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

# ANNUAL REPORT
# 2011

# INTRODUCTORY REMARKS

Dear readers,

In front of you is the Energy Regulatory Office's Annual Report 2011, structured in line with Article 9 of the Law on Energy Regulator, for submission to the Assembly of the Republic of Kosovo for information, review and approval.

The report represents an overview of activities that were carried out as well as main achievements of ERO and energy sector during the calendar year 2011. The report contains information on important events on the energy market, review of energy tariffs, financial report of ERO, as well as data on other regulated activities in the energy sector of the Republic of Kosovo.

During 2011, ERO carried out harmonization of secondary legislation with other amended laws of the energy sector, which are in effect from 1 December 2010. The whole process was developed in consultation with the third parties and the public. Harmonized and finalized rules are approved by the ERO Board in public sessions.

The need for investment in the electricity energy sector in Kosovo, and insufficiency of the existing generating capacities to meet the supply needs, requires initiation of energy sector restructuring through liberalization and growth of competition in the electricity energy market. In order to attain these objectives, the new market model is under development. The market model is before finalization and the approval by ERO is soon expected.

The Government of Kosovo is in the process of finalizing the project for constructing new generation capacities "TC Kosova e Re" and for privatizing supply and distribution, which are presently within KEK. The publication of the offer for privatization of distribution and supply has been done in November 2011.

There were important investments completed in the transmission system that resulted in decreased bottlenecks, improved quality of supply and decrease of technical losses in transmission. Due to insufficient investment the condition of distribution system remains poor, with high technical energy losses and inability to ensure quality and reliable supply of costumers with electricity.

The electricity produced by national generators has not been sufficient to meet the consumption demand. A part of the missing energy has been imported from the regional markets at relatively high prices.

ERO continued with the process of monitoring licensees and supervising implementation of laws and rules in effect, in order to enhance the quality of supply and customer service.

The feature of 2010/2011 season in the district heating was a generally disrupted supply and frequent interruptions lasting to several days as well as final termination of heating season two months before the end of heating season.

ERO has taken active part in all activities and working groups of the Energy Community Treaty of Southeast Europe (ECSEE), as well as Energy Community Regulatory Board (ECRB).

Respectfully,

The Board of ERO

# TABLE OF CONTENTS

## ABBREVIATIONS

| | |
|---|---|
| ERRA | Energy Regulators Regional Association |
| RES | Renewable Energy Sources |
| RO | Regulatory Board |
| LLD | Legal and Licencing Department |
| DCP | Department of Consumer Protection |
| EC | Euopean Commision |
| SEE | Southeast Europe |
| ENTSO-E | Europian Network of Transmission System Operators for Electricity |
| GTF | Gas Task Force |
| GWh | Gigavat hours |
| HPP | Hydro power plant |
| ICC | Illinois Commerce Commission |
| ITC | Inter TSO Compensation |
| EC | Energy Community |
| ECSEE | Energy Community of Southeast Europe |
| KEK | Kosovo Energy Corporation |
| KESH | Albanian Energy Corporation |
| KfW | Kreditanstalt für Wiederaufbau (Crediting Bank for Reconstruction) |
| km | Kilometre |
| MC | Ministerial Council |
| KOSTT | Kosovo Transmission System and Market Operator |
| kV | Kilovolt |
| kW | Kilowatt |
| WACC | Weighted Average Cost of Capital |
| MVA | Megavoltamper |
| MW | Megawatt |
| $MW_t$ | Thermal megawatts |
| MWh | Megawatt hours |
| NARUC | National Association of Regulatory Utility Commissioners |
| DH | District Heating |
| SS | Substation |
| WUDH | Working Unit of District Heating |
| DSO | Distribution System Operator |
| TSO | Transmission System Operator |

| | |
|---|---|
| MO | Market Operator |
| SCADA | Supervisory Control and Data Acquisition |
| j.s.c. | Joint Stock Company |
| PP | Power Plant |
| TF | Task Force |
| ECT | Energy Community Treaty |
| VAT | Value Added Tax |
| USAID | United States Agency for International Development |
| OCO | Office of Coordinated Auction |
| ERO | Energy Regulatory Office |
| RoR | Rate of Return |
| RAB | Regulated Asset Base |

# 1 GENERAL OVERIVEW OF 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 Kosovo under articles 119.5 and 142 of the Constitution of the Republic of Kosovo.

Competences, duties and functions of the Energy Regulatory Office are established under the Law on Energy Regulator No. 03/L-185, including: establishment as well as transparent and non-discriminatory functioning of the energy market; establishment of criteria and requirements for issuing authorizations for construction of new capacities; monitoring and ensuring improvement of reliability of supply of energy; establishment of reasonable energy activity tariffs based on tariff methodology; monitoring and preventing creation of a dominant position and non-competing practices of energy enterprises, as well as resolution of complaints and disputes in the energy sector.

## 1.2 Organizational Structure of ERO

ERO is managed by a Board and consist of four (4) departments and administration.

### 1.2.1 Board

The Board of ERO is composed of five (5) members, including the Chairman of the Board. The Board members, including the Chairman, are proposed by the Government and appointed by the Assembly of the Republic of Kosovo. During 2011, the Board of ERO has been functioning most of the time with three (3) members.

The Chairman of the Board of ERO reports to the Assembly of Kosovo and its functional committees, upon request. The Chairman of the Board, based on the Law on Energy Regualtor, submits an annual report to the Assembly of the Republic of Kosovo, not later than three (3) months after closure of calendar year.

The Board of ERO exercises its duties in line with responsibilities vested to it by the Law on Energy Regulator; it organizes and supervises ERO's activities, approves regulatory and operational policies, supervises preparation and implementation of the budget and financial management of ERO, approves the level of compensation and employment requirements, appoints and supervises personnel.

The Board should have at least ten (10) meetings per year, which are open to public and are announced five (5) days ahead of the date, by publishing the agenda on ERO's website.

### 1.2.2 Legal and licensing department

Legal and licensing department is responsible for drafting secondary legislation and by-laws, review of licensing applications by energy enterprises, review of applications for authorization of constructed new capacities, etc. LLD also carries out supervision and monitoring of licencees' activities.

### 1.2.3 Department of energy market

Department of energy market is responsible for market structure, monitoring parties on the market, evaluate and analyse data in the energy sector. The department also monitors competition and conduct of market participants against principles of objectivity, transparency and non-discrimination.

### 1.2.4 Department of tariffs and pricing

Tariffs and pricing Department reviews tariff applications of licensed enterprises and submits them to the board for approval; it monitors operational and capital expenses through Tariff Reviews; takes action to ensure that all tariffs are reasonable, non-discriminatory, based on objective criteria and established in a transparent manner taking due consideration to ensure that tariffs do not harm customers.

### 1.2.5 Department of customer care

Department of customer care is responsible for reviewing and resolving complaints and disputes between customers and energy enterprises, system operators and energy enterprises, and between two energy enterprises. In the course of exercising duties and responsibilities, the department cooperates with all institutions and organizations which legitimately represent the customers.

### 1.2.6 Technical experts

Technical experts are professionals of energy sector whose duty is to provide advice to the Board and Departments of ERO in exercising its functions.

### 1.2.7 Administrative office

Administrative office is responsible for providing administrative support to the Board and Departments of ERO.

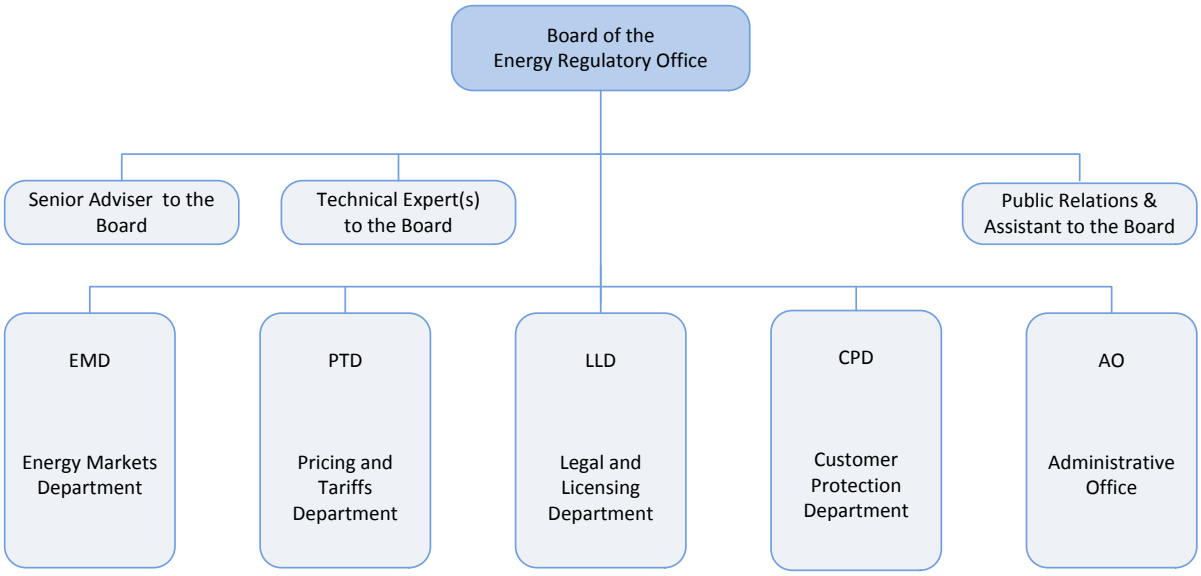



*Fig.1.1 ERO's organizational structure*

## 1.3 Technical assistance projects

In order to further develop and complete the secondary legislation, effectively implement rules and procedures, and to meet the requirements derived from Kosovo's energy laws and from ECT SEE, ERO received support through the project "Assistance to Energy Regulatory Office", which is funded and administered by the European Commission Liaison Office. The project continued during 2010 and 2011 and was implemented by the consortium of international consultancy companies LDK[1] Consultants - ECA-Planet.

## 1.4 Transparency and public information

During 2011, for all its activities, ERO informed regularly and in a transparent manner all interested parties, media and the public.

The ERO's official website continued to remain the source of information on issues related to regulating energy in Kosovo, for interested parties, including the media. Data and information was updated regularly with publication of notices for Board meetings, decisions issued by Board, approved rules, instructions and procedures regulating the energy sector, electricity and heating tariffs, licences issued by energy enterprises, monthly and annual reports that present all ERO's activities, etc.

During 2011 ERO had harmonized the secondary legislation with revised laws of energy sectors. The whole process was developed in consultation with the third parties and the public. All draft regulations had previously been put up on official web page for public consultation.

ERO also had given special importance to involving the public during the electricity tariff reviews. The process was open and interested parties were invited to comment on ERO's evaluations before taking the final decision.

ERO has carefully monitored all media reports on energy sector and responded to questions and interests of journalists on various issues related to energy sector regulation.

From daily monitoring of media, it was found that media in general focused considerable attention on energy sector and ERO activities. In terms of information on ERO activities, media reports were mainly fair and impartial.

[1] Consulting companies

# 2 FINANCIAL REPORTS

Energy Regulatory Office is financed from own-source revenues, in line with the Law on Energy Regulator, chapter 4, respectively from fees collected by licensed enterprises and operators of the energy sector.

## 2.1 Revenues

Revenues collected by ERO were deposited into the official bank account established by the Director General of the Treasury, in line with Article 64 of the Law on Public Financial Management and Accountability,

In 2011, ERO generated 508,689.74 € revenues. Based on the Law on the Budget of the Republic of Kosovo for 2011, the amount of unspent revenues in 2010 in the value of 205,212.78 € was carried forward to 2011 budget. The total amount of generated and carried forward revenues for 2011 is therefore 713,902.52 €, i.e. 38,446.52 € more than the budget of ERO for 2011.

*Tab.2.1Revenues*

| Description | Revenues |
|---|---|
| Own source revenues 2011 | 508,689.74 |
| Own source revenues carried forward from 2010 | 205,212.78 |
| Total revenues | 713,902.52 |

Revenues generated during 2011 are collected from the companies presented in the table below by volume or production or import or by initial fees.

*Tab. 2.2 Revenues by licensed companies.*

| Licencee's name | Amount |
|---|---|
| KEK Electricity Generation - Kosova A | 147,359.50 |
| KEK Electricity Generation - Kosova B | 265,065.02 |
| Energy Financing Team AG - (EFT) | 51,579.99 |
| N.P IBËR LEPENC - HC Ujmani | 7,932.76 |
| Kelkos Energy Sh.P.K. | 7,310.77 |
| GEN-I Tirana, Headquarters in Kosovo | 20,186.10 |
| RUDNAP GROUP AD | 1,813.40 |
| ENERGY FINANCING GROUP AD - Branch | 2,000.00 |
| HSE Balkan Energy d.o.o | 2,000.00 |
| REPOWER TRADING CESKA REPUBLIKA S.R.O. | 442.20 |
| EUROKOS JH SH.P.K & LORETO CONSULT AG | 3,000.00 |
| Total | 508,689.74 |

In order to reconcile the revenues with the Budget, the Board of ERO, at its meeting held on 28 April 2011, reached a decision that, during the period of March – October 2011, the licensees shall be exempt from paying the annual fee for ERO services, at a total of 812,856.44 €.

