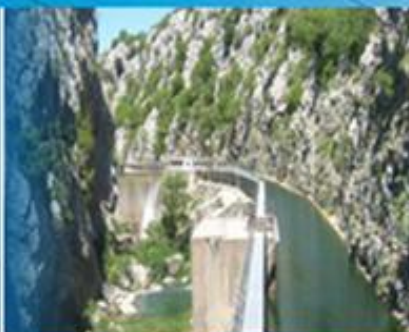




ZYRA E RREGULLATORIT PËR ENERGJI
ENERGY REGULATORY OFFICE
REGULATORNI URED ZA ENERGIJU

ANNUAL REPORT 2009



ADDRESS BY THE CHAIRMAN OF THE ERO BOARD

Dear readers,

You have in front of you the fifth annual Report of the Energy Regulatory Office (ERO). The report presents the main activities and achievements of ERO accomplished during the calendar year 2009. The report has been designed to provide information on the progress of ERO in the achievement of its strategic goals, some of which will extend beyond 2009. The report is an overview of the most important events in the energy market, including essential technical and commercial data on the regulated activities in the energy sector in the Republic of Kosova.

The report has been designed in accordance with the provisions of Article 10 of the Law on Energy Regulator and together with the financial accounts is being presented to the Assembly of the Republic of Kosova for its information, review and approval.

The energy sector in the Republic of Kosova is going through a restructuring and liberalization process. In order to facilitate this process, the Government has revised the energy strategy and prepared revised drafts of the main energy sector laws, including the Draft Law on Energy Regulator. These draft laws have been harmonized with EU legislation and are expected to be reviewed and approved by the Kosova Assembly. ERO has also continued to complete secondary legislation, drafting and adopting new rules, also completing and harmonizing the existing ones.

In accordance with the development plans, significant investment has been carried out in the transmission system, which has resulted in a reduction of congestion, improved voltage profile and decrease of technical losses of energy. Strengthening interconnection lines with the countries will create basic conditions for the development of a competitive energy market and for increasing reliability of power supply.

The distribution network has not yet received sufficient investment. The network's performance remains weak due to large technical losses of energy and poor quality and security of supply to customers. The biggest commercial problems remain the prevention of energy theft, the high level of non-technical (commercial) losses from meter tampering and the low collection rates of billed energy.

Generators within Kosovo have not produced sufficient energy to meet increasing demand. In some periods, to avoid power shortages, a part of supply was imported from the regional market at relatively high prices. At other periods, especially during peak hours, there was load shedding of electricity supply to consumers.

The opening of the new southwest Sibovc mine continued at an accelerated pace to ensure sufficient lignite supply for the two main power plants.

The process of developing new generating capacity has continued through the implementation of the project TPP Kosova e Re. The project package has been reconfigured and the Government decided to reissue by the end of 2009 the call for expressions of interest for the construction of the TPP. During this reporting year, a feasibility project for the possible development of the Zhuri hydropower plant using private capital has been finalized.

Important steps have been taken in the field of renewable energy by completing the regulatory framework. Four investors have applied to receive authorizations for the construction of wind generating capacities. ERO has issued a final and a preliminary authorization, while two others are still under review.

For the purpose of coordinating activities related to the implementation of the energy sector strategy and policies, ERO has collaborated with the parliamentary committees of the Kosova

Assembly, with relevant government ministries, representatives of industry and consumers as well as with all stakeholders.

ERO has continued to monitor licensees to determine whether their activities are carried out in accordance with the terms of licenses issued, in order to improve service quality and to ensure safe supply to customers.

ERO has actively participated in all activities and processes related to the Energy Community Treaty of South East Europe (ECT SEE), the Energy Community Regulatory Board (ECRB) and its working groups. Likewise, ERO has continued its cooperation with international institutions and organizations in the field of regulation, such as the Energy Regulators Regional Association (ERRA).

During this reporting year as well, ERO staff continued to be trained in professional, managerial and administrative skills to fulfill their duties in an efficient, professional and transparent manner. To this end, we have had valuable technical assistance from donors such as the EU, USAID and the World Bank.

Finally, I am happy to emphasize that during this year, as in previous years, the Board and ERO staff has successfully performed all duties and responsibilities assigned by the relevant laws and acts that regulate specific activities in the field of energy. I want therefore to thank for their commitment and dedication all my colleagues, associates and the staff of ERO, as well as all those institutions and individuals that have helped us to successfully carry out our duties and responsibilities.

Sincerely,



Dr. Ali Hamiti

Chairman of the Board

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ABBREVIATIONS

AT	Autotransformer
BETSEE	Balance Energy Tool for South East Europe
CPD	Customer Protection Department
DH	District Heating
DHC	District Heating Company
DHWU	District Heating Working Unit
DSO	Distribution System Operator
EC	Energy Community
ECLO	European Commission Liaison Office
ECSEE	Energy Community of South East Europe
ECT	Energy Community Treaty
ECTSEE	Energy Community Treaty of South East Europe
EFT	Energy Financing Team
ENTSO-E	European Network of Transmission System Operators for Electricity
ERO	Energy Regulatory Office
ERRA	Energy Regulators Regional Association
ESMS	Energy Supply and Market Structure
FLSA	Financial Law Smart Agency
GTE	Gas Transmission Europe
GWG	Gas Working Group
GWh	Gigawatt hour
HPP	Hydro Power Plant
HV	High Voltage
ICC	Illinois Commerce Commission
ICO	International Civilian Office
ITC	Inter TSO Compensation
JSC	Joint Stock Company
KEK	Kosova Energy Corporation
KESH	Albania Power Corporation
KfW	Kreditanstalt für Wiederaufbau
km	Kilometer
KOSTT	Kosova Electricity Transmission System and Market Operator
kV	Kilovolt
kVA	Kilovolt-ampere
kW	Kilowatt
kWh	Kilowatt hour
LLC	Limited Liability Company
LLD	Legal and Licensing Department
LNG	Liquid Natural Gas
LPTAP	Lignite Power Technical Assistance Project
MA	Municipal Assembly
MEM	Ministry of Energy and Mining

MJ	Megajoule
MO	Market Operator
MVA	Megavolt-ampere
MW	Megawatt
MWh	Megawatt hour
NARUC	National Association of Regulatory Utility Commissioners
PS	Public Supplier
PSC	Project Steering Committee
PTD	Pricing and Tariff Department
PURC	Public Utility Research Center
RB	Regulatory Board
RES	Renewable Energy Sources
RTK	Radio Television of Kosova
SCADA	Supervisory Control and Data Acquisition
SEE	South Eastern Europe
SO	System Operator
SS	Substation
TAP	Trans-Adriatic Pipeline
TF	Task Force
TGI	Turkey-Greece Interconnection
TPP	Thermal Power Plant
TPPKR	Thermal Power Plant Kosova e Re
TR	Transformer
TSO	Transmission System Operator
UNMIK	United Nations Interim Administration Mission in Kosova
USAID	United States Agency for International Development

1. GENERAL INFORMATION ON THE ENERGY REGULATORY OFFICE

1.1 Mandate of the Energy Regulatory Office

Pursuant to Article 142 of the Constitution of the Republic of Kosova, the Energy Regulatory Office (ERO) is an independent institution that exercises economic regulation of the electricity, gas and district heating sector in accordance with Law No.2004/9 on Energy Regulator and the amended Law No.03/L-080 dated 13 June 2008.

ERO's main task is to create the conditions for a safe and environmentally sound supply of energy to the consumers and to develop a competitive energy market in Kosova which is based on the principles of objectivity, transparency and nondiscrimination.

The responsibilities of the Energy Regulatory Office are set forth in Section 15 of the Law on Energy Regulator and are exercised through: issuing, modifying, revoking and monitoring licenses of energy activities, granting authorizations for the construction of new generating capacities, approving a tariff and pricing methodology for regulated activities, adopting secondary legislation, monitoring unbundling in the energy sector, the development of competition and the settlement of disputes between licensees and customers.

1.2 Organizational Chart of ERO

ERO's structure is made up of a Managing Board, appointed by the Assembly, four main departments, a technical advisory group and an administration office.

1.2.1 Managing Board

The Managing Board consists of five members, including the Board Chairman who is also the Head of ERO. The Assembly of Kosova appointed in December 2008 two new board members so that in early 2009 the Board was complete and fully operational.

The Board members are nominated by the Government, appointed by the Assembly and are considered regular members of the ERO staff.

The Chairman of the ERO Board reports to the Assembly and its functional committees upon their request on ERO's activities and on developments in the energy sector, as well as ongoing contacts, providing information on a regular basis and through the annual report.

The Board fulfills its obligations in accordance with the duties and responsibilities assigned to it by the Law on Energy Regulator.

During 2009 the Board held 13 meetings, which dealt with the review of various issues in the energy sector regulation and reached 68 decisions, all made public in the website of ERO. The most important decisions of the Board have been specified in this report under the relevant departments.

Also, the Board has organized and supervised ERO activities, including the appointment of managers and staff, the approval of the terms and conditions for staff employment, preparation of the budget and the financial management of ERO.

The Board members have worked closely and participated actively in all the important activities that have taken place in the energy sector in Kosova and in the region. The Board meetings are open to the public and are announced five days prior to being held with the publication of their agenda on ERO's website.

1.2.2 Legal and Licensing Department

The Legal and Licensing Department (LLD) provides legal support to ERO in accordance with the applicable laws in Kosovo on energy sector issues, prepares secondary legislation and other legal acts and is responsible for preparing any types of licenses, applications, procedures and authorizations in the energy sector. The LLD also supervises and monitors licensed activities.

1.2.3 Customer Protection Department

The Customer Protection Department (CPD) is responsible for ensuring the implementation of customer protection legislation in the energy sector in Kosovo and addressing customer complaints and disputes between licensees. In performing its duties and responsibilities, the Department cooperates with any organizations that legitimately represent customers.

1.2.4 Department of Energy Supply and Market Structure

The Department of Energy Supply and Market Structure (ESMS) is responsible for collection and analysis of data in the electricity sector. It analyzes the development and impacts of different factors such as prices established in the free market and regulated prices for end-customers, depreciation, inflation, fuel prices etc. The ESMS also monitors the electricity market.

1.2.5 Pricing and Tariff Department

The Pricing and Tariff Department (PTD) examines regulated tariff applications submitted by licensed entities. It operates a cost monitoring system and carries out comparative studies on costs and prices between national and international companies. This department is also responsible for modeling and analysing prices in the energy market.

1.2.6 Technical Advisory Group and Administration Office

The Technical Advisory Group is composed of energy sector experts who provide technical advice to the Board and Departments of ERO in carrying out their functions.

The Administration Office is responsible for providing administrative support to the Board and Departments of ERO for the effective fulfillment of their duties.

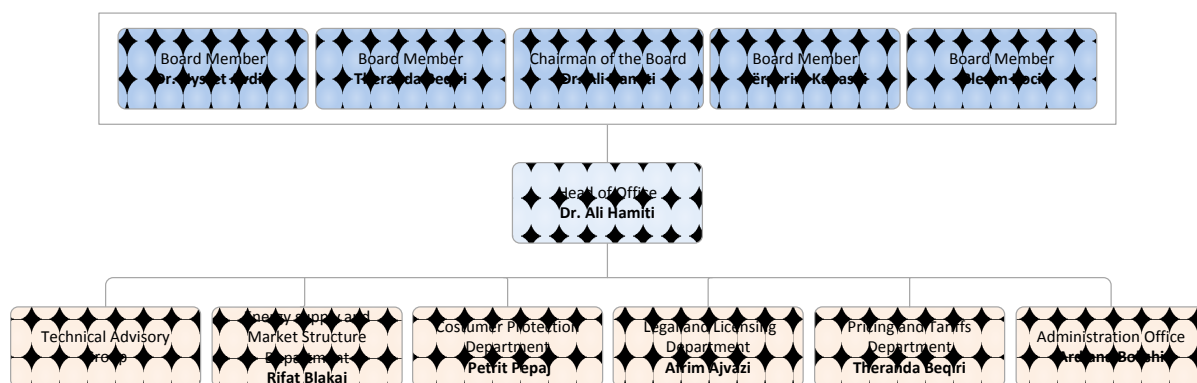


Fig.1.1. Organizational chart of the Energy Regulatory Office

1.3 Capacity building of ERO – technical assistance projects, courses and training activities

ERO pays special attention to continuous improvement of its staff's capacity to effectively fulfill their duties and legal responsibilities. For this purpose ERO has developed a number of proposed assistance and training projects and has secured funding from various donors for them.

1.3.1 Technical Assistance Projects

The Project "Assistance to the Energy Regulatory Office" has a contract value of €985,600 and is financed and administered by the European Commission Liaison Office (ECLO). The project, with a duration of 22 months, began in November 2008 and is currently underway. A consortium of international consulting companies, LDK Consultants - ECA - Planet is implementing it.

The main goals of this project are to support ERO in the further development and completion of secondary legislation, the effective implementation of regulatory procedures and in meeting the requirements arising from the Kosova energy laws and ECTSEE obligations.

The Project "Establishment of a regulatory framework for renewable energy sources" was financed by the World Bank and implemented by the international consulting company "Mercados". The project, with a contract value of around €176,000, was implemented between January - October 2009.

The goal of this project was to support ERO in the development of key components of the regulatory framework for energy generated from renewable sources based on international best practice and to enhance ERO's professional capacities in this area in order to meet its regulatory obligations.

Within the framework of this project, training courses and workshops on topics covered by the project were organized, as well as study visits to Spain and Italy to learn about the best regulatory practices in the field of renewable energy sources.

The Project "Consultancy to assist in the privatization of KEK Distribution and Supply" is financed by USAID and is being implemented by the Contractor, "Advanced Engineering Associates International Inc" (AEAI). This is a two-year assistance program, which began in September 2009 to provide support to the successful implementation of the privatization of KEK distribution and supply, by providing advice to parties involved in the energy sector in Kosova.

One of the two components of the project is dedicated to ERO, to provide assistance in completing, clarifying and, as needed, in developing relevant legislation so that ERO discharges its regulatory responsibilities in a way that supports the process of KEK distribution and supply privatization. This component will include further assistance in the later phase of post-privatization.

The project "Development of an electronic documentation and information management system for ERO" is being funded from ERO's budget to the amount of €68,000. The project implementation began in September 2009 and the project is underway, with the aim of increasing the quality and efficiency of ERO's work.

1.3.2 Courses and Training Activities

During 2009, ERO staff attended and successfully completed several training courses which are listed in chronological order below:

- May - June 2009 - "E-learning" Course": "Introduction to the regulation of natural gas and district heating markets " organized by the Energy Regulators Regional Association (ERRA);
- June 2009 - Training: "The regulation of companies and their strategy" held at the University of Florida and organized by the Public Utility Research Center (PURC);

- June 2009 - Training: "The adjustment of prices and tariffs" organized by the Energy Regulators Regional Association (ERRA);
- October 2009 - Workshop: "Action Plan for recording data of the energy sector " organized by the ECT Secretariat based in Vienna;
- October 2009 - Course: "Electronic procurement and public procurement best practices " which was organized by the FLSA Company;
- November 2009 - Training: "Regulation of renewable energy" organized by the Energy Regulators Regional Association (ERRA), and
- November 2009 - December 2010 - "E-learning" Course: "Monitoring activities of regulatory authorities" organized by the Energy Regulators Regional Association (ERRA).

1.4 Public Relations and Transparency

During 2009, ERO has continued to be transparent in its work and to duly inform stakeholders and general public.

In this reporting year ERO's website has been redesigned to be more functional and user-friendly to all concerned, especially energy sector customers.

On our website may be found, among other material, notices about Board meetings, decisions taken by the Board, rules, guidelines and procedures regarding the energy sector, electricity and heating tariffs, licenses issued to energy companies, monthly and annual reports on ERO activities etc.

ERO has drafted a Public Affairs Strategy aiming at improving communication with stakeholders to ensure transparency about ERO's activities and covering the publication of decisions taken by the Board, primary and secondary legislation, various codes, guidelines and other information of interest to consumers, institutions, energy companies and the general public.

This strategy also provides for continued communication with all media in Kosova for the purpose of accurately informing the public on various issues in the energy sector.

As in every year, ERO has carefully followed media reports on the energy sector, and has responded promptly to questions and queries from the media on various issues in the energy sector. The media in general have covered the energy sector and ERO activities in detail. Their reporting has been largely fair and impartial.

2. FINANCIAL REPORT

The Energy Regulatory Office is financed from its own revenue sources, in accordance with the Chapter 4 of the Law on Energy Regulator, i.e. fees collected from companies and licensed operators in the energy sector.

2.1 Revenues

Revenues collected from the Energy Regulatory Office are deposited in the official bank account created by the Director General of Treasury in conformity with the Article 20 of the Law on Energy Regulator and Article 64 of the Law on Public Financial Management and Accountability.

For the year 2009, the amount of revenues collected by the Energy Regulatory Office was €467,223.42. Pursuant to the Law on the Budget of the Republic of Kosovo for 2009, out of unspent revenues of 2008 ERO has carried forward to 2009 an amount of €549,249.00. The total amount of revenues collected and carried forward to 2009 was €1,016,472.42, i.e. €30,484.42 more than ERO's budget for 2009. In order to align revenues with the budget, the ERO Board in its session held on 15 April 2009 decided that, for the period of February - October 2009, licensees would be relieved from the obligation to pay the initial and annual licence fee for ERO services. The licensees were therefore exempt from paying fees worth a total of €819,909.54.

This amount will be taken into account when adjusting and determining Allowed Revenues for energy companies for 2010 and will be reflected in the tariffs for regulated customers.

Tab.2.1. Revenue

Description	Revenues
Own source revenues 2009	467.223.42
Own source revenues carried forward from 2008	549,249.00
Total revenues	1,016,472.42

2.2 Budget

For 2009, the Kosovo Assembly, pursuant to Law No. 03/L-105 on the Budget of the Republic of Kosovo, approved the budget of the Energy Regulatory Office of the amount of €985,988.00, broken down into major categories as follows:

Tab.2.2. Budget at the start of the year

Description	Buxheti
Wages and salaries	364,988.00
Goods and services	562,000.00
Utilities	12,000.00
Capital investment	47,000.00

During the review process the Budget structure of the Energy Regulatory Office was changed to reflect the transfer of the amount of €112,000.00 from the category of goods and services to the category of capital investment, with the total amount of budget undergoing no change.

Tab.2.3. Budget after review

Description	Budget
Wages and salaries	364,988.00
Goods and services	450,000.00
Utilities	12,000.00
Capital investment	159,000.00

2.3 Budget Expenditures

To finance its activities in 2009, ERO spent €574,058.56, of which €328,365.26 was from its revenues for 2009, while € 245,693.30 was from revenues carried forward from 2008.

The breakdown of ERO expenditures is as follows:

Tab. 2.4 Breakdown of expenditures

Description	Amount
Wages and salaries	294.426.83
Goods and salaries	191,715.33
Utilities	7,081.65
Capital investment	80,834.75
Total	574,058.56

The realized budget in relation to the approved budget for the 2009 fiscal year is 58.22%.

The rate of budget realization by category, expressed as a percentage, is shown in the table 2.5:

Tab. 2.5 Realization of budget expressed in percentage

Description	Budgeted	Realized	Difference	Realization in %
Wages and salaries	364,988	294,427	70,561	80.67%
Goods and services	450,000	191,715	258,285	42.60%
Utilities	12,000	7,082	4,918	59.01%
Capital investment	159,000	80,835	78,165	50.84%
Total	985,988	574,059	411,929	58.22%

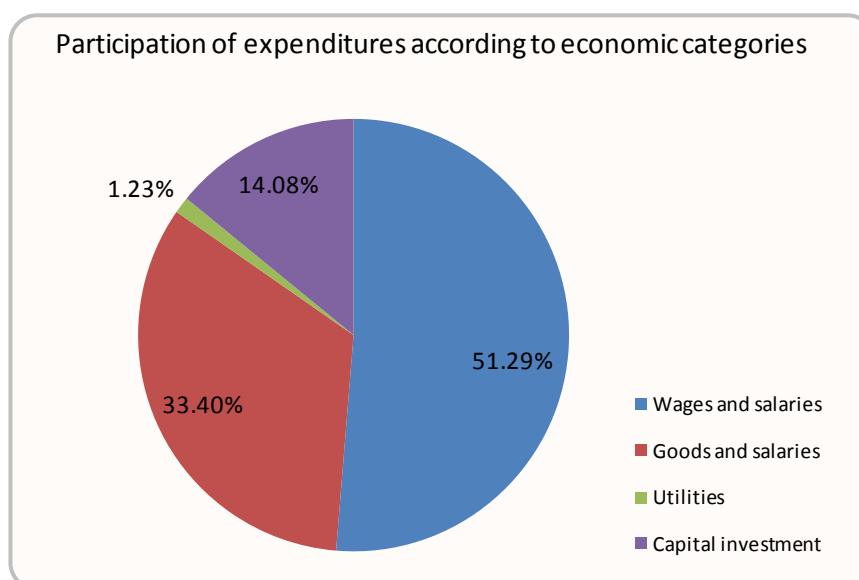


Fig.2.1. Share of expenditures by category

The chart above shows the share of each expenditure category in the total expenditures realized in the fiscal year 2009.

