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

ANNUAL REPORT
2010

FOREWORD BY THE CHAIRMAN

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 Kosova 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 reisssue 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

AIB	Association of Issuing Bodies
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
ECRB	Energy Community Regulatory Board
ECLO	European Commission Liaison Office
ECSEE	Energy Community of South East Europe
ECT	Energy Community Treaty
SEEECT	South Eastern Europe Energy Community Treaty
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
GTE	Gas Transmission Europe
GWG	Gas Working Group
GWh	Gigawatt hour
HPP	Hydro Power Plant
HV	High Voltage
ICC	Illinois Commerce Commission
IT	Information Technology
ITC	Inter TSO Compensation
JSC	Joint Stock Company
KEK	Kosova Energy Corporation
KESH	Albania Power Corporation
KfW	Kreditanstalt für Wiederaufbau
LCWG	Licensing and Competition Working Group
km	Kilometer
KOSTT	Kosova Electricity Transmission System and Market Operator
kV	Kilovolt
kVA	Kilovolt-ampere
kW	Kilowatt
kWh	Kilowatt hour
LLD	Legal and Licensing Department
LNG	Liquid Natural Gas
LPTAP	Lignite Power Technical Assistance Project

MA	Municipal Assembly
MEM	Ministry of Energy and Mining
MO	Market Operator
MVA	Megavolt-ampere
MW	Megawatt
MWh	Megawatt hour
NARUC	National Association of Regulatory Utility Commissioners
PTD	Pricing and Tariff Department
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
TF	Task Force
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

The Energy Regulatory Office (ERO) is an independent agency established by the Assembly of the Republic of Kosova in accordance with Articles 119.5 and 142 of the Constitution of the Republic of Kosova.

The powers, duties and functions of the Energy Regulatory Office are set forth in the Law No. 03/L-185 among which are the following: creating and operating an efficient, transparent and non-discriminatory energy market; determining criteria and conditions for issuing licenses for the conduct of energy activities; determining criteria and requirements for granting authorizations for the construction of new generating capacity; monitoring and enhancing security of electricity supply; setting reasonable criteria and conditions for energy activities pursuant to tariff methodology; monitoring and preventing any abuses of dominant positions and anti-competitive practices by energy enterprises and dispute settlement in the energy sector.

1.2 Organizational chart of ERO

ERO is directed by a Managing Board, and is made up of four (4) departments, a technical advisory group and an administration office.

1.2.1 Board

The Managing Board is composed of five (5) members, including the Board Chairman who is also the Head of ERO. The Board Members and the Chairman are proposed by the Government and appointed by the Assembly of the Republic of Kosova. During 2010 the ERO Board operated with four (4) Members because the mandate of a Board Member expired in February 2010. ERO has informed the Government and the Assembly of Kosova on time about this issue.

The Chairman of the ERO Board reports on its activities and developments in the energy sector to the Assembly of Kosova and its functional committees upon their request. The Chairperson of the ERO shall submit to the Assembly an annual report no later than three (3) months after the end of the calendar year. ERO Board discharges its duties in accordance with the responsibilites assigned to it by the Law on Energy Regulator. It organizes and supervises activities of ERO; approves regulatory and operational policies, supervises preparation and implementation of the budget and the financial management of ERO, approves the remuneration and other terms and conditions of employment, appoints and supervises the work of personnel.

The Board should hold at least ten (10) sessions a year, which should be open to the public and announced five (5) days prior to being held, by the publication of the agenda in the official website of ERO.

Activities of the ERO Board

In 2010 the Board held ten (10) sessions and reviewed various issues on the regulation of the energy sector issuing 108 decisions, which have been made public in the official website of the ERO, and they may be classified into:

- Approval of tariffs 4
- Approval of Codes 3
- Approval of Rules, Methodologies and Procedures 9

- Approval of Licenses and Authorizations 11
- Approval of PPA 3
- Approval of Derogations in articles of licenses and codes 12
- Approval of Customer Complaints reviewed by the Board 60
- Other 6

Board Members have cooperated and participated actively in all important activities carried out in the energy sector in Kosova and in the region.

During 2010 the Board has been fully operational and has fulfilled its duties and obligations under its legal mandate.

1.2.2 Legal and Licensing Department

The Legal and Licensing Department (LLD) is responsible for drafting secondary legislation and other legal acts, evaluating applications of energy enterprises for license, evaluating applications for authorizations for the construction of new generating capacities. The LLD also provides legal advice on energy sector and oversees and monitors licensee activities.

1.2.3 Department of Energy Supply and Market Structure

The Department of Energy Supply and Market Structure (ESMS) is responsible for market structure, monitoring market entities, evaluating and analysing data in the electricity sector. The ESMS also monitors competition and the conduct of market entities, principles of objectivity, transparency and non-discrimination.

1.2.4 Pricing and Tariff Department

The Pricing and Tariff Department (PTD) reviews applications of licensed companies and sends them to the Board for approval. It monitors the implementation of operational and capital expenditures through Tariff Reviews and takes all measures so that tariffs are reasonable, non-discriminatory, based on objective criteria, and determined in a transparent manner being cautious that tariff setting does not harm customers.

1.2.5 Customer Protection Department

The Customer Protection Department (CPD) is responsible for reviewing and resolving disputes between customers and energy enterprises, system operators and energy enterprises as well as between two energy enterprises. In performing its duties and responsibilities, the Department cooperates with all organizations that legitimately represent customers.

1.2.6 Technical Advisory Group

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.

1.2.7 Administration Office

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

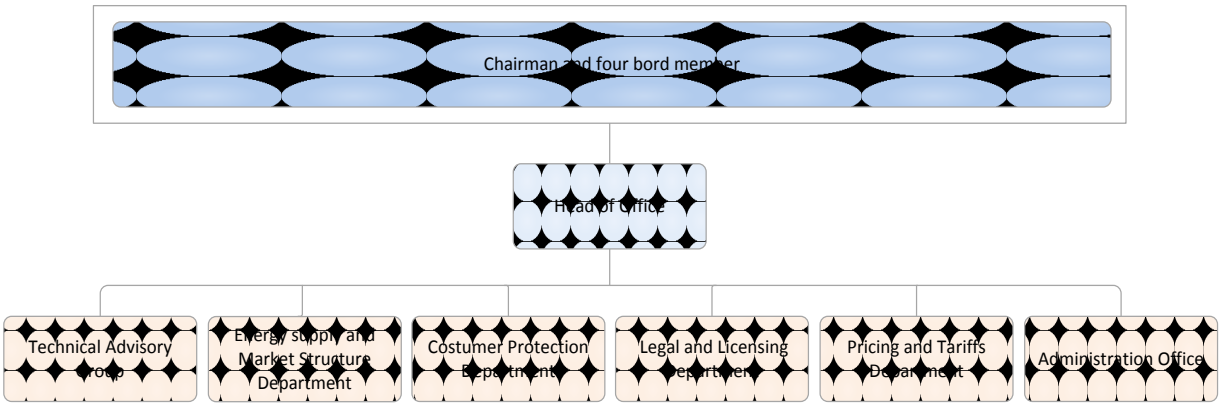

Fig.1.1 Organizational chart of the Energy Regulatory Office

1.3 Capacity building of ERO – technical assistance projects, trainings and workshops

ERO's staff is professional, with qualifications that match their positions. Despite this, ERO is committed to continuously increase the potential of staff through various trainings so that the objectives of ERO are achieved.

1.3.1. Technical assistance projects

ERO with a view to developing and completing further secondary legislation, for an effective implementation of regulatory procedures and compliance with the requirements arising from the laws on the Kosova energy sector, as well as ECTSEE obligations has been supported by the project, "Support to the Energy Regulatory Office", financed and administered by the European Commission Liaison Office. The project started in November 2008 and continued in 2009 and 2010 as well. The project has been implemented by a consortium of international consulting companies, LDK Consultants - ECA-Planet.

ERO has also been supported through the following projects:

"Consultancy to assist in the privatization of KEK Distribution and Supply" funded by USAID and implemented by *"Advanced Engineering Associates International Inc" (AEAI).* This is a two-year assistance program, which started in September 2009, to enable successful completion of transactions related to privatization of the KEK distribution network and supply by advising the Kosova energy sector stakeholders. One of the two components of the project is dedicated to ERO, to assist in completing, clarifying or developing relevant legislation as required, so that specific tasks of ERO relating to relevant transactions efficiently support the privatization of KEK distribution and supply. This component will also include implementation at a later stage of post-privatization.

"Improving district heating phase 2, cogeneration - the component of the project for ERO: Regulatory and legal measures for cogeneration". This project amount was € 75,040 financed by KfW and the European Commission. A part of this project provides support to ERO in the completion of the secondary legislation in the co-generation area.

To enhance work quality and efficiency ERO has funded the following project:

"Development of an electronic document and information management system for ERO"- This project began to be developed in September 2009 and continued in 2010..

1.3.2 Trainings and workshops

During 2010 ERO staff successfully attended and completed the following trainings listed in chronological order:

- 01-05 February 2010 - Training on "Electricity Market", organized by the Regional Association of Energy Regulators (ERRA), held in Budapest, Hungary;
- 27-30 May 2010 - Training on "Budget, decentralization of expenditures and public financial management", held in Durres, Albania;
- 15-16 June 2010 - Workshop on "Energy Statistics" organized by the Energy Community Secretariat, held in Vienna, Austria;
- 16-18 June 2010 – Seminar on "Youth commissioners" organized by the Regional Association of Energy Regulators (ERRA), held in Istanbul, Turkey;
- 12-16 July 2010 - Training (summer school) on "Regulation of the energy sector", organized by ERRA, held in Budapest, Hungary;
- 1 October 2010 - Workshop on "Renewable Energy"organized by the Association of Issuing Bodies (AIB) in cooperation with the energy market Operator of Croatia (HROTE), held in Dubrovnik, Croatia.

1.4 Public relations

Public Relations have continued to be a priority for ERO in 2010. ERO has provided information on all its activities in a regular and transparent manner to stakeholders and general public.

The official website of ERO has continued to be a source of information on issues related to regulation of the energy sector in Kosova, for all stakeholders including the media. Data have been updated constantly by the publication of: notices about Board meetings, decisions issued by the Board, rules, guidelines and procedures governing the energy sector, electricity and district heating tariffs, licenses issued to energy companies, authorizations for the construction of new generating capacities, monthly and annual reports that present activities of ERO etc..

ERO has carefully followed media reports about the energy sector, and has responded to journalists' questions on various issues related to the regulation of the energy sector. In general media have devoted considerable coverage to the energy sector as well as the activities of ERO. Their reporting on ERO has been generally fair and impartial.

2. FINANCIAL REPORT

The Energy Regulatory Office is financed from its own revenue sources, in accordance with the Chapter IV of the Law on Energy Regulator, i.e. fees collected from licensed enterprises and 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 64 of the Law on Public Financial Management and Accountability.

For the year 2010, the amount of revenues collected by the Energy Regulatory Office was €550,142.09. Pursuant to the Law on the Budget of the Republic of Kosova for 2010, out of unspent revenues of 2009 ERO has carried forward to 2010 an amount of €411,929.44. The total amount of revenues collected and carried forward to 2010 was €962,071.53, i.e. €105,105.53 more than ERO's budget for 2010. In order to align revenues with the budget, the ERO Board in its session held on 30 April 2010 decided that, for the period of April - October 2010, licensees would be relieved from the obligation to pay the annual licence fee for ERO services. The licensees were therefore exempt from paying fees worth a total of €667,039.12. This amount will be taken into consideration when allowed revenues for energy enterprises in 2011 will be adjusted and determined. This will also be reflected in the tariffs for regulated customers.

Tab.2.1 Revenues

Description	Revenues
Own source revenues	550,142.09
Own source revenues carried forward from 2009	411,929
Total revenues	962,071.53

2.2 Budget

For 2010, the Kosova Assembly, pursuant to Law No. 03/L-177 on the Budget of the Republic of Kosova, approved the budget of the Energy Regulatory Office in the amount of €938,988.00, broken down into major economic categories as follows:

Tab.2.2 Budget at the start of the year

Description	Budget
Wages and salaries	397,134.00
Goods and services	299,454.00
Utilities	12,000.00
Capital expenditures	230,400.00

ERO's budget has been cut to € 9,475.00, through the decision No. 03-V-237 of the Assembly of the Republic of Kosova on reduction of the category of goods and services for all budget organizations in a linear way by 3.16%, for the purpose of financing RTK. In addition, with regard to the category of capital expenditures in the last quarter, pursuant to the Law No. 03/L-218 on the Budget of the

Republic of Kosova for 2010, MEF has cut the budget of the Energy Regulatory Office by € 72,547.00. Following these cuts, the budget of ERO changed both in structure as well as in its total amount.

Tab.2.3 Budget at the end of the year

Description	Budget
Wages and salaries	397,134.00
Goods and services	299,454.00
Utilities	12,000.00
Capital expenditures	157,853.00

2.2.1 Budget expenditures

To finance its activities in 2010, ERO spent €651,753.22, of which €392,552.06 was from its own revenues in 2010, while €259,201.16 was from revenues carried forward from 2009.

The breakdown of ERO expenditures is as follows:

Tab.2.4 Breakdown of expenditures

Description	Amount
Wages and salaries	332,681.19
Goods and services	187,010.92
Utilities	8,271.48
Capital expenditures	123,789.63
Totali	651,753.22

The budget has been used at 76.05% of the approved budget for the 2010 fiscal year.

The percentage of budget use by economic categories is shown below in the table 2.5:

Tab.2.5 Percentage of budget use

Description	Budgeted	Actual	Difference	Used in %
Wages and salaries	397,134.00	332,681.19	64,452.81	83.77
Goods and services	289,979.00	187,010.92	102,968.08	64.49
Utilities	12,000.00	8,271.48	3,728.52	68.93
Capital expenditures	157,853.00	123,789.63	34,063.37	78.42
Total	856,966.00	651,753.22	205,212.78	76.05

The following tables show the expenditures broken down into main economic subcategories.

Tab.2.6 Wages and salaries

Wages and salaries	Amount
Net salaries	277,632.56
Personal income tax	23,364.65
Employer's pension contribution	15,841.99
Employee's pension contribution	15,841.99
Total wages and salaries	332,681.19

Tab.2.7 Goods and services

Goods and services	Amount
Business travel expenses within Kosova	9.65
Business travel expenses abroad	20,922.92
Wages for business travels abroad	5,534.09
Accomodation for business travels abroad	5,288.83
Other expenses for business travels abroad	1,584.39
Expenses for Internet	2,544.00
Phone expenses	10,019.90
Postal expenses	418.50
Education and training services	4,725.00
Printing services	8,589.40
Other contracted services	2,823.48
Subscription expenses	6,462.50
Furniture	1,485.00
Telephones	3,383.00
Other equipment	975.00
Office supplies	8,543.86
Food and beverages	2,883.16
Cleaning supplies	9.00
Heating oil	8,183.23
Fuel for vehicles	1,877.92
Bank provision (Raiffeisen Bank)	26.78
Registration of vehicles	414.00
Vehicle insurance	3,390.41
Municipal fee for vehicle registration	20.00
Security of premises	10,458.24
Maintenance and repair of vehicles	2,048.26
Maintenance of premises	8,640.00
Maintenance of information technology	2,810.00
Maintenance of furniture and equipment	201.20
Rent	52,418.00
Marketing and advertisements	8,073.40
Official lunches	2,247.80
Total goods and services	187,010.92

Tab.2.8 Utilities

Utilities	Amount
Electricity	6,236.74
Water	442.74
Landline telephone expenses	1,592.00
Total utility expenses	8,271.48

Tab.2.9 Capital expenditures

Capital expenditures	Amount
IT equipment	46,017.21
Software	27,216.80
Computers	29,120.00
Intangible assets	21,435.62
Total capital expenditures	123,789.63

Data above show that amount of revenues collected by ERO in 2010 at €962,071.53, which is higher than actual budgetary expenditures of €651,753.22. The difference between revenues and expenditures of €310,318.31 represents surplus funds collected by ERO during 2010 and which, in accordance with Article 18 of the Law on Energy Regulator and Article 64 of the Law on Public Financial Management and Accountability, willl be carried forward in 2011.

Tab.2.10 Own revenues carried forward

Own source revenues carried forward in 2011	310,318.31
Revenues carried forward from 2009	411,929.44
Revenues received in 2010	550,142.09
Total revenues 2010	962,071.53
Expenditures on wages and salaries	-332,681.19
Expenditures on goods and services	-187,010.92
Utilities	-8,271.48
Capital expenditures	-123,789.63
Total expenditures 2010	-651,753.22

3. COMPLETION OF REGULATORY LEGAL FRAMEWORK

3.1 Drafting and finalizing primary legislation on energy

In October 2010 the Assembly of Kosova adopted Law No. 03/L-184 on Energy, Law No. 03/L-185 on Energy Regulator and Law No. 03/L-201 on Electricity, which entered into force and are applicable from 1 December 2010.

ERO has been engaged in finalizing these draft laws both through its participation in the intergovernmental working group, and in the Committee for Economy, Trade, Industry, Energy, Transport and Telecommunications of the Assembly of Kosova.

- *Law No. 03/L-185 on Energy Regulator*

This law regulates the operation of the Energy Regulatory Office as an independent agency of the Republic of Kosova. The law defines the powers, duties and functions of the Energy Regulatory Office, including: the conditions for granting licenses for the conduct of activities in the energy sector, the procedure for granting authorization for the construction of new generating capacity, the creation and efficient functioning of a competitive energy market and the criteria for the regulation of tariffs and conditions for electricity supply.

- *Law No. 03/L-201 on Electricity*

This law establishes general rules on the conduct of electricity generation, transmission, distribution and supply activities, access to interconnection, organizing access to transmission system and distribution system as well as the functioning and access to the electricity market in Kosova .

- *Law No. 03/L-184 on Energy*

This law defines general rules and principles governing activities in the energy sector in the Republic of Kosova in order to guarantee steady, secure and high quality power supply to create conditions for a functional energy market and along this to also promote more efficient use of energy, increase renewable energy sources and cogeneration, and to improve environmental protection from activities in the energy sector.

3.2 Drafting and finalizing secondary legislation

In 2010 ERO drafted and adopted the following rules:

1. *Reporting manual on energy sector*

   The purpose of this Manual is to guide the Licensee on actions to be taken in order to comply with obligations and conditions of the License, and gives explanations to licensee on how to organize some of its activities within the enterprise, in order to comply with or to ensure full compliance with the obligations arising from the license.

2. *Rule for establishing the system of certificates of origin for electricity produced from renewable resources, waste and co-generation in combination with heat in a single generating unit*

   The purpose of this Rule is to define criteria for the establishment, operation and maintenance of a system for the issuance, transfer, redemption and revocation/cancellation of certificates of origin, relating to electricity produced from renewable resources, waste and cogeneration.