This amount of funds will be reflected upon the regulated customer tariffs during the reconciliation and setting Maximum Allowed Revenues for energy enterprises during 2012.

## 2.2 The Budget

By the Law No. 04/L-001 on the Budget of the Republic of Kosovo for 2011, Kosovo Assembly approved the ERO budget in the amount of 675,456 €, which is divided among three main economic categories:

*Tab.2.3 The approved budget*

| Description | Amount |
|---|---|
| Wages and salaries | 372,456.00 |
| Goods and services | 250,000.00 |
| Utilities | 12,000.00 |
| Capital expenditures | 41,000.00 |
| Total | 675,456.00 |

With the decision of the Government of the Republic of Kosovo No. 04/26 dated 27.07.2011, on decreasing allocations for goods and services for all budgetary organizations at central level by 6%, the budget allocated to ERO was decreased by 15,000.00 €.

*Tab.2.4 The Allocated Budget*

| Description | Amount |
|---|---|
| Wages and salaries | 372,456.00 |
| Goods and services | 235,000.00 |
| Utilities | 12,000.00 |
| Capital expenditures | 41,000.00 |
| Total | 660,456.00 |

### 2.2.1 Budgetary expenditure

For funding the activities conducted during 2011, ERO spent 604,623.52 €.

Budget expenditure rate compared to the approved budget for 2011 is 89.51 %, whereas against the allocated budget is 91.54 %

The degree of budget expenditure by economic categories, expressed in percentage, is given in Table 2.5.

*Tab. 2.5 Budget expenditure in percentage*

| Description | Budgeted | Realized | Difference | Used in % |
|---|---|---|---|---|
| Wages and salaries | 372,456.00 | 368,081.76 | 4,374.24 | 98.83 |
| Goods and services | 250,000.00 | 187,775.68 | 62,224.32 | 75.11 |
| Utilities | 12,000.00 | 8,747.35 | 3,252.65 | 72.89 |
| Capital expenditures | 41,000.00 | 40,018.73 | 981.27 | 97.61 |
| Total | 675,456.00 | 604,623.52 | 70,832.48 | 89.51 |

The tables below reflect expenditures by main economic categories.

*Tab.2.6 Salaries and Wages*

| Wages and salaries | Amount |
|---|---|
| Net salaries | 306,784.03 |
| Personal income tax | 26,242.21 |
| Employer's pension contribution | 17,527.76 |
| Employee's pension contribution | 17,527.76 |
| Total wages and salaries | 368,081.76 |

*Tab.2.7 Goods and services*

| Goods and services | Amount |
|---|---|
| Business travel expenses within Kosova | 10,503.18 |
| Business travel expenses abroad | 17,597.83 |
| Wages for business travels abroad | 6,038.00 |
| Accomodation for business travels abroad | 3,081.22 |
| Other expenses for business travels abroad | 2,714.40 |
| Phone expenses | 10,205.14 |
| Postal expenses | 331.85 |
| Education and training services | 3,375.00 |
| Representative and advocate expenses | 2,893.02 |
| Other intelectual and advisory expenses | 7,597.86 |
| Printing services | 4,686.70 |
| Subscription expenses | 3,210.00 |
| Furniture | 3,896.03 |
| Other equipment | 985.00 |
| Office supplies | 5,708.98 |
| Food and beverages | 3,579.67 |
| Heating oil | 10,517.77 |
| Fuel for vehicles | 2,124.77 |
| Bank provision ( Raiffeisen Bank) | 4.95 |
| Registration of vehicles | 460.00 |
| Vehicle insurance | 2,025.29 |
| Municipal fee for vehicle registration | 40.00 |
| Security of premises | 9,900.60 |
| Maintenance and repair of vehicles | 1,501.62 |
| Maintenance of premises | 8,640.00 |
| Maintenance of information technology | 4,677.70 |
| Maintenance of furniture and equipment | 534.20 |
| Rent | 57,216.00 |
| Marketing and advertisements | 1,090.40 |
| Official lunches | 2,638.50 |
| Total goods and services | 187,775.68 |

*Tab.2.8 Utilities*

| Utilities | Shuma |
|---|---|
| Electricity | 6,713.06 |
| Water | 607.46 |
| Landline telephone expenses | 1,426.83 |
| Total utility expenses | 8,747.35 |

*Tab.2.9 Capital Expenditure*

| Capital expenditures | Shuma |
|---|---|
| IT equipment | 17,654.13 |
| Software | 20,412.60 |
| Computers | 1,952.00 |
| Total capital expenditures | 40,018.73 |

According to the data above, it is clear that in 2011, ERO generated 713,902.52 € revenues, against 604,623.52 € of expenditure. The balance of 109,279.00 € between the revenues and expenses represent surplus funds that ERO has collected during this year which, in line with Article 6 of the Law on the Budget of the Republic of Kosovo for 2012 as well as Article 64 of the Law on Management of Public Finances and Accountability, will be carried over to 2012.

*Tab.2.10 Transferred own-source revenues*

| Carried Revenues | Amount |
|---|---|
| Revenues carried forward from 2010 | 205,212.78 |
| Revenues received in 2011 | 508,689.74 |
| Total revenues 2011 | 713,902.52 |
| Expenditures on wages and salaries | -368,081.76 |
| Expenditures on goods and services | -187,775.68 |
| Utilities | -8,747.35 |
| Capital expenditures | -40,018.73 |
| Total expenditures in 2011 | -604,623.52 |
| Own source revenues carried forward in 2012 | 109,279.00 |

# 3 COMPLETION OF LEGAL AND REGULATORY FRAMEWORK

With the entrance into effect on 1 December 2010 of the primary revised legislation on energy sector, i.e. the Law on Energy Regulator No. 03/L-185, The Law on Energy No. 03/L-184 and Law on Electrical Energy No. 03/L-201, in the course of 9 months, ERO was required to harmonised its secondary legislation in line with the requirements set out by the primary legislation.

The harmonization process of ERO's secondary legislation (rules) was conducted in consultation with third parties and the public. Harmonized and finalized rules have been approved by the Board of ERO in public sessions.

Rules that were harmonized and adopted by ERO are:

- Rule on General Conditions of Energy Supply;
- Rule on Licensing of Energy Activities in Kosovo;
- Rule on Pricing for Transmission System Operator and Market Operator;
- Rules on Pricing for Distribution System Operator;
- Rule on Pricing for Regulated Generation (Generation Pricing Rule);
- Rule on Pricing for Public Electricity Supplier;
- Rule on Authorization Procedure for Construction of New Generation Capacities;
- Rule on Resolution of Complaints and Disputes in Energy Sector;
- Rule on Disconnection and Reconnection of Costumers in Energy Sector;
- Rule on Administrative Measures and Fines;
- Rule on Confidential Information;
- Rule on Fees;
- Rule on Organization and Operation of Energy Regulatory Office;
- Code of Conduct and Ethics; and
- Rule on Use of Official Vehicles of Energy Regulatory Office.

Harmonized and finalized rules are approved by the Board of ERO in public sessions.

## 3.1 Process of issuing authorization for construction of new capacities

Based on Article 38 of the Law on Energy Regulator and Rule on authorization procedure for construction of new capacities, ERO issues Authorization for construction of new capacities.

During this year, ERO received applications/requests from potential investors for construction of new generation capacities, mainly for renewable energy sources.

### 3.1.1 Issuance of decisions on notice for preliminary authorization

ERO received applications/requests for obtaining Authorization for construction of new generation capacities and after a process of evaluation of applications, issued decisions for preliminary authorization, represented in the table below.

*Tab.3.1 Company which is the recipient of Notice on Preliminary Authorization*

| No. | Name of company | Description of activity | Installed capacity | Location | Issuance date |
|---|---|---|---|---|---|
| 1 | Kelkos-Energy sh.p.k. | Construction of generator to produce electricity from water | 57.8 MW | Lumi Peja (HPP Kuqishtë, Drelaj 1, Drelaj 2, Shtupeq, EGU Rugova),MA Pejë, Republic of Kosova | V_365_2011 17 April 2011 |

Decision of Notice on Preliminary Authorization does not grant the bearer the right to commence construction of the new facility before all conditions and requirements set out under the applicable legislation have been met. The bearer is required to complete the necessary documentation in the course of two (2) years for issuance of Final Authorization.

### 3.1.2 Issuance of authorization

During 2011, ERO did not receive any requests for final authorization for construction of new generation capacities.

### 3.1.3 Completion and termination of review of application for authorization

ERO also reviewed requests for cancelling the procedure for converting a decision on Notice of Preliminary Authorization to Final Authorization. Below is presented the name of the company whose term of validity of Decision on Notice of Preliminary Authorization expired and therefore the procedure of application review was termination based on applicant's request.

*Tab.3.2 Company whose Preliminary Authorization was terminated/ suspended*

| No. | Name of company | Description of activity | Installed capacity | Location | Termination date |
|---|---|---|---|---|---|
| 1 | AIR-ENERGY Sh.p.k | Termination and suspension of the Authorisation for Construction of generator to produce electricity from wind | 26 MW | Poliqkë, KK Kamenica, Republic of Kosova | V_387_2011 20 December 2011 |

### 3.1.4 Applications under review by ERO

During this year as well, ERO received applications/requests for issuance of authorization for construction of new generation capacities, which are presently under review. See Table 3.3 for more details.

*Tab.3.3 Companies presently under review for issuance of decision on Notice of Authorization*

| No. | Name of company | Description of activity | Installed capacity | Location | Application date |
|---|---|---|---|---|---|
| 1 | United Albanian Energy L.L.C | Construction of generator to produce electricity from water | 7.5 MW | Brod and Restelica river, MA Dragash, Republic of Kosova | 12.07.2011 |
| 2 | United Albanian Energy L.L.C | Construction of generator to produce electricity from water | 6.4 MW | Brod dhe Plava river, MA Dragash, Republic of Kosova | 29.07.2011 |
| 3 | EuroKos J.H. sh.p.k. | Construction of generator to produce electricity from water | 9.33 MW | Brod and Restelica river, MA Dragash, Republic of Kosova | 29.09.2011 |

## 3.2 Licences

One of the key activities of the Energy Regulatory Office is licensing of energy enterprises. Licensing of energy enterprises is done by ERO, in line with Article 27 of the Law on Energy Regulator and Rule on licensing energy activities in Kosovo.

Activities licensed by ERO are:

- Electricity production;
- Transmission System Operator;
- Electricity Distribution System Operator;
- Market Operator;
- Electricity public supply ;
- Electricity Supply/trade;
- Generation of district heating;
- District heating distribution ;
- District heating public supply.

During 2011 ERO received applications for licensing of trade activities (import/export) of electricity, and issued decisions for licences as follows:

*Tab.3.4 Licences issued by the Energy Regulatory Office during 2011*

| No. | Name of company | Description of licensed activity | License number | License validity |
|---|---|---|---|---|
| 1 | HSE Balkan Energy d.o.o | Electricity supply/trade | ZRRE/Li_36/10 | 30.03.2011 - 30.03.2013 |
| 2 | ENERGY FINANCING GROUP AD-Branch office in Kosovo | Electricity supply/trade | ZRRE/Li_37/11 | 28.01.2011 - 28.01.2013 |

### 3.2.1 Extension of licences

ERO may extend the licence in case the licensee submits a written request to ERO not later than six months before the expiry of licence validity, if all requirements prescribed under the law and licensing rule have been met. Enterprises to which ERO extended the licence during 2011 are given below:

*Tab.3.5 Licensed extended by the Energy Regulatory Office during 2011*

| No. | Name of company | Description of licensed activity | License number | License validity |
|---|---|---|---|---|
| 1 | Kosovo Energy Corporation - Generation division (KEK J.S.C) - TPP Kosova A | Electricity generation | ERO/Li_05/06_A | 04.10.2011 - 04.10.2012 Extension of Licence |
| 2 | RUDNAP GROUP A.D | Electricity supply/trade | ERO/Li_23/07 | 23.05.2011 - 23.05.2013 Extension of Licence |

### 3.2.2 Modification of licences

Based on harmonization of secondary legislation, during 2011 ERO started modification (changing) of licences of licensees. ERO published on its official website all modified draft licensees for which parties were given an opportunity to give their comments. Upon receiving comments from parties and their subsequent evaluation, ERO is expected to complete the process of modifying licences in the current year.

### 3.2.3 Monitoring energy enterprises

In conformity with the Law on Energy Regulator and the Law on Electricity ERO carries out monitoring of licensed enterprises on energy activities. In line with its duties and responsibilities, during 2011 ERO carried out monitoring of licensed energy enterprises in Kosovo.

The monitoring process specifically looked at supervision compliance to applicable laws and regulations, such as: compliance with licence conditions, rules issued by ERO, market rules, technical codes, as well as supervision of implementation of other legislation in effect that regulates the energy sector in Kosovo.