The following tables show the expenditures by category.

Tab.2.6. Wages and salaries

WAGES AND SALARIES	AMOUNT
Net salaries	246,146.48
Personal income tax	20,239.69
Employer's pension contribution	14,020.33
Employees' pension contribution	14,020.33
Total wages and salaries	294,426.83

Tab.2.7. Goods and services

GOODS AND SERVICES	AMOUNT
Travel expenses within Kosova	137.60
Travel expenses abroad	26,291.69
Internet	3,109.95
Other phone expenses (roaming and scratch phone cards)	9,713.34
Postal expenses	274.00
Educational and training services	8,064.00
Technical services	78.00
Printing services	413.00
Other contracting services	4,371.30
Subscription expenses	700.00
Mobile	1,740.00
Telephones	2,490.00
Other equipment	2,826.30
Computer	7,344.00
Hardware for information technology	1,694.00
Beverage and food supply	2,692.30
Accommodation	7,546.98
District heating oil	5,597.52
Fuel for generator	473.50
Fuel for vehicles	1,470.96
Vehicle registration and insurance	1,029.83
Security of premises	8,815.72
Vehicle maintenance and repair	1,269.08
Maintenance of premises	8,640.00
Maintenance of information technology	2,808.50
Rent	57,216.00
Marketing expenses and advertisements	13,743.08
Maintenance of mobiles and equipment	316.00
Official lunches	2,468.27
Office supplies	8,380.41
Total goods and services	191,715.33

Tab.2.8. Utilities

UTILITIES	AMOUNT
Electricity	5,257.60
Water	347.38
Landline telephone expenses	1,476.67
Total utility expenditures	7,081.65

Tab.2.9. Capital expenditures

CAPITAL INVESTMENT	AMOUNT
Information technology equipment	13,576.80
Software	20,412.60
Vehicles	27,535.00
Intangible assets	19,310.35
Total capital investment	80,834.75

In 2009 ERO collected revenues in the amount of € 1,016,472.42, which exceeded the actual expenditures in the amount of €574,058.56. The difference of € 442,413.86 between revenues and expenditures represents surplus funds collected by ERO in the reporting year and which, in accordance with Article 20 of the Law on Energy Regulator and Article 6 of the Law of the Budget of the Republic of Kosovo for the year 2010, will be carried forward to 2010.

Tab.2.10. Revenues carried forward

Own source revenues carried forward in 2010	442,413.86
Revenues carried forward from 2008	549,249.00
Revenues received during 2009	467,223.42
Total revenues 2009	1,016,472.42
Expenditures on wages and salaries	294,426.83
Expenditures on goods and services	191,715.33
Utilities	7,081.65
Capital investment	80,834.75
Total expenditures 2009	574,058.56

3. COMPLETION OF REGULATORY LEGAL FRAMEWORK

3.1 Secondary Legislation

Based on its mandate given by the Law on Energy Regulator and with the purpose of completing a regulatory framework for the energy sector in Kosova, ERO continued in 2009 with the development of secondary legislation (Rules and Procedures).

All rules and procedures that are adopted or amended by the ERO have gone through a period of public consultation and have been approved at a public meeting of the ERO Board.

3.1.1 Rules Amended

New circumstances in the energy market in Kosova have created the need for changes in some rules. Following a public consultation process and comments received from stakeholders, the ERO Board has adopted changes to the following rules:

- Rule on Dispute Settlement Procedure in the Energy Sector;
- Rule on General Conditions of Energy Supply, and
- Rule on Disconnection and Reconnection of Customers in the Energy Sector in Kosova.

3.1.2 Rules Drafted

During the reporting year ERO prepared draft rules relating to the promotion and support of energy production from renewable sources and co-generation, as well as the draft procedure for eligible customers.

- Draft Rules for the Establishment of a System of Certificates of Origin (for electricity produced from renewable energy resources, from waste, and co-generation of electric and thermal energy).

This rule establishes procedures for the establishment, operation and maintenance of a system for the issuance, transfer and revocation of a Certificate of Origin for the production of electricity from renewable energy sources, from waste and from the co-generation of electric and thermal energy.

- Draft Rule for the Support of Electricity for which a Certificate of Origin has been issued and Procedures for Admission to the Support Scheme

This rule establishes the Scheme for the Support of Electricity produced from renewable energy sources in Kosova, for which a Certificate of Origin has been issued. The Scheme aims to promote electricity production from renewable sources, in order to meet targets set by the Ministry of Energy and Mining for the consumption of electricity from renewable sources.

- Draft Procedure for Eligible Customers

This procedure is required to open the energy market in Kosova, and it establishes the application procedure and criteria for obtaining eligible customer status and the procedure for revoking that status.

3.1.3 Documents Prepared by Licensed Enterprises

The following documents have been prepared by licensed enterprises and approved by ERO:

- Metering Code - DH "Gjakova" JSC
- Code of Access to Land and Premises - DH "Gjakova JSC

- Code of Metering- DH “Termokos” JSC
- Code of Access to Land and Premises - DH “Termokos” JSC
- Procedure of Compliance Monitoring for Technical Performance Indicators -KOSTT JSC
- Proposal for Minimal Technical Performance Indicators -KOSTT JSC
- Code of Work for Access to Land and Premises of the DSO - KEK JSC
- Code of Conduct and Ethics of the Kosova Energy Corporation - KEK JSC
- Development Plan of the Kosova Transmission System 2007 – 2013 - KOSTT JSC
- Procedure for the Identification and Prevention of Unauthorized Use of Electricity KEK JSC

3.2 Involvement in the Preparation of Primary Legislation

During 2009 ERO made a significant contribution to the development and finalization of the draft Law on Natural Gas - Law no. 03/L-133, which has been approved by the Assembly. ERO also participated in the Inter-governmental Working Group for the finalization of revisions to the Draft Laws on Energy, Electricity and Energy Regulator.

3.3 Renewable Energy Sources

Major activities of ERO in 2009 with respect to the construction of new generating capacity using renewable energy sources (RES) in Kosova relate to the:

- Establishment of the legal infrastructure for new generating capacity using renewable energy sources, and
- Review of applications for authorization for the construction of new generating capacity using renewable energy sources.



Fig.3.1. New wind generating capacity, 3 x 450 kW, Golesh.

As a result of the implementation of the Rule on Authorization Procedures for the construction of new generating capacity, gas networks, direct electricity lines and direct pipelines, ERO has received

a number of applications for the construction of new wind generating capacity. Following are the details of enterprises which have been granted authorization or are in the process of receiving the authorization.

Tab.3.1. Enterprises issued authorizations for the construction of new wind generating capacity

No.	Name of company	Description of activity	Installed capacity	Location	Date of authorization's
1	"Wind Power" Sh.a	Construction of generator for the production of electricity from wind	1.35 MW	Golesh, Harilaq, MA Fushë Kosova, Republic of Kosova	12/29/2009

Table 3.1 shows that on 12.29.2009, the ERO Board issued the first authorization to "Wind Power" JSC for the construction of new wind generating capacity, with a capacity of 1.35 MW allowing implementation of the project to proceed.

Tab.3.2. Enterprises that have applied for authorizations for the construction of new wind generating. capacity

No.	Name of company	Description of activity	Installed capacity	Location
1	"Wind Power" Sh.A	Construction of generator for the production of electricity from wind	900 kW	Bostan, Artana, Republic of Kosova
2	Air Energy sh.p.k	Construction of generator for the production of electricity from wind	26 MW	Kitkë, MA Gjilan, Republic of Kosova
3	KOSOVA TER.WINDPARKCOMPANY Sh.p.k	Construction of generator for the production of electricity from wind	100 MW	Shtime, Republic of Kosova

With regards to the application of "Air Energy" LLC, the ERO Board on 22.09.2009 issued a Preliminary Authorization, instructing this enterprise to meet the other legal requirements necessary to receive an authorization for construction of the planned generator.

3.4 Licensing of Energy Enterprises

Based on the duties and responsibilities set forth by the Law on Energy Regulator, ERO may issue, modify, suspend and withdraw licenses for the conduct of activities by energy companies and pursuant to the Rule on Licensing has the authority to issue licenses for the following activities:

- Electricity generation
- District heating generation
- Electricity public supply
- District heating public supply
- Electricity distribution
- District heating distribution
- Transmission system operator
- Market Operator
- Electricity trade/supply.

Among other responsibilities of ERO stated in Article 15 of the Law on Energy Regulator are the issuance, modification, and withdrawal of licenses, as well as monitoring of compliance with license conditions. On the basis of this, in 2009, ERO conducted a series of activities on the licensing of energy enterprises.

3.4.1 Issuance of Licenses

During this reporting year there was much interest by different enterprises in being licensed to conduct energy activities, in particular by traders. Table 3.3 lists the enterprises which have been issued licenses by ERO during 2009 following their fulfillment of the conditions set forth by the Rule on the Licensing of Energy Activities.

Tab.3.3. Enterprises licensed in 2009

No.	Licensed company	Description of licensed activity	Number of license	Address, Licensee headquarters	License validity
1	"AKIDU" D.o.o Kosova Branch	Electricity supply/trade	ERO/Li_31/09	L.Dardania Su 1/5 H.2 Floor 7 Nr.29, Prishtina, Republic of Kosova	30.10.2009 to 30.10.2011
2	"EGL d.o.o.Beograd"-("EGL")	Electricity supply/trade	ZRRE/Li_32/09	Milutina Milankovica 11 A Belgrade, Serbia	29.12.2009 to 29.12.2011
3	"GEN-I Tirana Sh.p.k"	Electricity supply/trade	ZRRE/Li_34/09	Ish-Noli Business Center, Rruga Ismail Qemali, nr.27, Tirana, Albania	29.12.2009 to 29.12.2011

3.4.2 Continuation of Licenses

All companies whose license validity had expired have reapplied on time for an extension of the license. The activity of all enterprises concerned was electricity supply/trade. ERO has decided to extend the license for the enterprises shown in Tab.3.4

Tab.3.4. Enterprises whose licenses have been extended

No.	Licensed company	Description of licensed activity	Number of license	Address, Licensee headquarters	License validity
1	"ATEL ENERGY AG"	Electricity supply/trade	ZRRE/Li_35/07	Oltnerstrasse 63, CH-5013, Niedergösgen, Switzerland	31.05.2009 to 31.05.2011
2	"GSA SHPK"	Electricity supply/trade	ERO/Li_24/07	"Dëshmorët e 4 Shkurtit", Pall.30 P.O.Box1502,Tirana, Albania	23.05.2009 to 23.05.2011
3	"RUDNAP GROUP A.D"	Electricity supply/trade	ERO/Li_23/07	PC Usce, Mihaila Pupina Boulevard 6/21, 11000 Belgrade-New Belgrade, Serbia	23.05.2009 to 23.05.2011

3.4.3 Transfer of Licenses

ERO has transferred the License for the production of electricity from the following enterprise:

- Triangle General Contractors – Kosova branch, address: Rr."Vëllezërit Gërvalla", ONIX pn. Pejë, Republic of Kosova (License no. ERO/Li_09/06),

To the:

- "KelKos Energy" LLC, address: Rruga Zagrebi 19/22, 10000 Prishtinë, Republic of Kosova (License no. ERO/Li_09/06 – production of electricity).

The validity of the License for Triangle General Contractors – Kosova branch was from 04.10.2006 to 29.04.2024 and the transfer will be valid from 30.06.2009 to 29.04.2024.

3.5 Monitoring of Energy Enterprises

In the context of the fulfillment of responsibilities specified in Article 15 of the Law on Energy Regulator, ERO monitored/supervised all licensed enterprises. ERO also monitors the unbundling and restructuring activities of energy enterprises and their compliance with the codes issued: technical rules, market rules, rules for access to land and premises etc.

Enterprises licensed for the production, distribution, public supply and electricity supply/trade; production, distribution and district heating public supply, and the Transmission System Operator and Energy Market enterprise, report their compliance to ERO on a quarterly and annual basis in accordance with the Reporting Manual.

During this reporting year, licensed enterprises requested derogations concerning fulfillment of some obligations set forth in Articles in the licenses. ERO allowed derogation only in cases where the requests were deemed reasonable.

4. ELECTRICITY SECTOR IN KOSOVA

Generation, transmission and distribution are essential components of electro-energetic systems. The transmission and distribution of electricity are regulated activities that are operated on the basis of licenses issued by the Energy Regulatory Office. Only the Transmission System and Market Operator (KOSTT) and the Distribution System Operator (DSO) responsible for the operation, maintenance and security of electricity supply in the whole territory of Kosova hold licenses for these activities in the Republic of Kosova.

4.1 Transmission Network

The Kosova transmission network consists of facilities at three voltage levels, 400kV, 220kV and 110kV. This network as an electro-energetic area is connected, through interconnection lines, with four neighboring countries: Albania, Montenegro, Serbia and Macedonia.

For a long period of time, especially from 1990 to 2000, the transmission network received neither adequate investment nor maintenance. The result of this is that a number of lines and transformers are overloaded and in inadequate operational condition, causing frequent interruptions and major losses of electricity.

For the last 10 years, investment has been carried out to enhance and improve the transmission network capacities. This investment has increased security of supply and transmission losses have been reduced. Below is a short list of the investments that have been carried out:

- Installation of AT3 at SS 400/220 kV, Kosova B
- Rehabilitation of distributing substations 220 kV in Glllogoc
- Replacement of switches 110 kV, NS PR1 & SS PR 2
- Local SCADA in SS KOS B 400/220 kV
- Replacement of relay protections in SS Kos B and SS PR 4 and controlling system
- Strengthening of transmission lines 110 kV that connect SS Kosova A, 220/110 kV with SS Vushtrria and SS PZ 1 with SS PZ 2
- Changing line (no. 212) 220 kV into line 110kV
- Project SS Peja 3, 400/110 kV, 300 MVA
- Installation of AT1 at SS 220/110 kV, Kosova A
- New line 110 kV SS Rahovec – SS PZ2
- Revitalization of equipment of HV 400 kV at NS 400/220 kV, Kosova B
- Replacement of conductors in Line 110 kV (no. 126/1), SS Gjakova 1 - SS Deçan
- Autotransformer AT3 150MVA at SS 220/110 kV, Prishtina 4
- Revitalization of equipment of HV at NS 110/10(20) Prishtina 1

The following investments are underway:

- Rehabilitation of SS 220/110kV, Kosova A
- SCADA/EMS & Telekom
- ITSMO – Meters (except for SS Vallaq and HPP Ujmani where those were not completed)

Investment in the following projects is in the initial or preparatory stage:

- Project Ferizaj 2
- Interconnection Line 400kV Kosova – Albania

Among these investments is to be singled out, in particular, the construction of the substation Peja 3, 400/110 kV, at the capacity of 300 MVA, which was put into operation in November 2009 and which has led to the elimination of network congestion in the Dukagjini region. With the construction of this substation, security of supply has increased, the quality of voltage has improved and transmission technical losses have been greatly reduced in this region and in the network in general. In the framework of this project, further investment in facilities that will connect this substation with other existing substations is expected to be carried out.

The following tables present basic data on KOSTT substations and lines according to voltage level.

Tab.4.1. Basic data on KOSTT substations

Voltage (kV/kV)	Owner	SS No.	TR No.	Power (MVA)
400/220	KOSTT	1	3	1,200
400/110	KOSTT	1	1	300
220/110	KOSTT	3	7	1,050
220/35	Alferon	1	2	320

Tab. 4.2 Basic data on KOSTT lines

Voltage (kV)	Owner	Length (km)
400	KOSTT	182
220	KOSTT	232
110	KOSTT	672

Kosova has a relatively small electro-energetic system, but has strong connections with neighboring countries. Kosova's geographical position means that significant transit volumes of electricity flow through the transmission network. Such flows are mainly from the north to the south of the country.

The following figure shows the volumes of energy flows (in MWh) for 2009, for each interconnector in both directions (entry and exit).

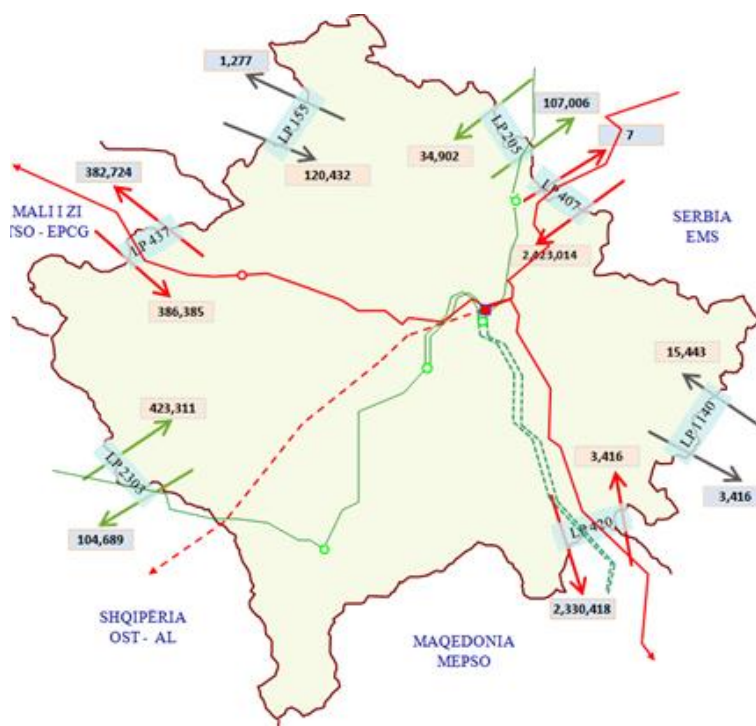


Fig. 4.1 Energy flows over interconnectors

Kosova does not participate in the inter-TSO compensation mechanism (ITC mechanism), because of disputes with Serbia's TSO. Losses caused by transit are recovered from transmission charges for Kosova users. KOSTT is making continual efforts to become a full member of this mechanism.

The level of transmission network loads can be determined from the peak demands met. The following table shows the five peak (maximum) loads occurring in different weeks during 2009. The highest load was recorded in December and reached a value of 1051 MW. The data in the table shows that the highest load in the transmission network in Kosova occurs mainly during evening hours (18:00 to 23:00) during the winter season.

Tab.4.3. Five peak values in 2009

Peak	MW	Hour	Date	Week	Day
I	1,051	19	13.12.2009	50	Sunday
II	1,050	18	21.12.2009	52	Monday
III	1,046	21	20.12.2009	51	Sunday
IV	1,006	23	26.11.2009	48	Thursday
V	970	19	14.11.2009	46	Saturday

Fig. 2.4 shows the daily load diagram in MW by hour on 13 December 2009 (production, import, export, consumption and load shedding). On this day between 19:00 and 20:00 the peak load for 2009 of 1072 MW (measured by KOSTT prior to deducting KEK's own use) was recorded.

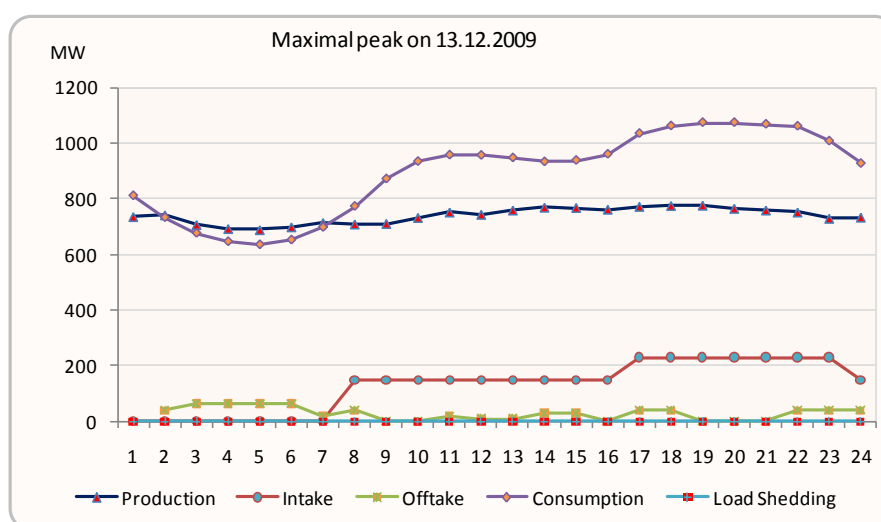


Fig.4.2. Daily load diagram for 13.12.2009

Below is the daily load diagram shown as the average value for each hour for 2009. The diagram shows that during each 24 hour period production has been almost constant, unlike consumption, which has changed over time.