3. *Rule for the support of electricity for which a Certificate of Origin has been issued and procedures for admission to the Support Scheme*

   The Rule aims to support the production of electricity from renewable resources, in order to achieve the indicative targets for electricity production from renewable energy sources defined by the Ministry of Energy and Mines.

   Adoption of Rules on Certificates of Origin and Support Scheme mentioned above is of special importance with regard to the use of renewable energy sources in Kosova. It may be concluded that upon their adopton the regulatory framework on renewable energy sources is considered to be complete.

   Adoption of rules has been preceded by the public consultation period during which all stakeholders of the energy sector have been informed and given the opportunity to send their remarks and comments on these draft rules. The draft regulations later on were subject to public presentation to be finally approved by the ERO Board in a public session.

3.3 Authorization for the construction of new RES capacities

3.3.1 Legal framework

An important activity for ERO is considered to be the issuing of Authorizations for the construction of new generating capacities that will use renewable energy sources, in accordance with the Rule on the Authorization Procedure for the Construction of New Generating Capacities, Gas Networks, Direct Power Lines and and Direct Pipelines based on Article 38.1 of the Law on Energy Regulator.

In 2010 ERO received applications from potential investors for the construction of new generating capacities. ERO has issued notices of preliminary authorizations and final authorizations, as follows:

a. *Issuance of notices of preliminary authorization for the construction of new RES generating capacity*

ERO has reviewed applications/requests received for obtaining authorization for the construction of new generation capacities, in accordance with the laws on the energy sector and relevant regulations, ensuring that such applications have been reviewed in an objective, transparent and non-discriminatory manner. In reviewing these applications, ERO has taken into account relevant criteria that had to be met by the applicant as required by the Rule on the Authorization Procedure for the Construction of New Generating Capacity, Gas Networks, Direct Electric Lines and Direct Pipelines.

ERO determined that the applicants met the requirements and criteria to obtain notice of preliminary authorization as specified in the Procedure, and these enterprises are presented in Table 3.1.

Tab.3.1 Enterprises which have been issued Notice of Preliminary Authorization

No.	Name of company	Description of activity	Installed capacity	Location	Issuance date
1	"Windparkcompany" (KTW) LLC	Construction of generator to produce electricity from wind	100MW	MA Shtime, Republic of Kosova	V_241_2010 24 March 2010
2	"Wind Power" JSC	Construction of generator to produce electricity from wind	900kW	Bostan, MA Novobërdë, Republic of Kosova	V_248_2010 24 June 2010
3	"Kelkos-Energy"LLC	Construction of generator to produce electricity from water	23MW	Lumëbardhi II, Belaja and Deçani, MA Deçan, Republic of Kosova	V_296_2010 11 November 2010

Enterprises which have been issued a preliminary authorization may be provided with a final authorization, if they meet the conditions set forth in the Rule on Authorization Procedure.

b. Issuance of authorization

Following issuance of the notice of preliminary decision for the construction of new generating capacities, in accordance with the conditions and criteria specified in the Authorization Procedure, ERO has received applications/requests for notice of preliminary decision to be converted into final authorization. Following is the enterprise which has been issued final authorization.

Tab.3.2 Enterprise which has been issued Authorization

No.	Name of company	Description of activity	License number	Location	Issuance date
1	"Wind Power" JSC	Construction of generator to produce electricity from wind	900kW	Bostan, MA Novobërdë, Republic of Kosova	V_299_2010 11 November 2010

3.4 Licensing of energy enterprises

The Energy Regulatory Office, based on its duties and responsibilities defined by the Law on Energy Regulator, and in accordance with the Rule on the Licensing of Energy Activities in Kosova, has licensed the following activities of:

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

In 2010 it issued License for:

- Electricity supply/trade

Tab.3.3 Enterprises licensed in 2010

No.	Name of company	Description of licensed activity	License number	Address, headquarters of Licensee	License validity
1	ALPIQ ENERGIJA DOO BEOGRAD	Electricity supply/trade	ZRRE/Li_33/09	Bulevar Zorana Djindjica 64 A, Belgrade, Serbia	05.08.2010 to 05.08.2012
2	Repower Trading Česká republika s.r.o	Electricity supply/trade	ZRRE/Li_35/10	Vodičkova 710/31, 11000 Prague 1, Czech Republic	26.11.2010 to 26.11.2012

Enterprises that were licensed by ERO, and whose licenses for electricity supply/trade activities expired during 2010 have applied for license extension. Upon meeting required criteria their license has been extended.

Tab.3.4 Enterprises with licenses not extended in 2010

No.	Name of company	Description of licensed activity	License number	Address, headquarters of Licensee	License validity
1	"ENERGY FINANCING TEAM" AG ("EFT")	Electricity supply/trade	ZRRE/Li_01/06	Pestalozzistrasse 2, Ch-9000 St. Gallen Switzerland	04.10.2010 to 04.10.2012
2	"Kosova Energy Corporation" (KEK) JSC	Electricity supply/trade	ZRRE/Li_08/06	"Nëna Terezë" No 36, Prishtina Republic of Kosovo	04.10.2010 to 04.10.2012
3	"EZPADA S.R.O"	Electricity supply/trade	ZRRE/Li_13/06	Jungmanova 24, Prague 1, Czech Republic	04.10.2010 to 04.10.2012
4	"ČEZ"	Electricity supply/trade	ZRRE/Li_20/06	Duhova 1444/2, 14053 Prague 4, Czech Republic	30.10.2010 to 30.10.2012
5	"KORLEA INVEST A.S"	Electricity supply/trade	ZRRE/Li_26/07	Jesenskèho 25, 040 01 Košice, Republic of Slovakia	14.01.2010 to 14.01.2012

3.5 Monitoring of energy enterprises

Based on Article 14 of the Law on Energy Regulator, among the responsibilities of the ERO is also the monitoring of energy enterprises that carry out licensed activities in accordance with the obligations provided by the license, technical codes and applicable legislation.

"The Reporting Manual" provides the way and terms of reporting to licensed companies. Consistently with this, ERO received quarterly and annual reports by licensees on: production, transmission, market operation, distribution, public procurement and supply/trading of electricity; production, distribution and public supply of district heating.

Since some of the licenses issued by ERO have been issued conditionally, ERO has allowed derogation for some license articles that the licensees were not able to meet. Those derogations were made at the request of the licensees, after a convincing justification about the inability to fulfill those conditions. The number of requests for derogations in 2010 has been lower compared to previous years, as some of license requirements were met by the licensees.

3.6 Documents drafted by the licensees

The following documents have been developed by licensed companies and approved by the Board of ERO:

- Procedure for the Identification and Prevention of Unauthorized Use of Thermal Energy for DH Termokos;
- Transmission Development Plan 2010 – 2019, KOSTT;
- Power Purchase Agreement of HPP Dikanc, KEK - Frigo Food Energy Invest;
- Power Purchase Agreement of HPP Radavc, KEK – Triangle General Contractors;
- Power Purchase Agreement of HPP Burim, KEK - Triangle General Contractors;
- Transmission Connection Charging Methodology, KOSTT;
- Electricity Supply and Service Quality Standards for Public Supplier - KEK;
- Electricity Supply and Service Quality Standards for Transmission System Operator - KOSTT;
- Electricity Supply and Service Quality Standards for Distribution System Operator - KEK;
- Code for Wind Power Generating Stations - KOSTT

4. KOSOVAN ELECTRICITY SECTOR

Consumption of energy, electricity in particular, is one of the determining factors of a country's economic development. Countries that meet consumer needs through domestic generation, have a good basis for economic development. Kosova has the best prerequisites for the production of electricity, not only to meet its own needs, but to also export it. Kosova's power system is designed to produce lignite-based basic energy. To balance the system one needs to monitor changes in consumption on a daily and seasonal basis through the production and import. If that fails then load shedding is applied for customers.

The electricity sector in Kosova even in 2010 was characterized by insufficient production of electricity, unreliable supply and high technical and commercial losses.

ERO has licensed TPP Kosova A and Kosova B, which are parts of KEK, and HPP Ujmani and HPP Lumbardhi for electricity generation.

Wind plants in Golesh as well as small hydropower plants, HPP Dikance and HPP Radavc, are operational since 2010.

Lack of investment for a long time in the transmission and distribution network has caused congestions and insufficient supply in many parts of the network. In recent years, investments have been made which have greatly improved the operation of the power system, especially the transmission network.

The Transmission System and Market Operator (KOSTT) and Distribution System Operator (KEK) hold licenses for the operation, maintenance and security of electricity supply in Kosova.

ERO has also licensed Public Supplier (KEK), which is responsible for supplying electricity to customers in the entire territory of Kosova.

4.1 Transmission network

The interconnection of the Kosova transmission network with the region and Europe is mainly carried out through 400kV voltage level lines. With neighbouring countries Kosova is also interconnected through 220 kV and 110kV lines. Kosova has a strong interconnection network that will be strengthened further through the construction of Kosova B -Kashar (Tirana) 400kV line.

In recent years a lot of investment has been carried out in increasing and improving the transmission network capacity. Below is shown a list of capital projects.

1. Projects started in previous years and finalized in 2010 are shown below:
    - Installation of ATR3 150 MVA Transformer at SS 220/110kV, Prishtina 4
    - Repair of SS 220/110kV, Kosova A
    - Repair of high voltage equipment of 220kV at SS 400/220kV, Kosova B
    - Replacement of conductors in line L212 SS Ferizaj – SS Kosova A (Changing the line from 220kV to 110kV)
2. Following are the projects initiated in previous years, continued in 2010 and now in progress:
    - SCADA/EMS and Telecommunication & consultancy services
    - Project for the implementation of the Kosova-Albania 400 kV line

- Packet Project 400/110 kV, Ferizaj 2
- Replacement of conductors in 110kV line, SS Peja 1 – SS Peja 2

3. Projects initiated in 2010 and now in progress:

- Revitalization of high voltage equipment and installation of ATR3 150 MVA transformer at SS 220/110kV, Prizreni 2
- IT System for Market Operator.

The tables below show transforming capacities and transmission network lines as per voltage levels.

Tab.4.1. Basic data on transmission substations

Voltage	Owner	SS. No.	TR. No.	Power
400/220	KOSTT	1	3	1,200
400/110	KOSTT	1	1	300
220/110	KOSTT	3	8	1,200
220/35	Alferon	1	2	320

Tab.4.2. Basic data on transmission lines

Voltage (kV)	Owner	Length (km)
400	KOSTT	181.81
220	KOSTT	231.88
110	KOSTT	727.60

Kosova has a favorable position as a powerful cross-regional node, and through its transmission network a considerable flow of electricity, by connecting the northern part of the region which has surplus of capacity generation and the south with electricity shortfall.

The following figure shows the volumes of energy flows for each interconnection line of Kosova in both directions.

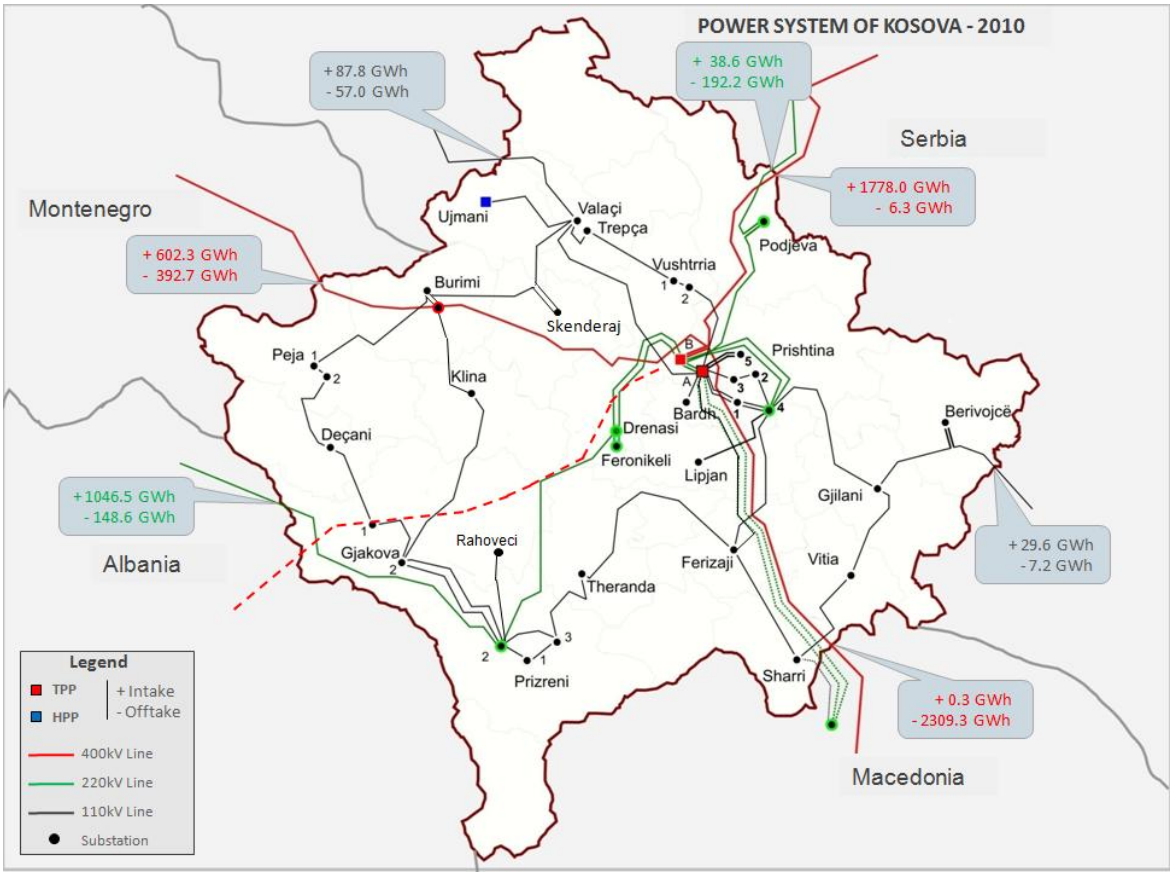

Fig.4.1. Energy flows into interconnection lines

Kosova is a country with a high transit of electricity, at a ratio of up to 50% of transit to consumption (the transit key). This strengthens the position of the transmission system, but also increases transmission losses and leads to network congestion. To manage the regional transit a mechanism for calculating the transit compensation between TSOs (ITC mechanism) has been established. Kosova has not been included in this mechanism due to the obstacles of Serbia. As a consequence, losses caused by transit in Kosova are recovered through fees from regulated customers. KOSTT is also being hampered by Serbia in the allocation of interconnection capacity lines.

Even in 2010 KOSTT, through regional and European institutions, has committed itself to resolving the issue of transit and capacity allocation.

Network overload causes increased losses, making the equipment obsolete and interrupting supply. To evaluate the load of the transmission network, an analysis of electricity flows through the network and the maximum values of consumption is required. To carry out these analysis, five (5) peak values (maximum loads) occuring accross different weeks in 2010 are used. The highest load, 1158 MWh/h, was recorded on 25 January 2010.

The following table shows five peak values for 2010.

Tab.4.3. Five peak values in 2010

Peak	MW	Date	Day
I	1,158	25.01.2010	Monday
II	1,112	31.01.2010	Sunday
III	1,091	31.10.2010	Sunday
IV	1,088	03.02.2010	Wednesday
V	1,085	16.12.2010	Thursday

Daily diagram extracted as an average for the whole year 2010 shows that daily production was almost constant, while consumption has changed at day - night intervals. Load shedding has also an impact in the form of daily chart.

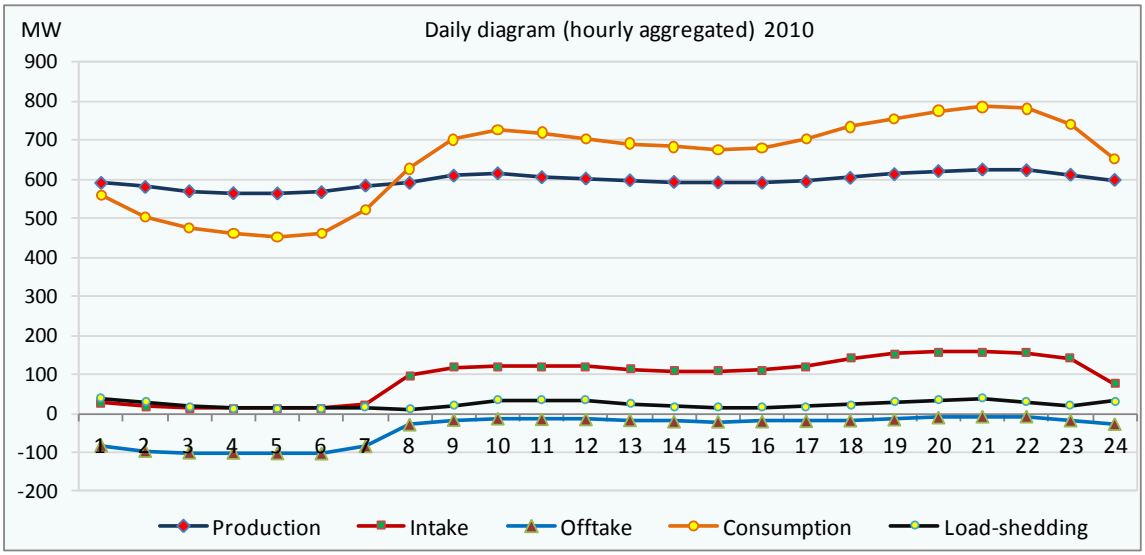

Fig.4.2. Daily diagram presented in average values for 24 hours for 2010

The diference of consumption into day/night tariffs is quite high. The chart below shows the difference between the maximum and minimum average values of daily consumption by months for the year 2010.

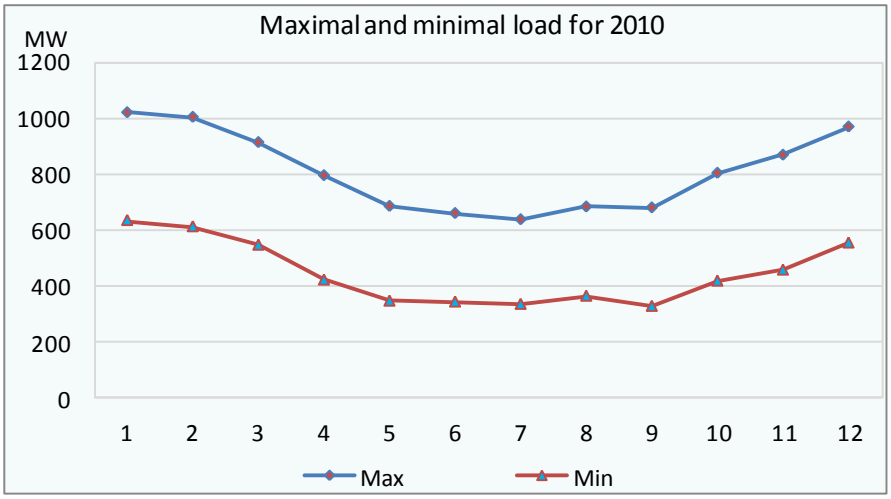

Fig.4.3. Monthly average of maximal and minimal loads

Changes to production, consumption, import/export and load shedding of electricity can also be noticed through hourly charts. Following are charts showing these data for two peculiar months (September and December).