ERO specifically monitored the implementation of tariff and tariff inputs, electricity losses, operation safety standards, energy flows, technical performance indicators, import and export of electricity , unbundling of accounts for licensed activities, billing, collection, ABC load-shedding schedule, consumer complaints, etc.

It is worth to emphasise that in addition to this kind of monitoring, ERO has continuously monitored energy enterprises, in line with “Reporting Guide” document, according to which, energy enterprises are obliged to report to ERO on quarterly basis on compliance with licence terms.

Amidst the inability to implement some licencees and codes provisions, several energy enterprises have applied with ERO for derogation (postponement of deadline for compliance) for a specific period. In view of the circumstances, ERO allowed or rejected requested derogation. All derogations are published on ERO’s website.

### 3.2.4 Documents approved by Board of ERO

During regular sessions that Board of ERO held during 2011, it reviewed and approved a number of documents.

Documents that are drafted by ERO and reviewed and approved by the Board of ERO, are:

- Electricity retail tariffs for regulated customers, implemented by KEK j.s.c. as of 01 April 2011.
- Transmission tariffs and charges, implemented by Kosovo Transmission System Operator and Market Operator (KOSTT) j.s.c. as of 1 April 2011.
- Feed-in tariffs for production of electricity from Renewable Energy Sources (wind, water, biogas/biomass);
- Criteria for evaluation of competition in electricity supply;
- Existence of effective competition in Energy market;
- Determining Weighted Average Cost of Capital;

- Indicative Targets of Distribution System Losses;
- District heating tariffs for District Heating (DH) Termokos j.s.c. for heating season 2011/2012, and
- District heating tariffs for District Heating (DH) Gjakova j.s.c. for heating season 2011/2012.

Documents that are drafted by the licensees, subsequently reviewed and approved by the Board of ERO are:

- Amendment to Transmission System Security and Planning Standards and Operating Security Standards;
- Procedure of reading the thermal energy meters/recording heating areas and billing tariff customers for DH Termokos j.s.c.;
- Procedure of reading the thermal energy meters/recording heating areas and billing tariff customers for DH Gjakova j.s.c.;
- KEK-Distribution Development Plan 2010 – 2014;
- Transmission Development Plan 2012 – 2021.

# 4 ELECTRICITY SECTOR

Development of energy sector is a basis for overall economic development. In recent years, there is an increase of activities of the Government of Kosovo to encourage investment in new generation capacities as well as privatization of specific segments of electricity sector.

European Commission undertook a number of initiatives to help the countries of Southeast Europe region to establish a joint electricity market, by encouraging harmonization of national policies and development of a common regulatory framework in order to attract and boost investment in electricity sector, as well as improve reliability of supply and support economic growth in the region.

Insufficiency of existing generation capacities and the need for investment in electricity sector in Kosovo requires restructuring of the sector through market liberalization and growth of competition in the electricity market. In order to attain these objectives, establishment of the new market model is presently underway. The proposed model integrates key issues, which will form the basis of a market design and necessary measures to accommodate commercial arrangements in order to attract necessary investments to develop the electricity sector in Kosovo.

During 2011, the working group held several meetings to develop the market model, whereby participants gave their input through comments, which were incorporated during the drafting of market model. The Energy Community Secretariat also gave comments on the market model, which are under review. Market model is before the finalization and the approval of ERO is expected soon.

During 2011 there have been no developments with respect to Kosova e Re package project. The draft documents for construction of new generation capacities under the project are finalized in August 2010. ERO was a participant in the steering committee and in working group on development tender package documents.

The Government of Kosovo is in the process of privatizing distribution and supply, which are presently under KEK. Advertising the offer for privatization of distribution and supply was done at the end of November 2011. Pre-qualified companies are expected to deliver offers by the end of the March 2012.

Special interest was given to renewable sources of energy. Indicative targets set by the Ministry favour production of energy from these sources and based on that, ERO determined feed-in tariffs for this kind of renewable energy. In this aspect, there are expectations of investments from private investors in constructing small generation capacities from renewable sources, especially in hydro energy and windmills, for which there is immense interest, while for some ERO had already issued preliminary construction authorizations.

Electricity sector in Kosovo, even during 2011, was followed with insufficient electricity production, irregular supply of customers and high technical and commercial losses.

## 4.1 Transmission network

Kosovo is connected to electricity system of the region and Europe by the inter-connected network, through 400 kV and 220 kV lines. There are interconnection 400kV lines with neighbours, except for Albania, with whom there is a 220 kV line. It is expected that in 2014 there will be constructed interconnection line of 400 kV - SS Kosovo B – SS Kashar (Tirana).

Transmission network is mainly in good condition due to investment carried out during the last years. Normally, continuation of investment is needed on specific segments of the system, as well as into new capacities along with maintenance and upgrading of existing capacities.

*Fig.4.1 Images from SS Peja 3*

During 2011, there have also been significant investments in building and upgrading transmission network capacities. Below is a list of capital projects implemented or presently in development in the transmission system:

1. Projects started in earlier years and completed during 2011:
   - Package project SS 400/110 kV Peja 3 with accompanying works in SS 110/10(20) kV Skenderaj;
   - Package Project SS 400/110 kV Ferizaj 2;
   - Rehabilitation of equipment on SS 400/220 kV Kosovo B in 220 kV voltage side;
   - Installation of Supervisory Control and Data Acquisition, (SCADA/EMS & telecommunication network).
2. Projects that began in previous years but continued in 2011 and beyond:
   - Construction of interconnection lines 400kV Kosovo – Albania;
   - Secondary Control (LFC) Kosovo – Albania;
3. Projects that began in 2011 and will continue beyond:
   - Revitalization of high voltage equipment on SS 220/110 kV Prizreni 2, and installation of third transformers 150 MVA;
   - Information Technology System (IT) for Market Operator;
   - Reallocataion of HVL 1806 - 110 kV line from SS Gjakova 2 to SS Gjakova 1 and replacement of HV equipment 110 kV in SS Gjakova 1;
   - Connection of SS 110 kV Lipjan onto line HVL 112;

- Replacement of conductors, insulation and connection equipment onto 110kV, HVL 125/2 and HVL 125/3 lines;
- Rehabilitation of 110 kV, HVL 126/4 lines (old part) and HVL 1801;
- Replacement of relay protection in SS Prishtina 2 and SS Prishtina 3.

The tables below represent transformation capacities and transmission network lines, by voltage levels:

*Tab.4.1 Basic data for transmission network substations*

| Transformation (kV/kV) | Owner | SS. No. | TR. No. | Power (MVA) |
|---|---|---|---|---|
| 400/220 | KOSTT | 1 | 3 | 1,200 |
| 400/110 | KOSTT | 2 | 2 | 600 |
| 220/110 | KOSTT | 3 | 8 | 1,200 |
| 220/35 | Alferon | 1 | 2 | 320 |

*Tab.4.2 Basic data on transmission network lines*

| Voltage (kV) | Owner | Length (km) |
|---|---|---|
| 400 | KOSTT | 188.49 |
| 220 | KOSTT | 231.83 |
| 110 | KOSTT | 764.95 |

### 4.1.1 Electricity flows and overall consumption

As in previous years, the region in general is characterized by a lack of electricity, especially the southern part, therefore the electricity mostly flows from north towards south. Kosovo is in a favourable position as a regional node, therefore there is considerable electricity flows though their transmission network. These flows in both directions are represented on the figure below for every inter-connected line of Kosovo.

Although Kosovo has a high transit of electricity compared to consumption, the losses caused by transit are covered by regulated consumers.

Kosovo is not included into the regional mechanism for interTSO compensation (ITC mechanism) and does not allocate interconnection capacity lines due to the problems with Serbia.

In the dispute raised earlier by KOSTT in the Energy Community Secretariat on these issues, Secretariat issued its opinion, which documents violations of Article 3 and Article 6 of the Regulation (EC) 1228/2003 committed by EMS (Serbia) which is related to Conditions of network access for cross border exchanges of electricity network.

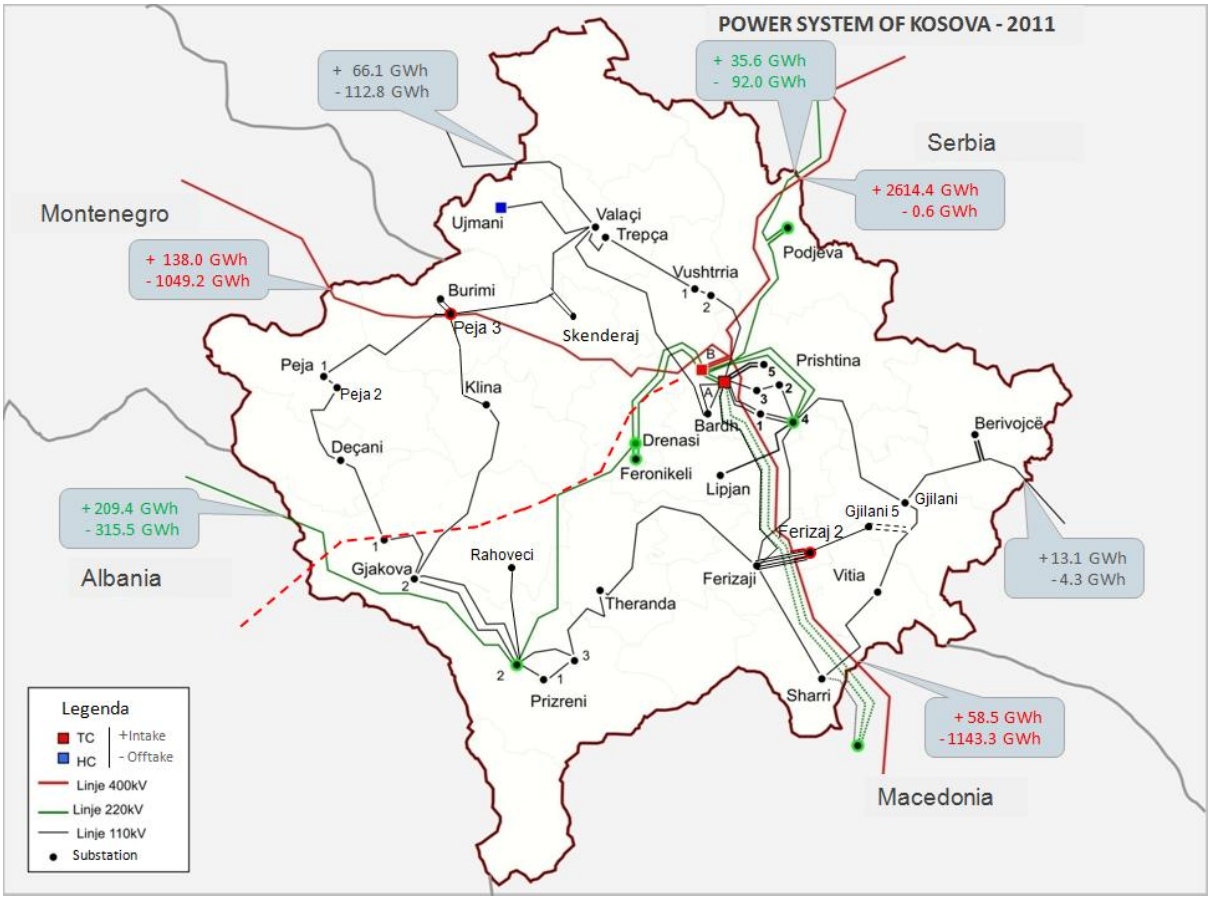



*Fig.4.2 Flow of electricity through connection lines*

### 4.1.2 Overall load and consumption

Until several years ago, the transmission network was considerably overloaded in some parts, particularly during winter seasons. The load of transmission system is evaluated by analyzing energy flows through the networks as well as peak values. It is therefore necessary to take five (5) peak values occurred at various weeks of the year, which for 2011 are given in the tables below. Along with the peaks in the table, there are also overall consumption values and consumption at 220 kV level, i.e. Ferronikel as an integral part of the overall value.

*Tab.4.3 Five peak values at various weeks of 2011*

| Peak | Load (MWh/h) | Hour | Day | Date | Week | Ferronikeli |
|---|---|---|---|---|---|---|
| I | 1,126 | 19 | Saturday | 31.12.2011 | 53 | 68 |
| II | 1,112 | 19 | Tuesday | 04.01.2011 | 2 | 86 |
| III | 1,091 | 19 | Saturday | 29.01.2011 | 5 | 79 |
| IV | 1,071 | 18 | Friday | 23.12.2011 | 52 | 77 |
| V | 1,059 | 18 | Sunday | 02.01.2011 | 1 | 64 |

The highest consumption on Kosovo's electricity system, 1126 MWh/h, was registered on 31 December 2011. Maximum values are not always accurate due to load shedding, which usually occur at the time of peak.

Consumption undergoes changes by tariffs and seasons. Analysis of daily consumption diagram is also important, represented through hourly breakdowns during the day. In order to create a clear

overview on differences of consumption during the year, a diagram of yearly cumulative for every hour, is reflected in the figure below. In addition to consumption, the diagram also presents production, exchange and load sheddings.