Consumption during night hours is lower than production, resulting in surplus electricity which is exported. From 07:00 onwards, as consumption increases, there are electricity shortages, which are covered through imports or load shedding.

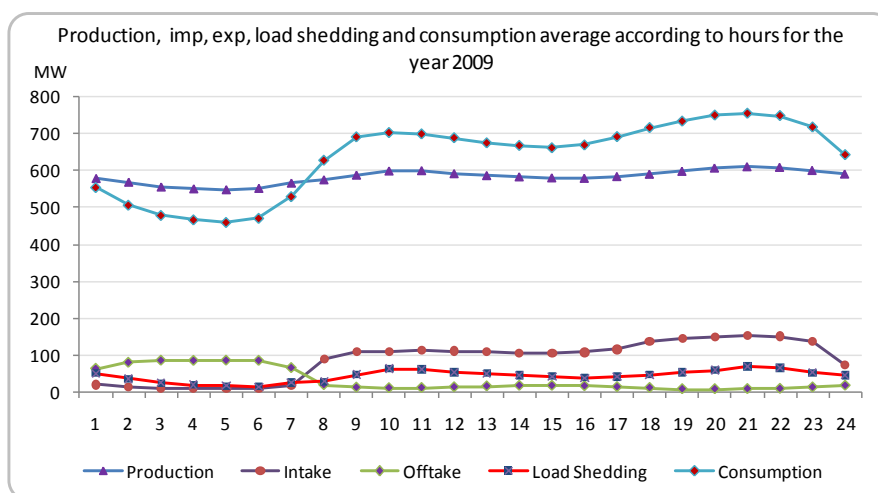


Fig.4.3 Load diagram presented as average values by hour for 2009

4.2 Distribution Network

4.2.1 Structure of Distribution Network Facilities

The distribution network is not in good condition due to a lack of investment for an extended period, inadequate maintenance and a large proportion of obsolete equipment, so that technical energy losses in the distribution network were about 18%. The distribution network includes lines of voltage levels of 35 kV, 20 kV, 10 kV, 6 kV and 0.4 kV and relevant substations. The table below shows basic data on distribution lines and transformers by voltage level.

Tab. 4.4 Basic data of DSO lines

Voltage	Owner	Air network	Cable network	Length
kV		km	km	km
35	KEK	648.421	26.381	674.802
20	KEK	279.437	165.246	444.683
10	KEK	5,067.763	795.000	5,862.763
6	KEK	44.140	1.580	45.720
0.4	KEK	11,386.866	483.457	11,870.323

Tab.4.5. Number of substations by voltage level

Voltage (kV/kV)	Owner	SS No.	TR No.	Power (MVA)
220/35/20	KEK	1	2	80.00
110/35/10(20)	KEK	5	9	249.00
110/35	KEK	7	14	469.50
110/20(10)	KEK	2	4	143.00
110/10	KEK	9	14	441.00
110/35/6.3	Trepça	1	2	63.00
110/35	Trepça	-	2	126.00
110/6.3	Sharri	1	2	40.00
110/35	Ujmani	1	1	20.00
35/10	KEK	52	83	559.80
35/06	Birra Peja	1	1	4.00
35/0.4	KEK	1	1	0.63
(10)20/0.4	KEK	990	1,015	217.34
10/0.4	KEK	5,098	5,258	1,500.88
6/0.4	KEK	35	35	6.68

Investment carried out in the period after 1999 has improved to some extent the overall situation of the distribution network. To eliminate congestion, however, and to improve supply quality, additional investment is required.

The following are the major investments carried out in the distribution network in the period 2000-2009:

Tab.4.6 Substations built 2000-2009

No	Voltage (kV/kV)	Power (MVA)
1	TS 220/35/10(20) kV Podujeva	2x40
2	TS 110/10(20) kV Berivojce	1x31.5
3	TS 110/10(20) kV Prishtina 5	2x40
4	TS 110/10(20) kV Vushtrria 2	2x31.5
5	TS 110/10(20) kV Peja 2	2x31.5
6	TS 110/10(20) kV Rahoveci	2x31.5

Investments in the distribution network are part of the rehabilitation or extensions carried out in two substations, SS 110/35 kV (Theranda) and SS 110/10 kV (Gjakova 2).

Fourteen substations at the 35/10 kV voltage level have been built, expanded or rehabilitated.

Another 630 substations at the 10(20)/0.4 kV voltage level with different capacities (1000 kVA, 630 kVA, 400 kVA, 250 kVA, 160 kVA, 100 kVA and 50 kVA) and a total transformation capacity of 197 MVA have been built.

During 2009, construction of additional lines (air or cable) was carried out: 8.5 km of 35 kV line and 770 km of 10(20) kV line. Significant investment has been carried out in the 0.4 kV network as well.

4.3 Supply and Service Quality Standards

The Energy Regulatory Office, pursuant to paragraph 15.2, point (f), of the Law on Energy Regulator has the power to determine supply and service quality standards to be achieved by the licensees.

In cooperation with MEM and the licensees (DSO, TSO, PS), ERO has established the Working Group for supply and service quality standards.

The Working Group is preparing its report for submission in the first half of 2010 and will propose quality standards for individual licensees to be approved by the ERO Board following its evaluation.

The quality of electricity supply and service is determined by:

- Continuity of supply;
- Quality of voltage and
- Commercial quality;

Since 2006 the DSO has begun implementing a software program for the registration of all electricity interruptions that occur in the system in all districts. Data is entered manually into the program and its accuracy and completeness has increased over the years.

4.3.1 Continuity of Supply

Continuity of supply is monitored through the following indices: System Average Interruption Duration Index (SAIDI)), System Average Interruption Frequency Index (SAIFI) and Energy Not Supplied (ENS).

SAIDI is the index used to measure the average duration of interruptions, which occur in the system as a result of faults. This is measured as an annual index.

Tab. 4.7 Annual average hours of electricity lost by district

District	Prishtina	Ferizaj	Gjakova	Gjilan	Mitrovica	Peja	Prizren	Total
SAIDI according to districts	89.34	98.03	148.03	33.19	165.15	57.04	105.44	94.48

SAIFI is an index used to measure the average frequency (number) of customer interruptions within a year. The SAIFI value for 2009 was 26.7.

The Energy Not Supplied within the year to customers due to faults that have occurred in the distribution network was 2.84 GWh.

4.3.2 Quality of Voltage

The voltage quality standards are defined in the Rule on General Conditions of Energy Supply and Distribution Code and the Distribution Metering Code.

The quality of voltage is monitored primarily through registration of customer complaints regarding the quality of voltage.

According to the Distribution Code, the DSO will operate the distribution system so as to ensure that the voltage into the terminals of the supply system as defined in the IEC 61000 standard meets this standard. The allowance for the low voltage band is 230 V with a range from +10% to -15%.

4.3.3 Commercial Quality

Commercial Quality is associated with a company's performance relating to customer complaints regarding the fulfillment of obligations by suppliers. Commercial quality standards have been included in the Rule on General Conditions of Energy Supply, Rule on Disconnection and Reconnection in the Energy Sector and the Rule on Dispute Settlement Procedure in the Kosova Energy Sector.

These standards will be mandatory and will have to be adhered to by all applicable licensees (TSO, DSO, PS). The performance of licensees relating to compliance with these standards will be monitored by ERO.

4.4 Production of Lignite and Electricity

4.4.1 Lignite Production

Lignite constitutes the largest reserves of primary energy in the Republic of Kosova. Lignite supplies about 98% of the total production of electricity in Kosova. Kosova lignite has low caloric value (approximately 7.8 MJ/kg), but there are good opportunities for its exploitation.

Two mines, Bardhi and Mirashi, supply lignite to the thermal power plants Kosova A and Kosova B. A very small part of lignite production is sold in the free market.

Lignite production in 2009 was less than planned in the 2009 energy balance, while consumption was higher than planned. Table 4.8 shows lignite production and consumption for 2009.

Tab.4.8. Lignite production and consumption 2009

Lignite production & consumption	January	February	March	April	May	June	July	August	September	October	November	December	Total
Total lignite production 2009 (t*1000)	633	778	742	533	482	452	558	603	727	734	712	918	7,872
Total lignite consumption 2009 (t*1000)	805	697	810	512	515	552	539	612	647	713	757	834	7,993

The following figure shows lignite production and consumption from 2005 to 2009.

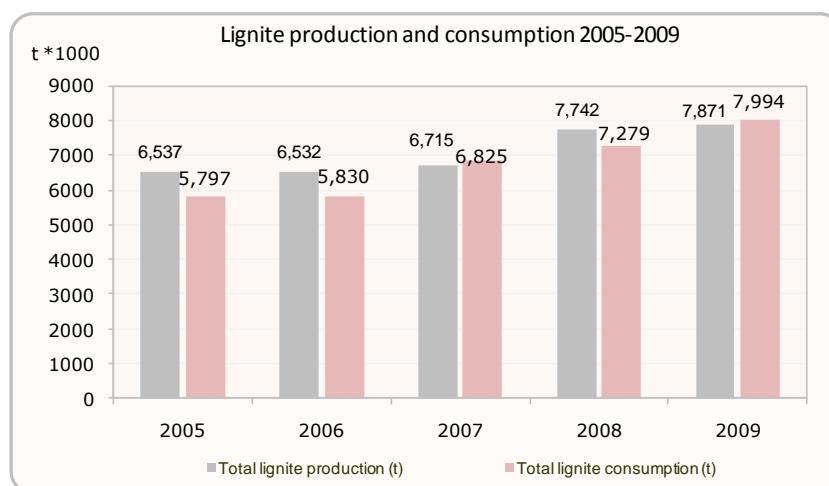


Fig.4.5. Lignite production and consumption 2005 – 2009

4.4.2 Electricity Generation

Electricity generation in Kosova is mainly based on thermal energy from two power plants: Kosova A and Kosova B.

Other electricity generators are HPP Ujmani, which is part of the company "Iber Lepenc", and HPP "Lumbardhi", operated under a concession from KEK by the private company "KelKos Energy" LLC.

The units of TPP Kosova A and TPP Kosova B have been constructed at various dates, as shown in the following table.

Tab.4.9. Designed and operational capacity of generating units in 2009

Production units	Year of construction	Designed capacity	Operational capacity	
		MW	Generator (MW)	Threshold (MW)
A1	1962	65	35	32
A2	1964	125	-	-
A3	1970	200	135	120
A4	1971	200	135	120
A5	1975	210	145	130
TPP Kosova A		800	450	402
B1	1983	339	290	265
B2	1984	339	280	260
TPP Kosova B		678	570	525
HPP Ujmani	1981	35	35	35
HPP Lumbardhi	1957/2005	8	8	8
Total		1,521	1,063	970

The total electricity generated by power plants in 2009 was 4,798 GWh, which represents an increase of 6% compared to 2008.

Electricity generation by TPP Kosova A was 1,424 GWh, which is 18.93% higher than output in 2008. Its share in total generation in Kosovo was 29.68% and it achieved 96.22% of planned annual output.

Tab.4.10. Production according to generating units

Production/Generating units	Total	January	February	March	April	May	June	July	August	September	October	November	December
MWh	MWh	MWh	MWh	MWh	MWh	MWh	MWh	MWh	MWh	MWh	MWh	MWh	MWh
A1	-6,965	-689	-607	-644	-411	-348	-1,476	-381	-369	-377	-467	-546	-650
A3	650,455	79,682	39,539	75,657	46,766	31,513	75,366	80,232	65,032	72,456	18,273	35,751	30,189
A4	119,516	-3	-5	1,643	-27	-31	-23	-49	-42	-20	-17	32,373	85,717
A5	661,132	56,269	58,798	57,906	35,227	53,127	70,946	66,008	63,736	18,900	76,767	69,698	33,751
TPP Kosova A-realization	1,424,139	135,259	97,725	134,562	81,555	84,261	144,813	145,808	128,358	90,960	94,556	137,275	149,007
B1	1,546,983	166,097	148,822	161,588	105,493	148,816	4,984	89,574	151,579	124,705	156,327	132,184	156,813
B2	1,704,746	172,090	168,655	175,381	106,900	175,467	170,418	81,495	47,694	141,935	140,761	151,223	172,727
TPP Kosova B-realization	3,251,729	338,188	317,476	336,969	212,393	324,283	175,402	171,069	199,273	266,640	297,089	283,407	329,540
HPP Ujmani-realization	88,667	8,095	9,928	10,009	16,339	4,596	4,852	11,193	7,662	3,849	4,289	2,696	5,159
HPP Lumëbardhi-realization	33,207	2,121	1,593	1,381	5,305	5,157	4,599	3,095	1,102	726	2,356	2,974	2,799
Total Production-realization	4,797,743	483,663	426,723	482,921	315,592	418,297	329,666	331,165	336,395	362,175	398,289	426,352	486,506
Total production-balance	4,712,029	453,971	409,226	452,859	348,392	424,756	292,661	289,211	350,901	392,887	404,006	438,955	454,204
Total production-realization/balance	102%	107%	104%	107%	91%	98%	113%	115%	96%	92%	99%	97%	107%

TPP Kosova B units have been working at high load factors (84.45% for Unit B1 and 84.93% for Unit B2). Electricity generated from TPP Kosova B was 3,252 GWh, which represents 67.78% of total electricity generation in Kosovo, with actual generation being 103.84% of planned annual output.

Unit B1 in 2009 had 33 outages, 19 of them were system failures and 14 disconnections. It underwent repair for 40 days, there were also 2 revisions for nine days each. Unit B2 had 14 outages, of which 10 were disconnections and 4 system failures. It underwent repair for 40 days and had 2 revisions for nine days each.

Operational readiness of the TPP Kosova B units has been around 85%, which is similar to the values included in the 2009 energy balance. The energy balance for 2009 expected that TPP Kosova A units would be available 75% of the time. Only unit A5 comes close to this figure, while unit A4 served primarily as reserve capacity.

The energy produced in hydropower plants in 2009 was 121.9 GWh and constitutes 2.54% of total electricity production. In 2009 HPP Ujmani generated 88,67 GWh, which is 66.25% higher than in 2008, exceeding planned output by 17%, while output from HPP Lumëbardhi was 33 GWh.

TPP Kosova B covered 61.45% of total demand in Kosovo, Kosova A covered 26.91% and 2.30% was covered by hydropower plants (HPP Ujmani and HPP Lumëbardhi). Imports covered the remaining 9.33%.

The share of each plant in total electricity generation in Kosovo in 2009 is shown in the chart below.

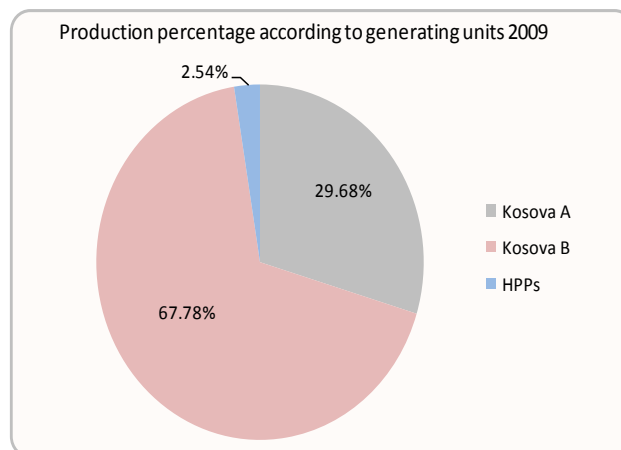


Fig.4.6. Production shares of generating units

The chart below shows the total generation within Kosova for the years 2000-2009 where a continuous increase, as a result of investment in the repair of generating units, is evident.

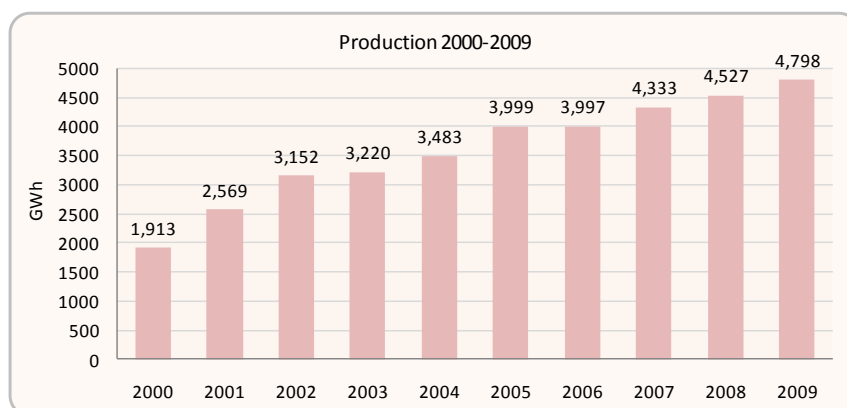


Fig.4.7. Electricity generation for 2000-2009

4.5 Electricity Demand

Total demand in 2009, including losses, was 5,275 GWh representing an increase of 6.70% compared to 2008.

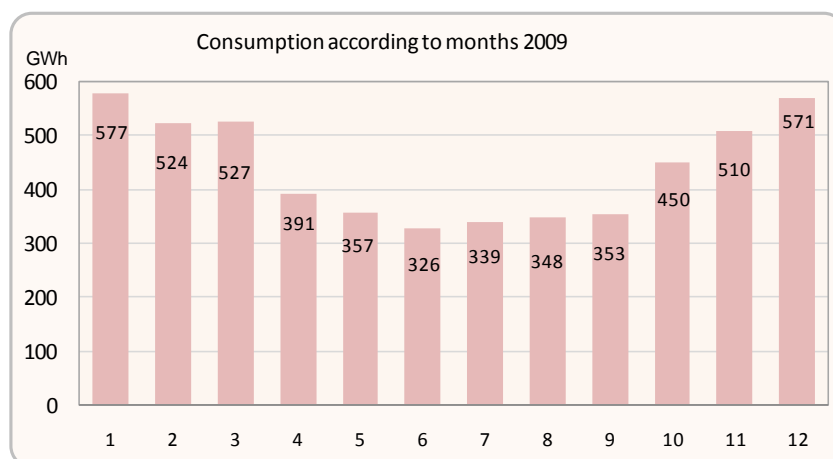


Fig. 4.8 Demand by month 2009

Like production, the total demand grew between 2000-2009, which can be seen from the chart below.

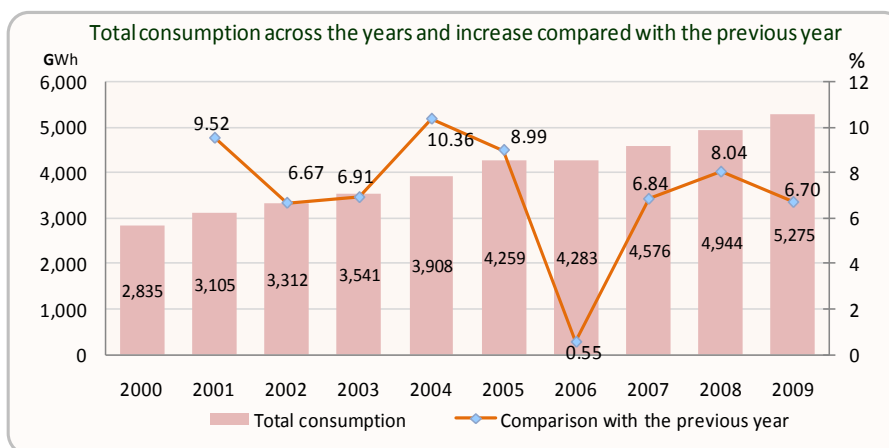


Fig. 4.9 Total demand 2000-2009

The lowest increase in demand over the past ten years was recorded in 2006, an increase of only 0.55% over the previous year, while the highest year-on-year increase of 10.36% was recorded in 2004.

Total consumption includes technical and commercial losses as well as sales at transmission voltages to large customers, Ferronikeli, Trepça and Sharrceci, which are connected to the transmission network.

Electricity consumption by customer category for 2009 is shown in Table 4.11.

Tab.4.11 Consumption by customer category and energy losses

Customer Category		2009
		MWh
1	Gross distribution	4,428,053
2	Net distribution	2,532,626
3	Technical losses	799,137
4	Commercial losses (1-2-3)	1,096,290
5	Trepça+Sharrceci	83,627
6	Ferronikel	460,415
7	Kosova Thëngjilli+Cons. outside KEK	3,257
8	KEK Intern. Cons.+SS Palaj	120,750
9	Transmission losses	174,573
10	Gross consumption (1+5+6+7+8+9)	5,270,674

A significant contributor to the demand growth was the increase of 18% in Ferronikeli's consumption compared to the previous year.