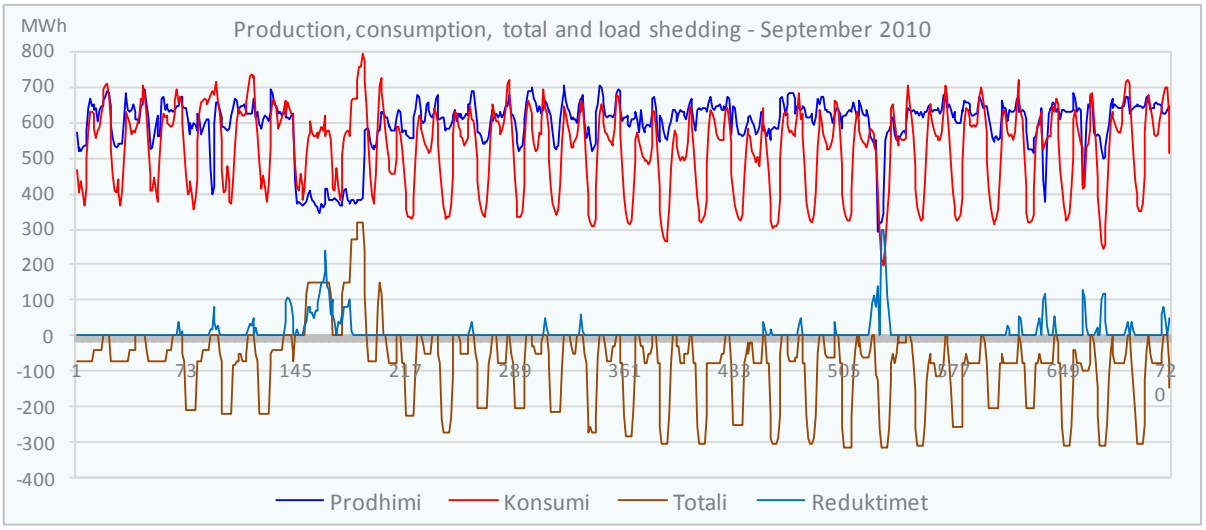

Fig.4.4. Monthly chart of production, consumption, total and load shedding for the month of September 2010

These charts show changes in consumption and monitoring of these changes through the production and import/export and sometimes through load shedding.

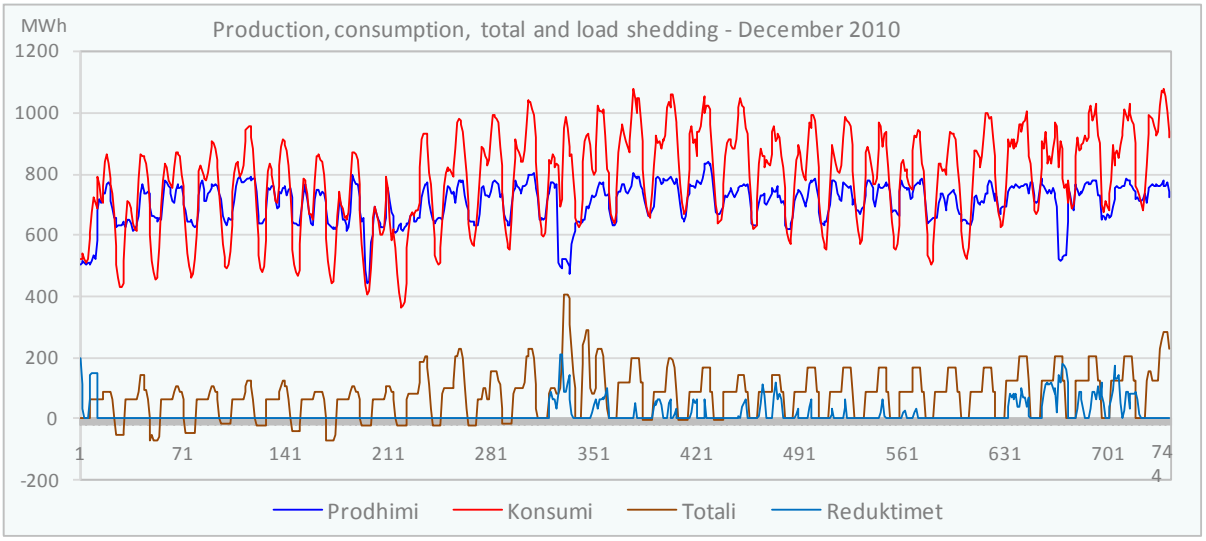

Fig.4.5. Monthly chart of production, consumption, total and load shedding for the month of December 2010

4.1.1 Transmission electricity losses

Electricity transmission losses in in 2010 are significantly lower compared to those in 2009. These losses recorded a decline from 197 GWh (3.31%) in 2009 to 131 GWh (2.38%) in 2010. The total amount also includes losses caused by electricity transit through the transmission network.

Tab.4.4 Transmission losses, actual and according to Balance in 2010

Months	Actual gross consumption	Gross cons. according to Balance	Actual/accord. to Balance	Distribution losses according to Balance		Actual distribution losses	
	MWh	MWh	%	MWh	%	MWh	%
January	602,947	586,194	102.86	21,645	3.69	15,174	2.52
February	526,254	529,704	99.35	19,539	3.69	12,386	2.35
March	531,520	539,247	98.57	20,708	3.84	12,899	2.43
April	432,483	413,377	104.62	15,491	3.75	8,959	2.07
May	395,083	382,796	103.21	17,236	4.50	9,217	2.33
June	356,342	350,924	101.54	13,987	3.99	6,932	1.95
July	366,802	358,698	102.26	11,563	3.22	11,034	3.01
August	379,738	356,186	106.61	12,627	3.55	9,535	2.51
September	370,046	362,762	102.01	14,694	4.05	8,800	2.38
October	471,321	449,241	104.91	14,837	3.30	10,319	2.19
November	484,940	485,992	99.78	15,983	3.29	10,812	2.23
December	588,240	583,255	100.85	18,957	3.25	14,977	2.55
Total	5,505,716	5,398,376	101.99	197,267	3.65	131,043	2.38

The table below shows a continuous decline in transmission losses recorded in recent years.

Tab.4.5 Transmission losses 2008-2010

Year	Gross consumption	Losses	
	MWh	MWh	%
2008	4,943,714	214,814	4.35
2009	5,275,108	174,573	3.31
2010	5,505,716	131,043	2.38

4.2 Distribution network

Despite investment carried out in recent years, Network Distribution is still not able to satisfactorily supply secure and reliable electricity. The distribution network includes substations of 110 kV and lower, and voltage lines of a level of 35kV and lower levels.

The following tables show basic data about lines according to their length and the substations according to voltage levels in distribution system.

Tab. 4.7. Basic data of DSO lines

Voltage (kV/kV)	Owner	Arial network (km)	Cable network	Length (km)
35	KEK	648.42	26.38	674.80
10(20)	KEK	297.72	184.66	482.39
10	KEK	5,159.76	801.00	5,960.76
6	KEK	44.14	1.58	45.72
0.4	KEK	11,503.78	485.98	11,989.76

Tab.4.6 The number of substations by voltage level in DSO

Voltage (kV/kV)	Owner	SS. No.	TR. No.	Power (MVA)
220/35/10(20)	KEK	1	1	40.00
220/10(20)	KEK	1	1	40.00
110/35/10(20)	KEK	6	10	312.00
110/35	KEK	7	13	438.00
110/10(20)	KEK	2	4	143.00
110/10	KEK	9	14	472.00
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	100	641.80
35/06	Birra Peja	1	1	4.00
35/0.4	KEK	1	1	0.63
(10)20/0.4	KEK/private	1,117	1,159	318.57
10/0.4	KEK/private	5,382	5,492	1,521.00
6/0.4	KEK	37	37	7.13

During 2010 the following capital projects have been carried out in the distribution network:

- Repair and extension of SS 110/35/10 kV Prishtina 1, SS 110/10 kV Prishtina 2, SS 110/10 kV Istog and SS 110/35/10 kV Shtime;
- Construction of 148.4 km line at 10 (20) kV level and 40.5 km line at 0.4 kV level.
- Construction of 190 SS 10/0.4 kV with total power of 37.8 MVA.

4.2.1 Distribution losses

General distribution losses are very high. These losses are divided into technical losses which occur in the network elements, and commercial losses which occur as a result of misuse of electricity.

In 2010 total losses were 1.879 GWh (41.22%), while in 2009 such losses were 1.895 GWh (42.80%).

Tab.4.8 Distribution losses by districts in 2010

Districts	Load	Realization	Technical losses		Commercial losses		Total losses	
	MWh	MWh	MWh	%	MWh	%	MWh	%
Prishtina	1,392,420	855,885	217,083	15.59	319,453	22.94	536,535	38.53
Mitrovica	619,483	213,422	91,637	14.79	314,424	50.76	406,061	65.55
Peja	521,655	296,876	96,225	18.45	128,554	24.64	224,779	43.09
Gjakova	417,169	251,707	76,340	18.30	89,122	21.36	165,462	39.66
Prizreni	638,532	414,074	135,643	21.24	88,815	13.91	224,459	35.15
Ferizaji	575,067	356,139	108,695	18.90	110,233	19.17	218,928	38.07
Gjilani	394,710	291,610	58,566	14.84	44,534	11.28	103,100	26.12
Total distribution	4,559,037	2,679,713	784,188	17.20	1,095,135	24.02	1,879,324	41.22

Technical losses in 2010 were 784 GWh (17.20%) and commercial losses were 1.095 GWh (24.2%) of consumption in distribution system. According to the 2010 Energy Balance technical losses are estimated to be at 17.49% and commercial losses at 20% of consumption in the distribution system.

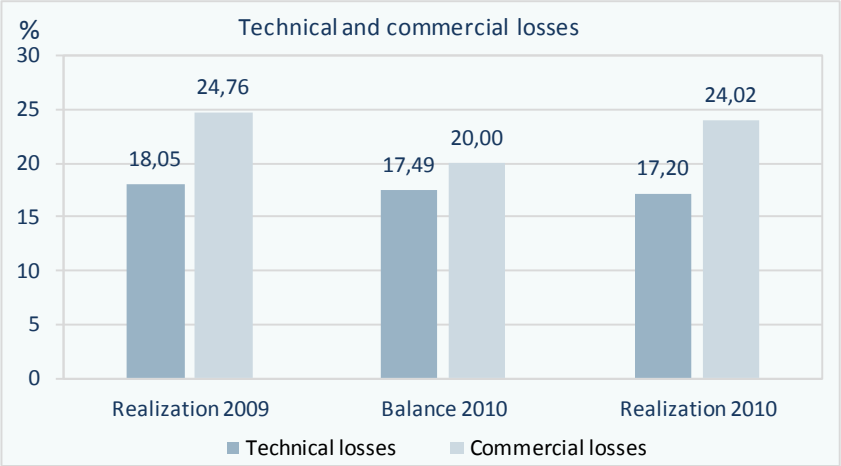

Fig.4.6 Technical and commercial distribution losses in 2010 – comparison with 2009 and balance 2010

Based on Table 4.9 Technical losses in 2010 are lower by 0.85% to what they were in 2009, and commercial losses were lower by 0.74%.

Tab.4.9 Distribution losses in 2008-2010

Years	Load	Realization	Technical losses		Commercial losses		Total losses	
	MWh	MWh	MWh	%	MWh	%	MWh	%
2008	4,132,783	2,363,281	704,769	17.05	1,064,732	25.76	1,769,502	42.82
2009	4,428,053	2,532,626	799,137	18.05	1,096,290	24.76	1,895,427	42.80
2010	4,559,037	2,679,713	784,188	17.20	1,095,135	24.02	1,879,324	41.22

4.3 Electricity supply and service quality standards

The Energy Regulatory Office, pursuant to Article 14 paragraph 2, subparagraph 2.12 of the Law on Energy Regulator has the power to determine supply and service quality standards to be achieved by the licensees.

A Working Group composed of ERO, MEM and Licensees such as Transmission System Operator, Distribution System Operator and Public Supplier prepared the paper on electricity supply and service quality standards and proposed quality standards for individual licensees.

ERO has approved electricity supply and service quality standards for these Licensees: Transmission System Operator, Distribution System Operator and Public Supplier and will be applicable from 1 January 2011.

The quality of electricity supply and service is determined by:

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

4.3.1 Continuity of supply

Continuity of supply is related to the availability of electricity and measured through the following indices:

- *System Average Interruption Duration Index - SAIDI,*
- *System Average Interruption Frequency Index – SAIFI and*
- *Energy Not Supplied - ENS.*

They are presented as annual indices and these indices for 2010 were as follows:

- SAIDI = 95.65 hours per customer a year;
- SAIFI = 38.83 interruption per customer in a year; and
- ENS = 71.78 GWh.

Abovementioned indices that are to be met by the Licensees for 2011 are as follows:

- SAIDI – shall not exceed twenty (20) hours of planned interruptions per customer and thirty (30) hours of unplanned interruptions;
- SAIFI – shall not exceed five (5) planned interruptions per customer and eight (8) unplanned interruptions; and
- ENS – shall not exceed eighteen (18) GWh.

4.3.2 Voltage quality

The quality of voltage implies a technical aspect of electricity and is monitored through the registration of customer complaints with regard to the 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.

4.3.3 Commercial quality

Commercial Quality determines the speed and accuracy of resolving customer complaints and requests. Commercial quality standards are included in the Rule on General Conditions of Electricity Supply, the Rule on Disconnection and Reconnection of Customers in the Energy Sector and the Rule on Dispute Settlement Procedures in the energy sector in Kosova.

ERO has started preparing the document on monitoring the performance of licensees versus compliance of these standards. Through this document, Licensees' compliance with standards will be monitored.

4.4 Lignite production and consumption

Lignite constitutes the largest reserves of primary energy in the Republic of Kosova. Lignite supplies about 97% of the total production of electricity in Kosova. Two mines, Bardhi and Mirashi, supply lignite to the thermal power plants Kosova A and Kosova B.

The Project for Southwestern Sibovc has become operational with some delay. However, the exploitation of lignite began in 2010, resulting with 360 thousand tons of lignite being extracted.

Tab.4.10 Lignite production and consumption 2010

Lignite production & consumption 2010	January	February	March	April	May	June	July	August	September	October	November	December	Total
Lignite production (t*1000)	526	613	709	753	641	614	646	764	576	761	609	747	7,958
Lignite consumption (t*1000)	723	720	815	635	673	787	464	575	632	733	668	843	8,269

Values in the table above include consumption of lignite in KEK, while overall consumption of lignite in 2010 was higher for 193 thousand tons, an amount that was sold to other customers. The total consumption of lignite is 8 462 thousand tons.

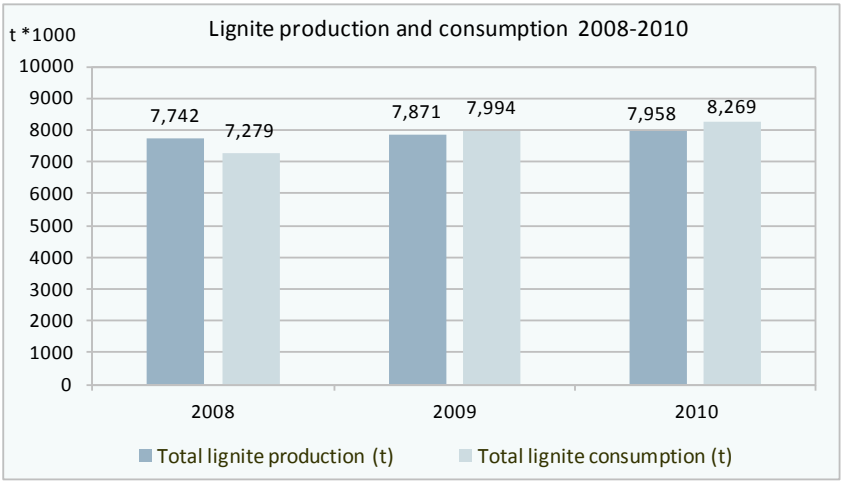

Fig.4.7 Production and consumption of lignite in 2008-2010

4.5 Electricity generation

Two thermal power plants, TPP Kosova A and TPP Kosova B, which use lignite as fuel, make over 97% of the total electricity production in Kosova. Table 4.11 shows relevant information on the capacity of generating units of TPP Kosova A and TPP Kosova B.

Tab.4.11 Thermo-generating capacities

Generating units	Capacity of TPP units (MW)			Fuel	Ton/MW	Year of construction
	Installed	Net	min/max			
A1	65	erational		Lignite/oil		1962
A2	125	erational		Lignite/oil		1964
A3	200	182	100-130	Lignite/oil	1.7-1.9	1970
A4	200	182	100-130	Lignite/oil	1.7-1.9	1971
A5	210	187	100-135	Lignite/oil	1.7-1.9	1975
TPP Kosova A	800	551				
B1	339	310	180-260	Lignite/mazut	1.40-1.45	1983
B2	339	310	180-260	Lignite/mazut	1.40-1.46	1984
TPP Kosova B	678	620				

Apart from Kosova A and Kosova B, which are managed by KEK, the Hydro Power Plant Ujmani (2 x 17.5 MW), managed by the public enterprise, Iber-Lepenci, and four small hydro power plants, which were given to private investors in concession, are operating.

The Government of Kosova continued its activities in 2010 on the construction of new generating capacities. On July 2010 the final draft request for proposals and other documents of the tender package was prepared and sent to pre-qualified bidders for comments. The process is expected to continue and be concluded during 2011 with the selection of a successful bidder for the construction of new generating capacities under the New Kosova project package.

ERO has participated in the steering committee and working group, providing its contribution in the preparation of documents for the tender package for the New Kosova project.

Table 4.12 presents main data on plants that are operating.

Tab.4.12 Hydro-generating capacities

Generating units	Capacity of HPP units (MW)		Year of construction
	Installed	Net	
Ujmani	35.00	32.00	1983
Lumbardhi	8.80	8.00	1957 (2006)
Dikanci	1.34	1.32	1957 (2010)
Radavci	0.28	0.28	1934 (2010)
Burimi	0.48	0.47	1948 (2011)
Total HPP	45.90	42.07	

Early 2010, the first three (3) turbines of wind generators have been put into operation in Golesh, Municipalityof Fushë Kosova. Each of them has an installed capacity of 450 kW, and their production was 471 MWh in total.