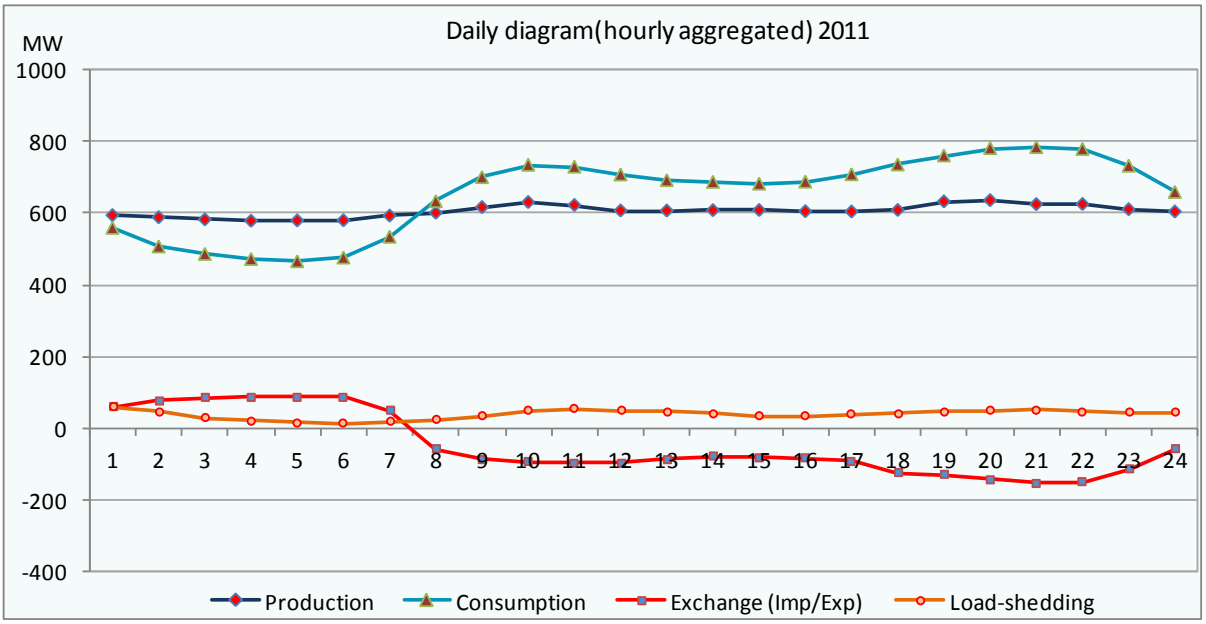



*Fig.4.3 Daily diagram issued as an average for 24 hours for 2011*

Difference between the average of daily maximums and minimums of consumption during 2011 is given in the figure below, where it is apparent that there is a significant difference between the consumption minimums and maximums. Such differences represent serious impediment for tracking the consumption diagram and maintain the deviations inside the system within the allowed limits, especially when considering inflexibility of lignite generation units. Also, major difference is noted between the high and low season.

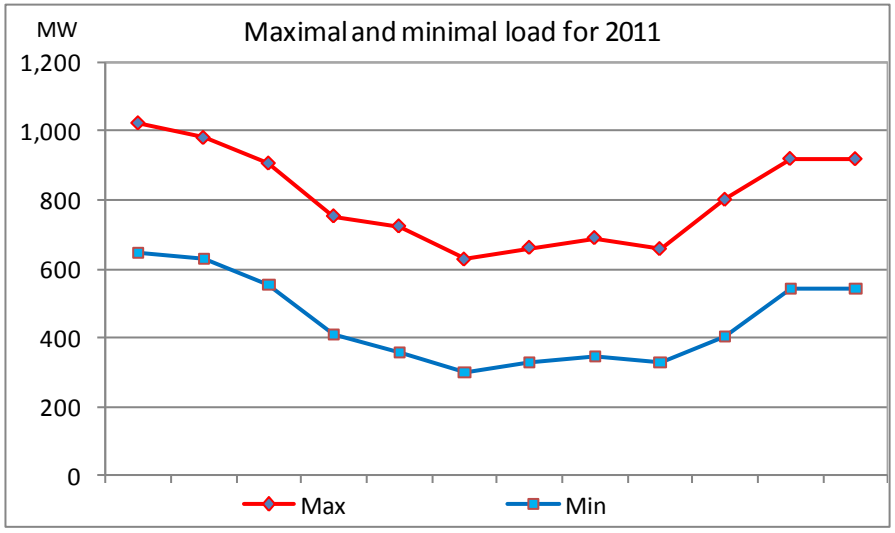



*Fig.4.4 Monthly average of maximum and minimum daily loads*

In order to obtain a better picture of daily production, consumption and exchange fluctuations (import/export) as well as load sheddings of electricity, hourly diagrams are employed during the whole months. The following represent diagrams with these data for two characteristic months (January and July, according to ENTSO-E).

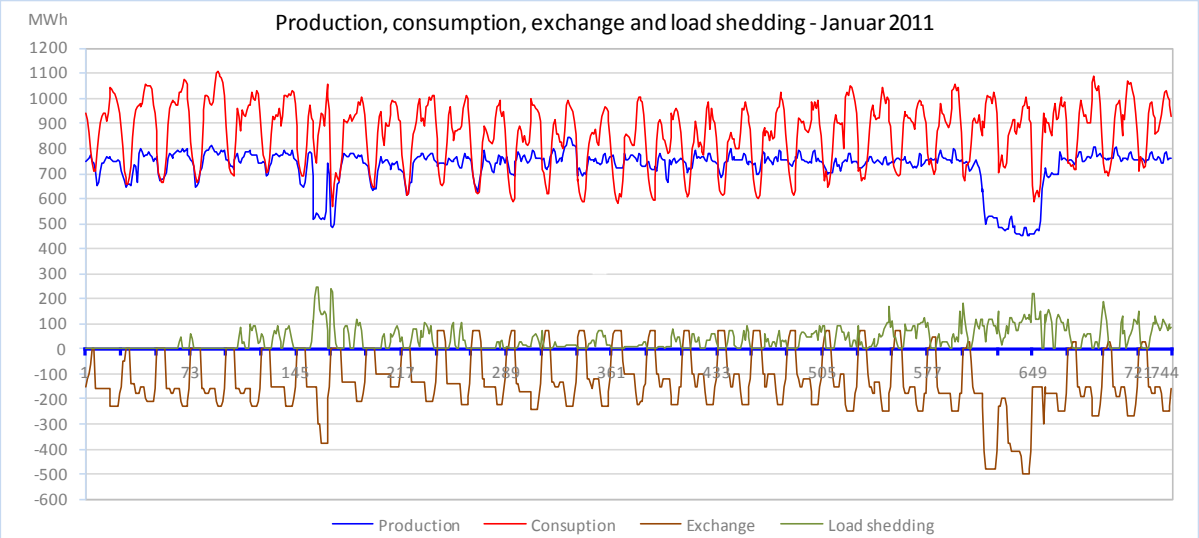



*Fig.4.5 Monthly diagram of production, consumption, exchange and* load shedding *for the month of January 2011*

These diagrams, inter alia, detail the system functioning, including impact of generation units' breakdown on the quantity of import. Often, due to inability to follow consumption from production and import, there is a need for load sheddings.

During January 2011, the production curve had stable variations, except on days 7, 26 and 28. Lack of production for these days was compensated by increasing imports and partially by increasing load shedding period. The volume of import in several hours of these days reached 500 MWh/h.

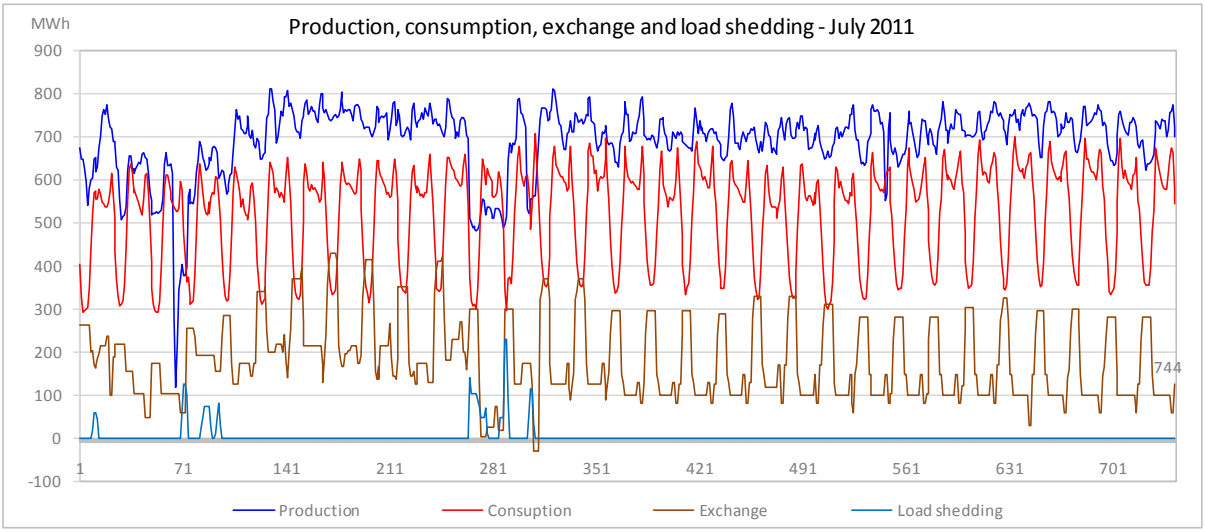



*Fig.4.6 Monthly diagram of production, consumption, exchange and load sheddings for July 2011*

In July, supply of customers with electricity was stable with the exception of two-three cases where there was also breakdown of generation capacities. This is also apparent in the diagram, which indicates periods of generation unit breakdowns on dates 3, 12 and 13 of the month. While there were persistent load-shedding during January, in July load shedding occurred only at the time of generation unit breakdowns.

### 4.1.3 Losses in transmission

The trend of reducing electricity losses in transmission continued in 2011 as well. During this year, losses were 115 GWh, or in percentage terms 2.06 % of the overall consumption, while in 2010 these losses were 131 GWh or 2.38 %. Transmission losses also include losses caused by transit.

*Tab.4.4 Transmission losses, actual and according to 2011 balance*

| 2011 | Gross consumption | Gross cons. from Balance | Realized/Balance | Transmission losses | |
|---|---|---|---|---|---|
| | MWh | MWh | % | MWh | % |
| January | 633,627 | 595,749 | 106.36 | 15,603 | 2.46 |
| February | 542,887 | 549,013 | 98.88 | 12,991 | 2.39 |
| March | 544,874 | 550,770 | 98.93 | 11,796 | 2.16 |
| April | 419,975 | 441,764 | 95.07 | 8,324 | 1.98 |
| May | 409,085 | 406,266 | 100.69 | 8,318 | 2.03 |
| June | 341,559 | 388,976 | 87.81 | 7,304 | 2.14 |
| July | 374,606 | 377,020 | 99.36 | 8,057 | 2.15 |
| August | 384,125 | 365,095 | 105.21 | 8,251 | 2.15 |
| September | 354,766 | 369,567 | 95.99 | 5,903 | 1.66 |
| October | 454,202 | 431,853 | 105.18 | 6,826 | 1.50 |
| November | 524,134 | 492,906 | 106.34 | 9,417 | 1.80 |
| December | 600,531 | 582,591 | 103.08 | 12,524 | 2.09 |
| Total | 5,584,370 | 5,551,570 | 100.59 | 115,315 | 2.06 |

The table below represents transmission losses for three last years, which indicate of their continuous loss reduction.

*Tab.4.5 Transmission losses 2009-2011*

| Viti | Gross consumption | Transmission losses | |
|---|---|---|---|
| | MWh | MWh | % |
| 2009 | 5,275,108 | 174,573 | 3.31 |
| 2010 | 5,505,716 | 131,043 | 2.38 |
| 2011 | 5,584,370 | 115,315 | 2.06 |

## 4.2 Distribution system

In recent years there were investments in Distribution Network, which were however insufficient as to ensure quality reliable supply of electricity to customers.

The distribution system consist of substations 110/x kV and lower voltages substations, as well as 35kV lines and lower voltage lines.

Transformation capacities and lines in the distribution system have been reinforced and expanded year after year as a result of consumption increase, as well as investments that accompany this increase in consumption. Values with basic data of substation and lines by voltage level and length in the distribution system are given in the table below.