4.5.1 Distribution Demand

Demand at the distribution level increased by 7.14% compared to 2008.

Table 4.12 shows distribution demand for 2009 according to districts.

Tab.4.12. Distribution demand by district 2009

Districts	Load 2009	Total participation
	GWh	
Prishtina	1,302,725	29.42%
Mitrovica	649,063	14.66%
Peja	507,930	11.47%
Gjakova	280,174	6.33%
Prizreni	733,736	16.57%
Ferizaji	562,733	12.71%
Gjilani	391,691	8.85%
Total distribution	4,428,053	100.00%

The highest demand was in the Pristina district, with 29.42% of total distribution demand, whereas the Gjakova district had the lowest demand with 6.33%.

Demand in the district of Prizren was about 1% lower for 2009 compared to the previous year as, from October 2009, the municipalities of Rahovec and Malisheva was included in the district of Gjakova.

Table 4.13 shows data on consumption according to customer categories on a monthly basis at the distribution level and for customers connected at 110 kV.

Tab.4.13. Consumption by tariff category 2009

MWh	January	February	March	April	May	June	July	August	September	October	November	December	Total	Particip. in consump.
110kV (Trepča + Sharrcem)	3,104	5,770	7,585	8,154	8,148	6,377	7,389	7,837	7,779	7,514	7,838	6,131	83,627	3.20%
35 kV	4,851	5,359	3,564	3,172	2,783	2,993	2,528	2,561	2,535	2,245	2,607	3,419	38,616	1.48%
10 kV	17,439	18,997	16,977	14,461	13,943	14,700	13,156	16,409	13,842	14,308	16,644	17,988	188,862	7.22%
Household below 200 kWh/month and hospitals	43,617	43,947	44,227	45,093	45,297	46,676	47,081	47,856	48,174	48,477	50,061	50,402	560,908	21.44%
Households of (201kWh to 600kWh)/month	55,170	56,275	54,501	53,672	51,378	53,469	47,339	51,721	55,349	56,147	66,045	65,249	666,314	25.47%
Households over 600 kWh/month	58,848	61,719	50,838	39,011	30,344	30,732	19,269	24,027	27,274	30,498	55,672	56,347	484,578	18.52%
0.4 kV I	14,360	17,359	12,945	12,827	12,656	13,984	13,620	14,700	18,015	13,774	16,951	16,687	177,877	6.80%
0.4 kV II	32,725	32,749	31,111	27,028	24,953	27,241	23,891	27,435	25,301	27,265	36,128	34,207	350,033	13.38%
Public lighting	599	727	559	567	557	548	457	525	697	959	1,226	1,094	8,514	0.33%
Unmetered household customers	6,335	6,271	6,216	6,170	5,565	4,037	3,913	3,921	3,855	3,786	3,749	3,104	56,923	2.18%
Total	237,049	249,173	228,522	210,155	195,623	200,756	178,643	196,992	202,820	204,973	256,921	254,627	2,616,253	100%

Household customers have the highest share (57.42%) in total consumption.

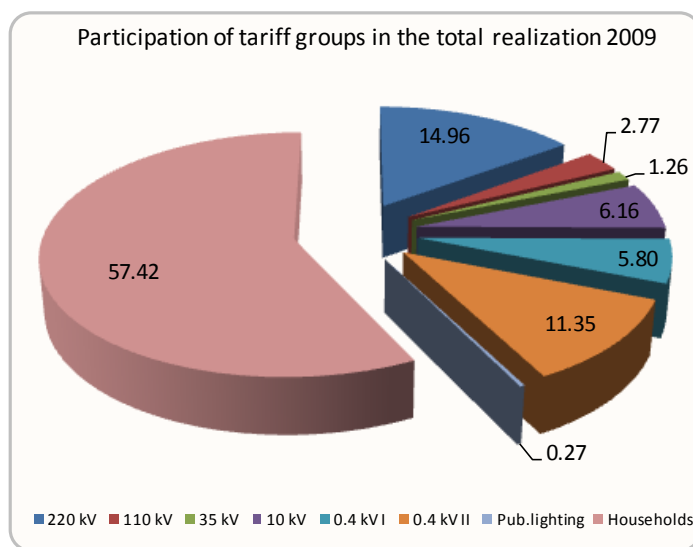


Fig. 4.10 Share of tariff categories in total sales 2009

Distribution demand in the last 10 years has increased at an average annual rate of about 6%. A more pronounced increase was recorded in 2001 of 13% (Figure 4.11), while the lowest increase was recorded in 2006 with an increase of 0.5% compared to the previous year.

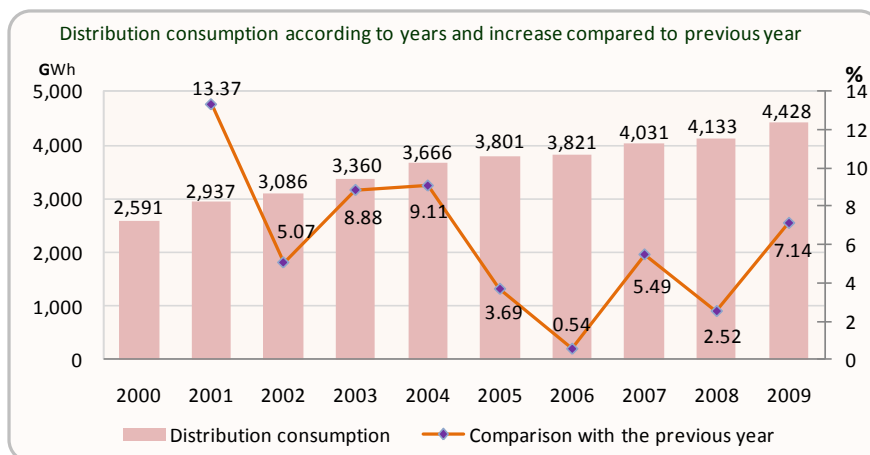


Fig.4.11. Distribution demand 2000-2009

4.6 Electricity Supply to Customers according to ABC Scheme

During 2009, electricity supply improved compared to 2008. In certain cases, however, when there were shortages of electricity, the ABC categorization scheme was applied. Under this scheme, category A customers are classified as those who are regularly paying for electricity supplies and whose feeder points record lower levels of commercial losses. Customers in categories B and C who are not regularly paying for electricity and whose feeder points record higher commercial losses undergo more load shedding.

4.7 Electricity Losses

Electricity losses in Kosova network are quite high and represent a concern for the electricity industry in particular and Kosova's economy in general.

In 2009, total technical losses were 18.3% and commercial losses were 20.8% of the total electricity consumption.

4.7.1 Electricity Transmission Losses

The electricity losses in transmission for 2009 were 175 GWh, which is expressed in percentage as 3.32% of total consumption. The TSO total losses include losses incurred because of transit flows (about 1% of transit electricity is lost).

Tab.4.14. Transmission losses 2009

Months	Units	Total	January	February	March	April	May	June	July	August	September	October	November	December
Total consumption	MWh	5,275,108	577,414	524,405	527,458	391,435	356,843	326,341	339,399	347,585	353,022	450,312	509,924	570,969
Transmission losses	MWh	174,573	22,452	20,194	20,270	12,332	12,878	9,438	8,720	10,061	9,817	14,622	13,021	20,768
Transmission losses	%	3.31	3.89	3.85	3.84	3.15	3.61	2.89	2.57	2.89	2.78	3.25	2.55	3.64

Transmission losses have changed over the years, but since 2006 there is a gradual decrease, from 6.54% in 2006 to 3.32% in 2009. Investment carried out in KOSTT's transmission network has contributed in the decrease of these losses.

Tab.4.15. Transmission losses 2000-2009

Years	Total consumption	Losses	
	GWh	GWh	%
2000	2,835	199	7.02
2001	3,105	122	3.93
2002	3,312	185	5.59
2003	3,541	114	3.22
2004	3,908	170	4.35
2005	4,259	276	6.48
2006	4,283	280	6.54
2007	4,576	267	5.83
2008	4,944	215	4.35
2009	5,275	175	3.32
Total	40,038	2,003	5.00

Until 2006 there was no specific evidence on transmission losses, so for the previous years approximate values have been used; while since 2006 transmission losses are calculated as the difference of energy values measured at transmission entry and exit points.

4.7.2 Distribution Losses

Distribution losses represent the main challenge to financial sustainability of KEK's Supply and Distribution Division.

Table 4.16 shows technical and commercial losses by district for 2009

Tab.4.16. Distribution losses by district 2009

Districts	Load	Realization	Technical losses		Commercial losses		Total losses	
	MWh	MWh	MWh	%	MWh	%	MWh	%
Prishtina	1,302,725	805,775	184,800	14.19	312,151	23.96	496,950	38.15
Mitrovica	649,063	204,482	132,801	20.46	311,780	48.04	444,581	68.50
Peja	507,930	295,185	99,668	19.62	113,077	22.26	212,745	41.88
Gjakova	280,174	180,538	48,556	17.33	51,080	18.23	99,636	35.56
Prizren	733,736	455,004	159,803	21.78	118,929	16.21	278,732	37.99
Ferizaj	562,733	320,798	109,307	19.42	132,628	23.57	241,935	42.99
Gjilan	391,691	270,845	64,202	16.39	56,645	14.46	120,846	30.85
Total distr.	4,428,053	2,532,626	799,137	18.05	1,096,290	24.76	1,895,427	42.80

The table shows that the commercial losses in the Mitrovica district at 48% are significantly higher than in other districts, which is a result of the inability to carry out billing and collection activities in the enclaves.

Total distribution losses were 1,895 GWh, or 42.80% of the energy entering the distribution network. Technical losses in 2009 were 799 GWh, or 18.5%, and commercial losses 1,096 GWh or 24.76%.

The chart below shows losses as a percentage of billed energy.

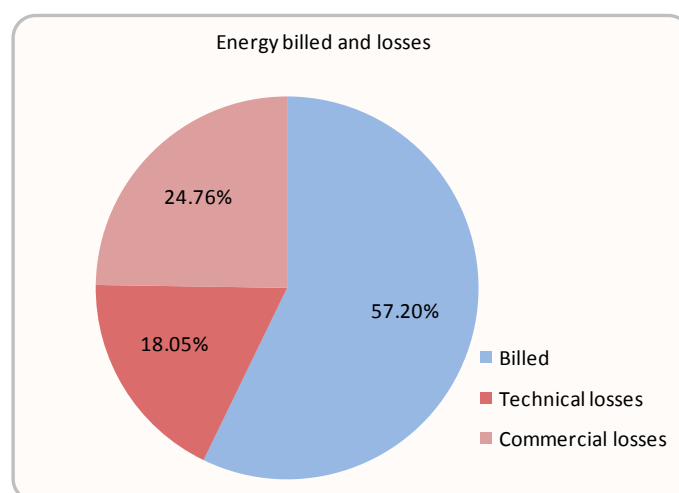


Fig. 4.12 Billed energy and distribution losses

Distribution losses for the past ten years have been quite high, with an average level of 45.14% of total distributed energy.

Tab.4.17. Distribution losses 2000-2009

Years	Load	Realization	Total losses	
	MWh	MWh	MWh	%
2000	2,590,594	1,391,482	1,199,112	46.29
2001	2,936,950	1,555,253	1,381,697	47.05
2002	3,085,929	1,912,829	1,173,100	38.01
2003	3,359,823	1,962,519	1,397,304	41.59
2004	3,665,742	1,956,097	1,709,645	46.64
2005	3,800,852	1,929,936	1,870,916	49.22
2006	3,821,408	1,973,126	1,848,282	48.37
2007	4,031,213	2,092,057	1,939,156	48.10
2008	4,132,783	2,363,281	1,769,502	42.82
2009	4,428,053	2,532,626	1,895,427	42.80
Total	35,853,346	19,669,206	16,184,140	45.14

4.8 Billing and Collection

Electricity billed and collected recorded an increase in 2009. The ratio of collections to billings for 2008 was 71.87%, whereas in 2009 this ratio was 79.70%, which means that the collection has increased by 7.83% compared to the previous year.

Tab.4.18. Billing and collection by district 2009

Districts	Load	Billing	Billing	Collection	Coll./billing
	kWh	kWh	Euro	Euro	ratio
Prishtina	1,302,725	805,775	58,197,763	50,773,744	87.24%
Mitrovica	649,063	204,482	14,370,888	8,957,886	62.33%
Peja	507,930	295,185	21,049,192	17,508,703	83.18%
Gjakova	280,174	180,538	12,271,039	9,428,877	76.84%
Prizren	733,736	455,004	31,277,732	25,403,361	81.22%
Ferizaj	562,733	320,798	22,824,627	16,304,471	71.43%
Gjilan	391,691	270,845	18,304,482	13,733,067	75.03%
Total distribution	4,428,053	2,532,626	178,295,723	142,110,110	79.70%

The total amount collected shown in the table above does not include collection from customers connected in the transmission (Ferronikeli, Trepça and Sharrceci). The total amount collected from these customers was € 25,323,204.

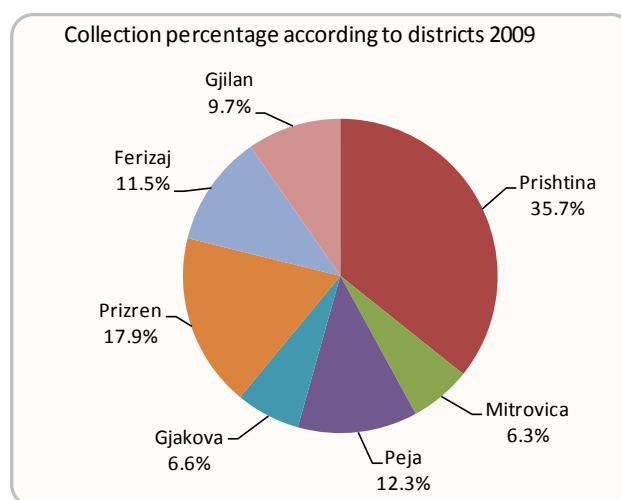


Fig.4.13. Share of total collections by district

The Prishtina District represents 35.7% of total distribution collections, whereas the smallest contribution was from Mitrovica district with only 6.3%.

The chart below shows billings, collections, and the collection to billing ratio from 2000 – 2009, with fluctuations in the collection rate being evident.

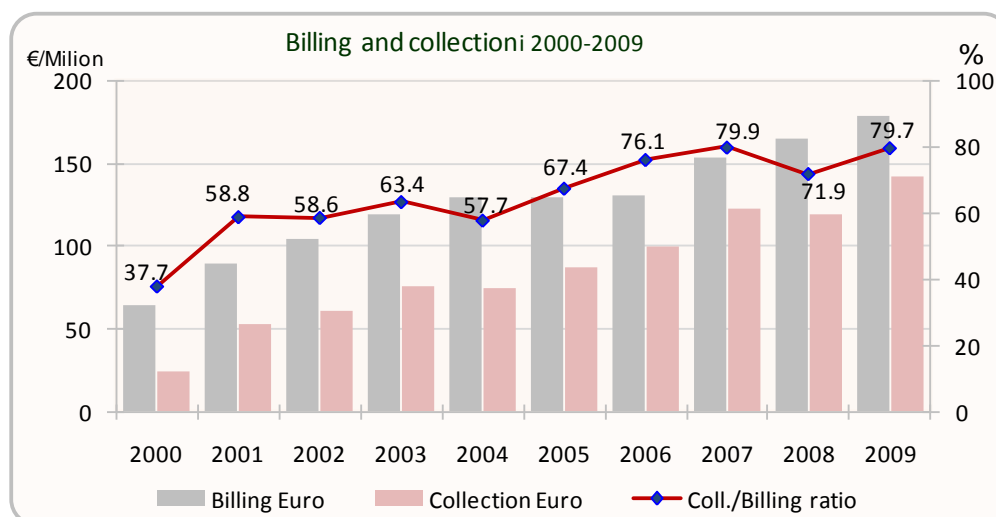


Fig.4.14. Billings and collections 2000-2009

4.9 Electricity Market

The signing of the Energy Community Treaty, as a result of the Athens process, has led to reform at the institutional, legal, regulatory, and operational levels of the electricity industry in Kosovo.

The unbundling of vertically integrated companies is of special importance in opening electricity markets. The first step in this regard in Kosovo was made in 2006, with the separation of the Transmission System and Market Operator from KEK. The process of KEK's unbundling is ongoing and the privatization of distribution and supply is expected to take place.

As far as the opening of the retail electricity market is concerned, it is of special importance to create the conditions for customers to receive eligible status. In January 2009 the Ministry of Energy and Mining issued an administrative instruction which makes it possible for all customers connected at the 10kV and above voltage level to acquire eligible customer status. In August 2009, MEM issued a new administrative instruction which entitles any non-household customer to obtain eligible customer status.

4.9.1 Electricity Flows 2009

The energy flows in the electricity market in Kosovo for 2009 are shown in the figure below, including generation, import, export, wholesale traders, transmission, distribution, supply, regulated and eligible customers, and transit. Electricity flows in the figure are shown in physical values in GWh. Kosovo in 2009 was a net importer of electricity.

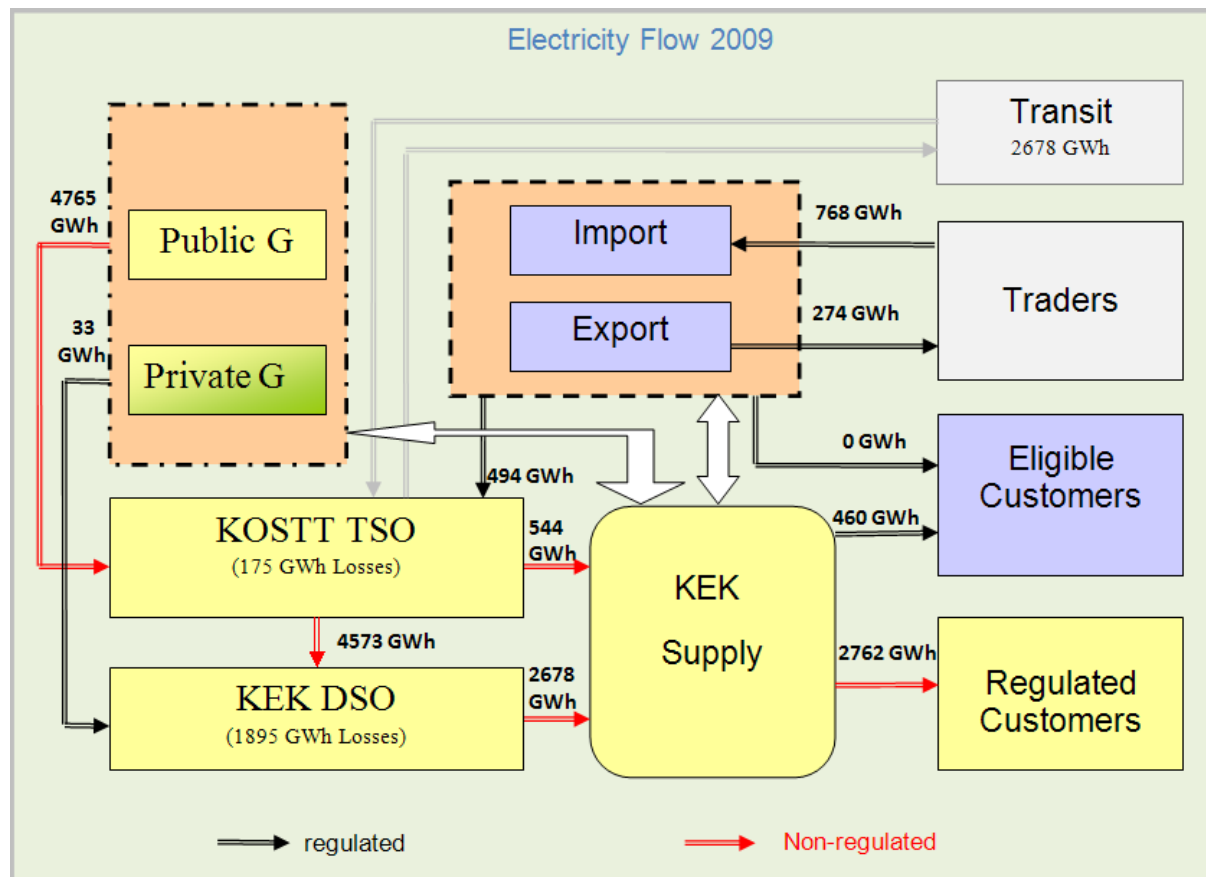


Fig.4.15. Electricity flows 2009

4.9.2 Electricity Import and Export

In order to meet demand during peak periods and when generators are under refurbishment, the energy balance provides for a certain amount of electricity to be imported. Also, the energy balance foresees that in periods of low demand in some parts of the year, surpluses (spillovers) of electricity will result which can be exported. These planned volumes of imports and exports were carried out through tenders announced in 2009 and through contracts and annexes to contracts from preliminary tenders launched in 2008.