The total production of electricity during 2010 was 5.037 GWh, while in 2009 it was 4.798 GWh. This production is 5% higher than in 2009 and 6.3% higher than estimated production in the 2010 energy balance.

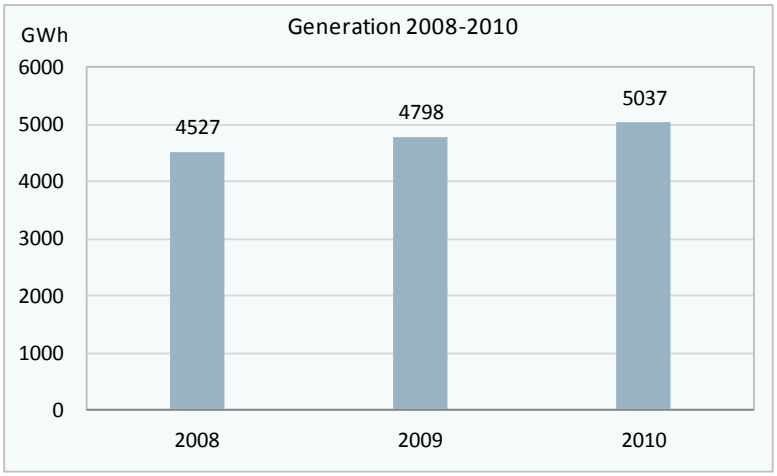

Fig.4.8 Production of electricity 2008-2010

Net production of the TPP Kosova A in 2010 was 1.685 GWh, exceeding projection of the Energy Balance 2010 by 19.5%. Net production of the TPP Kosova B in 2010 was 3.195 GWh, matching projection of the Energy Balance 2010 with 98.7%.

Tab.4.13 Actual and projected production for 2010

Generation /Generating units	January	February	March	April	May	June	July	August	September	October	November	December	Total
	MWh	MWh	MWh	MWh	MWh	MWh	MWh	MWh	MWh	MWh	MWh	MWh	MWh
A1	-638	-599	-552	-377	-344	-262	-522	-1,066	-279	-438	-2,901	-3,075	-11,052
A3	33,641	53,023	81,894	35,266	67,344	21,894	38,030	77,431	13,774	90,283	39,191	56,587	608,358
A4	19,052	49,142	51,418	66,434	1,632	73,832	81,704	11,726	71,979	58,214	70,850	47,543	603,525
A5	50,481	41,095	31,518	34,483	2,693	70,762	42,538	64,385	-918	2,464	76,653	67,804	483,958
TPP Kosova A	102,536	142,661	164,277	135,806	71,326	166,226	161,750	152,477	84,557	150,522	183,793	168,859	1,684,789
B1	153,674	130,404	150,604	147,232	158,320	139,323	81,890	31,088	162,854	188,648	63,936	172,248	1,580,221
B2	166,361	141,300	162,545	76,131	168,383	153,050	5,367	159,332	170,578	109,519	142,168	160,141	1,614,873
TPP Kosova B	320,035	271,703	313,149	223,363	326,702	292,372	87,257	190,420	333,432	298,167	206,104	332,388	3,195,094
HPP Ujmani	20,267	9,797	17,847	10,019	7,684	5,625	2,993	3,652	4,507	2,654	7,784	22,631	115,460
HPP Distributional	3,309	1,650	2,599	4,328	6,734	5,335	2,704	1,308	1,044	3,351	4,054	5,634	42,050
Total actual generation	446,148	425,810	497,872	373,515	412,446	469,559	254,703	347,857	423,539	454,694	401,736	529,512	5,037,393
Total gener. as in balance	440,653	397,642	440,141	344,988	445,960	427,806	200,210	319,605	445,975	412,344	400,091	464,866	4,740,281
Actual/Balance	101%	107%	113%	108%	92%	110%	127%	109%	95%	110%	100%	114%	106%

Production in TPP Kosova A in 2010 was 18.3% higher than production in 2009, while production in the TPP Kosova B was lower by 1.7%. Damage to the two low pressure rotors at Kosova B and repairs have affected production in 2010 to be slightly lower than production in 2009.

Fig 4.9 A view from TPP Kosova B

Figure 4.10 shows percentage of monthly contribution of generation units in the overall output for 2010.

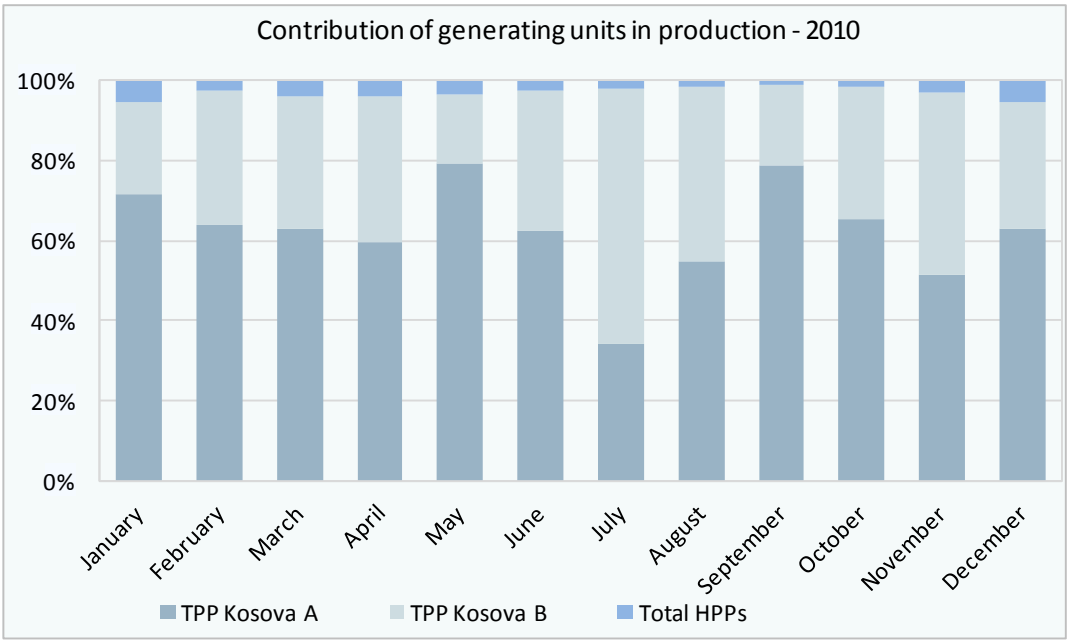

Fig.4.10 Contribution of generating units in production in 2010 as per months

TPP Kosova B covered 63% of total production, TPP Kosova A 33%, 3% and hydro power plants 3%.

4.6 Consumption of electricity

Total consumption of electricity in 2010 was 5,505.7 GWh and represents an increase of 4.4% in demand compared to 5,275.1 GWh in 2009. This amount of consumption compared to the Energy Balance 2010 projection is higher by 2%.

Table 4.14 shows actual total consumption in 2010 compared to projected consumption.

Tab.4.14 Total consumption in 2010

2010	Actual consumption	Consumption as in Balance	Actual/Balance
	MWh	MWh	%
January	602,947	586,194	102.9
February	526,254	529,704	99.3
March	531,520	539,247	98.6
April	432,483	413,377	104.6
May	395,083	382,796	103.2
June	356,342	350,924	101.5
July	366,802	358,698	102.3
August	379,738	356,186	106.6
September	370,046	362,762	102.0
October	471,321	449,241	104.9
November	484,940	485,992	99.8
December	588,240	583,255	100.9
Total	5,505,716	5,398,376	102.0

The increase in consumption during the last three (3) years is shown in the chart below.

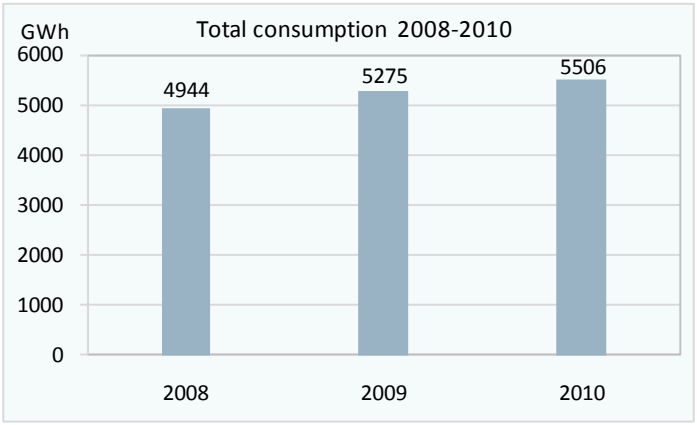

Fig.4.11 Total consumption 2008-2010

Consumption of electricity by customer category for 2010 is given in Table 4.15. It should be emphasized that the following customers: Ferronikeli, Trepça and Sharrcemi are connected in the transmission network.

Tab.4.15 Consumption by spenders and energy losses

Spenders - 2010	MWh
Total consumption	5,505,716
Transmission losses	131,043
Ferronikeli	619,645
Trepça & Sharrcemi	80,974
KEK internal customers	115,170
Gross distribution	4,558,886
Net distribution	2,679,713
Distribution losses	1,879,173

Increased consumption by Ferronikeli has had a significant impact on increased consumption. In 2010 Ferronikeli consumed 619.6 GWh, which is by 34.6% higher than consumption in 2009 (460.4 GWh).

Figure 4.11 shows consumption by categories as well as transmission and distribution losses.

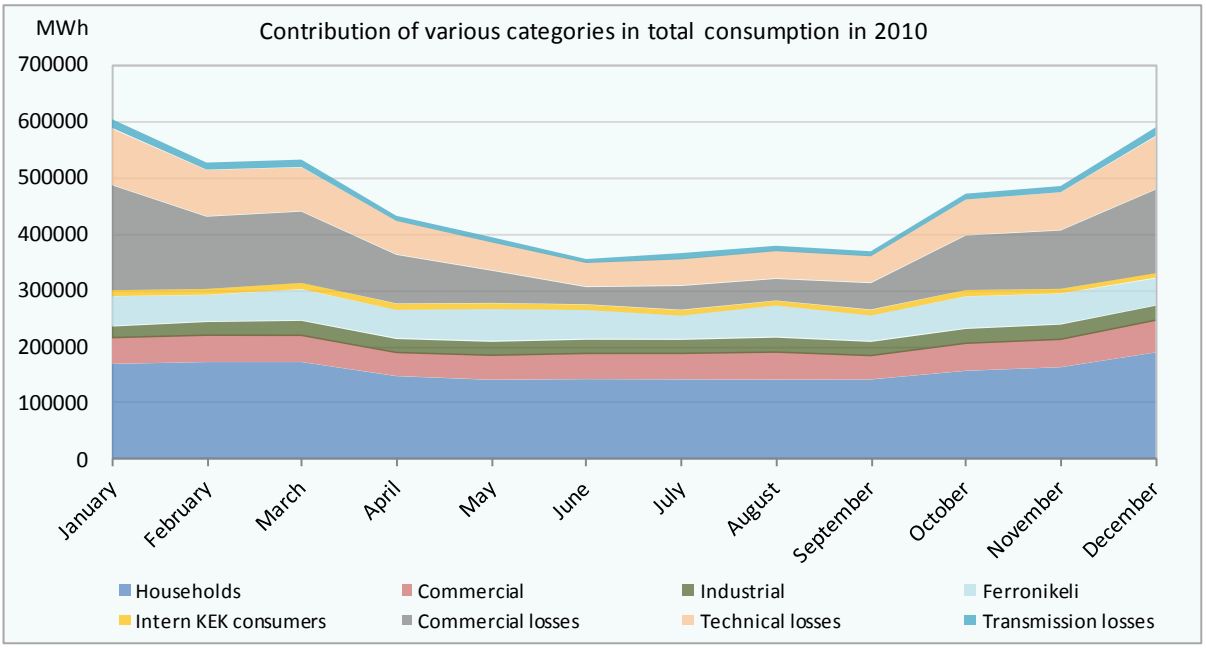

Fig.4.12 Contribution of various categories in total consumption 2010

4.6.1 Consumption in the distribution system

Total consumption in the distribution system in 2010 was 4,559 GWh, and in 2009 it was 4,428 GWh, an increase of 3%. Compared to the consumption projected in the Energy Balance 2010 it recorded an increase of 5%.

Despite efforts to prevent planned load-shedding of electricity, even during 2010 ABC scheme continued to be applied. Compared to 2009 a considerable decline in load shedding was recorded, from 373 GWh to 205 GWh in 2010.

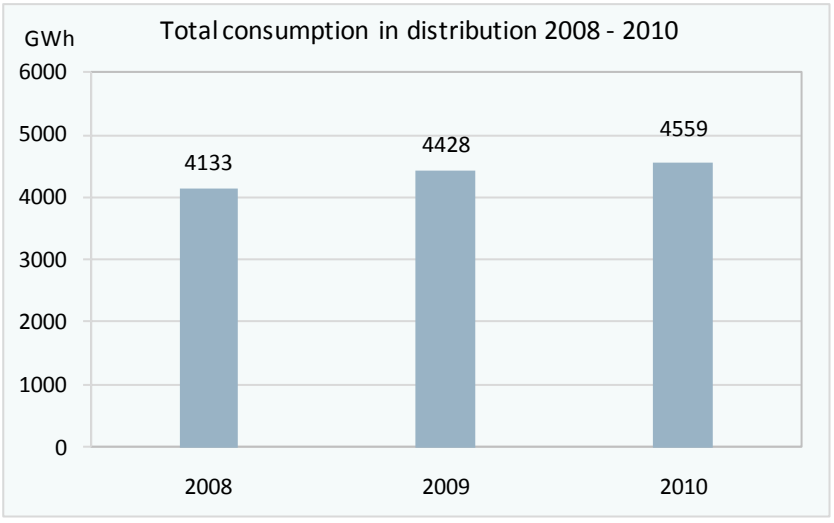

Fig.4.13 Consumption in distribution 2008-2010

The district of Prishtina has consumed the most with 30.5% against the total consumption in distribution, and Gjilan consumed the least with 8.7%. Figure 4.16 shows consumption by category for each district.

Tab.4.16 Consumption across districts by categories

Districts	Households	Industry	Commercial	Public lighting	Total
	MWh	MWh	MWh	MWh	MWh
Prishtina	546,289	81,503	224,655	3,438	855,885
Mitrovica	161,756	17,083	33,778	806	213,422
Peja	217,617	20,789	57,613	857	296,876
Gjakova	182,080	21,321	47,094	1,213	251,707
Prizreni	287,907	51,623	72,689	1,855	414,074
Ferizaji	253,065	22,952	79,084	1,038	356,139
Gjilani	224,495	11,330	55,041	743	291,610
Total distribution	1,873,209	226,600	569,955	9,949	2,679,713

Table 4.17 shows the structure of electricity consumption into tariff categories. Household consumption versus total consumption billed is 69.9% which represents an economy with low industrial development. Commercial consumers participate with 21.3% of total consumption in distribution, industrial consumers connected to distribution with 8.5% and public lighting with 0.4%.

Tab.4.17 Consumption in distribution system into tariff categories 2008 - 2010

Consumption per categories	2008	2009	2010
	MWh	MWh	MWh
110 kV (transmission: Sharri & Trepça)	84,311	83,627	80,974
35 kV	41,593	38,616	35,755
10 kV	174,246	188,862	190,845
Households below 200 kWh/month and hospitals	503,755	560,908	628,056
Households (201-600)kWh/month	594,346	666,314	750,562
Households over 600 kWh/month	479,798	484,578	465,617
0.4 kV I	140,983	177,877	200,572
0.4 kV II	326,122	350,033	369,382
Public lighting	7,926	8,514	9,949
Unmetered households	77,348	56,923	28,974
Total	2,430,428	2,616,253	2,760,687

Figure 4.13 shows contribution of tariff categories in total consumption in distribution.

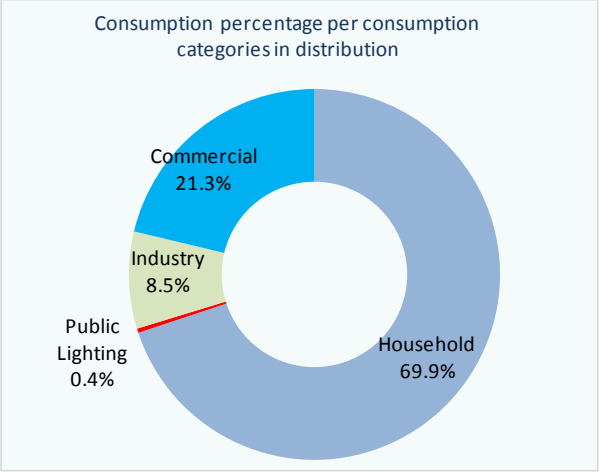

Fig.4.14 Contribution of consumption categories in distribution

4.7 Billing and collection

Electricity billed and collected in distribution recorded an increase in 2010. The amount billed was €174,747,496, and the amount collected was €151,805,138.

Collection/billing ratio in distribution for the year 2010 was 86.9%, while for the year 2009 it was 79.7%.

Tab.4.18 Billing and collection in distribution 2008 - 2010

Years	Load	Realization	Billing	Collection	Coll./Bill.
	MWh	MWh	€	€	%
2008	4,035,076	2,093,372	165,351,104	118,845,454	71.9
2009	4,428,053	2,532,626	178,295,723	142,110,110	79.7
2010	4,559,037	2,679,713	174,747,496	151,805,138	86.9

Customer billing and collection is shown in Table 4.19. Apart from distribution customers, the table also shows other customers connected at 110kV and Ferronikeli as a qualified customer connected to 220kV level.

Tab.4.19 Billing and collection in 2010

2010	Load	Billing	Collection	Coll./Bill. Ratio
	MWh	€	€	%
Distribution	4,559,037	174,747,496	151,805,138	86.9
110 kV (Sharrcemi + Trepça)	80,974	5,606,100	5,606,100	100.0
Ferronikeli	619,645	20,961,339	20,961,339	100.0
Total	5,259,656	201,314,935	178,372,577	88.6

Percentage of billing and collection varies from district to district. This is shown in gross values (VAT included) in Table 4.20.