*Tab.4.6 Substations by voltage level in DSO*

| Transformation (kV/kV) | Owner | SS. No. | TR. No. | Power (MVA) |
|---|---|---|---|---|
| 220/35/10(20) | KEK | 1 | 1 | 40.00 |
| 220/10(20) | KEK | - | 1 | 40.00 |
| 110/35/10(20) | KEK | 6 | 10 | 312.00 |
| 110/35 | KEK | 6 | 13 | 438.00 |
| 110/10(20) | KEK | 2 | 4 | 143.00 |
| 110/10 | KEK | 10 | 15 | 512.50 |
| 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 | 48 | 100 | 640.80 |
| 35/06 | Birra Peja | 1 | 1 | 4.00 |
| 35/0.4 | KEK | 1 | 1 | 0.63 |
| (10)20/0.4 | KEK/privat | 1,675 | 1,718 | 603.35 |
| 10/0.4 | KEK/privat | 5,225 | 5,353 | 1,520.24 |
| 6/0.4 | KEK | 37 | 37 | 7.13 |

*Tab.4.7 Basic data of DSO lines*

| Voltage (kV/kV) | Owner | Arial network (km) | Cable network (km) | Length (km) |
|---|---|---|---|---|
| 35 | KEK | 648.42 | 26.38 | 674.80 |
| 10(20) | KEK | 441.80 | 167.47 | 609.27 |
| 10 | KEK | 5,046.12 | 709.72 | 5,755.84 |
| 6 | KEK | 44.14 | 1.58 | 45.72 |
| 0.4 | KEK | 10,724.83 | 546.53 | 11,271.36 |

The following represents capital projects in the distribution system, that were implemented in 2011, or are presently underway:

- Expansion of SS 110/35 kV, Palaj 2011-2012
- SS 110/10(20) kV Gjilan 5 2011-2012
- SS 110/10(20) kV Prishtina 7 2011-2012
- SS 35(110)/10(20) kV Business Park, Drenas 2011-2012
- SS 35/10(20) kV Dumosh 2011-2012
- Transformer 1 x 31.5 MVA in SS Skenderaj, 110/10(20) kV, 2011-2012
- Transformer 1 x 63 MVA in SS Prishtina 1110/35/10(20) kV, 2011
- Transformer 1 x 40 MVA in SS Peja 1, 110/35 kV, 2011
- Transformer 1 x 40 MVA in SS Prishtina 3, 110/35 kV, 2011
- Replacement of measure groups of major commercial customers with multifunctional meters 5 A, accuracy class 0.5 with distance reading, 2011

| | |
|---|---|
| 1900 pcs | |
| • Installation of multifunctional meter groups 5 A accuracy class 0.5 with distance reading in SS 10/0.4 kV, 6100 pcs, in all districts, | 2011 |
| • Installation of measuring units with household customers (families), 10.000 pcs | 2011 |

## 4.3 Quality of supply and service standards

Based on Article 14 of the Law on Energy Regulator, ERO has the authority to establish the quality of supply and service standards that licensees should meet.

ERO approved electricity supply and service quality standards for the following licensees: Transmission System Operator, Distribution System Operator and Public Supply, which are in effect as of 1 January 2011.

Quality of supply and service standards are monitored according to:

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

### 4.3.1 Continuation of supply

Continuation of supply is related with the availability of electricity, and is measured through indexes:

- SAIDI - System Average Interruption Duration Index;
- SAIFI - System Average Interruption Frequency Index; and
- ENS – Energy not supplied.

Quality of supply and service standards, which according to ERO decision, should have been met by Distribution System Operator during the 2011 are:

- SAIDI – should not exceed twenty (20) hours of planned interruption and thirty (30) hours of unplanned interruption for customers;
- SAIFI – should not exceed five (5) planned interruptions and eight (8) unplanned interruption for customers; and
- ENS – should not exceed (18) GWh

Annual indexes during the reporting period were:

- SAIDI – for planned interruptions in the distribution system was 6.1 hours;
- SAIDI – for unplanned interruptions in the distribution system was 98.81 hours;
- SAIFI – for planned interruptions in the distribution system was 1.6;
- SAIFI – for unplanned interruptions in the distribution system was 49.74; and
- ENS – in the distribution system was 155.2 GWh.

The following figure represents the index values for SAIDI and SAIFI during 2011.

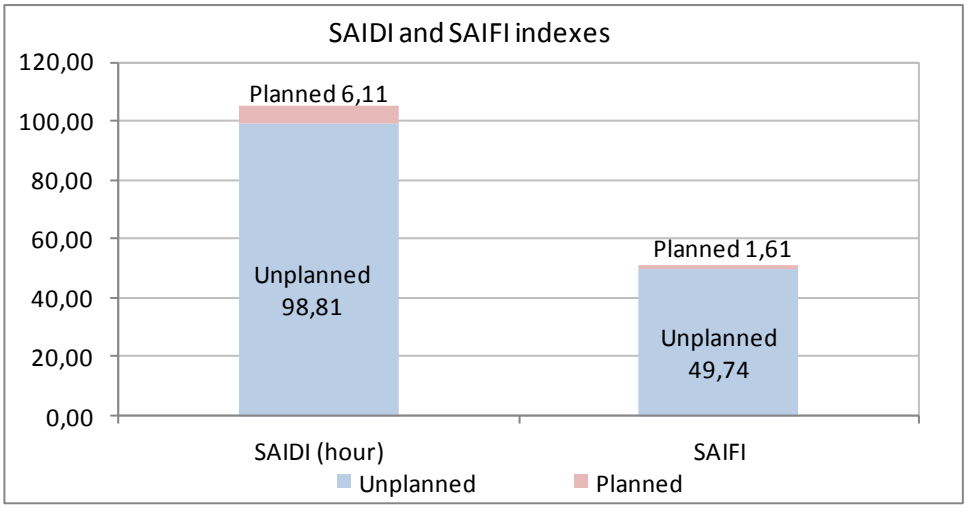



*Fig. 4.7 SAIDI and SAIFI during 2011*

### 4.3.2 Voltage quality

Voltage quality standards are established under the Rule of General Conditions of Energy Supply, Distribution Code and Distribution Metering Code.

The voltage quality is related to the technical aspects of electricity and is monitored through registration of customer complaints related to its quality.

During the reporting period, the number of customer that submitted the complaint to KEK with respect to quality of voltage was 200 complaints, of which 104 were resolved and 96 are still pending.

### 4.3.3 Commercial quality

Commercial quality determines the expeditiousness and accuracy of resolving customer complaints and requests. Addressing commercial quality considers mutual relations towards customers and energy enterprises.

Commercial quality standards are contained in the Rule on General Conditions of Energy Supply, Rule on Connection and Reconnection of Customers in Energy Sector and Rule on Procedure for Dispute Resolution in the Energy Sector in Kosovo.

ERO started preparation of document on monitoring performance of licensees against meeting these standards. This document will serve to monitor accomplishment of standards by the licensees.

## 4.4 Production

### 4.4.1 Production and consumption of lignite

Beginning of excavation of southwest Sibovc stabilized supply of lignite to existing power plants. coal excavation should be preceded by removal of the barren land. Thus, for production of a quantity of 8 million tons of coal excavated in 2011, 10.5 million tons of barren land had to be removed. The table below represents production and consumption of lignite as well as the quantity of evaded barren land during the months of 2011.

*Tab.4.8 Production and consumption of lignite*

| 2011 | January | February | March | April | May | June | July | August | September | October | November | December | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Lignite production (t*1000) | 691 | 796 | 935 | 628 | 430 | 535 | 639 | 671 | 708 | 659 | 711 | 810 | 8,212 |
| Wasteland (t*1000) | 459 | 630 | 820 | 1,078 | 1,181 | 1,086 | 903 | 775 | 850 | 820 | 991 | 931 | 10,524 |
| Lignite consumption (t*100 | 884 | 756 | 821 | 555 | 585 | 686 | 789 | 640 | 517 | 553 | 662 | 839 | 8,287 |

### 4.4.2 Production of electricity

Production of electricity was mainly based on lignite and represent about 97% of the total installed capacity. The other part is covered by renewable sources of energy.

The table below represents installed generation capacities by type and year of commissioning.

*Tab.4.9 Generation capacities*

| Generating units | Capacity of units (MW) | | | Set in operation |
|---|---|---|---|---|
| | Installed | Net | min/max | |
| A1 | 65 | Non-operational | | 1962 |
| A2 | 125 | Non-operational | | 1964 |
| A3 | 200 | 182 | 100-130 | 1970 |
| A4 | 200 | 182 | 100-130 | 1971 |
| A5 | 210 | 187 | 100-135 | 1975 |
| TPP Kososva A | 800 | 551 | | |
| B1 | 339 | 310 | 180-260 | 1983 |
| B2 | 339 | 310 | 180-260 | 1984 |
| TPP Kososva B | 678 | 620 | | |
| HPP Ujmani | 35.00 | 32.00 | | 1983 |
| HPP Lumbardhi | 8.08 | 8.00 | | 1957 (2006) |
| HPP Dikanci | 1.00 | 0.94 | | 1957 (2010) |
| HPP Radavci | 0.90 | 0.84 | | 1934 (2010) |
| HPP Burimi | 0.86 | 0.80 | | 1948 (2011) |
| Total HPP | 45.84 | 42.58 | | |
| Wind Power | 1.35 | 1.35 | | 2010 |
| Total | 1,525.19 | 1,214.93 | | |

Owing to better maintenance of generation capacities and sufficient coal production, electricity production from year to year has been increased.

*Fig. 4.8 Image from PP Kosova B*

The overall production of electricity in 2011 was 5,167 GWh, which compared to 2010, when the production was 5,037 GWh, saw an increase of 2.6 %. The share of production is: PP Kosova A with 1,922 GWh, PP Kosova B with 3,140 GWh, Ujman with 74 GWh, and HP Distributive with 31 GWh. The share of generators into the overall production in 2011 is given in the chart below.

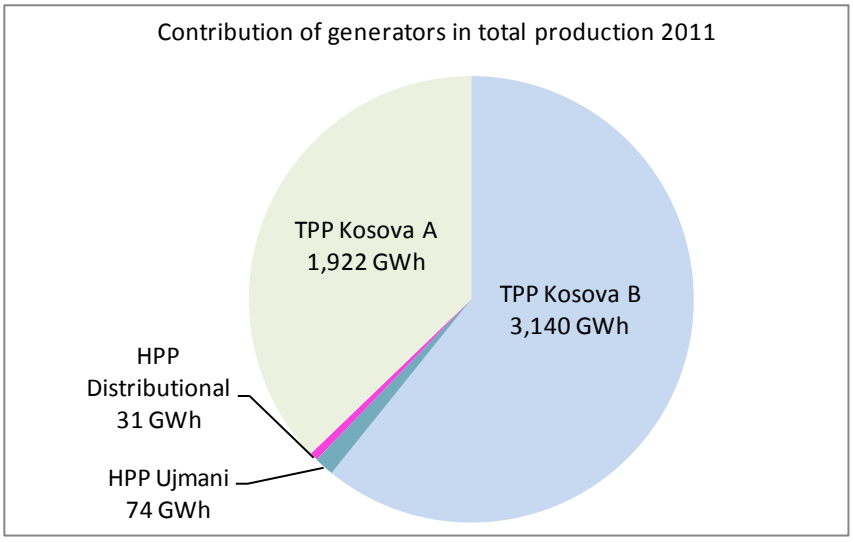



*Fig.4.9 Share of generators into the overall production in 2011*

In the course of production, power plants incur electricity self-consumption that accounts around 10% of the overall production. Self-consumption of TC Kosova A and TC Kosova B is implemented directly, while the other part through transmission lines. The self consumption of TC Kosova A includes consumption of A1 unit, which was out of production but created, nonetheless, maintenance consumption. Detailed monthly production, including self-consumption is represented in the following table.

*Tab.4.10 Production of electricity by months 2011*

| Generating units 2011 (MWh) | January | February | March | April | May | June | July | August | September | October | November | December | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| A3 | 94,952 | 78,372 | 52,669 | 80,200 | 0 | 57,579 | 86,389 | 58,293 | 47,870 | 30,417 | 55,566 | 74,279 | 716,588 |
| A4 | 52,688 | 73,188 | 64,913 | 13,962 | 103,914 | 99,950 | 72,243 | 50,583 | 86,898 | 85,441 | 98,334 | 78,706 | 880,820 |
| A5 | 44,493 | 22,086 | 72,046 | 86,312 | 23,432 | 0 | 25,007 | 15,265 | 56,575 | 69,878 | 104,227 | 85,971 | 605,293 |
| Self consumption- TC A | 24,971 | 23,468 | 25,451 | 23,241 | 17,054 | 18,534 | 22,654 | 17,344 | 23,673 | 24,046 | 30,684 | 29,967 | 281,088 |
| TPP Kosova A | 167,163 | 150,178 | 164,177 | 157,234 | 110,292 | 138,995 | 160,985 | 106,798 | 167,671 | 161,689 | 227,443 | 208,989 | 1,921,613 |
| B1 | 195,487 | 171,904 | 186,494 | 4,229 | 141,008 | 168,869 | 190,809 | 169,236 | 103,800 | 180,904 | 165,498 | 192,721 | 1,870,959 |
| B2 | 197,114 | 181,526 | 200,308 | 194,284 | 147,131 | 164,959 | 179,466 | 173,500 | 49,293 | 0 | 0 | 135,193 | 1,622,774 |
| Self consumption - TC B | 39,406 | 35,010 | 38,430 | 20,682 | 29,508 | 33,674 | 36,373 | 34,482 | 17,113 | 17,947 | 17,511 | 33,495 | 353,630 |
| TPP Kosova B | 353,195 | 318,420 | 348,371 | 177,831 | 258,631 | 300,155 | 333,902 | 308,254 | 135,981 | 162,957 | 147,987 | 294,419 | 3,140,102 |
| HPP Ujmani | 9,885 | 3,356 | 3,719 | 5,993 | 16,069 | 6,144 | 5,190 | 4,654 | 4,787 | 3,945 | 4,549 | 6,097 | 74,387 |
| HPP Distributional | 2,943 | 1,592 | 2,444 | 4,045 | 6,636 | 4,503 | 2,217 | 1,054 | 1,111 | 1,588 | 993 | 1,394 | 30,520 |
| Total Hydro | 12,828 | 4,948 | 6,163 | 10,038 | 22,705 | 10,646 | 7,407 | 5,708 | 5,898 | 5,533 | 5,542 | 7,491 | 104,907 |
| Total generation | 533,185 | 473,546 | 518,711 | 345,103 | 391,627 | 449,796 | 502,294 | 420,759 | 309,549 | 330,179 | 380,972 | 510,899 | 5,166,622 |

During 2011, TPP Kosova B produced less electricity than predicted in energy balance and when compared to the last year's production. This was mainly due to the discontinuation of B2 unit from September to December because of capital repair .

