation without diverting the water flow in a way that dries up the river. The Kosovo law explicitly prohibits any government action

that adversely affects water resources. Pacolli also complained about the lack of public participation in the permitting process. Farmers living nearby the plant lost valuable grazing grounds for their cattle next to the river as pastures were dredged up to obtain gravel for the construction and their huts were flooded in times of heavy rain.

„Moreover, in cases where the hydropower plants are located in national parks tourism is slowly becoming an activity of the past, having thus a negative economic impact as well,“ said Egzona Shala, the executive director of ECOZ, a non-government organisation.

She said the projects are now facing a lot of lawsuits which should serve as an indicator for welcoming other opportunities in renewable energy sector.

Shift towards greener pastures

On a more positive note, two windfarms are under construction and one is being expanded in Kosovo. Wind power developer Enlight Wind is expected to complete the 105 MW Bajgora wind farm, located in the country's north, in April 2021. When complete, the project, worth 58 million euros, will account for about ten percent of the country's installed capacity and avoid 247,000 tonnes of CO₂ a year, making a significant contribution to climate change mitigation. This will be the largest power plant constructed in Kosovo since the 1980s and represent a major step forward in Kosovo's energy transition. It is financed through a loan from the European Bank for Reconstruction and Development (EBRD). Bondcom Energy Point is developing the 46 MW Budakova wind power plant in the south, scheduled to start flowing in 2021. The installed capacity of 32.4 MW Kitka wind farm, on the Kitka mountain plateau, which was commissioned in 2018 by Air Energy 2, a subsidiary of Gürış Holding from Turkey, is expected to be expanded by 20 MW by 2022. The project is being pursued by the Dardana Invest company.

The strong performance of the Kitka wind farm shows the coal-dominated Western Balkan country can exploit falling renewables costs and financiers' green lending appetites to align better with the EU's decarbonisation agenda and reduce losses from stranded fossil fuel assets. Electricity demand in Kosovo shows strong seasonality, partly as a result of household electric heating. Domestic generation last year rose 7.7%, to 5,718 GWh. The Energy Community in its latest report estimated that Kosovo could target a 34 percent to 39 percent share of renewables in all energy consumption (not just electricity), in 2030, rising from the existing target of 25 percent in 2020. The target would be largely met using bioenergy in the heating sector, followed by onshore wind and hydropower, and then solar power. In December 2020, minister of economy and environment said the country is preparing to start the first renewable energy auctions to stimulate green investments, with

the first public call to be issued in the second quarter of 2021.

“Open competition will replace the concept of first come, first served,” said Burbuqe Deva, the deputy minister of economy and environment. “Wind and solar power will have priority in the auctions”.

Kosovo-Albania common electricity market

Kosovo’s grid operator KOSTT began operating independently on 15 December 2020 in a newly-established regulatory area covering the whole of Kosovo, gaining independence from the Serbian operator, EMS, which had until then been distributing electricity to Serb-dominated municipalities in northern Kosovo. KOSTT has also signed an agreement with Albania to establish a Kosovo-Albania energy bloc and signed a series of deals with its neighbour which allows for economically efficient power flows between hydropower-reliant Albania and coal-reliant Kosovo. KOSTT and its Albanian counterpart OST also agreed on the joint establishment of Albanian power exchange ALPEX and coupling of their short-term electricity markets that would boost transparency and competition in electricity markets.

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