KEK's import in 2009 were conducted in the form of electricity exchanges and through contracts entered into with traders. Import prices in the first quarter were very high and varied from 109.50€/MWh to 143.55€/MWh, while in the second quarter a decrease in import prices of up to 62.2% versus the first quarter was noted. This has been influenced by many factors that are largely regional, but also as a result of earlier imports being made under contracts from tenders concluded in the previous year when prices were very high. During the second half of 2009 import prices stabilised.

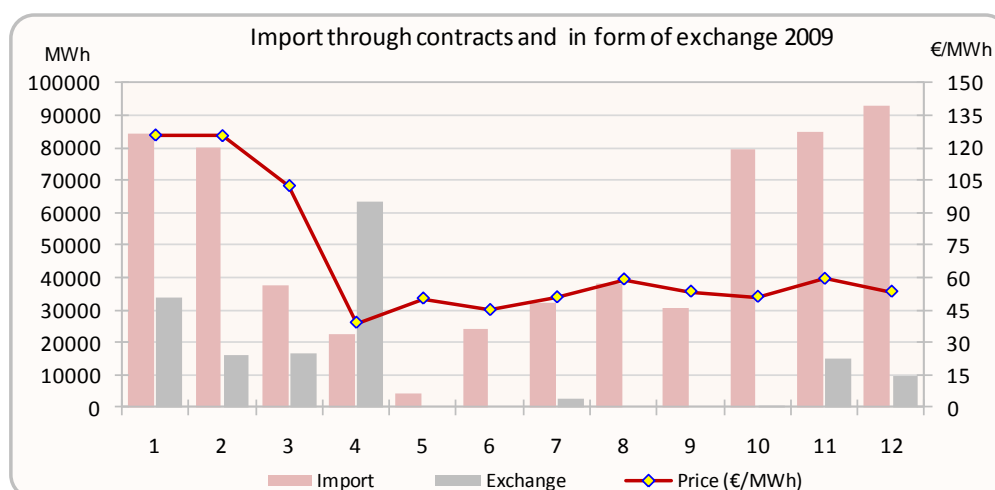


Fig. 4.16 Import volumes and prices 2009

Electricity imported through contracts in 2009 was 610.509 MWh at a total cost of €46,256,119.48. The average price was 75.77€/MWh. Compared to 2008, in 2009 there has been an increase by 33.35% in the amount of energy imported through contracts, while there has been a price decrease of 32.67%. In addition, during the same period KEK has imported energy in the form of exchanges. The exchange was carried out at a return rate of 1:1 for energy returned in the same period, but there was a small amount exchanged at a rate of 1:1.1. Most of the exchange trade was carried out with Albania (KESH). Exchanges (as imports) were 157.033 MWh. Net imports increased by 19.64% compared to 2008.

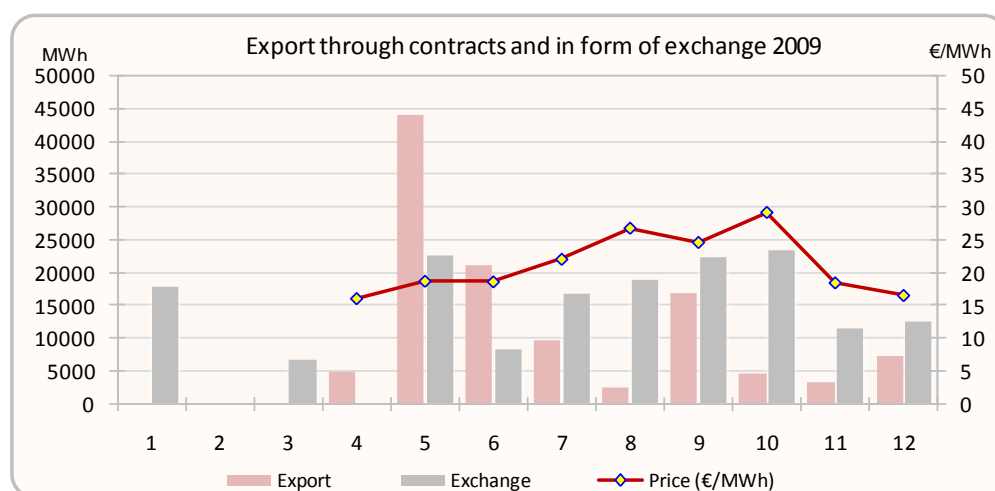


Fig. 4.17. Export volumes and prices 2009

Despite power shortages in Kosova, there are periods when surpluses surface, especially during the summer season during lower (off-peak) tariff periods.

The total amount of electricity exported by KEK in 2009 was 113.910 MWh, at an average price of € 20.17/MWh. These exports have brought KEK revenues amounting to € 2,297,294.60. Export prices are much lower than import prices. The main reason for the low export price is that it is conducted mainly through the off-peak period, from 00:00 to 07:00 am

Exports in the form of exchange during this period were 159.815 MWh. The difference between exports and imports in the form of exchanges is small (3.072 MWh) and KEK in 2009 had a positive balance of energy exchanges. It should be noted that during May, June and September, KEK has had more exports than imports.

Tab.4.19. Exchanges, exports and imports of electricity 2009

Month	Import			Export			Exchange			Total		
	Quantity MWh	Price (€/MWh)	Value (€)	Quantity MWh	Price (€/MWh)	Value (€)	Intake MWh	Offtake MWh	Diff. MWh	Intake MWh	Offtake MWh	Difference MWh
1	84,321	126.10	10,632,844.90	0		0.00	33,730	17,670	-16,060	118,051	17,670	-100,381
2	79,940	125.78	10,054,845.50	0		0.00	15,980	210	-15,770	95,920	210	-95,710
3	37,490	102.53	3,843,862.13	0		0.00	16,420	6,672	-9,748	53,910	6,672	-47,238
4	22,464	38.90	873,849.60	4,870	16.04	78,133.50	63,521	0	-63,521	85,985	4,870	-81,115
5	4,100	50.18	205,717.50	44,155	18.70	825,626.70	0	22,582	22,582	4,100	66,737	62,637
6	23,965	44.84	1,074,492.50	21,085	18.60	392,236.55	0	8,138	8,138	23,965	29,223	5,258
7	32,095	50.75	1,628,874.90	9,555	22.05	210,728.35	2,400	16,592	14,192	34,495	26,147	-8,348
8	37,884	59.06	2,237,492.92	2,400	26.81	64,344.00	0	18,872	18,872	37,884	21,272	-16,612
9	30,610	53.39	1,634,145.40	16,900	24.63	416,262.00	0	22,302	22,302	30,610	39,202	8,592
10	79,700	50.99	4,063,659.10	4,480	29.23	130,928.00	240	23,385	23,145	79,940	27,865	-52,075
11	85,120	59.36	5,052,951.18	3,185	18.45	58,761.50	15,122	11,380	-3,742	100,242	14,565	-85,677
12	92,820	53.37	4,953,383.85	7,280	16.52	120,274.00	9,620	12,302	2,682	102,440	19,582	-82,858
Total	610,509	75.77	46,256,119.48	113,910	20.17	2,297,294.60	157,033	160,105	3,072	767,542	274,015	-493,527

Imports of electricity during the period 2000-2009 have increased and decreased, but prices have increased throughout the period until last year.

During this decade, KEK has imported an amount of 5,477 GWh of electricity through contracts.

Tab.4.20. Volumes, prices and costs of KEK imports 2000 –2009

KEK Import	Volume	Import Price	Costs
Year	MWh	(\$)/€/MWh	mil Euro
2000*	778,870	30.43	23.70
2001*	921,485	29.60	27.28
2002*	627,265	32.67	20.49
2003	314,794	44.53	14.02
2004	483,580	39.64	19.17
2005	349,335	47.87	16.72
2006	393,054	54.87	21.30
2007	539,812	83.66	45.16
2008	457,817	112.52	51.51
2009	610,509	75.77	46.30
Total	5,476,521	52.20	285.65

*Note: In 2000-2002 import prices were set in US dollars. These have been converted to € at an exchange rate of approximately 1.0:1.0

The total volume of exports during the last 10 years was 530.224 MWh, with an average price of €33.74/MWh. It should be noted that from 2000 to 2005, the entire amount of exported electricity was in the form of exchanges at different return rates.

Tab.4.21. Volumes, prices and costs of KEK exports 2000 –2009

KEK Export	Volume	Export price	Costs
Year	MWh	€/MWh	mil Euro
2000	1,440		
2001	236,190		
2002	552,783		
2003	279,510		
2004	191,665		
2005	40,690	29.60	1.20
2006	80,172	40.70	3.26
2007	170,175	38.45	6.54
2008	125,277	36.59	4.58
2009	113,910	20.17	2.30
Total	530,224	33.74	17.88

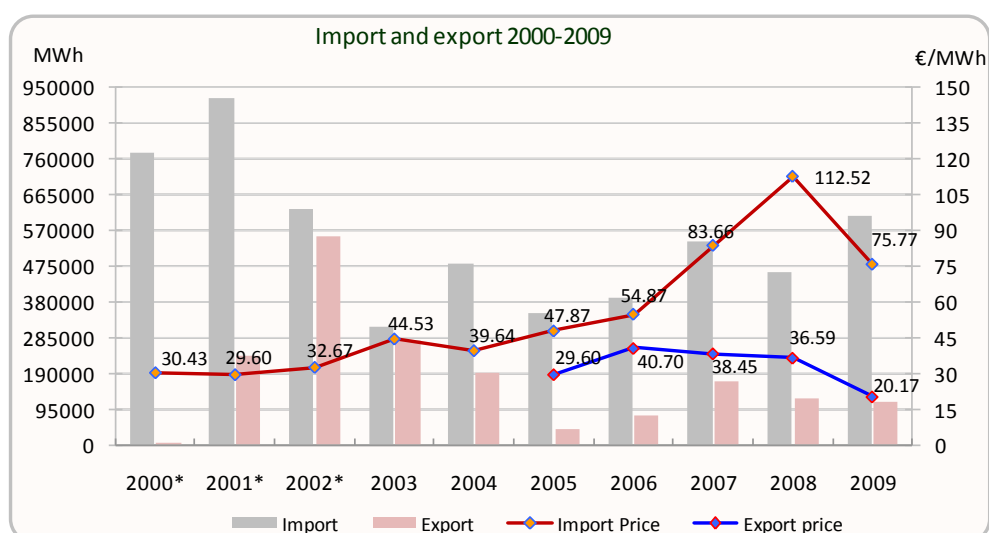


Fig.4.18. Imports and exports 2000-2009

The chart above shows the total imports and exports and their average prices during the last 10 years. The imports shown represent imports through contracts, while exports up until 2005 were in the form of exchanges and, in subsequent years, through contracts.

4.9.3 Comparison of Import Prices with Countries in the Region

KEK's import prices for the first quarter of 2009 were quite high compared to those in the region, while for the the rest of the year they were almost identical.

Prices of imports in contracts concluded by KEK, compared to prices of day-ahead trades, intraday-EEX trades or bilateral trades in some European markets are a good indicator for analysis of price variations.

Tab.4.22. Day-ahead (or contract) prices in the region versus KEK's import prices

2009	EEX		DESMIE		OPCOM		IPEX		APX		KEK-Import	
	MWh	€/MWh	MWh	€/MWh	MWh	€/MWh	MWh	€/MWh	MWh	€/MWh	MWh	€/MWh
January	252,685	70.85	4,349,318	67.47	525,369.00	34.06	27,071,149	83.45	2,289,138	57.53	84,321.00	126.10
February	225,058	57.67	3,976,552	60.58	454,406.00	32.98	24,984,931	76.95	1,869,146	48.63	79,940.00	125.78
March	300,939	41.09	4,081,200	57.27	593,800.00	30.32	26,685,863	69.10	2,345,392	36.96	37,490.00	102.53
April	344,708	37.86	3,599,427	45.32	500,778.00	24.25	24,339,903	58.36	2,229,265	34.60	22,464.00	38.90
May	382,093	35.93	3,902,306	49.41	572,226.00	34.50	24,998,492	58.51	2,473,973	30.74	4,100.00	50.18
June	409,798	39.39	4,351,115	45.79	615,707.00	33.61	25,103,967	51.82	2,529,014	34.00	23,965.00	44.84
July	522,004	34.42	5,158,984	48.20	635,792.00	36.50	28,670,111	60.50	2,485,590	34.10	32,095.00	50.75
August	527,239	38.49	4,528,929	46.91	495,064.00	36.85	23,600,054	71.07	2,471,630	35.59	37,884.00	59.06
September	562,653	43.05	3,934,258	49.73	443,301.00	42.68	26,688,855	66.49	2,354,576	38.42	30,610.00	53.39
October	695,689	43.06	3,899,398	54.22	489,447.00	45.95	28,117,122	57.63	2,511,150	45.73	79,700.00	50.99
November	654,808	39.87	3,901,467	48.58	460,230.00	28.82	26,444,819	53.93	2,713,435	36.11	85,120.00	59.36
December	793,743	39.13	4,223,034	49.52	552,475.00	38.51	26,719,000	57.39	2,773,102	38.03	92,820.00	53.37
Total	5,671,417	43.40	49,905,988	51.92	6,338,595.00	34.92	313,424,266	63.77	29,045,411	39.20	610,509.00	75.77

The prices for base energy (24-hour) in the region are shown below. The price reported varies depending on the entity (e.g. DESMIE (Greece) and IPEX (Italy) include the amount and price for the entire transmitted energy). Imports by KEK are mainly in the form of modulated energy (peak hour imports).

The regional prices and comparison to KEK prices are illustrated below.

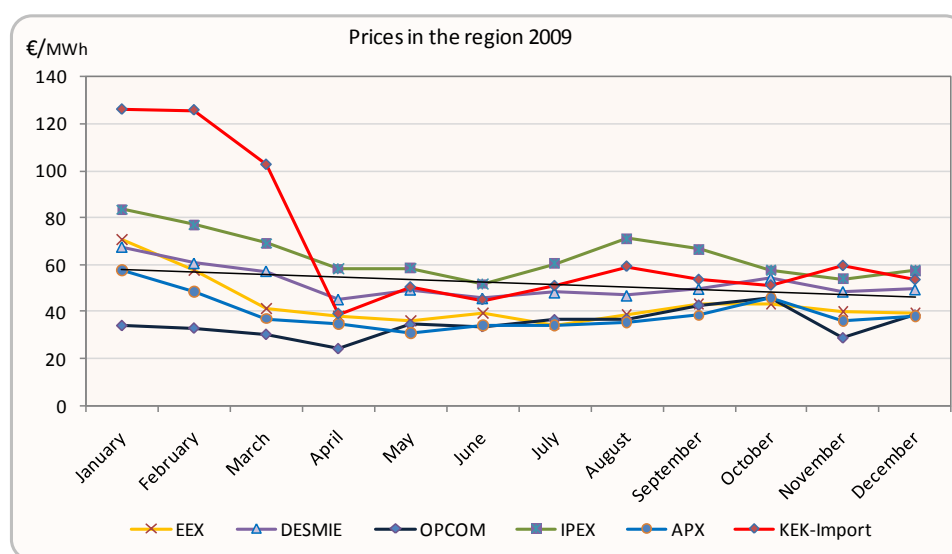


Fig. 4.19 Imports prices in the region and for KEK 2009

4.10 Electricity Tariff Review

The determination of tariffs and prices continues to remain one of the fundamental challenges to regulators in general. In the modern economy, the cost of energy is an integral part of almost every product launched in the market and, as such, plays an important role in the production cost of these products that directly affects their sale price. Thus, any shift in energy prices is reflected like a chain effect in the prices of other products as well. This makes determination of tariffs one of the most important functions of ERO.

4.10.1 Third Electricity Tariff Review

During 2009 ERO initiated the third electricity tariff review. The purpose of this review was to assess the allowed revenues and regulated tariffs necessary for the adequate functioning of the Kosova Energy Corporation JSC (KEK) and the Kosova Transmission System and Market Operator JSC (KOSTT).

Initially, ERO set out the principles and tariff review schedule, based on which the licensees submitted their preliminary application. Following ERO comments on the preliminary application, the licensees submitted their final applications, based on which a Consultation Paper was prepared by ERO. Comments on the Consultation Paper were submitted by the licensees and other stakeholders. After considering these comments, ERO reached its final decision on the level of allowed revenues and regulated tariffs. The third tariff review process is shown in the following figure:



Fig. 4.20. Third electricity tariff review process (ETR3)

4.10.2 Determination of Electricity Tariffs

ERO has reviewed Licensees' applications for allowed revenues and tariffs, pursuant to ERO's secondary legislation, i.e. Pricing Rule and Tariff Methodology. These two documents represent the principles and methodology for the calculation of allowed revenues that should be recovered from regulated tariffs. A summary of the method of calculation of allowed revenues is provided in the following figure:

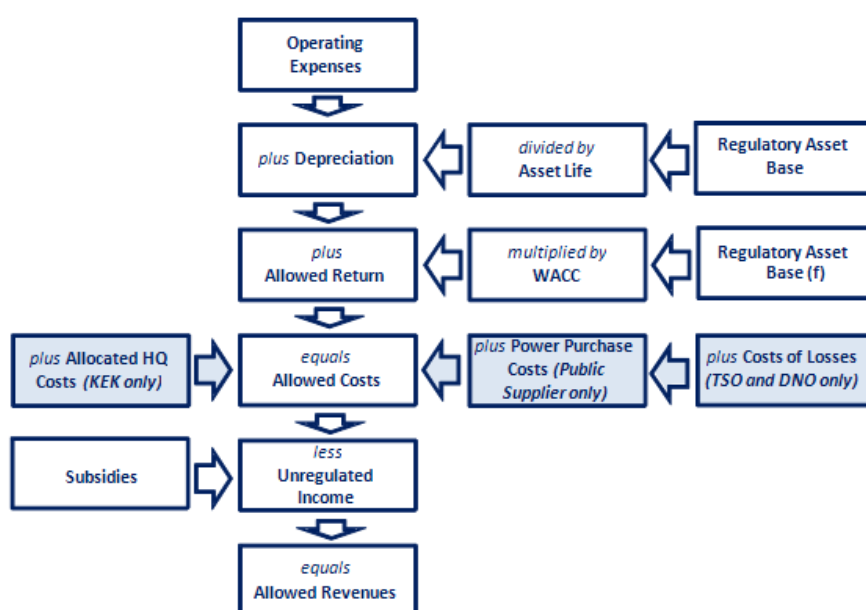


Fig. 4.2 Calculation of allowed revenues for regulated licensees

As shown in Figure 4.28, the allowed revenues of regulated licensees include reasonable operational costs, to which an allowance for the costs of capital investment¹ is added as well as the costs of energy purchase through imports, costs of losses and allocated costs of central administrative functions². The total amount of these costs constitutes the so-called "allowed costs" from which unregulated revenues earned by KEK from subsidies, exports and sales to unregulated customers are deducted. The resulting allowed revenues represent the amount to be from tariffs charged to regulated (non-eligible) customers. This methodology is applied to calculate the allowed revenues of KEK and KOSTT submitted within the framework of ETR3. Following detailed evaluation of these applications, ERO determined that, to achieve the approved level of allowed revenues, tariffs for 2009 should be increased by an average of 2.5% compared to tariffs for the year 2008.

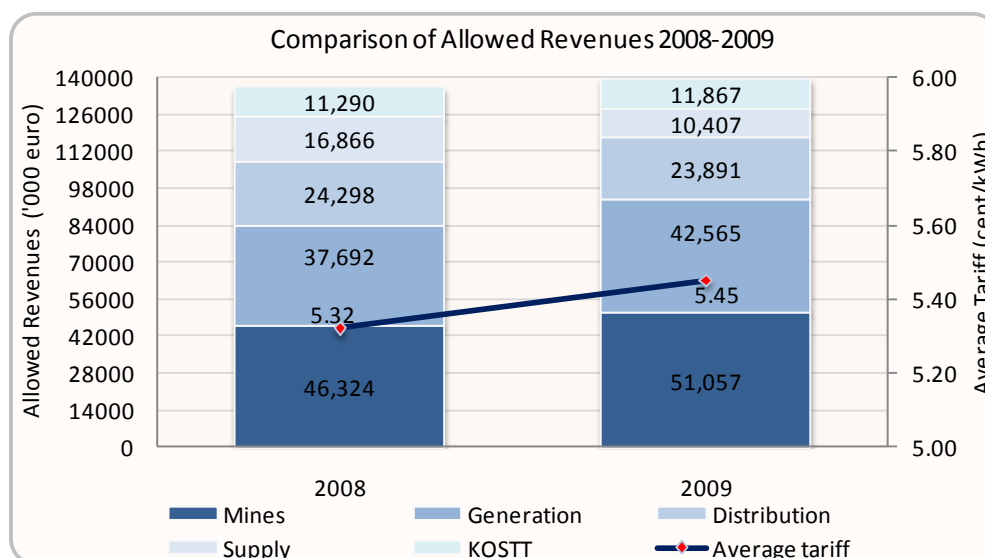


Fig. 4.22. Comparison of allowed revenues and tariffs for 2008 and 2009

As a result of this increase in electricity tariffs, the monthly bill for a customer that consumes approximately 600 kWh of electricity will increase by 63 Euro-cents in summer and 88 Euro-cents in winter, which is considered to be affordable for the average customer. However, to ensure affordability of bills for the customers in need, ERO has continued to apply a rising block tariff system.