Unit B1 of TPP Kosova B during this year had 39 discontinuations of which 14 breakdowns and 25 planned discontinuations. While B2 had 28 discontinuations, of which 14 were breakdowns and 14 planned discontinuations.

TPP Kosova A had a higher production than planned against both energy balance and last year's production. The number of system failures and operation failures of TPP Kosova A unit was lower than TPP Kosova B units. Unit A3 had 13 discontinuations of which 4 breakdowns and 9 planned discontinuatins, unit A4 had 12 interruptions of which 2 breakdowns and 10 disconnections, while unit A5 had 13 discontinuations, 3 breakdowns and 10 planned discontinuations .

Production in HPP Ujmani and smaller distributional hydro plants in 2011 was lower than in previous year.

In 2011 there was no production of electricity from windmills.

Percentage share of generation units into the overall production by months for 2011 is given in the figure below.

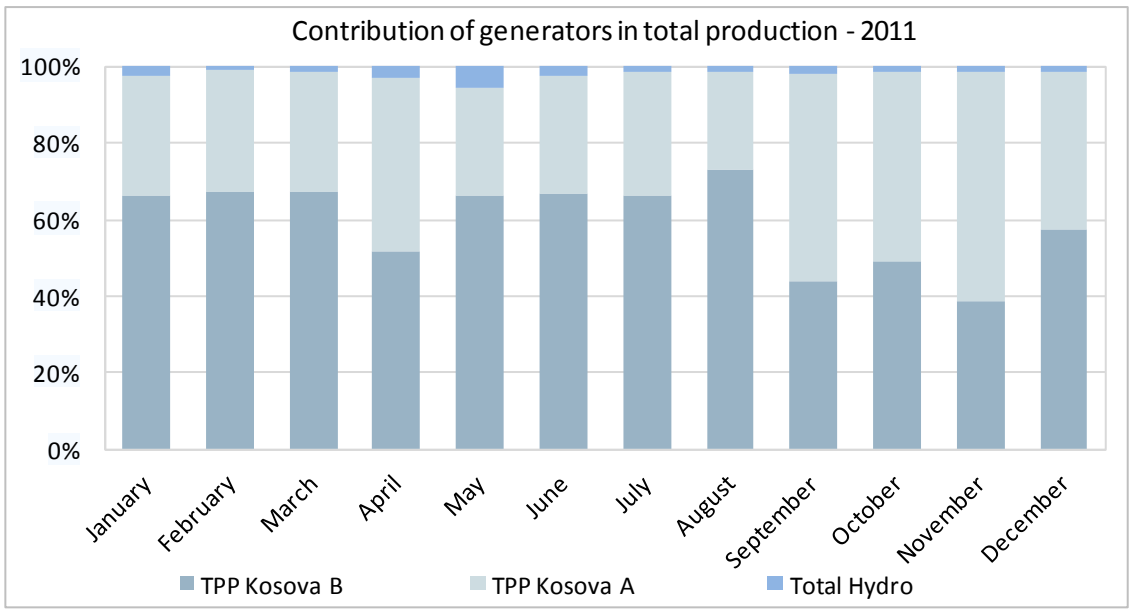


*Fig.4.10 Share of production of generation units by months of 2011*

The chart below represents the overall production for the last three years.

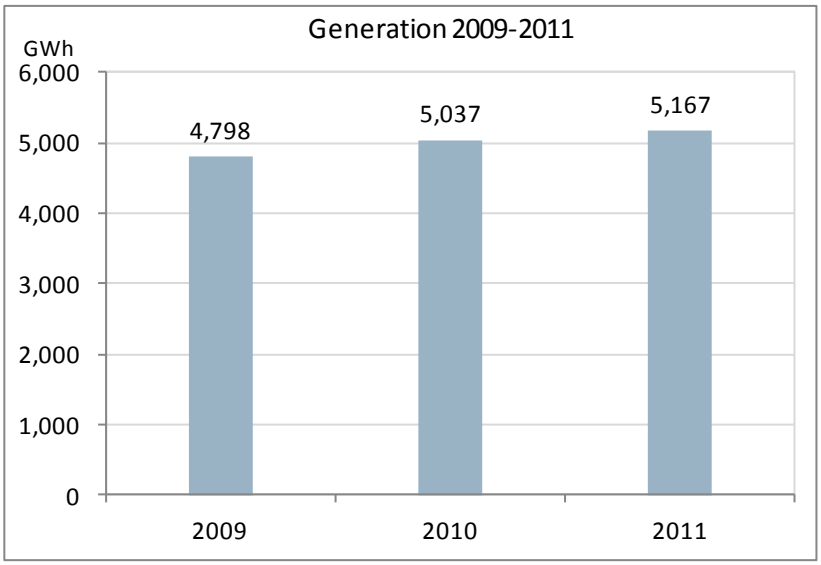



*Fig.4.11 Production of electricity energy 2009-2011*

## 4.5 Consumption of electricity

Consumption of electricity had a continuous increase during the recent years. Such a trend, but at a slower pace, continued also in 2011, where the overall production of electricity was 5,584 GWh, representing a growth of demand by 1.4 % compared to year 2010. Compared to the electricity balance of 2011, consumption is 0.6 % higher than the value planned under the balance, set at 5,552 GWh. It should be emphasised that the decrease of consumption trend compared to earlier years is the result of the highest level of load sheddings in 2011; from 205 GWh on 2010, load sheddings in 2011 reached 330 GWh.

The table below contains the overall consumption of electricity for year 2011, by customer categories, including the losses and self consumption of PP from transmission.

*Tab.4.11 Overall consumption in 2011*

| Consumption per categories 2011 | Total (MWh) |
|---|---|
| Household consumption | 2,007,522 |
| Commercial consumption | 624,706 |
| Industrial consumption | 244,433 |
| Public Lighting | 12,876 |
| Mines + Distr. Self consumption | 113,853 |
| Consumers in Transmission | 679,488 |
| Commercial losses | 1,000,461 |
| Technical losses | 785,716 |
| Transmission losses | 115,315 |
| Total consumption | 5,584,370 |
| Self consumption of TPP from transmission | 172,914 |
| Total consumption + Self consumption of TPP | 5,757,284 |

In the figure below is presented graphically consumption and losses in transmission and distribution by categories.

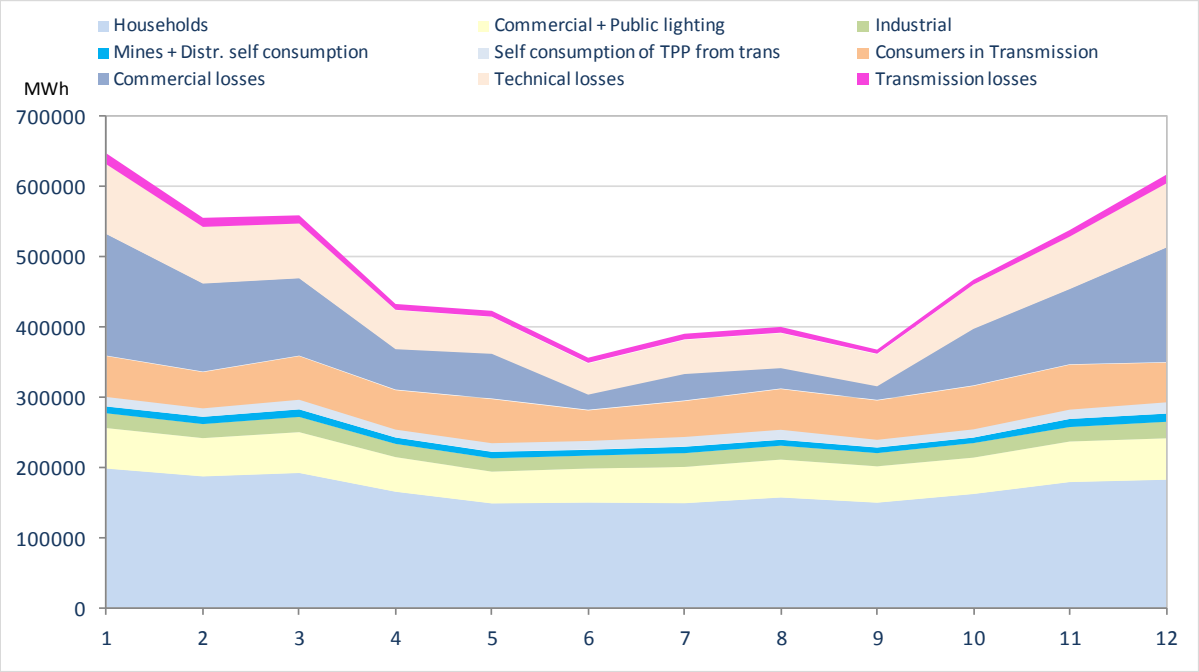



*Fig.4.12 Share of various categories into the overall consumption 2011*

Commercial losses are higher during the winter season, which is also reflected in the chart, as this is the period when electricity is used for heating. In other categories of consumption and losses, the change by seasons is less pronounced.

The overall consumption of electricity had a continuous increase during the previous years and the last three years growth presented in the chart below.

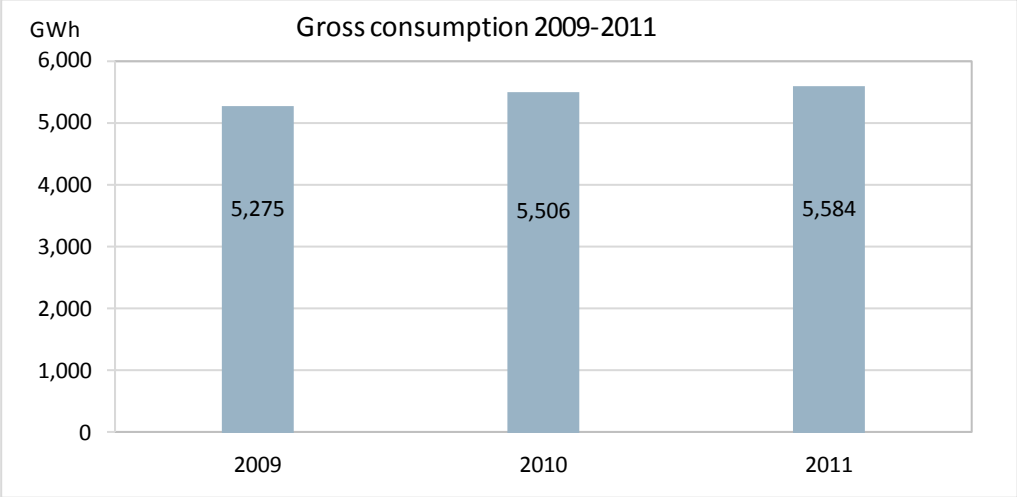



*Fig.4.13 Overall consumption 2009-2011*

### 4.5.1 Consumption in distribution

The consumption of electricity in distribution during 2011 was 4,682 GWh, while in 2010 was 4,559 GWh, with an increase of 2.7 %.

The consumption is categorized with marked differences between the seasons and tariffs. This is also followed by load sheddings. The change is apparent in the figure below.