Tab.4.20 Billing and collection into districts and their contribution to total collection

Districts	Billing (€)	Collection (€)	Coll./Bill. Ratio	Contribution in total coll. (%)
Prishtinë	57,816,935	52,185,777	90.26	34.38
Mitovicë	13,742,949	11,390,583	82.88	7.50
Pejë	19,759,089	17,266,686	87.39	11.37
Gjakovë	15,965,916	14,082,625	88.20	9.28
Prizren	26,412,211	22,762,842	86.18	14.99
Ferizaj	23,007,410	17,825,091	77.48	11.74
Gjilan	18,042,986	16,291,534	90.29	10.73
Total	174,747,496	151,805,139	86.87	100.00

4.8 Electricity market

The existing market model in Kosova is based on bilateral contracts between the parties. Under the law the maximum term of contracts was five (5) years with the possibility of extension. Under the

new laws on the energy sector approved in December 2010 no extension of the contract term is provided for.

Reforming the energy sector in the framework of energy strategy requires changes in the market model. Creating a functional model of the market is an important step towards the consolidation and sustainable development of the Electricity Market in Kosova. This model should be in accordance with the Kosova Energy Strategy 2009-2018, European Directives and requirements of the Energy Community Treaty of South East Europe, for the creation of a Regional Electricity Market.

In view of establishing the market model, at the initiative of the Ministry of Energy and Mines a working group has been established. This Working Group is composed of representatives of the energy sector in Kosova as well as transaction advisors related to the privatization of distribution and supply and the construction of new generating capacities.

The working group held several meetings during 2010 resulting in the approval of “a concept paper" as a guide to creating the final market model in Kosova which is expected to be concluded soon.

4.8.1 Electricity flows

Like in previous years, Kosova in 2010 was a net importer of electricity, at the amount of 466 GWh. Energy balance is presented in the following figure and it includes generation, import, export, transmission, distribution, regulated and qualified customers as well as transit. Electricity flows in the figure are given in physical values in GWh.

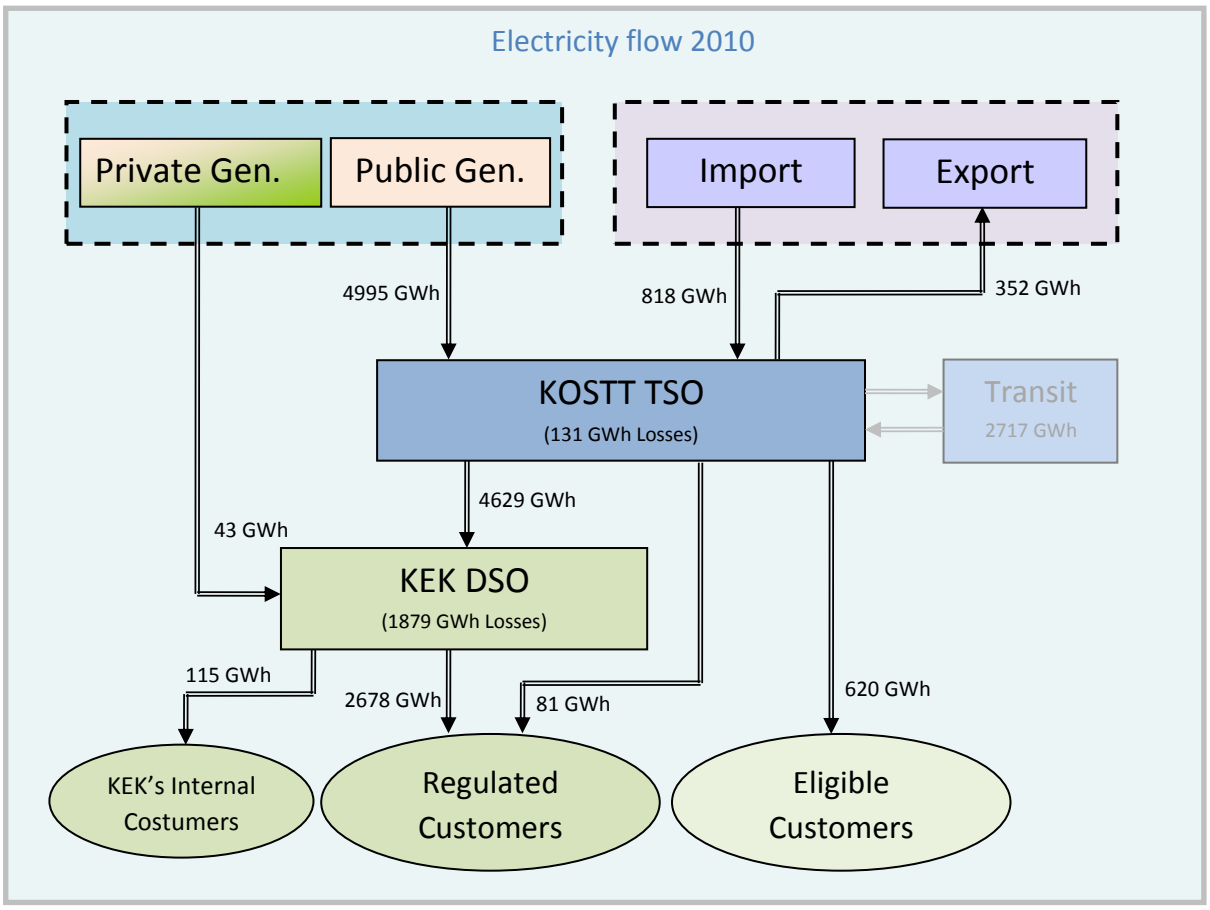

Fig.4.15. Electricity flows in 2010

4.8.2 Electricity import and export

A portion of electricity consumption in Kosova is covered by imports, but given the chart of inflexible consumption and production, a part of electricity has also been exported.

Net import makes 8.46% of the total (gross) consumption, with imports (contracts + exchange) making 14.86%, and exports (contracts + exchange) 6.40%.

Electricity imported during 2010 was 684,948 MWh worth € 39,664,332, at an average price of 57.91€/MWh, while imported electricity in 2009 was 610,509 MWh, at an average price of 75.77€/MWh. The quantity of imported electricity has increased by 12.19% compared to the previous year, while the average price has undergone a decline of 23.57%.

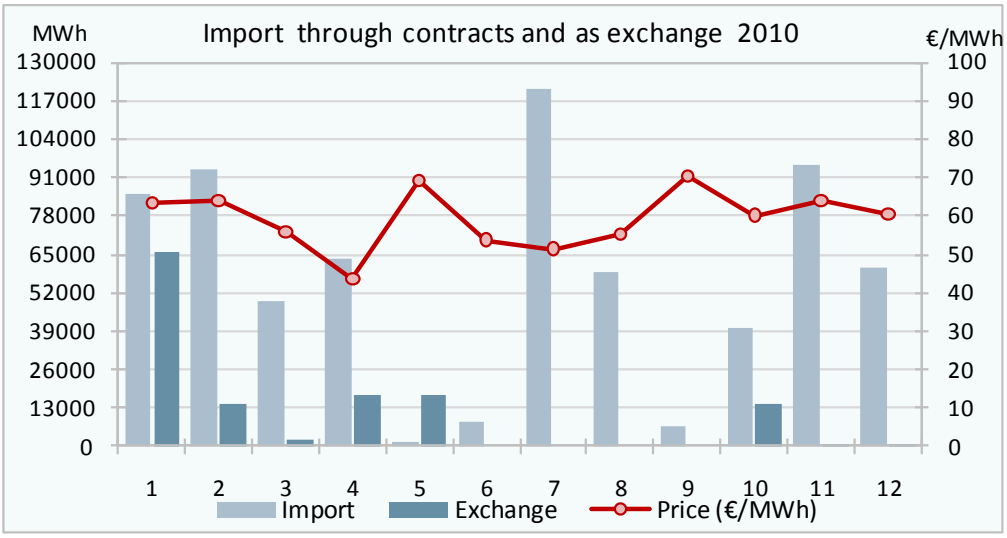

Fig. 4.16 Import and price of electricity in 2010

The quantity of imported electricity in the form of exchange is 133,439 MWh with a return rate of 1:1 for the same period and tariff. If we compare it to 2009, the quantity imported in the form of exchange has decreased by 15.03%. This is shown in Figure 4.15 and 4.16.

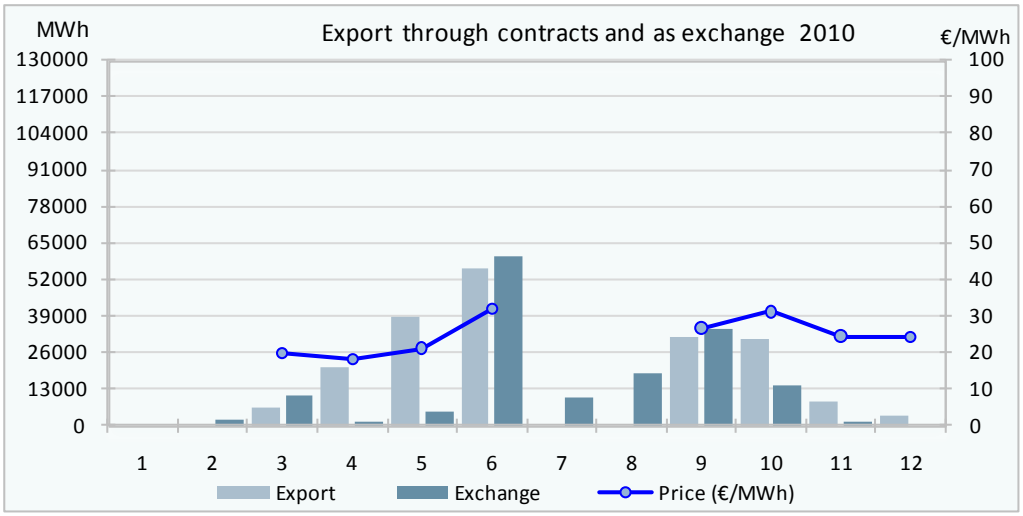

Fig.4.17. Export and price of electricity in 2010

The total amount of electricity exported by KEK this year was 195,220 MWh, at an average price of 26.44 €/MWh. This amount of export has had the effect of bringing KEK revenues to €5,160,831.

If this is compared to 2009 it results that the quantity exported and the average price has increased by 71.38% and 31.09% respectively.

Low price of electricity export compared to the price of imports is a result of the export being realized mainly through the low tariff, while imports through high tariff (peak hours).

Tab.4.21. Exchange, import and export of electricity for 2010

Month	Import			Export			Exchange			Total		
	Quantity (MWh)	Price (€/MWh)	Amount (€)	Quantity (MWh)	Price (€/MWh)	Amount (€)	Intake (MWh)	Offtake (MWh)	Difference (MWh)	Intake (MWh)	Offtake (MWh)	Difference (MWh)
1	85,840	63.41	5,442,800	0		0	66,020	0	-66,020	151,860	0	-151,860
2	94,050	64.00	6,019,243	0		0	14,425	2,180	-12,245	108,475	2,180	-106,295
3	49,190	55.72	2,740,892	6,415	19.84	127,303	1,870	10,240	8,370	51,060	16,655	-34,405
4	63,389	43.72	2,771,476	20,515	18.15	372,327	17,710	1,500	-16,210	81,099	22,015	-59,084
5	1,519	69.30	105,265	38,735	21.00	813,592	17,386	4,492	-12,894	18,905	43,227	24,322
6	8,260	53.75	443,962	56,085	31.77	1,781,994	0	60,407	60,407	8,260	116,492	108,232
7	120,910	51.45	6,220,240	0		0	0	10,158	10,158	120,910	10,158	-110,752
8	58,995	55.20	3,256,375	0		0	0	18,754	18,754	58,995	18,754	-40,241
9	6,620	70.45	466,356	31,353	26.60	834,012	0	34,137	34,137	6,620	65,490	58,870
10	39,705	60.17	2,389,177	30,595	31.12	952,205	14,548	14,033	-515	54,253	44,628	-9,625
11	95,615	64.09	6,128,361	8,420	24.35	205,040	1,000	1,350	350	96,615	9,770	-86,845
12	60,855	60.47	3,680,183	3,102	23.97	74,358	480	0	-480	61,335	3,102	-58,233
Total	684,948	57.91	39,664,332	195,220	26.44	5,160,831	133,439	157,251	23,812	818,387	352,471	-465,916

KEK has also exported 157.251 MWh in the form of exchange. The difference between import and export in the form of exchange is 23,812 MWh, indicating that in 2010 KEK has far more exported electricity in the form of exchange than imported.

Overall, Kosova has been a net importer in 2010.

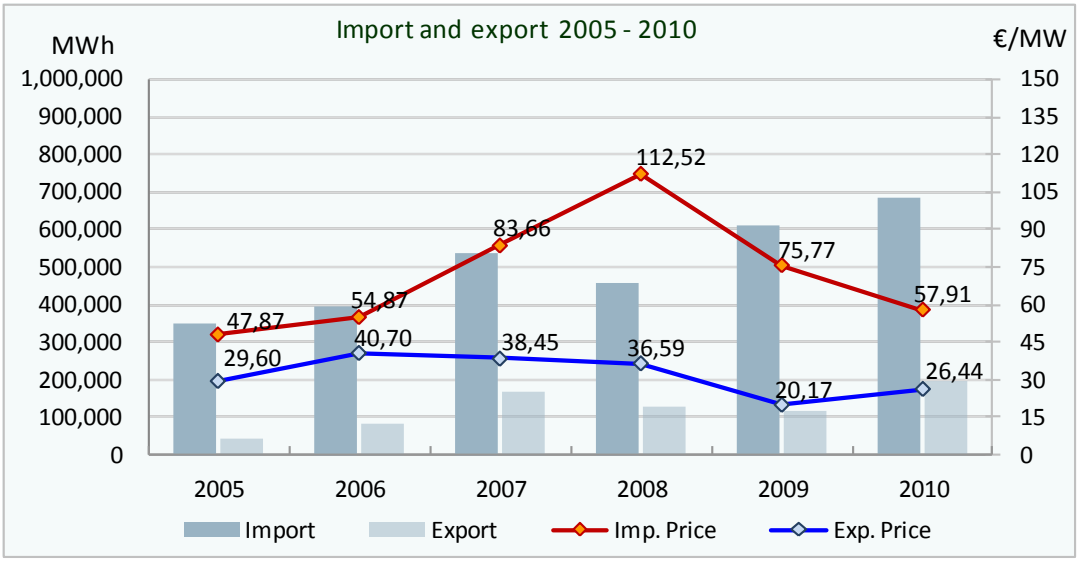

Fig.4.18. Import, export and prices in the period of 2005 – 2010

The price of electricity imports since 2005 recorded gradual increase up to 2008, recording the highest price of 112.52€/MWh, followed in subsequent years by a significant decline in price.

4.8.3 Comparison of import prices with the countries in the region

Electricity import prices in 2010 were approximately the same with the prices in the region. Figure 4.18 shows the ratio of KEK electricity import price in 2010 compared to imports in the region.

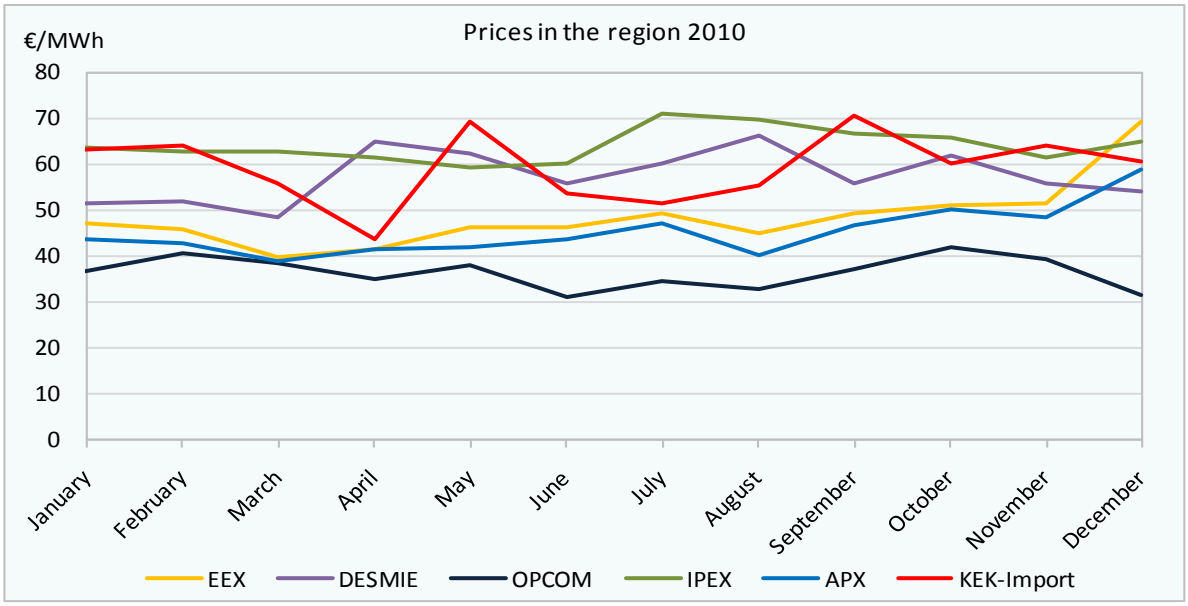

Fig. 4.19 Chart of import prices in the region and KEK during 2010

Comparison of prices in the region gives an overview of shifts in these prices during the year 2010, the energy exchanged, however, is of a different character because the comparison has been made at trade prices in the following forms: day ahead, intraday-EEX and bilateral trade of some European markets.

5 ELECTRICITY TARIFF REVIEW

5.1 Fourth electricity tariff review

The Energy Regulatory Office, under Article 14 of the Energy Regulator ir required to adopt fees based on the principles of Chapter IX of the same law.

During 2010 ERO conducted the fourth review of electricity tariffs (ETR4). Tariff review is an interactive process between ERO, licensees and stakeholders, aimed at determining the allowed revenues used for setting the level of KEK electricity tariffs and KOSTT charges.

In their tariff application KEK and KOSTT requested for an amount of Allowed Revenues at 170.1 million euros, which would represent an increase of 8.8% in the average electricity tariff.

Tab.5.1 Request for the average electricity tariff for 2010

		Mining	Generation	Distribution	Supplier	KEK	KOSTT	Total
Operating costs (with no power purchase)	€000s	42,244	30,802	18,714	18,249	110,009	7,978	117,987
Depreciation	€000s	5,122	4,360	1,071	527	11,081	1,806	12,887
Allowed return	€000s	17,115	8,925	4,293	264	30,596	1,587	32,183
Import	€000s				75,540	75,540		75,540
Power purchases outside KEK	€000s				2,581	2,581		2,581
Ancillary services	€000s					0	1,624	1,624
CA Costs	€000s	5,066	2,409	1,775	1,758	11,008		11,008
TOTAL ALLOWED COSTS	€000s	69,547	46,496	25,853	98,918	240,814	12,995	253,809
Sales to qualified customers	€000s				-23,388	-23,388		-23,388
Export	€000s				-4,430	-4,430		-4,430
Other operating revenues	€000s	-1,500	-1,624			-3,124		-3,124
Subsidies	€000s				-50,000	-50,000		-50,000
Adjustments	€000s	-1,224	-1,049	-893	-22	-3,187	504	-2,683
TOTAL ALLOWED REVENUES	€000s	66,823	43,823	24,960	21,078	156,685	13,500	170,185
						Current tariff	€c/kWh	5.58
						Requested tariff	€c/kWh	6.08
					REQUEST FOR TARIFF INCREASE			8.8%

According to the Tariff Methodology, which is part of ERO's secondary legislation, licensees should be provided a way of recovering reasonable operation and asset maintenance costs, depreciation costs and a reasonable level of profit. Within these principles, ERO has permitted that KEK Allowed Revenues include:

- depreciation and allowed return to cover all planned capital investment;
- all reasonable operating costs and
- all costs to cover import power purchase.