4.10.3 Block Tariff

Ensuring the affordability of electricity tariffs is a challenge that is more pronounced in Kosovo compared to other European countries, due to the high level of poverty. Taking this into consideration, ERO has continued to apply a rising block tariff, which is a common practice in countries that aim to ensure the affordability of electricity bills.

The rising block tariff system encourages efficient energy consumption as well as enabling customers in need or with low incomes to obtain a basic level of electricity supply at a lower price, which in most cases is below the average cost of electricity supplies. Thus, the customer pays a lower tariff for a first or lifeline block of electricity consumption (which in Kosovo is under 200 kWh per month), with the tariff subsequently increasing along with electricity consumption. As applied in Kosovo, the tariff for the first and second blocks is below the average supply cost with the difference being covered by a tariff set above the average supply cost for the third block (over 600 kWh per month). This tariff system is shown in the figure below:

¹ As part of the costs of this category are asset depreciation costs and allowed return costs.

² Valid for KEK only

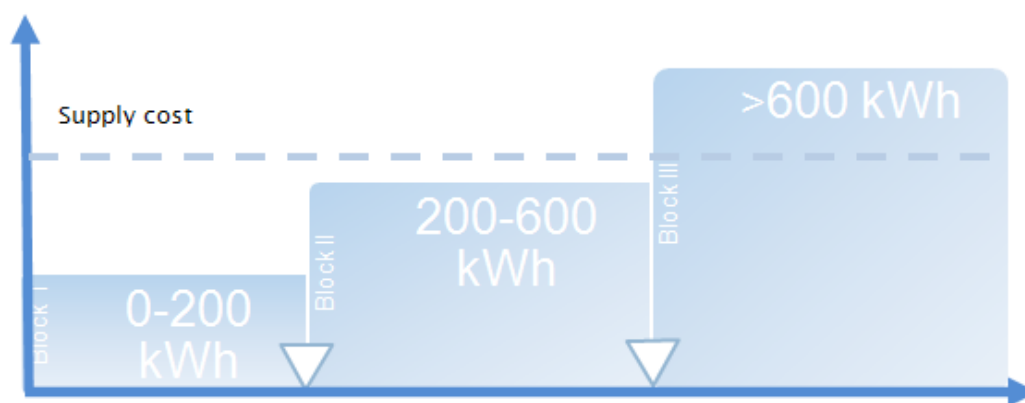


Fig. 4.23 The rising block tariff system

4.10.4 Cost Allocation Principles

The determination of the allowed revenues deemed necessary for the businesses of regulated licensees to function normally is only the first stage of the tariff review. The second stage, which is possibly the most challenging, covers the allocation of these allowed revenues to cost categories and voltage levels in order to derive a set of cost-reflective tariffs. The allowed revenues of regulated companies are divided into three main categories:

- Customer-related costs
- Energy-related costs
- Demand-related costs

These cost categories are then divided by voltage levels, proportionally with the actual costs of electricity supply of each voltage level. Therefore, the tariff for each customer category varies depending on the cost of energy supply for that customer category as reflected by their share of system use at each voltage level and time.

Tab.4.23. Allocation of allowed revenues by customer category

		Customer cost	Demand cost	Energy cost	Total
0. Category - 110 kV	€000	2	979	2,087	3,069
1. Category - 35 kV	€000	3	387	1,056	1,447
2. Category - 10 kV (20 kV)	€000	16	2,345	4,640	7,001
3. Category I - 0.4 kV - commercial with reactive power	€000	829	4,201	5,952	10,982
4. Category II - 0.4 kV commercial without reactive power	€000	1,209	7,430	6,943	15,583
5. Category 0.4 kV household 2 tariff	€000	7,851	38,485	40,488	86,825
6. Category 0.4 kV household 1 tariff	€000	1,633	3,825	4,024	9,483
7. Category 0.4 kV household unmetered	€000	330	2,188	2,302	4,820
8. Category - Public lighting	€000	15	328	236	579
TOTAL	€000	11,890	60,168	67,729	139,787

4.10.5 Comparison of Electricity Tariffs in the SEE Region

Even after the tariff increase under ETR3, Kosova remains among the countries in the region with the lowest electricity tariffs. Figure 4.31 below shows that during the first quarter (January - March) of 2009, only Serbia and Macedonia had lower tariffs than Kosova. During this period, Kosova had to import electricity at a price higher than the costs of domestic production in order to cover its

demand. During the second and third quarters (April - September), when tariffs fall due to lower import requirements, Kosovo is the country with the lowest electricity tariffs in the region.

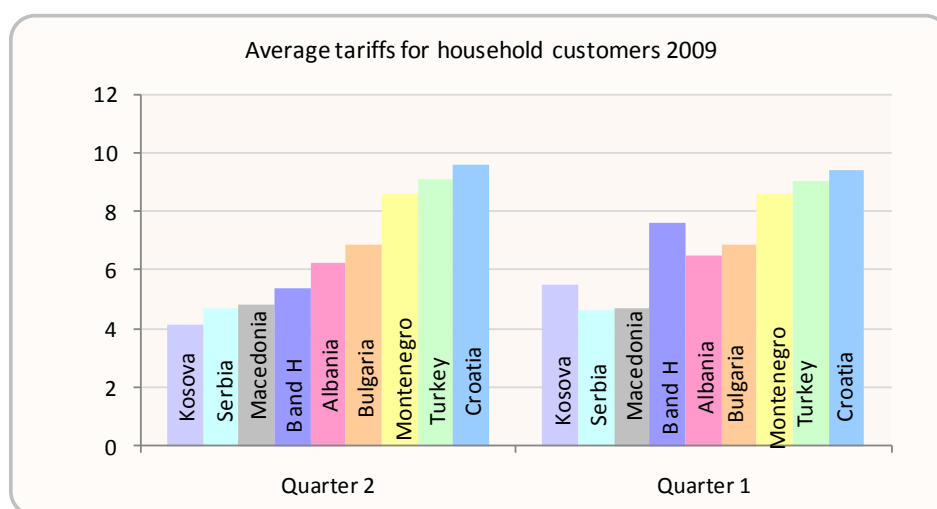


Fig. 4.24 Average tariffs of household customers in SEE countries³

The tariffs applicable from 1 June 2008 are shown in the following table:

³ Source: Energy Regulators Regional Association

Tab.4.24. Retail electricity tariffs for regulated customers

Tariff Group	Voltage level of supply	Tariff elements	Unit	Time-of-day	Approved	
					High season 1 October - 31 March	Low season 1 April - 30 September
0	110kV	Standing (customer) charge	€/customer/year		1,006.00	
		Standing (demand) charge	€/kW		559.00	559.00
		Active energy (P), of which:	€/kWh	High tariff*	6.49	1.92
			€/kWh	Low tariff*	2.70	1.58
		Reactive energy (Q)**	€/kVAh		0.00	0.00
1	35kV	Standing (customer) charge	€/customer/year		133.00	
		Standing (demand) charge	€/kW		581.00	581.00
		Active energy (P), of which:	€/kWh	High tariff*	6.79	2.94
			€/kWh	Low tariff*	3.59	2.65
		Reactive energy (Q)**	€/kVAh		0.66	0.66
2	10kV	Standing (customer) charge	€/customer/year		55.00	
		Standing (demand) charge	€/kW		501.00	501.00
		Active energy (P), of which:	€/kWh	High tariff*	7.61	3.39
			€/kWh	Low tariff*	4.10	3.09
		Reactive energy (Q)**	€/kVAh		0.66	0.66
3	0.4kV Category I (large reactive power consumers)	Standing (customer) charge	€/customer/year		31.00	
		Standing (demand) charge	€/kW		291.00	291.00
		Active energy (P), of which:	€/kWh	High tariff*	8.45	4.69
			€/kWh	Low tariff*	5.33	4.43
		Reactive energy (Q)**	€/kVAh		0.66	0.66
4	0.4kV Category II	Standing (customer) charge	€/customer/year		35.00	
		Active energy (P)	€/kWh	Single tariff	10.41	6.73
		Active energy (P), of which:	€/kWh	High tariff*	12.53	8.21
			€/kWh	Low tariff*	6.26	4.10
5	0.4kV (domestic 2-rate meter)	Standing (customer) charge	€/customer/year		25.00	
		Active energy (P), for consumption:				
		<200kWh/month (First Block):	€/kWh	High tariff*	4.64	3.33
			€/kWh	Low tariff*	2.33	1.66
		200-600 kWh/month (Second Block):	€/kWh	High tariff*	6.43	4.60
			€/kWh	Low tariff*	3.22	2.31
		>600 kWh/month (Third Block):	€/kWh	High tariff*	9.33	6.68
6	0.4kV (domestic, 1-rate meter)		€/kWh	Low tariff*	4.66	3.35
		Standing (customer) charge	€/customer/year		25.00	
		Active energy (P), for consumption:				
		<200kWh/month (First Block):	€/kWh	Single tariff	4.14	2.96
		200-600 kWh/month (Second Block):	€/kWh	Single tariff	5.73	4.10
7	0.4kV (domestic unmetered)	>600 kWh/month (Third Block):	€/kWh	Single tariff	8.31	5.96
		Estimated consumption <200kWh/month	€/customer/month		21.50	
		Estimated consumption 200-600kWh/month	€/customer/month		38.92	
8	Public lighting	Estimated consumption >600kWh/month	€/customer/month		65.58	
		Standing (customer) charge	€/customer/year		35.00	
		Active energy (P), for consumption:	€/kWh	Single tariff	8.42	8.42

*High Tariff applies 07:00-22:00 during the High Season and 08:00-23:00 during the Low Season

**The customer is charged for the reactive energy consumed over the allowed limit, which corresponds with $\cos \varphi = 0.95$

Tab.4.25. KOSTT charges

Tariff group	Voltage level of connection	Tariff elements	Unit	Approved
Generator	400kV / 220kV	Use of system (capacity) charge	€/kW/year	0.000
		System operator charge	€/MWh	1.067
		Market operator charge	€/MWh	0.020
Generator	110kV	Use of system (capacity) charge	€/kW/year	0.000
		System operator charge	€/MWh	1.067
		Market operator charge	€/MWh	0.020
Generator	Distribution	Use of system (capacity) charge	€/kW/year	0.000
		System operator charge	€/MWh	0.328
		Market operator charge	€/MWh	0.020
Supplier	400kV / 220kV	Use of system (capacity) charge	€/kW/year	4.636
		System operator charge	€/MWh	1.067
		Market operator charge	€/MWh	0.020
Supplier	110kV	Use of system (capacity) charge	€/kW/year	10.094
		System operator charge	€/MWh	1.067
		Market operator charge	€/MWh	0.020

4.11 ERO Activities related to the Construction of New Generating Capacity

The main activities of ERO during 2009 in relation to the construction of new generating capacity in Kosovo were related to:

- Active and regular participation in the Steering Committee of the “Lignite Power Technical Assistance Project” (LPTAP), and
- Participation of the ERO representatives in meetings and workshops organized by the office of the LPTAP.

During 2009, numerous meetings of the LPTAP Steering Committee were held. The meetings held in July are of particular note, as they discussed key points regarding the process that will ensure private investment for the implementation of the TPP "Kosova e Re" and proposals for the construction of the TPP. The proposals are based on professional technical studies prepared by prestigious companies, as well as analyses prepared by the project advisors on legal and financial issues. The Project's Steering Committee during this period instructed the project advisors on the finalization of the draft documentation for the tender.

During 2009, the withdrawal of two qualified companies from further participation in the qualification process for the TPP Project “Kosova e Re” was announced. These were among the four companies initially selected in 2006 as bidders to implement the project.

A turning point in moving forward the project for the construction of the new power plant "Kosova e Re" forward is considered to be the decisions of the Government of the Republic of Kosovo announced on July 15, 2009, on the direction of the development strategy of the energy sector, which can be summarized as follows:

- To support the construction of the "Kosova e Re" Power-Plant with a capacity of 2 x 500 MW located near the existing "Kosova B" site.
- To support the opening of the coal mine in Sibovc.
- To rehabilitate and repair the existing TPP "Kosova B" through a public-private partnership.
- To close TPP "Kosova A" by the end of 2015 at the latest.
- To continue with the process of restructuring and privatization of KEK.
- To support the development of new generating capacity using renewable energy sources.



Fig. 4.25 A view of TPP "Kosova B"

The PSC meetings organized in the subsequent months led to final decisions on December 18, 2009, when MEM, on behalf of the PSC issued, a new call for expressions of interest for "the development of the Sibovc lignite field and respective energy generating capacities" with the following components:

- a. The construction of the new power plant, TPP "Kosova e Re" (TPPKR) with initial installed capacity of 500 MW, with the possibility of extension up to 1,000 MW and the corresponding connection facilities;
- b. Immediate development of the "Sibovc Lignite Field" to supply lignite for existing power plants in Kosova that generate electricity from lignite (TPP Kosova A and TPP Kosova B) and the new units of TPPKR when they will be put into operation; and
- c. Participation of the private sector in the rehabilitation of TPP Kosova B.

The application process is expected to close on 26 February 2010. Further details on LPTAP can be found in the website <http://www.lignitepower.com> or obtained from representatives of the Energy Regulatory Office.

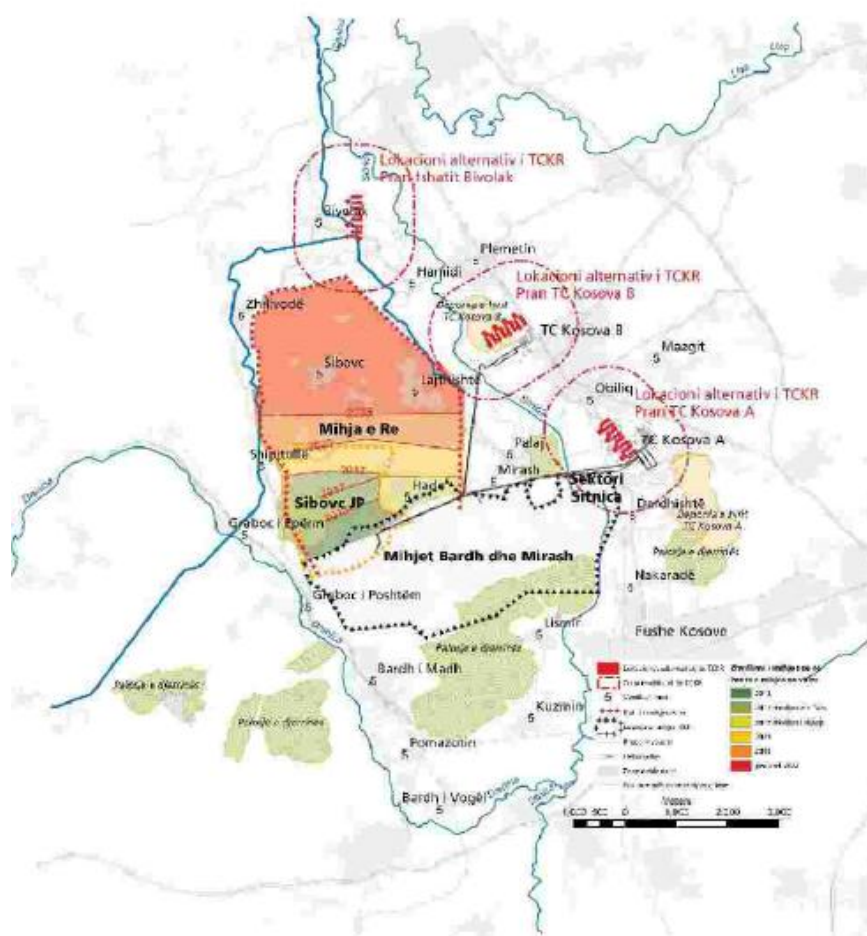


Fig. 4.26 Location of Sibovc mine and possible development options

4.12 Zhuri Hydropower Plant

A presentation of a feasibility study on the proposed Zhuri hydro power plant was held in Prishtina on 3 June 2009 by World Bank-funded consultants within the the framework of the Lignite Power Technical Assistance Project. The proposed Zhuri plant would be located in the southwest of the municipalities of Prizren and Dragash and would have a capacity of 305 MW, with an average annual production of 400 GWh.

ERO is a participant in the technical group that monitors and coordinates activities related to this study and took part in the meetings held with the consultants. Further details on the proposed Zhuri plant can be found on the web site <http://www.lignitepower.com> or obtained from representatives of the Energy Regulatory Office.

5. DISTRICT HEATING SECTOR

5.1 Legal Framework for the District Heating Sector

In addition to two basic laws of the energy sector, the Law on Energy and the Law on Energy Regulator, the legal framework related to the district heating sector in Kosovo has been completed with the Law on District Heating. This law defines conditions and standards for the conduct of heating generation, distribution and supply activities, conditions for operating district heating facilities and equipment, market organization and access to heat distribution networks as well as the rights and obligations of entities that operate under this law.

The district heating sector is also governed by the Law on Public Enterprises which defines issues related to ownership, corporate governance and oversight of these enterprises. This Law classifies district heating companies as local public companies which are to be transferred to the ownership and supervision of their respective municipalities. Pursuant to this Law, such companies are to be organized as shareholding companies, with shareholder rights being exercised by the Municipal Shareholders Committee, while the company activities are supervised by a Board of Directors elected by the Municipal Shareholders Committee.

5.2 Overview of the District Heating Sector

District heating systems operate in four municipalities, Prishtina, Gjakova, Mitrovica and Zveçan, within which they mainly supply heating to urban areas. Relative to the demand for heating, the sector remains small, meeting only 5% of heating demand.

The district heating systems are operated by four companies: District Heating "Termokos"; District Heating "Gjakova"; Working Unit of District Heating "Termomit"; and Working Unit of District Heating "Zveçan".

DH "Termokos" and DH "Gjakova" are structured as shareholding corporations while WUDH "Termomit" and WUDH "Zveçan" are organized as units of the integrated municipal companies of Mitrovica and Zveçan municipalities respectively.

The "Termomit" heating plant and heating plant located in Zveçan, for political reasons, does not respond to ERO requests for information or recognize ERO's jurisdiction making it impossible for relevant and updated information to be obtained.

5.3 Technical Data on District Heating Systems in Kosovo

5.3.1 Generation and Distribution of Heating

The largest district heating plants are owned by DH "Termokosi". These district heating plants have a total (thermal) capacity of 121.62 MW_t and the supporting heating plant located in the University Health Clinic has a capacity of 14 MW_t.

MDH Gjakova is equipped with two furnaces that use heavy oil (mazut), one with a capacity of 20 MW_t and the other 18.6 MW, which provide a total capacity of 38.6 MW_t. The smaller boiler is currently out of service.

A common feature of all heating district heating systems in Kosovo is that their distribution network is comprised of a primary network that extends to the supply site where it enters substations and a secondary network which extends from the substations to the final user.

The primary distribution network of DH "Termokos" is about 30 km in length with a capacity of 300 MW_t; a capacity that is over-sized compared to the heat generating capacity. An integral part of the distribution network is the pumping and heat exchange station located in the "Bregu i Diellit"

neighborhood and 260 substations which are the boundary points between the primary and secondary networks.

The primary distribution network of DH "Gjakova" extends to a length of about 20 km. An integral part of this network is about 202 substations, which are the boundary points between the primary and secondary networks. Heat consumption meters are installed at 42 substations.