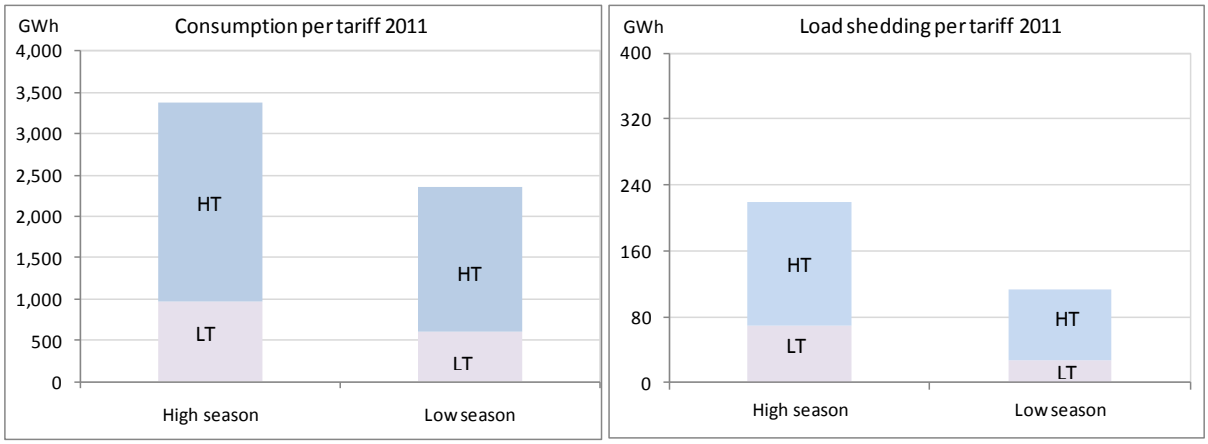



*Fig.4.14 Consumption by season and tariffs 2011*

The electricity consumption in distribution could be analysed also by districts. The highest consumption was recorded in the district of Prishtina at 30.79 % of the overall consumption in distribution, while the lowest in the district of Gjilan at 8.70 %.

Share of household consumption remains dominant against the overall billed consumption and accounts for 54.51 %.

The figure 4.15 represents in percentage, the share of costumer categories into the overall consumption.

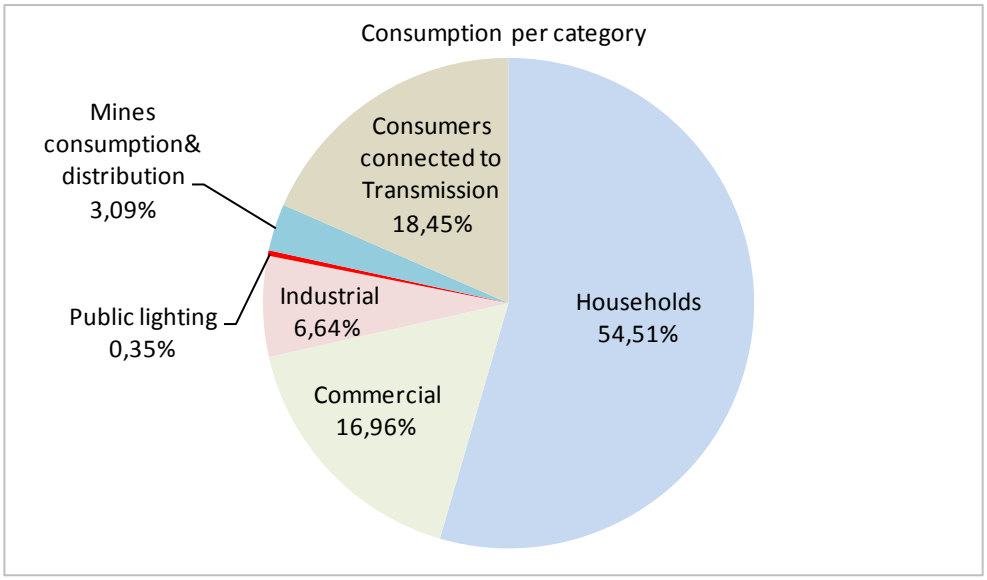



*Fig.4.15 Share of categories of the overall consumption 2011*

### 4.5.2 Distribution losses

In spite of continuous decrease of losses during the recent years, the overall losses of electricity in distribution remain high.

In 2011, the overall losses were 1,786 GWh or 38.15 % of the energy entering into distribution, while in 2010 the losses were 1,879 GWh or 41.22 %.

*Tab.4.12 Distribution losses by months for 2011*

| 2011 | Intake in KEK distribution | Billed electricity | Technical losses | | Commercial losses | | Total losses | |
|---|---|---|---|---|---|---|---|---|
| | MWh | MWh | MWh | % | MWh | % | MWh | % |
| 1 | 550,593 | 275,959 | 100,419 | 18.24 | 173,732 | 31.55 | 274,151 | 49.79 |
| 2 | 468,619 | 260,654 | 81,102 | 17.31 | 126,242 | 26.94 | 207,344 | 44.25 |
| 3 | 460,816 | 270,821 | 78,419 | 17.02 | 110,982 | 24.08 | 189,401 | 41.10 |
| 4 | 347,193 | 232,483 | 55,532 | 15.99 | 58,656 | 16.89 | 114,188 | 32.89 |
| 5 | 330,015 | 212,034 | 52,282 | 15.84 | 64,824 | 19.64 | 117,106 | 35.49 |
| 6 | 283,020 | 215,782 | 44,082 | 15.58 | 22,861 | 8.08 | 66,942 | 23.65 |
| 7 | 307,495 | 219,287 | 48,416 | 15.75 | 38,920 | 12.66 | 87,336 | 28.40 |
| 8 | 311,196 | 229,940 | 49,705 | 15.97 | 30,155 | 9.69 | 79,860 | 25.66 |
| 9 | 285,443 | 219,340 | 45,293 | 15.87 | 20,579 | 7.21 | 65,873 | 23.08 |
| 10 | 376,838 | 233,569 | 62,846 | 16.68 | 81,554 | 21.64 | 144,400 | 38.32 |
| 11 | 440,575 | 256,443 | 74,993 | 17.02 | 107,994 | 24.51 | 182,986 | 41.53 |
| 12 | 520,448 | 263,859 | 92,168 | 17.71 | 163,786 | 31.47 | 255,954 | 49.18 |
| Total | 4,682,250 | 2,890,172 | 785,716 | 16.78 | 1,000,461 | 21.37 | 1,786,177 | 38.15 |

Technical losses in 2011 were 786 GWh or 16.78 %, while commercial losses were 1,000 GWh or 21.37 % of consumption in distribution.

Losses vary by districts, with the lowest recorded losses in the district of Gjilan 23.39 %, while the highest in the district of Mitrovica 62.47 %. It should be emphasised that this includes electricity delivered to the north of Mitrovica, which is considered a commercial loss since it is not billed. The energy at the entrance was 214 GWh, which accounts for 4.57 % of the energy entering distribution.

*Tab.4.13 Distribution losses by districts in 2011*

| Districts 2011 | Intake in KEK distribution | Self cons. of KEK | Electricity for sell | Technical losses | | Commercial losses | | Total losses | |
|---|---|---|---|---|---|---|---|---|---|
| | MWh | MWh | MWh | MWh | % | MWh | % | MWh | % |
| Prishtina | 1,441,698 | 5,557 | 1,197,350 | 238,791 | 16.56 | 261,456 | 18.14 | 500,247 | 34.70 |
| Prizren | 651,824 | 1,276 | 526,398 | 124,150 | 19.05 | 93,938 | 14.41 | 218,088 | 33.46 |
| Peja | 511,296 | 791 | 423,722 | 86,784 | 16.97 | 114,267 | 22.35 | 201,051 | 39.32 |
| Ferizaj | 581,765 | 495 | 475,192 | 106,077 | 18.23 | 95,111 | 16.35 | 201,188 | 34.58 |
| Gjilani | 407,254 | 833 | 340,114 | 66,307 | 16.28 | 28,969 | 7.11 | 95,276 | 23.39 |
| Mitrovica | 645,616 | 549 | 565,746 | 79,321 | 12.29 | 324,016 | 50.19 | 403,337 | 62.47 |
| Gjakova | 442,797 | 645 | 358,743 | 83,409 | 18.84 | 82,704 | 18.68 | 166,113 | 37.51 |
| Total | 4,682,250 | 10,145 | 3,887,266 | 785,716 | 16.78 | 1,000,461 | 21.37 | 1,786,178 | 38.15 |

Electricity losses in distribution have been declining during the years. A noted decline is visible in commercial losses, while with the technical losses the decline is of a lower level. This may be seen at the table below, which represents data for the last three years.

*Tab.4.14 Distribution losses for 2009-2011*

| Year | Load | Realization | Technical losses | | Commercial losses | | Total losses | |
|---|---|---|---|---|---|---|---|---|
| | MWh | MWh | MWh | % | MWh | % | MWh | % |
| 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 |
| 2011 | 4,682,250 | 2,890,172 | 785,716 | 16.78 | 1,000,461 | 21.37 | 1,786,177 | 38.15 |

## 4.6 Billing and collection

In 2011 there was an increase in billing and collection rate of the consumed electricity. The billed electricity, in monetary terms, is estimated at 221 mil€, while the collection at 201 mil€. Of these, 32.5 mil€ is the value of the billed and collected from customers connected to transmission. These values include VAT.

The ratio of collection against billing in distribution in 2011 is 89.68 %, and 91.08 % in total.

*Tab.4.15 Billing and collection in 2011*

| 2011 | Load | Billing | Collection | Collection/ Billing |
|---|---|---|---|---|
| | MWh | (000) € | (000) € | % |
| Distribution | 4,682,250 | 188,399 | 168,952 | 89.68 |
| Consumers in transmission | 679,488 | 32,742 | 32,468 | 99.16 |
| Total | 5,361,738 | 221,141 | 201,420 | 91.08 |

In several months during 2011, the ratio between the billed and collected electricity varied, in view of collection for the previous periods. This is most prominent in months of April and May, when the billing is lower while payment is made for previous months when the consumption and billing was considerably higher.

*Tab.4.16 Billing and collection by months*

| Distribution 2011 | Load | Realization | Billing | Collection | Collection /Billing |
|---|---|---|---|---|---|
| | MWh | MWh | (000) € | (000) € | % |
| January | 550,593 | 275,959 | 20,789 | 14,550 | 69.99 |
| February | 468,619 | 260,654 | 19,538 | 16,715 | 85.55 |
| March | 460,816 | 270,821 | 20,264 | 16,981 | 83.80 |
| April | 347,193 | 232,483 | 12,284 | 16,601 | 135.14 |
| May | 330,015 | 212,034 | 11,184 | 12,552 | 112.24 |
| June | 283,020 | 215,782 | 11,510 | 11,138 | 96.76 |
| July | 307,495 | 219,287 | 11,677 | 10,854 | 92.95 |
| August | 311,196 | 229,940 | 12,327 | 12,075 | 97.95 |
| September | 285,443 | 219,340 | 11,804 | 12,401 | 105.06 |
| October | 376,838 | 233,569 | 17,550 | 11,940 | 68.03 |
| November | 440,575 | 256,443 | 19,521 | 15,714 | 80.50 |
| December | 520,448 | 263,859 | 19,996 | 17,433 | 87.18 |
| Total | 4,682,250 | 2,890,172 | 188,399 | 168,952 | 89.68 |

Analysis of data on billing and collection of electricity by districts is presented in the table below. Therefore, it may be noted that the percentage of billed electricity was higher in the district of Gjilan, while the highest collection rate was recorded in the district of Prishtina.

*Tab.4.17 Billing and collection by districts*

| Districts 2011 | Intake in KEK distribution | Electricity for sell | Billing | | Collection | Collection/El. for sell | Collection/Billing |
|---|---|---|---|---|---|---|---|
| | MWh | MWh | MWh | € (000) | € (000) | % | % |
| Prishtina | 1,441,698 | 1,197,350 | 938,626 | 63,951 | 60,728 | 78.39 | 94.96 |
| Prizren | 651,824 | 526,398 | 432,460 | 27,556 | 25,536 | 82.15 | 92.67 |
| Peja | 511,296 | 423,722 | 309,455 | 20,538 | 18,436 | 73.03 | 89.76 |
| Ferizaj | 581,765 | 475,192 | 380,081 | 24,384 | 20,943 | 79.98 | 85.89 |
| Gjilan | 407,254 | 340,114 | 311,781 | 19,212 | 16,967 | 91.67 | 88.32 |
| Mitrovica | 645,616 | 565,746 | 241,730 | 15,347 | 10,986 | 42.73 | 71.59 |
| Gjakova | 442,797 | 358,743 | 276,039 | 17,411 | 15,356 | 76.95 | 88.20 |
| Total | 4,682,250 | 3,887,266 | 2,890,172 | 188,399 | 168,952 | 74.35 | 89.68 |

The electricity billed and collected in the last three years is presented at the table below.

*Tab.4.18 Billing and collection in distribution 2009 - 2011*

| Year | Load | Billing | | Collection | Collection /Billing |
|---|---|---|---|---|---|
| | MWh | MWh | (000) € | (000) € | % |
| 2009 | 4,428,053 | 2,532,626 | 178,296 | 142,110 | 79.70 |
| 2010 | 4,559,037 | 2,679,713 | 174,747 | 151,805 | 86.87 |
| 2011 | 4,682,250 | 2,890,172 | 188,399 | 168,952 | 89.68 |

## 4.7 The electricity market

The Electricity sector is in the restructuring stage, under which changes to market model will be required. The new market model should be in conformity with the new laws of energy sector, Energy Strategy and requirements of the Energy Community Treaty of Southeast Europe for establishment of a Regional Electricity Market.

### 4.7.1 Electricity flows

Similar to previous years, Kosova in 2011 was a net importer of electricity, with a quantity of 445 GWh. The balance of electricity between the entities is represented in the table below, which includes generation, import, export, transmission, distribution, consumption by customers, as well as the transit. Electricity flows in the figure are given in physical units in GWh.