As a result of ERO evaluations, Allowed Revenues to be recovered from regulated tariffs have increased from 139.7 million in 2009, to 156.4 million in 2010 including 18.1 million euros for KOSTT. However, ERO has concluded that increased demand for energy will enable KEK to collect these revenues without increasing electricity tariffs and, as a result, electricity tariffs for 2010 remain unchanged[1].

[1] Applications, views of ERO and stakeholder comments have been published in the website of ERO.

Tab.5.2 Allocation of allowed revenues following ERO proposals

		Mining	Generation	Distribution	Supplier	KEK	KOSTT	Total
Operating costs	€000s	42,244	30,802	18,714	14,848	106,607	7,847	114,454
Depreciation	€000s	6,877	3,812	1,067	348	12,104	1,857	13,961
Allowed return	€000s	16,292	4,696	3,078	76	24,143	934	25,077
Import	€000s				69,990	69,990		69,990
Power purchases outside KEK	€000s				2,819	2,819		2,819
Ancillary services	€000s					0	1,624	1,624
CA Costs	€000s	5,138	2,443	1,801	1,783	11,164		11,164
TOTAL ALLOWED COSTS	€000s	70,551	41,753	24,660	89,864	226,828	12,262	239,090
Sales to qualified customers	€000s				-22,140	-22,140		-22,140
Export	€000s				-4,430	-4,430		-4,430
Other operating revenues	€000s	-1,500	-1,624			-3,124		-3,124
Subsidies	€000s				-50,000	-50,000		-50,000
Adjustments	€000s	-1,224	-1,049	-893	-22	-3,187	235	-2,952
TOTAL ALLOWED REVENUES	€000s	67,827	39,080	23,768	13,272	143,947	12,497	156,444
						Current tariff	€c/kWh	5.58
						Requested tariff	€c/kWh	5.59
					REQUEST FOR TARIFF INCREASE			0.0%

ERO's decision was considerably influenced by the decline in imported energy prices of imported electricity from 112.5 €/MWh in 2008 to 75.77€/MWh in 2009. At the same time, government subsidies for the purchase of electricity imports have not been reduced to reflect the decline in the electricity price.

5.2 Electricity tariff structure by divisions

Capital investment approved under ETR4 for the mines division in the amount of €73.5 million has brought the mining tariff component at 43% of the total average tariff in Kosova. Generation cost of generation contributes to the total average tariff with 24%, distribution and supply contribute with 15.1% and 8.4%, respectively. Finally KOSTT makes 7.9% of the average electricity tariff.

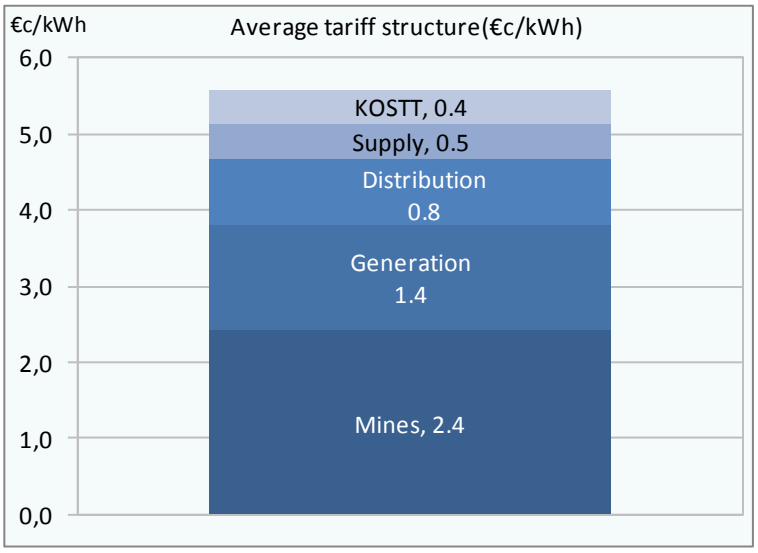

Fig.5.1 Average tariff structure in 2010

5.3 Principle of setting electricity tariffs according to service level for each customer group

In its review of tariffs, ERO has, among others, taken into account also the voltage level each group of customers is supplied at, consumption profile and cost of service to them. Allowed Revenues approved under ETR4 should be recovered from nine (9) customer categories, in accordance with the ratio shown in Table 5.3.

Tab.5.3 Distribution of costs related to the customer, electricity and power for different customer categories

Allocation of revenues		Customer cost	Power cost	Energy cost	Total
0. Category - 110 kV		0.0%	0.7%	1.3%	2.0%
	€000s	4	1,056	2,063	3,123
1. Category - 35 kV		0.0%	0.3%	0.7%	0.9%
	€000s	6	396	1,071	1,473
2. Category - 10 kV (20 kV)		0.0%	2.0%	3.2%	5.2%
	€000s	23	3,166	5,023	8,212
3. Category I - 0.4 kV commercial with reactive power		0.0%	1.7%	3.2%	4.9%
	€000s	64	2,642	4,948	7,654
4. Category II - 0.4 kV commercial with no reactive power		0.7%	5.6%	6.2%	12.5%
	€000s	1,146	8,727	9,674	19,547
5. Category 0.4 kV households two (2) rate meter		8.9%	26.7%	29.3%	64.9%
	€000s	13,862	41,815	45,879	101,556
6. Category 0.4 kV households one (1) rate meter		1.4%	2.5%	2.8%	6.6%
	€000s	2,134	3,931	4,302	10,367
7. Category 0.4 kV households without meter		0.2%	1.1%	1.2%	2.6%
	€000s	330	1,778	1,955	4,064
8. Category - public lighting		0.0%	0.1%	0.1%	0.3%
	€000s	20	201	222	443
Total		11.2%	40.7%	48.0%	100.0%
	€000s	17,589	63,713	75,138	156,440

Table 5.4 shows electricity tariffs for regulated customers set in accordance with the principles mentioned above.

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Tab.5.4 Structure of retail electricity tariffs for regulated customers of KEK JSC applicable since 1 April 2010

Tariff group	Voltage level of supply	Tariff element	Unit	Time-of-day	Tariffs for 2010	
					High season	Low season
					1 October - 31 March	1 April - 31
0	110kV	Standing (customer) charge	€/customer/month		83.83	
		Standing (demand) charge	€/kW		5.59	5.59
		Active energy (P), of which:	€c/kWh	High tariff	6.49	1.92
			€c/kWh	Low tariff	2.70	1.58
		Reactive energy (Q)	€c/kVArh		0.00	0.00
1	35kV	Standing (customer) charge	€/customer/month		11.08	
		Standing (demand) charge	€/kW		5.81	5.81
		Active energy (P), of which:	€c/kWh	High tariff	6.79	2.94
			€c/kWh	Low tariff	3.59	2.65
		Reactive energy (Q)	€c/kVArh		0.66	0.66
2	10kV	Standing (customer) charge	€/customer/month		4.58	
		Standing (demand) charge	€/kW		5.01	5.01
		Active energy (P), of which:	€c/kWh	High tariff	7.61	3.39
			€c/kWh	Low tariff	4.10	3.09
		Reactive energy (Q)	€c/kVArh		0.66	0.66
3	0.4 kV Category I large reactive power consumers)	Standing (customer) charge	€/customer/month		2.58	
		Standing (demand) charge	€/kW		2.91	2.91
		Active energy (P), of which:	€c/kWh	High tariff	8.45	4.69
			€c/kWh	Low tariff	5.33	4.43
		Reactive energy (Q)	€c/kVArh		0.66	0.66
4	0.4kV Category II	Standing (customer) charge	€/customer/month		2.92	
		Active energy (P)	€c/kWh	Single tariff	10.41	6.73
		Active energy (P), of which:	€c/kWh	High tariff	12.53	8.21
			€c/kWh	Low tariff	6.26	4.10
5	0.4kV (domestic 2 rate-meter)	Standing (customer) charge	€/customer/month		2.08	
		Active energy (P) for consumption:				
		<200kWh/month (First Block):	€c/kWh	High tariff	4.64	3.33
			€c/kWh	Low tariff	2.33	1.66
		200-600kWh/month (Second Block):	€c/kWh	High tariff	6.43	4.60
			€c/kWh	Low tariff	3.22	2.31
		>600 kWh/month (Third Block):	€c/kWh	High tariff	9.33	6.68
			€c/kWh	Low tariff	4.66	3.35
6	0.4kV (domestic 1-rate meter)	Standing (customer) charge	€/customer/month		2.08	
		Active energy (P) for consumption:				
		<200kWh/month (First Block):	€c/kWh	Single tariff	4.14	2.96
		200-600kWh/month (Second Block):	€c/kWh	Single tariff	5.73	4.10
		>600 kWh/month (Third Block):	€c/kWh	Single tariff	8.31	5.96
7	0.4kV (domestic unmetered)	Estimated consumption:				
		<200 kWh/month	€/customer/month		21.50	
		200-600 kWh/month	€/customer/month		38.92	
		>600 kWh/month			65.58	
8	Public lighting	Standing (customer) charge	€/customer/month		2.92	
		Active energy (P) for consumption:	€c/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(Φ)=0.95

KOSTT tariff structure is divided into three (3) components:

- Transmission use of system charge that is imposed to recover the costs of KOSTT as owner of the transmission network. These costs include the costs of investing in the network and network maintenance.
- System operator component. This component recovers KOSTT's costs as a system operator, and it includes ancillary services purchase costs together with transmission losses purchase costs.
- Market Operator component. This component recovers KOSTT's direct costs as a wholesale market operator in Kosova.

Tariffs for 2010 are presented in Table 5.5.

Tab.5.5 The structure of KOSTT JSC tariffs and charges applicable from 1 April 2010

Tariff group	Voltage level of connection	Tariff elements	Unit	Tariff for 2010
Generation	400kV / 220kV	Use of system charge	€/kW/year	0.000
		System operator charge	€/MWh	0.934
		Market operator charge	€/MWh	0.018
Generation	110kV	Use of system charge	€/kW/year	0.000
		System operator charge	€/MWh	0.934
		Market operator charge	€/MWh	0.018
Generation	Distribution	Use of system charge	€/kW/year	0.000
		System operator charge	€/MWh	0.287
		Market operator charge	€/MWh	0.018
Supply	400kV / 220kV	Use of system charge	€/kW/year	4.057
		System operator charge	€/MWh	0.934
		Market operator charge	€/MWh	0.018
Supply	110kV	Use of system charge	€/kW/year	8.832
		System operator charge	€/MWh	0.934
		Market operator charge	€/MWh	0.018

6 DISTRICT HEATING SECTOR

6.1 Overview of the district heating sector

District heating sector supplies heating to urban areas in four municipalities, Prishtina, Gjakova, Mitrovica and Zvecan, meeting only 5% of heating demand in Kosova.The district heating systems are operated by four (4) companies: District Heating "Termokos JSC" in Prishtina, District Heating "Gjakova JSC" in Gjakova, District Heating Working Unit "Termomit" in Mitrovica and District Heating Working Unit of “Zveçan” in Zveçan. DH "Termokos" and DH “Gjakova” are structured as joint stock companies, while DHWU “Termomit” and DHWU “Zveçan” are organized as units of the integrated municipal companies of Mitrovica and Zveçan municipalities respectively.

An important development in improving thermal energy/heating supply is the feasibility study of thermal energy co-generation project in Kosova B which will supply district heating system in the Prishtina region. This provides a thermal power generating capacity of about 120 MW_t, which would make possible a significant improvement in the supply of a more stable and better quality of heat supply.

6.2 Technical characteristics of district heating systems

6.2.1 Generation plants

Heat generating plants of the DH Termokos are comprised of a main heating plant of a total capacity of 121.62 MW_t (thermal Megawatt) and a supporting heating plant at the university clinical center at a capacity of 14 MW_t. The District Heating Gjakova is equipped with two furnaces at a total installed capacity of 38.6 MW_t - one at a generating capacity of 20 MW_t and the other at a capacity of 18.6 MW_t, which is currently out of function.

Generating capacity of the WUDH Termomit in Mitrovica includes: a main heating plant equipped with only one functional furnace of a nominal capacity of 9.3 MW_t, and a district heating plant in the health clinic, which is equipped with three furnaces at a total capacity of 7.6 MW_t.

At WUDH Zveçan heat is generated by a heating plant of a total capacity of 1.6 MW_t – two furnaces of 800 kW_t each.

6.2.2 Distribution systems

A common feature of all district heating systems in Kosova is that distribution network consists of a primary network that extends to the supply point at the substations, and a secondary network which extends from the supply point at the substations to the end users.

The primary distribution network of the DH Termokos has a length of about 31 km with a capacity of 300 MW_t. An integral part of the distribution network is the pumping and heat exchange station located in the Bregu i Diellit neighborhood and 265 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 are about 249 substations, which are the boundary points between the primary and secondary network. Heat consumption meters have been installed at 42 substations only.

The District Heating System in Mitrovica actually consists of two separate distribution networks. The main part of the primary network is connected to the main heating plant, while the rest is connected to the heating plant in the regional hospital. The overall length of the primary distribution network is

about 4.5 km. There are approximately 20 sub-stations that supply heating, none of which is equipped with a thermal energy meter.

The district heating system in Zveçan consists of a fairly small distribution network of a total length of 0.8 km.

It should be emphasized that the district plant of Termomit and Zveçan, due to well-known circumstances, did not respond to ERO requests for licensing and monitoring, so it has been impossible to obtain any relevant and updated information.

A summary of technical characteristics of district heating systems of DH Termokos and DH Gjakova is presented in the table below.

Tab.6.1 Technical data of district heating systems

Company (District)	Installed capacity [MW_t]	Operational capacity [MW_t]	Distribution network	
			Network length [km]	Subst. No.
DH TERMOKOS (Prishtina)	2 x 58 = 116	2 x 58 = 116		
	2 x 7 = 14	2 x 7 = 14	31	265
	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	31	265
DH GJAKOVA (Gjakova)	1 x 20 = 20	1 x 20 = 20	20	249
	1 x 18.6 = 18.60			
Sub-total	38.60	20.00	20	249
Total	174.22	155.62	51	514

6.3 Performance of district heating companies

6.3.1 Fuel consumption and price

District heating plants are 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 shifts in the international market; such shifts were very large, directly influencing the total cost of fuel and the cost of district heating.

More specifically the prices of fuel containing sulphide up to 1% during the period of October 2009 - March 2010, have shifted from 339€/ton to 416 €/ton. District heating companies are supplied with heavy oil that contains sulphide up to 3.5%, and as it is known, the price for this type of heavy oil is quoted for about 10-15% lower than heavy oil with 1% of sulphide content. On such basis we can approximate that the average price of heavy oil with 3.5% sulphide, for this period was around 319 to 337 €/ton.

The figure below shows the chart of price shifts for the period of October 2009 – March 2010, according the the international stock exchange, Amsterdam-Roterdam-Antwerp.

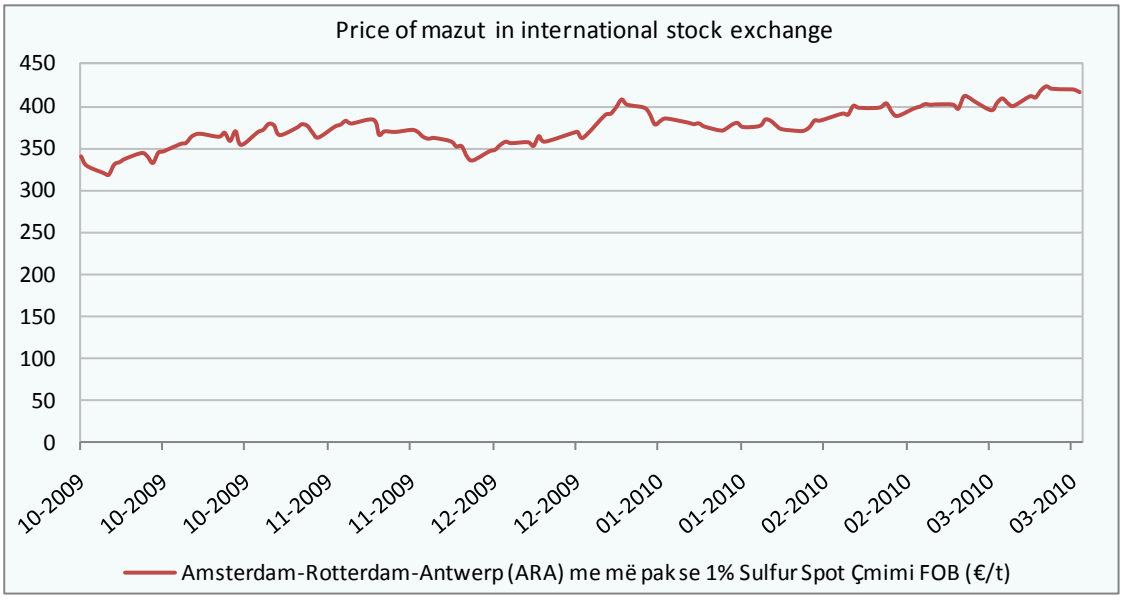

Fig.6.1 Price of mazut the international stock exchange (ARA) – period: October 2009 – March 2010

Source: *"U.S.Energy information Administration – Independent statistics and Analysis" – USA Energy Information Administration - Independent Statistics and Analysis*

At the beginning of November 2010 the average price was 326.67 €/ton as shown in the diagram below.