Tab.5.1. Technical characteristics of district heating systems

Company (Town)	Installed capacity [MW]	Operational capacity [MW]	Distribution network		Heating generation, season 2008/09	Heating supply to customer Subst., season
			Network length [km]	No. of Subst.		
TERMOKOS - (Prishtina)	2 x 58 = 116	2 x 58 = 116				
	2 x 7 = 14	2 x 7 = 14	30	260	129,517	103,668
	2 x 0,81 = 1.62	2 x 0,81 = 1,62				
	1 x 4 = 4	1 x 4 = 4				
Sub-total	135.62	135.62	30	260	129,517	103,668
DH GJAKOVA	1 x 20 = 20	1 x 20 = 20	20	202	15,211	11,264
	1 x 18.6 = 18.6					
Sub-total	38.60	20	20	202	15,211	11,264
Total	174.22	155.62	50	462	144,728	114,932

5.3.2 Fuel Consumption and Price

Heat is generated in district heating plants equipped with furnaces that mainly use heavy oil (mazut), which is imported at market prices plus a "premium" to recover the supplier's expenses. The price of mazut is heavily influenced by price movements on world markets; during 2009 such movements were very large, directly affecting the total cost of fuel and the cost of district heating.

The price of crude oil on world markets was approximately 370 €/ton in mid October 2008 and fell in 250 €/ton by the end of the heating season, on 15 April 2009. Huge price movements were recorded at the start of the following season. Thus, in mid-October 2009 the mazut price recorded an increase to 346€/ton and reached the value of 362 €/ton in late 2009. The following chart shows mazut price movements on world markets.

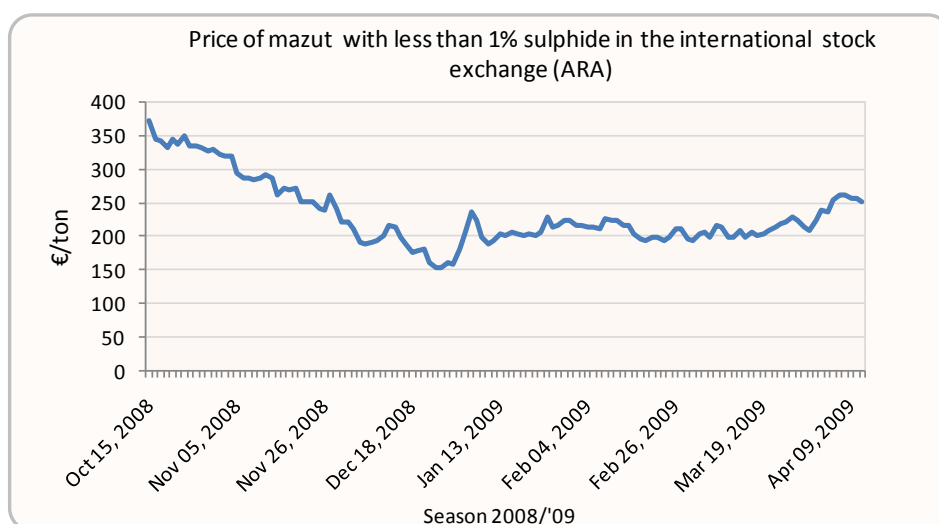


Fig. 5.1 Mazut price on Amsterdam-Rotterdam-Antwerp basis 15 October 2008 – 15 April 2009

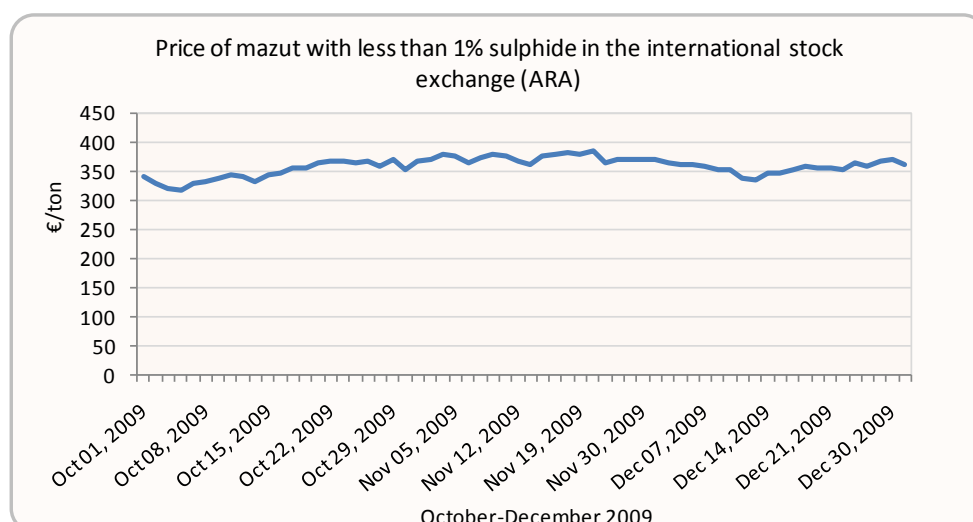


Fig. 5.2 Mazut price on Amsterdam-Rotterdam-Antwerp basis October – December 2009

Source: <http://tonto.eia.doe.gov> U.S. Energy Information Administration Indep. Statistics and Analysis

The table below presents the quantity of fuel (mazut) consumed and its average prices during the heating period 2008/2009 according to data reported by district heating companies.

Tab. 5.2 Fuel consumption and average purchase price for the 2008/2009 season

Company-DH System	Mazut	
	Consumption (ton)	Average purchase price (€/ton)
TERMOKOS - Prishtina	12,143.34	252.59
DH GJAKOVA	1,794.31	223.01
Total of DH Sector	13,937.65	237.80

5.4 Supply, Billing and Collection

5.4.1 Supply service

DH "Termokos supplies district heating to 11,807 customers, of which 11,034 are household customers and 773 are commercial and institutional customers. In the season 2008/2009 the total area to which heating supply was provided by Termokos was 1,030,932 m² which represents a small increase of 6,436 m² on the last season. Of this total area, household customers comprise 634,675 m² (61.56%) and commercial/institutional customers comprise 396,257 m² (38.44%).

The total supply area of DH "Gjakova" heating in the season 2008/2009 was 120,700 m², which represents a small decline of 11,000 m² compared to the previous season. The reason for this decline is the disconnection from the system of a number of commercial and institutional customers, as well as household customers in high storey buildings. Household customers comprise 61,200 m² (50.70%), while commercial and institutional customers comprise 59,500 m² (49.30%).

5.4.2 Billing and Collection

Efficiency in billing and collection has a decisive influence on the financial performance of the companies.

Billing is still carried out based on the pre-assessed heating area of each customer (in square meters) due to a lack of metering of supplied thermal heat. For the reporting year, planned billing levels

were not achieved due to: (i) reductions in bills for days where no heat was supplied (a characteristic of the season 2008/2009 was warm weather during the second half of October); (ii) reductions in bills due to low quality of heat supplies and disruptions caused by technical faults; (iii) reductions in assessed heating areas following verification at the site; and (iv) no billing of buildings disconnected at different periods during the heating season.

The data reported by companies indicate that during the 2008/09 heating season improvements were recorded in collection rates, in particular from commercial and institutional customers. During this season the average collection rate for the entire district heating sector was about 61%, which represents an increase of 23% compared to the previous season.

Tab. 5.3. Collection rate of DH companies for the season 2008/2009

Heating season 2008/2009	Heating area [m ²]	Tariff [€/m ²]	Billing (incl. VAT) [€]	Collection [€]	Collection rate [%]
DH "Termokos" Prishtina					
Households	634,675	0.84	2,593,483	756,674.16	29.18
Commercial and Institut.	396,257	1.00	2,187,603	1,792,117.15	81.92
Total	1,030,932	-	4,781,086	2,548,791.31	53.31
DH "Gjakova"					
Households	61,200	0.90	219,636	94,235.00	42.91
Commercial and Institut.	59,500	1.28	387,603	324,428.00	83.70
Total	120,700	-	607,239	418,663.00	68.95

5.5 District Heating Tariffs

As defined by the Chapter 9 of the Law on Energy Regulator, ERO is responsible for developing a tariff methodology and approving tariffs in the regulated energy sector.

The district heating sector in Kosova is considered to be a natural monopoly concerning heat transportation and distribution, while there is no competition as yet in heat generation and heat supply. Therefore the district heating tariffs are subject to approval by ERO.

In order to fulfill its legal obligations for the determination of district heating tariffs for the heating season 2009/2010, ERO has issued:

- Instruction on Regulatory Reporting of the District Heating Companies
- Instruction on Tariff and Pricing Calculation Principles in the District Heating Sector

5.5.1 Tariff Methodology

In order to formulate district heating tariffs and prices, ERO applies a Rate of Return Methodology (RoR), or the so-called "cost-plus".

Graphically, the RoR methodology may be shown as follows:

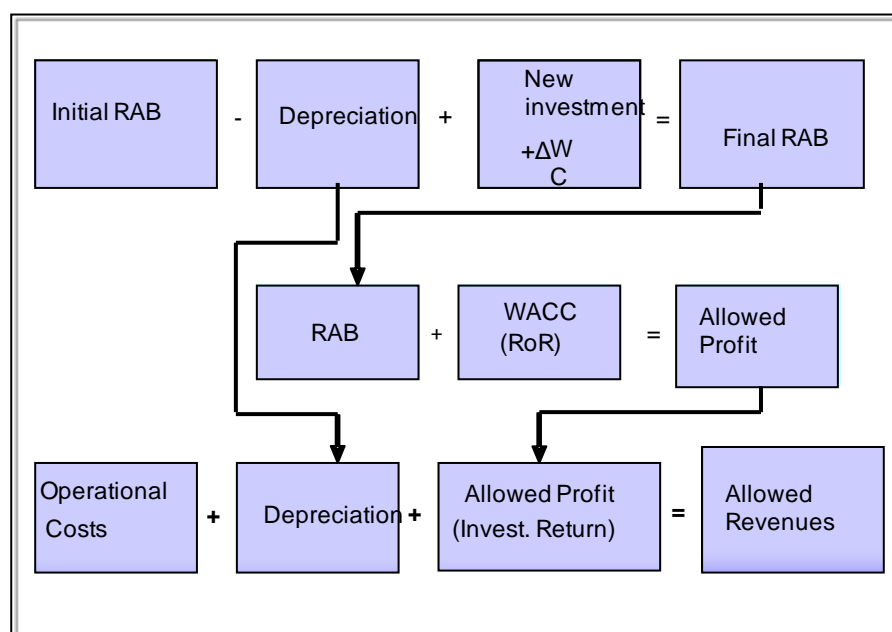


Fig. 5.3 Scheme of the calculation of allowed revenues according to the RoR Methodology

* ΔWC: Difference in Working Capital

Based on the RoR Methodology, ERO determines the allowed revenues that each company should recover from tariffs, i.e. a reasonable allowed cost which should be returned and a reasonable profit rate, which is calculated according to the allowed rate of return (RoR) on the regulated asset base (RAB).

Since tariffs are determined ex-ante (based on projected information), ERO also applies adjustments to allowed revenues, based on the difference between projected allowed revenues and actual revenues of the previous season. The result of this adjustment is reflected in the allowed revenues of the following season.

The table below shows district heating tariffs for the heating season:

Tab. 5.4 District heating tariffs for the season 2009/2010

A. District heating tariffs for unmetered customers

DH COMPANIES	Tariff components	Household customers [€/m ² per month]	Commercial and institutional customers [€/m ² per month]
DH TERMOKOS JSC	Contracted heating capacity (fixed comp.)	0.06	0.08
	Supplied heating (variable comp.)	0.78	0.92
DH GJAKOVA JSC	Contracted heating capacity (fixed comp.)	0.13	0.17
	Supplied heating (variable comp.)	0.77	1.11

B. District heating tariffs for metered customers

DH COMPANIES	Tariff components	Metering unit	Price
DH TERMOKOS JSC	Contracted heating capacity (fixed comp.)	€/ kW per month	0.59
	Supplied heating (variable comp.)	€/ MWh	45.50
DH GJAKOVA JSC	Contracted heating capacity (fixed comp.)	€/ kW per month	1.33
	Supplied heating (variable comp.)	€/ MWh	47.62

The following chart shows district heating tariffs based on the heating area (per m²) of DHC "Termokos and DHC "Gjakova".

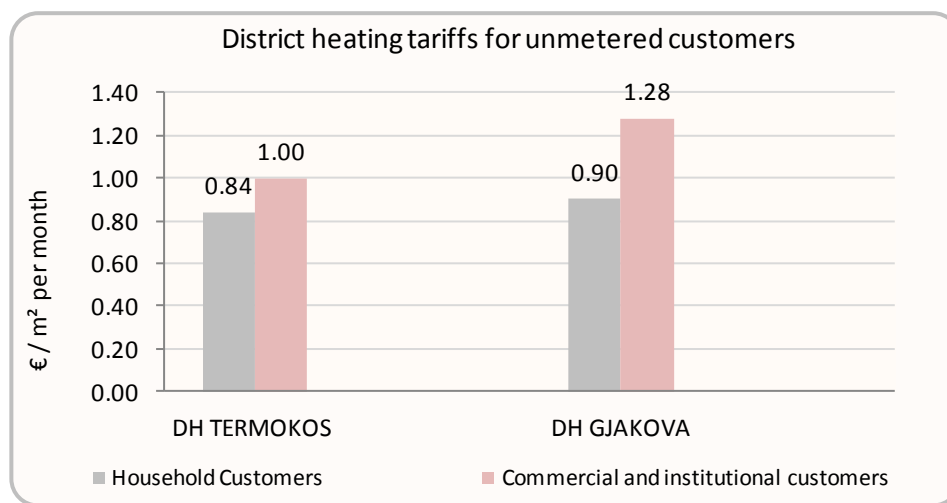


Fig. 5.4 Comparison of district heating tariffs in Kosova

6 CUSTOMER PROTECTION

The Customer Protection Department is responsible for ensuring the application of consumer protection legislation to the energy sector in Kosovo. The CPD is involved in the following tasks: customer protection; analysis of data obtained from KEK; review of customer complaints; participation in KEK screening procedures related to connection and disconnection, writing off debts, resolution of disputes, charges, fines, etc. in order to ensure that the proposed procedures are not discriminatory and that all customers are treated equally.

In 2009, CPD processed a large number of customer complaints. The majority of customer complaints related to disputes over about bills issued by KEK to customers for the unauthorized use of electricity.

A particular problem to be noted for the reporting year is the large number of processes that KEK has established in relation to the unauthorized use of electricity, especially the processes related to tampering with meters by customers.

The majority of customers that have been issued with bills by KEK for the unauthorized use of electricity and who received a negative response to their complaints submitted to KEK have filed complaints to the CPD.

6.1 Complaints and Activities related to Dispute Settlement

During 2009, the CPD recorded 318 consumer complaints, of which 142 complaints were resolved, and 176 complaints remain unresolved. The CPD also resolved 19 outstanding complaints from 2008.

Table 6.1 Complaints registered, resolved and unresolved during 2009 in CPD

Complaints		
Registered	Resolved	Unresolved
318	142	176

During the year 2009, 25 complaints made by commercial customers were returned to the Customer Department in KEK, because of KEKs failure to properly apply the applicable rules and procedures.

The majority of customer complaints registered in 2009 were in relation to replies from KEK. Such complaints expressed objections to bills issued to the customers for unauthorized use of electricity.

Complaints registered in CPD include:

- Bills for the unauthorized use of electricity
- Inaccurate registration of electricity
- Disconnection fines
- Inaccurate reading/billing
- Transfer of debt
- RTK prepayment etc.

During 2009, the CPD held 894 direct conversations and made 111 phone calls with the parties that have contacted ERO with regard to various issues that are directly related to customer complaints.

The CPD staff, in direct discussion with the concerned parties, has continuously instructed and informed them about the applicable rules and procedures.

Of the total number of customer complaints registered during 2009, 76% were about unauthorized use of electricity, whereas 24% related to other matters.

Unauthorized use of electricity is directly connected with the commercial losses of electricity. It should be emphasized that upon examination of these complaints many deficiencies in the process applied by KEK staff have been found.

The chart 6.2 shows the number of complaints registered according to their nature, indicating clearly that the majority of customer complaints related to unauthorized use of energy.

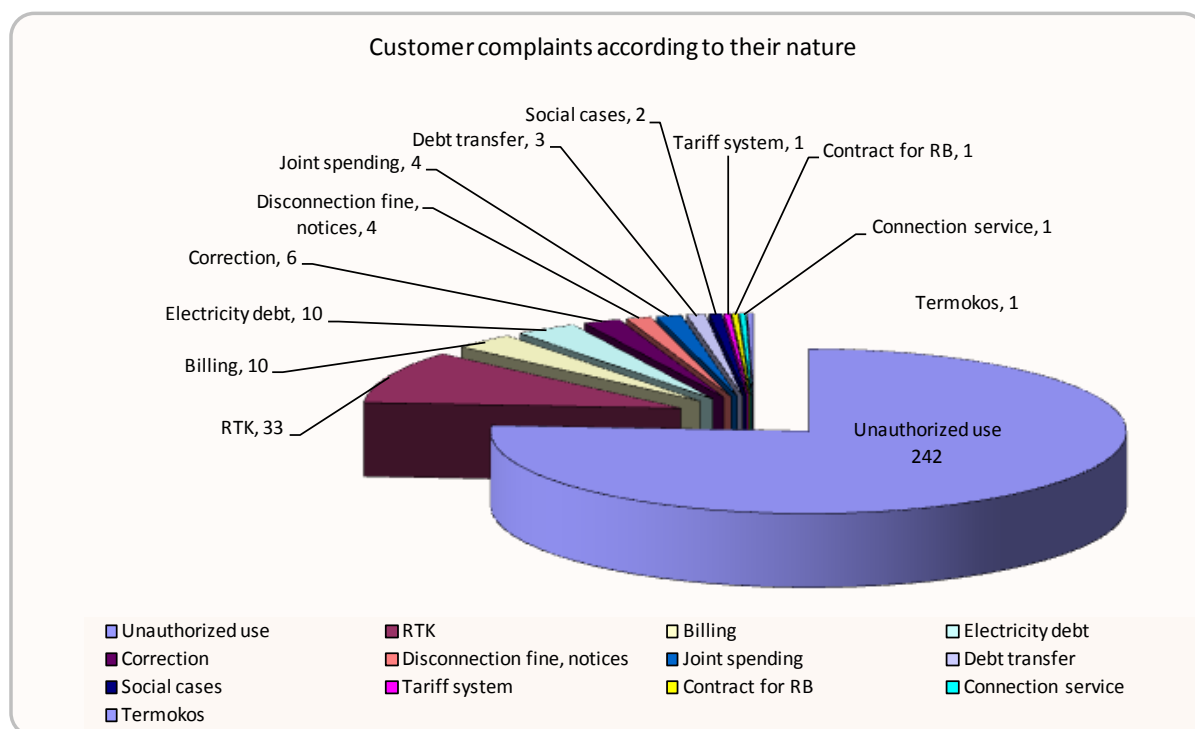


Fig 6.2 Customer complaints according to their nature

The number of complaints according to customer groups is as follows:

- Household customers; 257 complaints or 81%, and
- Commercial customers; 61 complaints or 19 %;
- Industrial customers; no complaint has been registered.

The Tab. 6.2 shows the flow of complaints by year, indicating clearly that in recent years the number of registered complaints has increased, which represents a large workload for the department.

Table 6.2 Comparison of customer complaints across the years

Year	2006	2007	2008	2009
Total	33	116	572	318

7 PROSPECTS OF NATURAL GAS SECTOR IN KOSOVA

It is well-known that there is no natural gas in Kosova. There is no gas infrastructure, with the exception of the old and obsolete network for artificial gas manufactured from lignite with a total length of 254 km.

In the context of the completion of the legal framework for the energy sector and in compliance with the obligations of the Energy Community Treaty of South East Europe (ECT SEE), in November 2009 the Assembly of Kosova adopted the Law on Natural Gas. This Law defines the organization and functioning of the natural gas sector in Kosova, access to the market, conditions and criteria for performing activities of transmission, storage, distribution and supply of natural gas.

Relevant local and international institutions consider the prospects for the development of gas infrastructure and natural gas supply in Kosova in the future as being a realistic possibility. This is mainly as a result of the geostrategic position of our country, at the center of the South Eastern European region, a region through which gas transit pipelines are expected to pass connecting natural gas sources in the Caspian and Russian region with the developed Western European countries.



Fig.7.1. "The Energy Community Gas Ring" Concept
Source: Gasification Study of SEE – KfW-WB

The "Gasification Study of the South East Europe" has proposed the concept of the "Energy Community Gas Ring", which connects seven South East European countries. The study examined in the economic potential for the introduction of natural gas in Kosova, concluding that the supply for industrial and commercial consumption would be feasible.

An important development in 2009 was the inclusion of Kosova in the report on "Demand Scenarios vs. Capacity" prepared under the project for the preparation of the "The 10-year Development Plan

of the European Gas Network" by GTE+ (Gas Transmission Europe). For this purpose, and with the request of GTE+ for the completion of the questionnaire, MEM, in cooperation with ERO and other stakeholders made projections regarding demand for natural gas in Kosova for the period of 2015-2025, and a preliminary plan for the development of a gas transmission network and the layout of this network for further discussion and analysis.

Tab. 7.1 Projections for gas demand in Kosova by sector

Sectors	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Natural gas as a second fuel of TPP with coal	0.00	0.00	246.43	254.35	262.28	270.20	278.13	286.06	293.98	301.91	309.83
Natural gas for TPP with an open&combined cycle	0.00	0.00	0.00	0.00	133.97	138.02	142.07	146.12	150.17	154.22	158.27
Total_DH	0.00	0.00	78.17	80.51	89.66	99.03	101.89	104.85	107.88	111.01	114.23
Total_industry	10.59	18.12	47.10	84.82	144.85	211.28	261.87	300.73	322.65	335.25	347.44
Total_Commerciale & Public buildings	4.25	7.19	23.93	36.58	76.12	107.81	130.13	146.07	152.64	155.81	159.04
Total_Urban residence buildings	5.33	9.33	26.37	38.47	79.54	113.84	140.81	162.17	173.08	180.07	187.19
Total	20.17	34.64	422.00	494.73	786.42	940.18	1,054.90	1,146.00	1,200.40	1,238.27	1,276.00

Source: GTE+ Report Demand Scenarios vs. Capacity

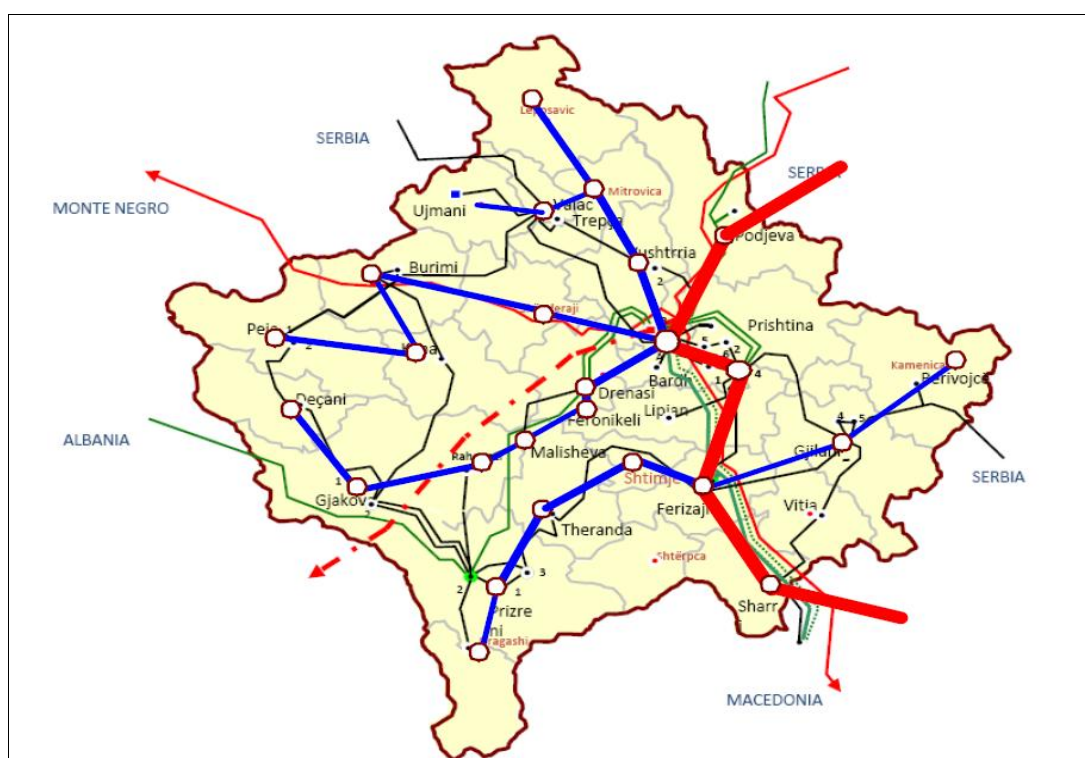


Fig.7.2. Preliminary plan of the natural gas transmission network in Kosova

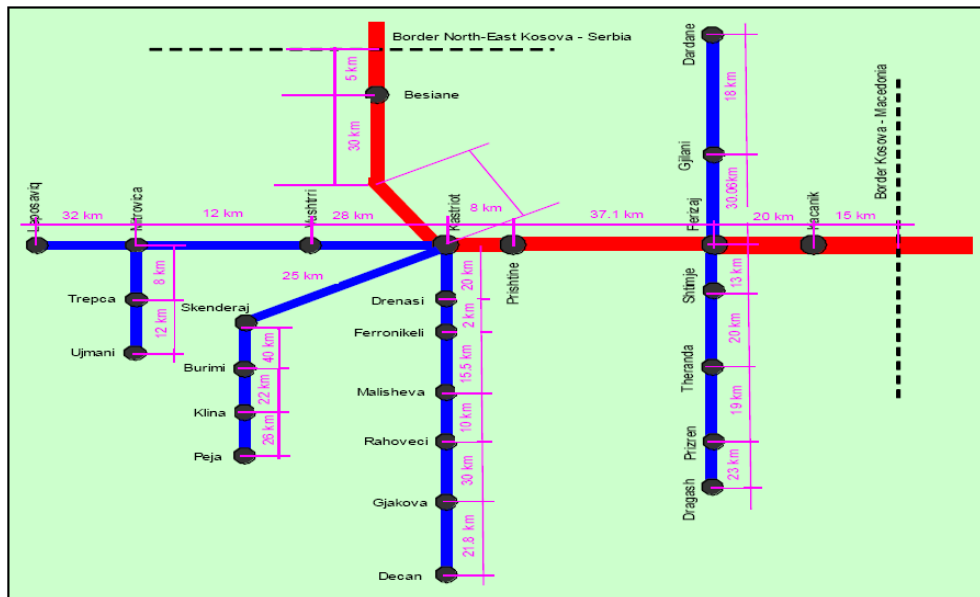


Fig. 7.3 Schematic layout of preliminary plan of the natural gas transmission network in Kosovo

Source: GTE+ Report Demand Scenarios vs. Capacity

Vertical red lines indicate the transmission network lines of the Kosovo segment of Energy Community Gas Ring; blue lines indicate the internal transmission network.

In the context of the completion of its legal responsibilities for the development of the regulatory framework and obligations under ECT SEE, during 2009 ERO monitored regional developments related to natural gas and participated actively in the work of the Gas Working Group within the Energy Community Regulatory Board and the Gas Forum. In this respect, ERO contributed, inter alia, by providing information, comments, remarks and suggestions for the preparation and finalization of documents among which are included:

- Draft Report: Regulatory Framework for the Development of the Energy Community Gas Ring - This document elaborates possible regulatory instruments to enable the implementation of the Gas Ring concept;
- Final Report: Study on the improvement of interconnections, interoperativity, transparency and harmonization of operational rules for the transportation of natural gas in the Energy Community.

All documents, reports and studies relating to the natural gas may be found in the website of the Energy Community Treaty: www.energy-community.org

8 INTERNATIONAL ACTIVITIES OF ERO

8.1 ERO and the Energy Community Treaty of South East Europe

The Energy Community of South East Europe is effectively an extension of the EU energy market to this region. The community was established under a Treaty ratified by all parties in the region: Albania, Bulgaria, Bosnia and Herzegovina, Croatia, Kosova (as UNMIK), Macedonia (FYROM), Montenegro, and Serbia. The Treaty entered into force on 1 July 2006.

The main objectives of the Energy Community are to: establish a regulatory and market framework; attract investment and ensure a steady supply of energy; create an integrated market that allows cross-border trade; promote integration into the EU market; increase security of supply; introduce competition; and to improve the environmental situation.

Since March 2009, 14 EU countries have "member" status in the Community: Austria, Bulgaria, Czech Republic, Cyprus, France, Germany, Greece, Hungary, Italy, Romania, Slovakia, Slovenia and the United Kingdom, while Gruzia, Moldova, Norway, Turkey and Ukraine have "observer" status.

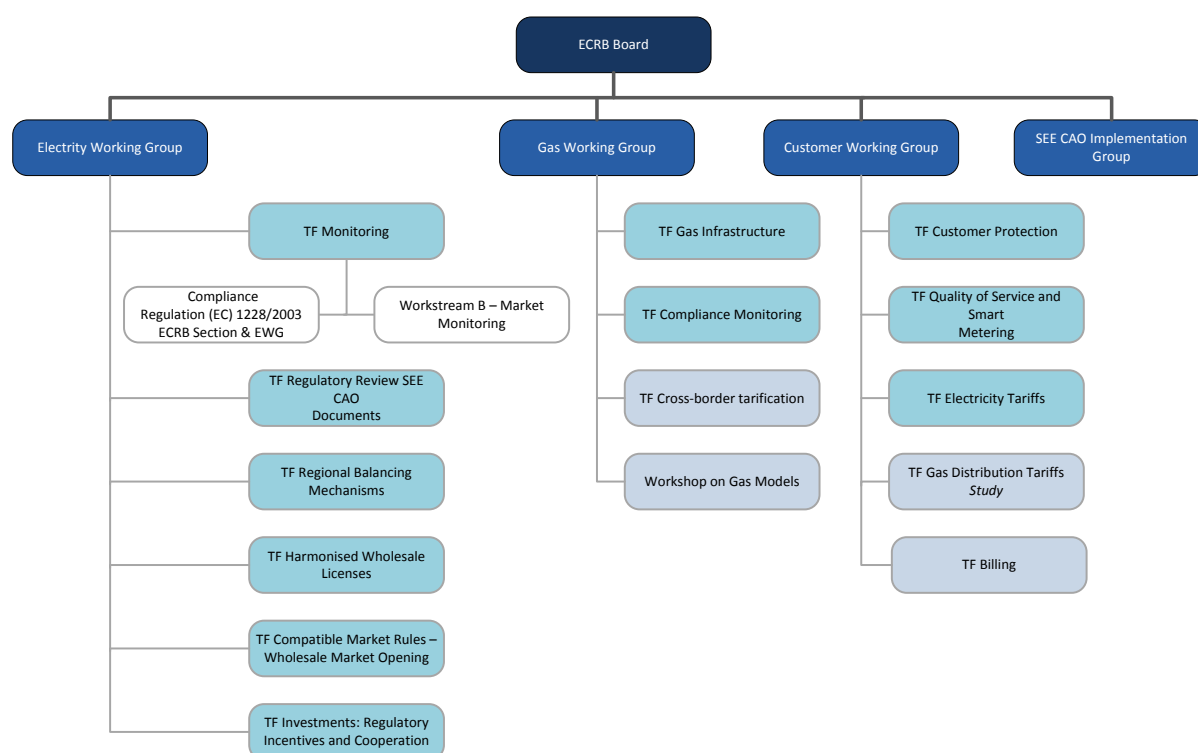


Fig.8.1. Composition of the Regulatory Board of the Energy Community Treaty of South East Europe

The key institutions of ECT SEE established to oversee the processes are the following: the Ministerial Council, a Permanent High Level Group, the Regulatory Board (RB) of the Community, various Fora and the Secretariat. The Regulatory Board of the Community is an institution established under Article 58 of the Energy Community Treaty and, among others, has the role of being the coordinating body for national regulators, developing the optimal regulatory framework and harmonizing approaches to carrying out the tasks of the Energy Community Treaty. The Secretariat of the Energy Community Treaty manages and coordinates the activities of the Regulatory Board (RB) from its seat in Vienna. Fig. 8.1 shows the organization of the ECRB along with its working groups and subgroups.

The main long-term objectives and priorities of the RB are the: development of a competitive market; integration of national markets into a regional energy market; identification and elimination of barriers to cross-border trade and competition; customer protection and social issues; security of supply from a regulatory perspective; network security and quality of services; development of a regulatory framework for renewable sources; and efficient use of energy. The Energy Community Regulatory Board meets four times during the year in Athens. It is directed by the chairman of the RB, and the European Commission's representative acts as a deputy chairman of the RB. The RB has three working groups on gas, electricity and customers. A fourth group, the South East Europe Coordinated Auction Office Implementation Group (SEE CAO IG) has recently been established. Besides regulators, system operators, traders and system users belong to this group. The working groups have established sub-groups ("Task forces") responsible for specific tasks.

The 8th Region was defined by the ECT Ministerial Council in a meeting in Brussels on 27 June 2008, in the form of amendment to the Annex to Regulation (EC) No 1228/2004 on conditions for access to the network and cross-border exchanges in electricity. The countries of the 8th Region are: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Former Yugoslav Republic of Macedonia, Montenegro, Romania, Serbia, Kosova (as UNMIK), Greece, Slovenia and Italy, in accordance with interconnection links with the ECT member parties. At this meeting it was decided that the above-mentioned countries must implement coordinated congestion management and capacity allocation procedures in the market on at least an annual, monthly and daily basis no later than 31 December 2009.

ERO has nominated its members to the RB and acts on behalf of Kosova in working groups relating to regulatory issues. The working group meetings are held in Vienna and Athens.

In accordance with its objectives, in 2009 the RB has contributed to harmonize regulatory legislation in key sectors such as gas, electricity and customer-related issues. A special activity has been the establishment of the South East Europe Auction Office.

8.1.1 The ECRB Activities during 2009

- Congestion management and interconnector capacity allocation procedures (under TF-1) represent an integrated and transparent approach to cross-border capacity allocation, which is a prerequisite for a functioning regional electricity market. After a "dry-Run" phase and following comments and discussions between stakeholders, a General Auction Office comprised of the SEE TSOs will be established. Regulators have played an important role in this activity and are part of the decision-making group on the capacity auction rules which must be prepared by the transmission operators.
- The Regional Balancing Mechanism began to be elaborated in 2007. Further steps are expected in the future concerning the development of the Regional Balancing System. The development of the regional balancing software platform "BETSEE" has continued based on the experience of its use in 2008. The software update was financially supported by the RB. In late 2009 a "dry-run" was carried out in the presence of a large number of participants from regional countries.
- The opening of the regional wholesale electricity market and compliance with market rules is among the main pillars of future regional development in SEE. A prerequisite to such a development is the harmonization of regulatory approaches. The World Bank has funded a study on the opening of a regional wholesale market which during 2009 has been provided with many comments from members of the electricity working group, including from ERO. The study is expected to be completed during 2010.

- Harmonization of licenses (under TF-4) is another activity of the RB. The harmonization of trade licenses remains a priority in order to allow for mutual recognition of these.
- Given the size of national markets, cooperation between regulators in terms of cross-border investment and planning (TF-5) is also an important issue in the region. Preparation of a consultation paper on this subject began in 2009 and it is expected to be completed in 2010.
- The Gas Working Group, during 2009, focused on the establishment and harmonization of a regulatory framework to facilitate the development of "the Energy Community Gas Ring" in order to promote new and additional gas infrastructure in the Energy Community. This aims at the interconnection of national gas markets and the creation of a regional gas market within South East Europe. Among the tasks of the Gas Working Group is the implementation of the "acquis communautaire" on natural gas trade and cross-border cooperation, interconnection and interoperativity of transmission lines and on natural gas transit as well as the harmonization of transmission tariffs. ERO is actively involved in the work of the GWG, participating in the meetings of this group and of the Gas Forum as well as providing information, data and comments for the preparation of relevant documents.
- The Customer Working Group in 2009 held four regular meetings. The main activities undertaken by the group related to the protection of customers in need, the quality of power supply, and a study on gas distribution tariffs and supply quality. The RB adopted the document on the protection of customers in need and the report on the quality of energy services, standards and incentives on the quality of supply. The documents have been published on the RB's website.

The RB continued its advisory role to the SEE ECT Ministerial Council on the following issues: monitoring and planned work for the regional electricity system and the regional market with suggestions for regularising operation of the regional market; working towards a common electricity and gas market; further opening of the market; mutual recognition of licenses in the region; taking positions with regard to regional balancing proposals; and establishment of the South East Europe Auction Office.



Fig. 8.2 SEE ECT Member Countries

During 2009, many documents prepared by the working groups and by consultancies under the ECT consultancy continued to fail to recognize the Kosova Transmission System Operator (KOSTT) as

having equal status with the Serbian Transmission System Operator. This dispute has been brought continuously to the attention of the SEE ECT Secretariat by KOSTT since 2008, but there is still no decision on this issue.

During 2009, two meetings were held by the SEE ECT Forum in Athens. At the first meeting, held on 13 May 2009, the Forum supported the activities conducted for the establishment of the auction office for cross-border capacity allocation, expressing also its concern about the participation of only five national TSOs in the Auction Office. Governments and regulators have been invited to harmonize national legislation with the suggestions of the ECT study on the establishment of the Auction Office.

Issues related to tariff methodology, tariffs and their impact on consumers have also been addressed, with recommendations that tariffs reflect actual costs and that the subsidies are avoided. The issue of the establishment of the market, transparency and market monitoring has been discussed in view of support for further developments being in full compliance with the "Acquis". At the second meeting of the Forum, held on 25 November 2009, the third legislative package of the European Commission and the establishment of ENTSO-E, an organization of national European operators that focuses on the need for coordination between SEE TSOs within the framework of ECT, were warmly received. At this meeting, as well, support was shown for the development of the regional auction office, and a warm reception was extended to the proposals made in the updated version of the study "The opening of the wholesale market in the SEE Region", conducted by a consultancy under the Treaty and funded by the World Bank, as well as on issues related to investment in transmission infrastructure and issues related to security of supply in accordance with the Directive 2005/89/EC.

The Energy Regulatory Office in 2009 continued its cooperation with the Secretariat of the ECT by filling out various questionnaires. It also contributed in updating the National Report on Kosova, which is published by the secretariat itself.

8.2 Energy Regulators Regional Association

The Energy Regulators Regional Association (ERRA) is an independent organization founded in 2001, with the participation of independent regulatory agencies primarily from Central European countries, the Eurasian region, Asia, the Middle East and the USA. The main objectives of the ERRA are the promotion of information exchange and sharing of regulatory experiences in the region and beyond. The ERRA Secretariat is located in Budapest, Hungary. The funding of activities is now primarily supported by the member states, although since the time of its establishment NARUC and USAID have been its main financial supporters. ERO is an associate member of the Association.

ERRA has the following committees/working groups: Licensing/Competition Committee; Tariff Committee; Legal Committee; Chairmans' Committee; and Gas Committee. ERO is represented in all the working groups of the Association.

- The License and Competition Group held three meetings in 2009 and discussed the following topics: licensing/competition; capacity balancing; market prices; regional wholesale market; monitoring etc.
- The Tariff Committee held four meetings in 2009 and discussed issues related mainly to tariffs, quality regulation through prices, regional market etc.
- The Legal Committee held two meetings in 2009, with the aim of bringing together regulatory staff dealing with regulatory issues, licensing and customer dispute settlement.
- The Chairmans' Committee held two meetings, elaborating topics related to market issues, global financial crisis, market monitoring, gas shortages in Central and South East Europe, renewable sources, issues related to social customers etc.

- The Gas Committee was established in 2008, with the aim of analyzing the regulatory preconditions for the creation of a regional gas market and the development of harmonized regulatory legislation.
- ERO has had close cooperation with the ERRA by participating actively in meetings, providing comments on documents and responding to different questionnaires on the energy sector.

8.3 Partnership between the Energy Regulatory Office and the Illinois Commerce Commission, USA

The Partnership signed in 2008 between the Illinois Commerce Commission (ICC) of the USA and ERO continued in 2009. The Partnership is financially supported by USAID and its activities are managed by NARUC.

In the course of this cooperation various technical workshops and training activities were held. Topics addressed related to the regulatory areas of: market and license monitoring; tariff reviews; decision-making procedures; customer protection; public participation in decision-making; and other challenging issues that the two institutions face.

The first event was held in Prishtina in 2008. In 2009, two one-week partnership events were organized in Illinois and Prishtina. The second event under this partnership was organized in Chicago and Washington, from 8 to 12 June 2009. Five members of ERO's staff (two Board members, two department heads and an expert) attended it. During this trip ERO representatives met with representatives of the US Federal Energy Regulatory Commission, USAID and NARUC.

From 2 to 6 November 2009, ERO and the ICC met for the third time in Prishtina and held discussions on technical issues and regulatory policies. The partners had insightful discussions in parallel technical groups that focused on the development of tariffs and prices, protection and better services for customers, licensing and monitoring of energy activities and on renewable energy sources. The partnership is expected to last until September 2010.

In addition to workshops organized by ERO, to enable its partners better understand the structure of the energy sector in Kosovo, meetings were also held with the KEK Department of Regulatory Affairs and the KEK Customer Care Office. A visit was also made to the KEK Dispatching Center - Distribution Division.

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