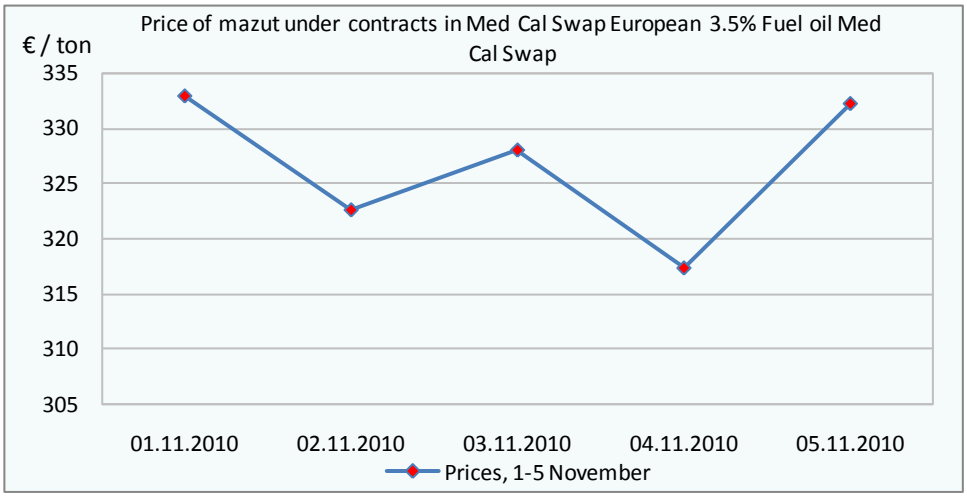

Fig.6.2 Price of mazut in the international stock exchange (ARA) – period: 1 – 5 November 2010

Source*:* *www.ProfitQuotes.com*

The average purchase/supply price is formed through stock exchange price with the added Premium component, which for the 2009/2010 season was 32 €/ton, plus the VAT value.

Fuel consumption during the 2009/2010 season has been significantly smaller than the consumption in the previous seasons, as a result of financial difficulties of the district heating companies which has prevented a stable fuel supply.

Following is a table showing the amount of fuel (mazut) consumed and the average purchase prices for the 2009/2010 season.

Tab.6.2 Fuel consumption and average purchase price for the 2009/2010 season

Company - DH System	Mazut	
	Consumption (ton)	Average purchase price (€/ton)
DH TERMOKOS	9,337	407
DH GJAKOVA	1,903	409
Total DH Sector	11,240	408

6.3.2 Generation, system losses and district heating supply

Generation

Generation of heat in the 2009/2010 season has been significantly lower than forecast and significantly lower than in the past seasons. This has been particularly the case with DH Termokos, where the net heat generation was 82.987 MW_th, which is 37.23% lower than planned, while in the case of DH Gjakova, net heat generation was 15.681 MW_th which is 22.95 % less than planned.

System losses

Generation losses have been on the same level with past seasons recording no significant improvement. In the 2009/2010 season, the DH Termokos generation losses were at 21%, while the DH Gjakova generation losses were at 27%. It should be emphasized that the efficiency of generating plants is significantly below internationally accepted levels for similar types of generating plants, and at levels significantly lower than planned and allowed by ERO.

Losses in the distribution network also remain high compared to the normal level determined under advanced international practices. Losses in the DH Termokos distribution network in the 2009/2010 season were at 15%, while the DH Gjakova losses in the distribution network were at 20%.

Heating supply

As a result of lower generation, heating supply to customers in the 2009/2010 season was significantly lower than planned.

The DH Termokos supply to customers was 70.575 MW_th, which is 37.20% lower than planned supply. Roughly the same condition also appears with supply to the customers of DH Gjakova which was 12,545 MW_th, about 30% lower than planned.

In this regard, it should be emphasised that one characteristic of the 2009/2010 season was largely unstable supply and frequent interruptions for several days, and the final termination of supply in the second half of March, about a month before the end of the heating season.

Following is a table and a chart presenting summarized data on generation and heat supply, as well as related losses.

Tab.6.3 Energy performance of district heating companies

Company	Energy from fuel	Heat generation	Heating plant efficiency		Distribution losses		Supply
	(MW_th)	(MW_th)	(MW_th)	(%)	(MW_th)	(%)	(MW_th)
DH Termokos	105,508	90,987	22,521	79.00	12,412	15.00	70,575
DH Gjakova	21,503	16,131	5,792	73.00	2,774	20.00	11,031
Total	127,011	107,118	28,313	78.70	15,186	15.69	81,606

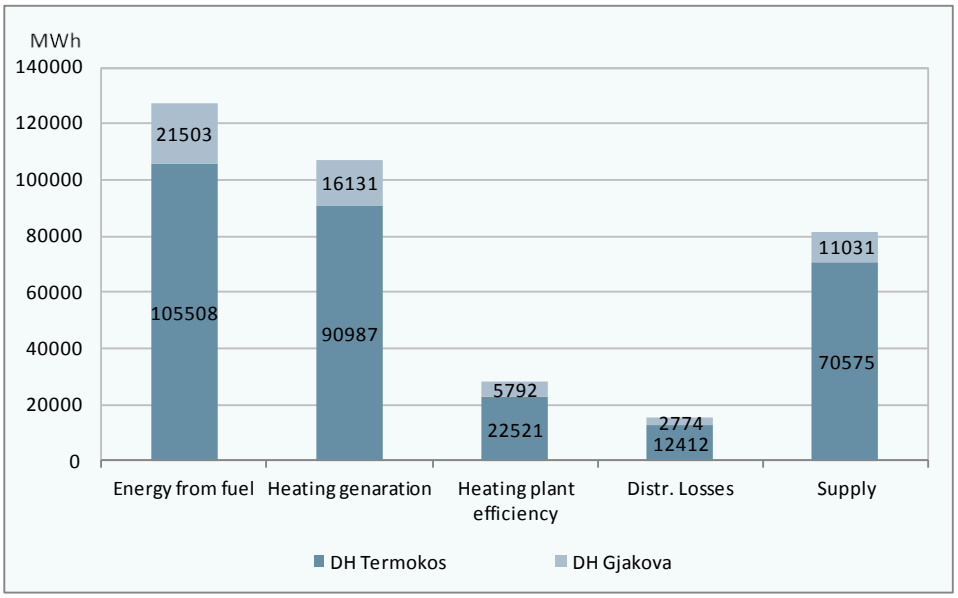

Fig.6.3 Energy performance of district heating companies

6.3.3 Area covered by heating service

The total area covered by the DH Termokos service in the 2009/2010 season was 1,071,677 m^2, which represents an increase of 40,745 m^2 from the last season. The household customers participate with 59.38%, while the commercial and institutional customers with 40.62%.

The DH Gjakova had a total area of 144.709 m^2 covering with its heating service, which also represents a significant increase of 24,009 m^2 compared to the last season. Household customers participate with 61.86% of the total area, while the commercial and institutional customers with 38.14%.

6.3.4 Billing and collection

Billing of customers is still based mainly on the heated areas (per square meter). To a small part of customers, billing is based on the metering of thermal energy supplied, where this is applicable. The billing level planned has not been reached during 2010 either, mainly due to unstable supply. In the 2009/2010 heating season collection rate for the entire heating sector recorded a slight decrease compared to the 2008/2009 season. As shown by data presented in the table below, average collection rate for the heating sector is about 57%, representing a decrease of 4% from last season.

Tab.6.4 Heated areas, billing and collection 2009/2010

Heating season 2009/2010	Heated area [m^2]	Tariff [€/m^2]	Billing (incl. VAT) [€]	Collection [€]	Collection rate [%]
DH "Termokos", Prishtina					
Households	636,381	0.84	2,232,166	631,733	28.30
Commercial and institutional	435,296	1.00	1,878,736	1,638,905	87.23
Total	1,071,677	-	4,110,901	2,270,637	55.23
DH "Gjakova", Gjakova					
Households	89,520	0.90	157,768	89,164	56.52
Commercial and institutional	55,189	1.28	226,946	210,209	92.62
Total	144,709	-	384,714	299,373	77.82
Total DH sector	1,216,386		4,495,616	2,570,010	57.17

6.4 District heating tariffs for the 2010/2011 heating season

As the heating sector in the transportation and distribution of heat is classified as a natural monopoly, and because there is no competition in the generation and supply of heat, then district heating tariffs that consist of all the components listed above are subject to ERO's approval.

ERO determines district heating tariffs based on the Tariff Methodology which is developed in accordance with the Law on Energy Regulator.

Tariff methodology

In wording/calculating district heating tariffs ERO has selected and implemented the rate of return methodology, the so-called cost-plus.

Based on the Tariff Methodology for setting district heating tariffs, ERO determines the allowed revenues that each district heating company should recover from tariffs, i.e. a reasonable allowed cost which should be returned and a reasonable profit rate, which is calculated using 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 revenues and actual revenues of the previous season. The result of this adjustment is reflected in the allowed revenues of the subsequent season.

The following table shows district heating tariffs for the 2010/2011 heating season

Tab.6.5 Summary of district heating tariffs for the 2010/2011 heating season

A. DISTRICT HEATING TARIFFS FOR UNMETERED CUSTOMERS			
COMPANIES	Tariff components	Household customers [€/m² per month]	Commercial and institutional customers [€/m² 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.)	0.11	0.14
	Supplied heating (variable comp.)	0.79	1.14
B. DISTRICT HEATING TARIFFS FOR METERED CUSTOMERS			
COMPANIES	Tariff components	Metering unit	Price
DH TERMOKOS JSC	Contracted heating capacity (fixed comp.)	€/kW_t per month	0.70
	Supplied heating (variable comp.)	€/MW_th	45.50
DH GJAKOVA JSC	Contracted heating capacity (fixed comp.)	€/kW_t per month	1.10
	Supplied heating (variable comp.)	€/MW_th	53.67

The following charts represent district heating tariffs for umetered and metered costumers

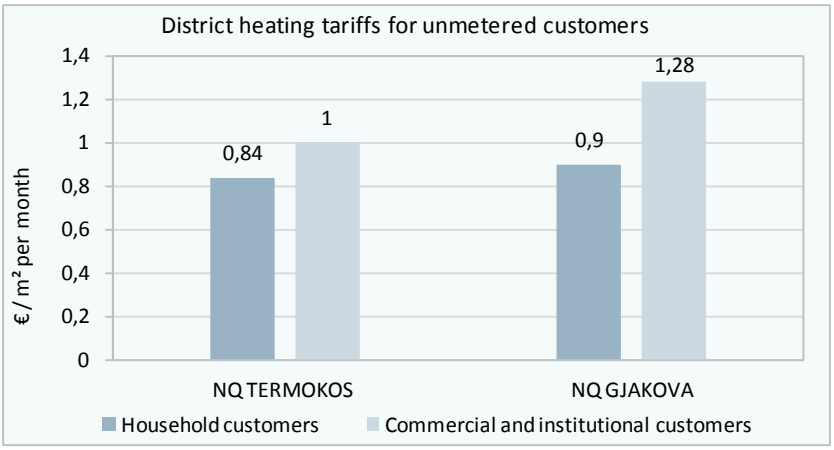

Fig.6.4 District heating tariffs for unmetered customers

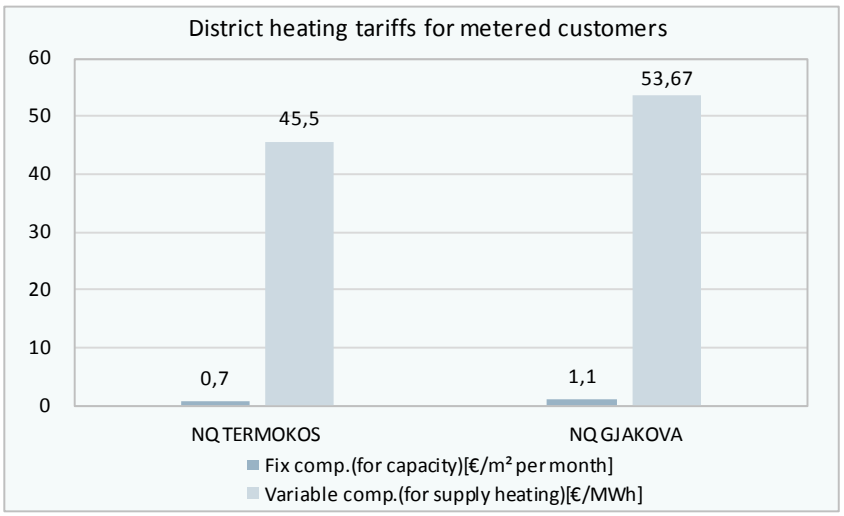

Fig.6.5 District heating tariffs for metered customers

7 CUSTOMER PROTECTION AND DISPUTE SETTLEMENT

The Customer Protection Department is responsible for the implementation of customer protection legislation in the energy sector in Kosova, and for reviewing complaints between customers and energy companies, system operators and energy companies, as well as between two energy companies. ERO cooperates with all organizations which legitimately represent customers in the energy sector.

During 2010, ERO recorded a great number of customer complaints. The greatest numbers of customer complaints were disputed decisions/responses issued by KEK.

Processes and decisions/responses prepared by KEK's staff show many deficiencies, and disregard of applicable procedures, rules and laws. As a result of these deficiencies there is a great number of customers disputing actions undertaken by KEK.

7.1 Complaints and dispute settlement activities

During 2010, 243 consumer complaints have been recorded, 106 complaints pertaining to 2010 and 89 complaints pertaining to 2009 have been resolved, making a total of 195 complaints being resolved. Documentation and relevant facts related to unresolved complaints of 2010 is being completed.

Complaints recorded were of different nature: unauthorized use, inaccurate reading/billing, disconnectionfines, debt transfer, RTK fee etc.

The chart below shows that out of registered complaints the largest number of consumer complaints has been for unauthorized use, making about 63% of total complaints.

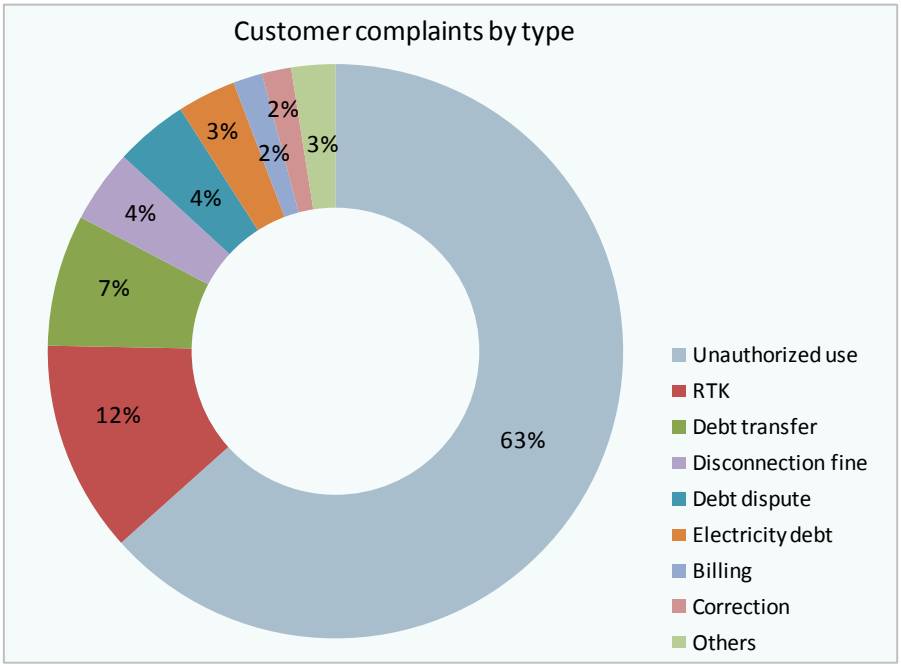

Fig.7.1 Graphic presentation of customer complaints by type

A review of complaints revealed many deficiencies in the processes prepared by KEK. The number of complaints registered during 2010 per customer category is as follows:

- household customers, 190 complaints or 78%,

- commercial customers, 51 complaints or 21%
- industrial customers, 2 complaints or 1 %

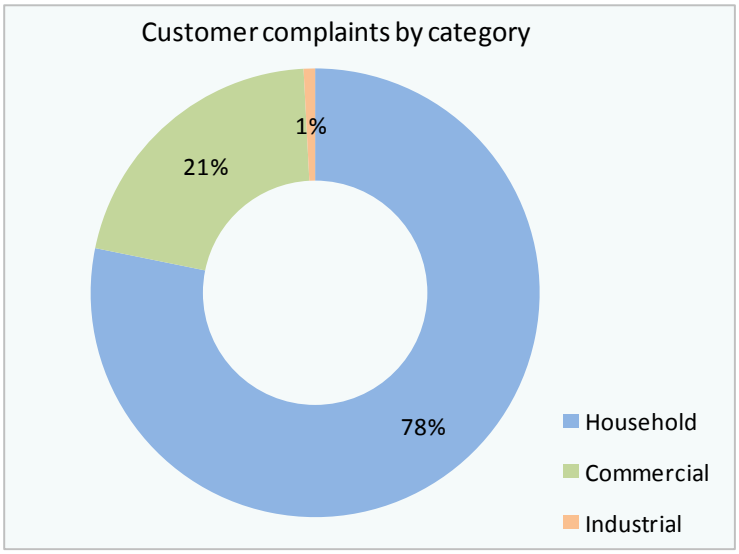

Fig.7.2 Graphic presentation of customer complaints per customer categories

In 2010 CPD had 700 direct talks and 205 phone talks with customers, who presented their complaints on various issues. In communicating with with customers, they notified and instructed them about the rules, procedures and their rights in the energy sector, so that they are better informed about their rights.

The table below indicates the number of customer complaints registered across the years, showing that the number of complaints is still too high and represents an unbearable burden to ERO given the limited number of staff.

Tab.7.1 Customer complaints across the years

Year	2006	2007	2008	2009	2010
Complaints	33	116	572	318	243

8 PROSPECTS FOR THE DEVELOPMENT OF KOSOVA NATURAL GAS SECTOR

In order to fulfill the obligations arising from the Energy Community Treaty of South East Europe (ECTSEE), Kosova has been completing the legal framework on natural gas sector by adopting the Law No. 03/L-133 on Natural Gas. This law sets forth the basis and defines the operation and functioning of the natural gas sector, access to market and conditions and criteria for conducting the activities of transmission, storage, distribution and supply of natural gas.

There is still no natural gas in Kosova, and there is no gas infrastructure either, with the exception of the old and obsolete network for artificial gast produced from lignite, with a total length of 254 km.

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.

In this context, one of the objectives of the "Kosova Energy Sector Strategy" is to connect Kosova with regional gas pipelines in the near future. In addition, “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 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 to be emphasized is the inclusion of Kosova in the “Capacity Development, Demand and Supply Scenarios by Country" Report within the "The 10-year Development Plan of the European Gas Network" by ENTSO G. This report presents forecasts for natural gas demand in Kosova for the period of 2015 - 2025, and a preliminary plan for the development of the transmission network and and a preliminary plan for the development of a gas transmission network and the layout of this network for further discussion and analysis. These were originally prepared by MEM in cooperation with ERO and other stakeholders.

Tab.8.1 Projections for natural gas demand in Kosova by sectors

Sectors	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Natural gas as initial fuel for TPP using coal	0.00	0.00	246.43	254.35	262.28	270.20	278.13	286.06	293.98	301.91	309.83
TPP natural gas of 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_Commercial & 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

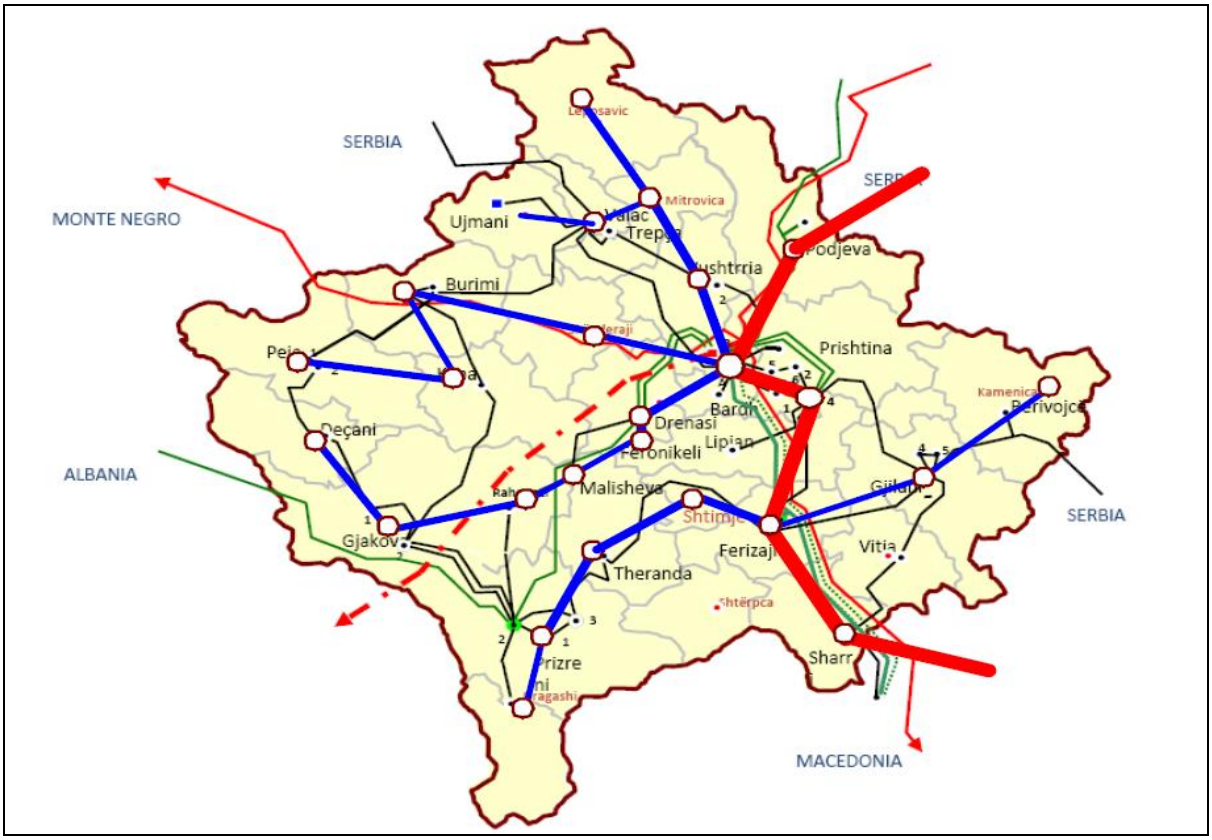

Fig.8.1 Preliminary plan of natural gas transmission network in Kosova

Source: *ENCO G Report on Capacity Developement, Demand and Supply Scenarios by Country*

Note: Red lines show transmission network lines of the Kosova segment of the Energy Community Gas Ring, and blue lines show the internal transmission network.

In the context of meeting its legal responsibilities for the development of the regulatory framework and obligations towards ECTSEE, ERO in 2010 has monitored regional developments related to natural gas and participated actively in the work of the Gas Working Group part of the Energy Community Regulatory Board and Gas Forum. In this regard, among others, ERO contributed to the preparation and finalization of papers among which the following are singled out:

- "Regulatory Framework for the Development of Energy Community Gas Ring" - Discussion Paper
- "Gas Market Models and their compliance with Regulation (EC) 1775/2005" - Assessment Paper
- "Regulation of Gas Transmission Flows in the Energy Community" - Final Report

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

To be mentioned in particular is the work that began in 2010 by the Gas Working Group for the preparation of an assessment paper, "The Energy Community Gas Ring from Theory to Practice". This paper virtually examines all regulatory requirements including investment for the implementation of the Gas Ring, and it has therefore selected two segments of the Gas Ring, nothern segment which connects countries such as Croatia-Bosnia-Herzegovina and Serbia, and the

southern segment that connects the following countries: Albania-Macedonia-Kosova, which are presented in the figure below:

Fig.8.2 Segments selected for review – northern and eastern segment

Note: Yellow lines represent gas segments proposed for review.

9 INTERNATIONAL ACTIVITY OF ERO

9.1 ERO and the South Eastern Europe Energy Community Treaty

The South Eastern Europe Energy 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. Moldova also joined the Energy Community in 2010 as a full member. With the ratification of the treaty signatories have pledged to implement the directives of the "*acquis communautaire*" in the sector of electricity, gas, heat, renewables and co-generation, as well as security of supply (www.energy-community.org.

Parallel to this, the Ministerial Council of ECT in 2009, in the form of amendments to the Annex to EC Regulation No. 1228/2003, has defined "the 8th Region" on conditions for access to network and cross-border exchanges in electricity. Countries of the 8th Region: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Former Yugoslav Republic of Macedonia, Montenegro, Romania, Serbia, Kosova (UNMIK), Greece, Slovenia, and Italy, in accordance with interconnection links with the ETC member parties.

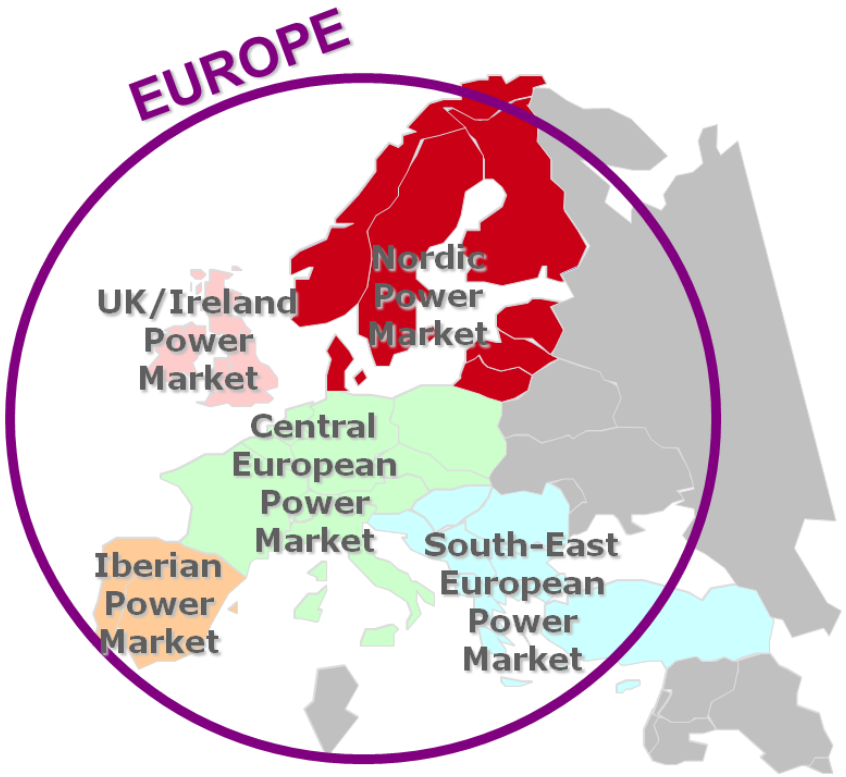

Fig.9.1 European power markets

One of the key institutions established by the SEEECT is the Energy Community Regulatory Board (ECRB), consisting of: regulatory authorities of the Contracting Parties; regulatory authorities of participating countries: Austria, Bulgaria, Czech Republic, Cyprus, France, Germany, Greece, Hungary, Italy, Romania, Slovakia, Slovenia and the United Kingdom, while the countries that have the "observer" status are the following: Georgia, Moldova, Norway, Turkey and Ukraine. Starting from 2011 Ukraine will be a member with full rights in the SEEECT.

The Regulatory Board has its established working groups on gas, electricity, consumers and the SEE Coordinated Auction Office Implementation Group. ERO has its nominated members in RB and in every working group that acts on behalf of Kosova's regulatory issues. The RB is directed by the chairman who is elected annually from the representatives of national regulatories, and a deputy chairman who is the European Commission's representative. Each working group has its sub-groups responsible for specific tasks.

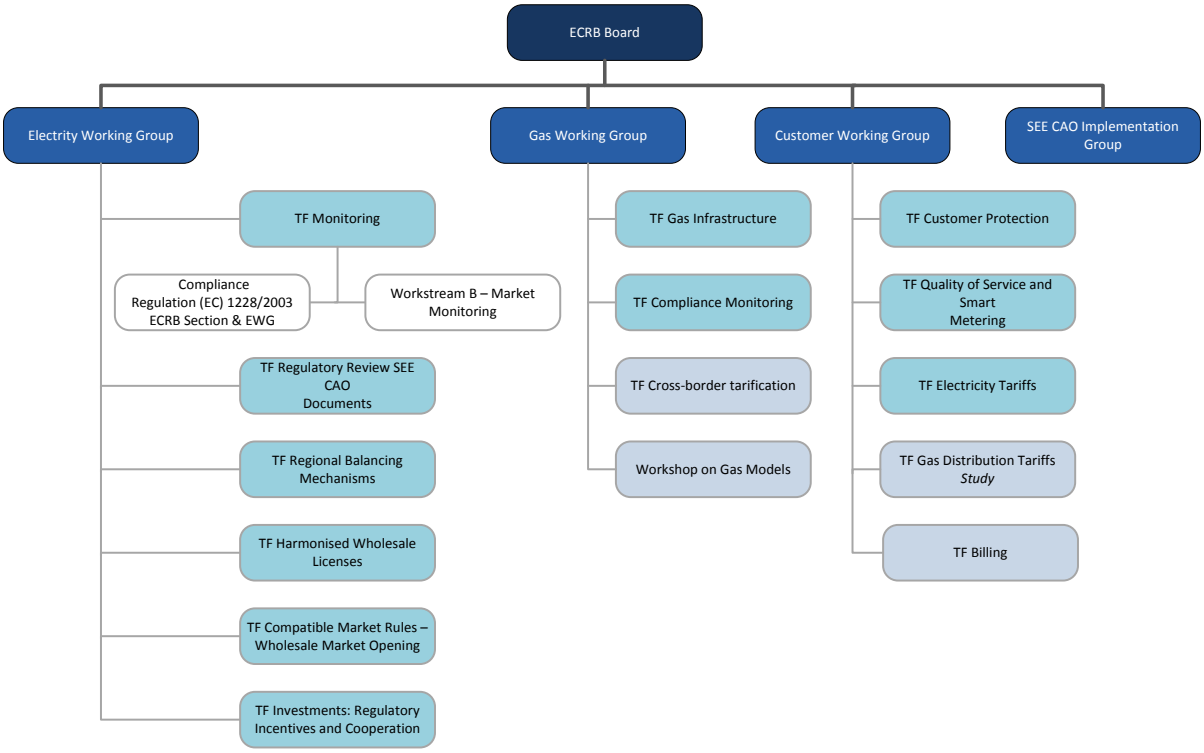

Fig.9.2 Composition of the Regulatory Board of the Energy Community Treaty of South East Europe, and its working groups and subgroups

The goals and priorities of the RB during 2010 were: development of a competitive national gas and electricity market, integration of national markets and removal of barriers to cross-border activity and competition, consumer protection and social issues, regulatory aspects of the supply security, electricity network security and quality of supply, renewables and energy efficiency.

9.2 The ECRB Activities during 2010

Group on electricity

- **Subgroup TF-1** deals with the issue of congestion management and cross-border transmission capacity allocation, based on the requirements of the EC Regulation 1228/2003. With the signing of the Memorandum of Understanding[2] by some TSOs in the 8th Region, decision for the establishment of the Auction Office (AO) based in Podgorica, Montenegro was taken. In 2010 there has been no significant movement towards making this office operational, due to lack of support by some MOs in the region (Serbia, Bulgaria, Croatia, Macedonia, etc.). Subgroup TF-1 has also developed the model for regulatory monitoring of cross-border flows and AO.

[2] Albania, Greece, Kosova, Montenegro, Croatia etc.

- **Subgroup TF-2 -** Regional Balancing System has been at the focus of activities during 2010. The Subgroup has prepared a regulatory evaluation of the "**BETSEE**" Regional Balancing Mechanism for SEE. The Working Group responsible for electricity has decided to firstly review the national balancing mechanism when addressing this complex issue. A Report on national balancing mechanisms of SEEECT parties has been prepared. This activity is expected to continue in 2011 as well.
- **Subgroup TF-3** - The Wholesale Market Opening and compatibility of market rules remain key goals in the region. In 2010, the study - **"The opening of the SEE Wholesale Market"**, prepared by consultancy and funded by the WB, was concluded. In preparing this study the third subgroup provided significant input and its focus was particularly the development of an action plan for its implementation. This subgroup will continue its activities in 2011 to implement this study in the region.
- **Subgroup TF4** - Harmonization of licenses has been another activity of the RB. In particular the activities related to the harmonization of trade licenses remain a priority for the purpose of their mutual recognition. There is extensive discussion in the EU on this issue and the subgroup is expecting new developments in the EU and the conclusions to be reached will be also reflected in the SEEECT.
- **Subgroup TF5** – Cooperation between regulators and cross-border investment. During 2010 the subgroup analyzed regulatory aspects for the promotion of new investment in infrastructure projects involving more than one border of the contracting parties to the SEEECT. Based on this analysis a report, "*Regulatory Instruments for the Promotion of New Investment - Evaluation of Existing Mechanisms - Recommendations*" was prepared.
- **Subgroup TF6 –** Monitoring of SEE market has been under focus since 2006, and a more specific work was carried out during 2010 within the project "Monitoring of SEE Market" financed by USAID. This project sets out monitoring indicators and statements on cross border activities. It is hoped that the project will enable a unified approach to monitoring by creating a guide for monitoring. All information is provided by national TSOs.

Coordinated Auction Office Implementation Group

Activities related to the establishment of the "SEE Coordinated Auction Office" (SEECAO) aiming at regional capacity allocation and congestion management in a coordinated manner in SEE continued in 2010. There has been no significant progress on the functioning of this Office during 2010.

Gas Group

The Gas Working Group which consists of three sub-groups responsible for specific tasks, even in 2010, focused on the establishment and harmonization of the regulatory framework to facilitate the development of "the Energy Community Gas Ring", which aims at promoting new infrastructure and additional infrastucture of gas in the Energy Community. Its ultimate goal is the interconnection of national gas markets and establishment of a regional gas market in South Eastern Europe. Consequently, among the tasks of the Gas Working Group is the implementation of "acquis communautaire" on natural gas, trade and cross-border cooperation, transmission lines interconnection and interaction and natural gas transit, and harmonization of transmission charges. ERO has actively participated in the work of GWG, taking part in the meetings of this group and Gas Forum, providing information, data and comments for the preparation of relevant documents.

Customer Group

The Customer Working Group consists of five sub-groups responsible for specific tasks and its main activities in 2010 related to the protection of consumers in need, the quality of power supply etc.. In September 2010 a workshop was organized on the topic: “Ways to improving consumer participation in regulatory processes”. In relation to the quality of services and smart electric meter a study "*Assistance to regulatories for the improvement of the quality of regulatory services in the Energy Community*" has been conducted*. Two other workshops have been organized on this topic. The study on the energy sector, "Tariff rules and quality of gas distribution services in the Energy Community" was conducted. The subgroup on billing conducted the study: "Study on the status quo of electricity billing practices in the Energy Community."*

In addition, the RB continued its advisory role to the SEEECT Ministerial Council on the following matters: monitoring and access to the labor market and regional power system, with suggestions for a regular functioning 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 a stand with regard to regional balance, and the establishment of the South Eastern Europe Auction Office.

During 2010, the SEEECT in its activities continued to treat Kosova Transmission Operator (KOSTT) on unequal terms in relation to the Transmission Operator of Serbia.

In 2010, ERO continued its co-operation with the ECT Secretariat through regular meetings and by filling in many questionnaires about Kosova's energy sector.

9.3 The Energy Regulators Regional Association (ERRA)

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, Eurasian region, Asia, Middle East and 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’s Secretariat is located in Budapest, Hungary. The funding of activities is mainly covered by the member countries. ERO is an associate member of this Association.

ERRA has the following committees/working groups: Licensing/Competition Committee, Tariff Committee, Legal Committee, Chairmen Committee and Gas Committee. ERO is represented in all the working groups of this Association. Following are some of the main activities carried out by these Committees.

Tariff Committee

ERO has been represented in two meetings of the ERRA’s Tariff Committee during 2010. The Committee discussed current issues related to tariffs influenced by the economic crisis and impact on energy markets with the resulting decline in demand and investment. In addition, in accordance with the work plan for 2010 discussions were held with regard to the evaluation of the efficiency of distribution companies in ERRA member states, bad debts, commercial losses and incentives for investment in renewable energy.

Licensing and Competition Committee (LCC)

During 2010 ERO participated in the WCC meetings organized by the Energy Regulators Regional Association, which discussed the harmonization of licensing procedures of the ERRA member

countries, economic crisis and energy markets, electricity market structure of the ERRA member countries, as well as incentives for the support of electricity produced from RES.

9.4 Partnership between the Energy Regulatory Office and the Illinois Commerce Commission (ICC), USA

One of ERO's activities during 2010 was the continuation of partnership launched in October 2008 between the Illinois Commerce Commission and the Energy Regulatory Office of Kosova. The Partnership was followed by a 4th meeting held in 2010 in the United States of America, State of Illinois between representatives of ERO and ICC. Meetings were held in: Chicago, Washington DC, Springfield and Bloomington, from 9 to 13 August 2010.

ERO and ICC discussed in their meetings various issues with interest to both parties, including: review of tariffs, energy market monitoring, licensing and monitoring of energy enterprises, consumer protection etc.. Topics included in the discussion were also the development of renewable energy, price setting for this energy etc.. For this purpose, representatives of ERO visited a farm with wind generators in Bloomington, where they were closely informed about investment on renewable energy and its development.

This partnership for exchange of experiences between the ERO and the ICC was funded by USAID, and the activity was directed by NARUC.

In their visit to the USA, ERO representatives held joint meetings with representatives of the U.S. Federal Energy Regulatory Commission, the U.S. Agency for International Development and the U.S. National Association of Regulatory Utility Commissioners.

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