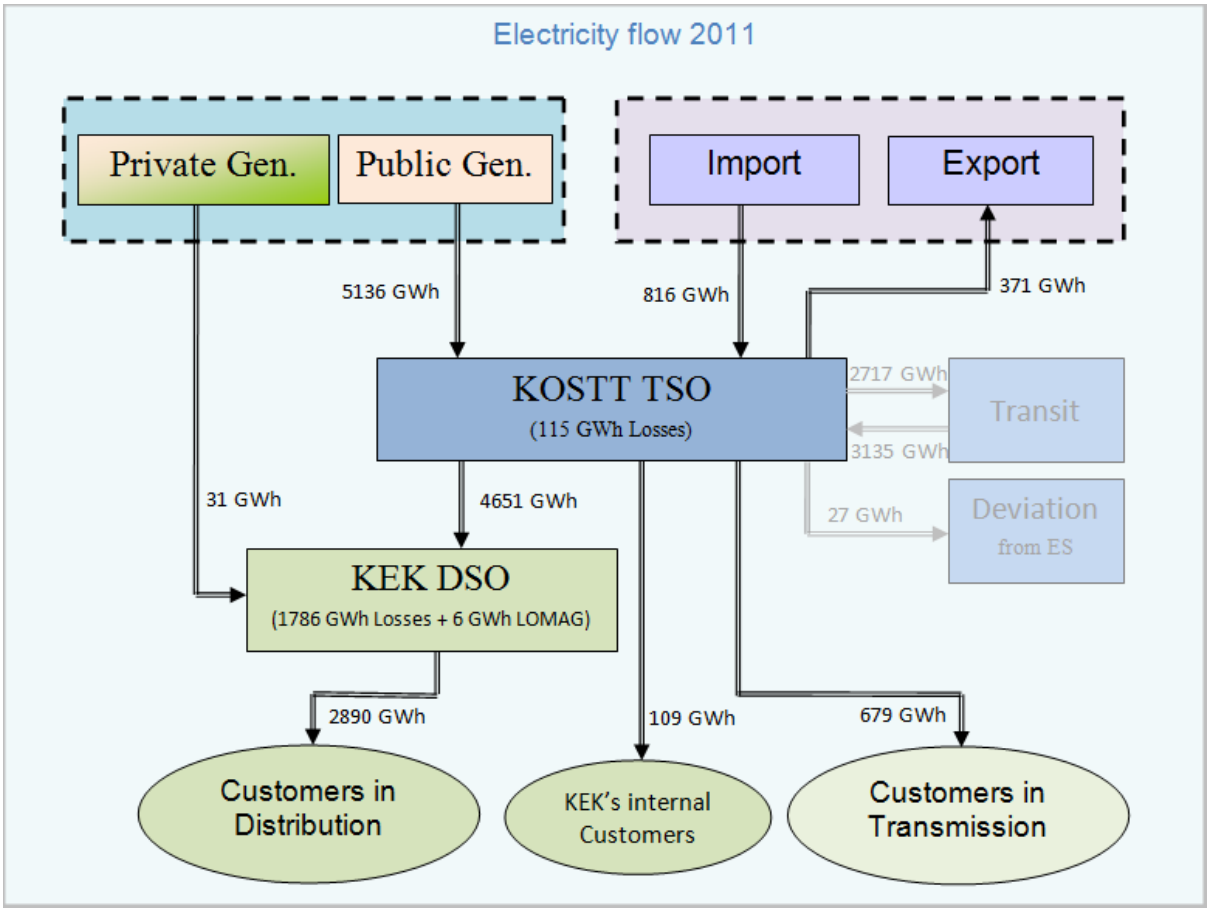



*Fig.4.16 Electricity flows in SEE of Kosovo for the year 2011*

### 4.7.2 Import and export of electricity

In spite of increase of production in recent years, the national production is not sufficient to meet the growing consumption. Therefore, a part of consumption of electricity in Kosovo is covered by import. However, in specific periods, especially in the low tariff (mostly at night), there is a surplus of electricity. This surplus is exported and mainly occurs at summer, when the consumption is significantly low.

In 2011 Kosova was a net importer of electricity. Net import accounts for 7.96% of the overall (gross) production, where the share of import (contract + exchange) is 14.61 %, while the share of export (contract + exchange) was 6.64 %.The electricity imported under contracts during 2011 was 784,849 MWh, valued at 54,677,311 €, at an average price of 69.66 €/MWh, while the imported electricity in 2010 was 684,948 MWh, at an average price of 57.91 €/MWh. The quantity of imported electricity has increased by 14.59 %, while the average price increased by 20.31 %, compared to previous year.

KEK also has imported electricity by means of exchange. The quantity of 31,350 MWh was taken at a 1:1 rate of return at the same period and tariff, all with KESH (Albania). Comparing to 2010 the imported quantity by means of exchange was quite low, with a decrease of 76.51 %.

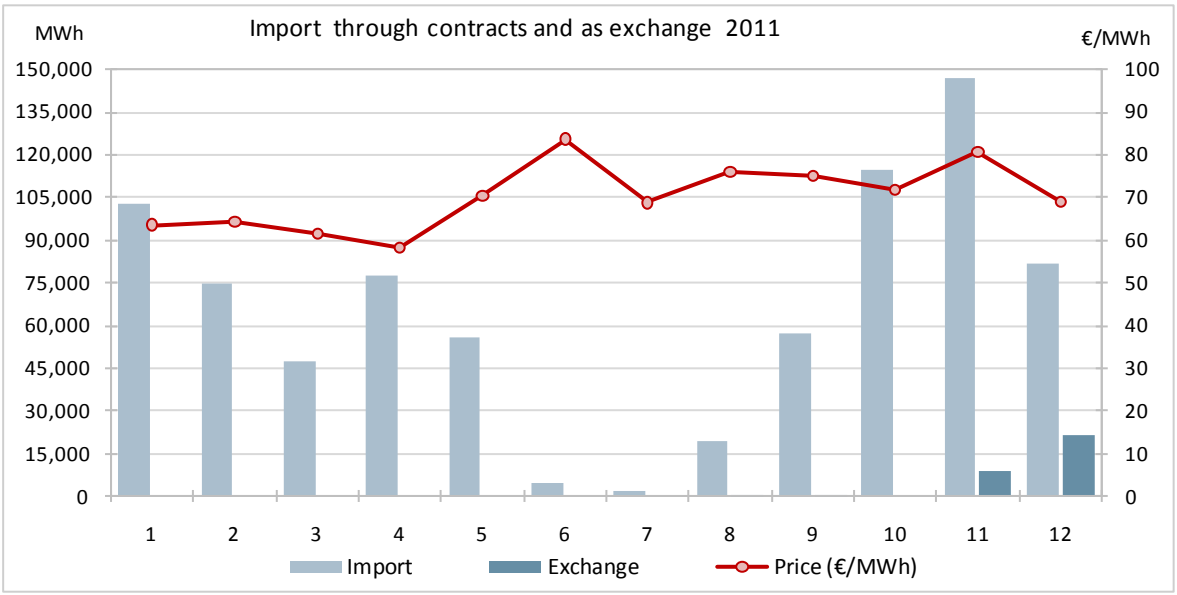



*Fig.4.17 Import of electricity and prices in 2011*

Electricity surplus represents mainly the low tariff, when electricity is sufficiently available in the region and therefore the export prices are significantly lower than the import prices.

The total quantity of electricity that KEK exported under contracts during this year is 278,313 MWh, at an average prices of 45.05 €/MWh. This quantity of export, generated an income of 12,537,319 € for KEK. When compared to 2010, it is apparent that the export has grown by 42.56 %, while the average price has grown by 70.39 %.

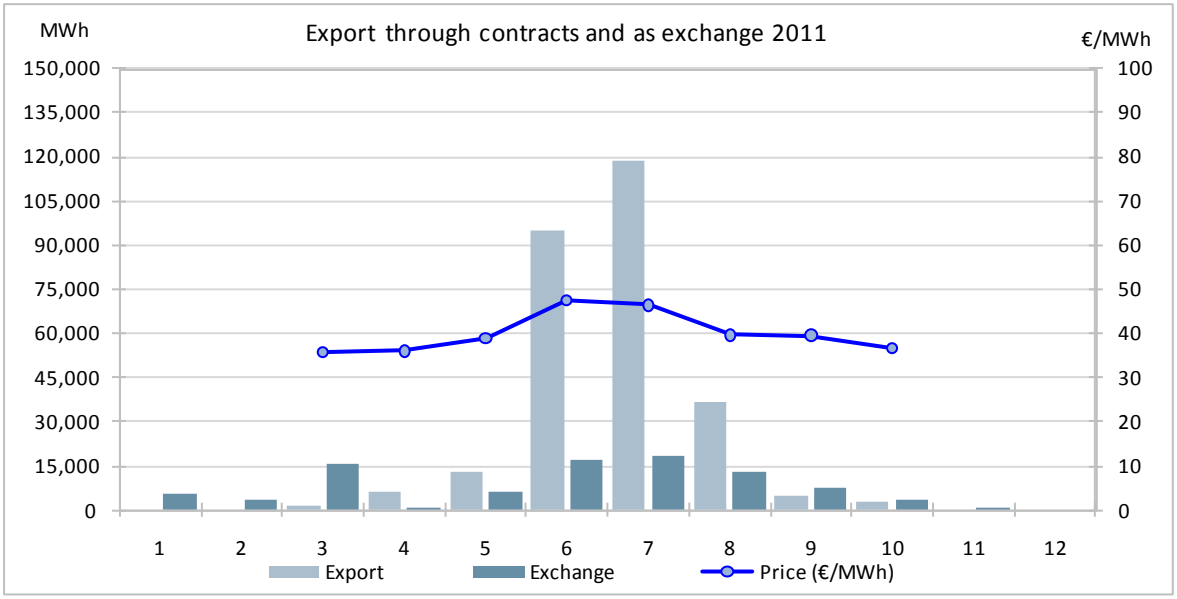



*Fig.4.18 The export of electricity and prices in 2010*

The table below represents detailed monthly data on import and import prices, export and export prices, exchange – receipt and delivery of energy that occurred during 2011. The table also indicates that the ratio of exchange, receipt - delivery is in favour of delivery, which was mainly last year's debt giving back.

*Tab.4.19 Import, export and exchange of electricity for 2011*

| 2011 | 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 | 102,500 | 63.60 | 6,518,764 | 0 | | 0 | 0 | 5,636 | 5,636 | 102,500 | 5,636 | -96,864 |
| 2 | 74,950 | 64.23 | 4,813,889 | 0 | | 0 | 0 | 3,880 | 3,880 | 74,950 | 3,880 | -71,070 |
| 3 | 47,210 | 61.45 | 2,901,152 | 1,580 | 35.73 | 56,453 | 0 | 15,891 | 15,891 | 47,210 | 17,471 | -29,739 |
| 4 | 77,490 | 58.33 | 4,519,857 | 5,938 | 36.06 | 214,097 | 0 | 1,008 | 1,008 | 77,490 | 6,946 | -70,544 |
| 5 | 56,090 | 70.28 | 3,942,017 | 13,117 | 38.90 | 510,224 | 0 | 6,176 | 6,176 | 56,090 | 19,293 | -36,797 |
| 6 | 4,350 | 83.68 | 364,008 | 94,728 | 47.49 | 4,498,831 | 0 | 16,790 | 16,790 | 4,350 | 111,518 | 107,168 |
| 7 | 1,780 | 68.79 | 122,454 | 118,565 | 46.44 | 5,506,084 | 0 | 18,580 | 18,580 | 1,780 | 137,145 | 135,365 |
| 8 | 19,405 | 75.98 | 1,474,373 | 36,885 | 39.66 | 1,462,804 | 650 | 13,190 | 12,540 | 20,055 | 50,075 | 30,020 |
| 9 | 57,445 | 74.98 | 4,307,300 | 4,800 | 39.60 | 190,086 | 390 | 7,790 | 7,400 | 57,835 | 12,590 | -45,245 |
| 10 | 115,005 | 71.65 | 8,240,197 | 2,700 | 36.57 | 98,739 | 0 | 3,560 | 3,560 | 115,005 | 6,260 | -108,745 |
| 11 | 146,612 | 80.54 | 11,807,530 | 0 | | 0 | 8,550 | 350 | -8,200 | 155,162 | 350 | -154,812 |
| 12 | 82,012 | 69.04 | 5,662,471 | 0 | | 0 | 21,760 | 0 | -21,760 | 103,772 | 0 | -103,772 |
| Total | 784,849 | 69.66 | 54,674,011 | 278,313 | 45.05 | 12,537,319 | 31,350 | 92,851 | 61,501 | 816,199 | 371,164 | -445,035 |

During the previous years a fluctuation of electricity prices was noted. Since 2005, there was an increase of import prices until 2008, while in subsequent years there was a considerable decrease. In the recent years, the prices of import and export have again begun increasing. It is worth noting that the average price of export during this year was the highest in years.

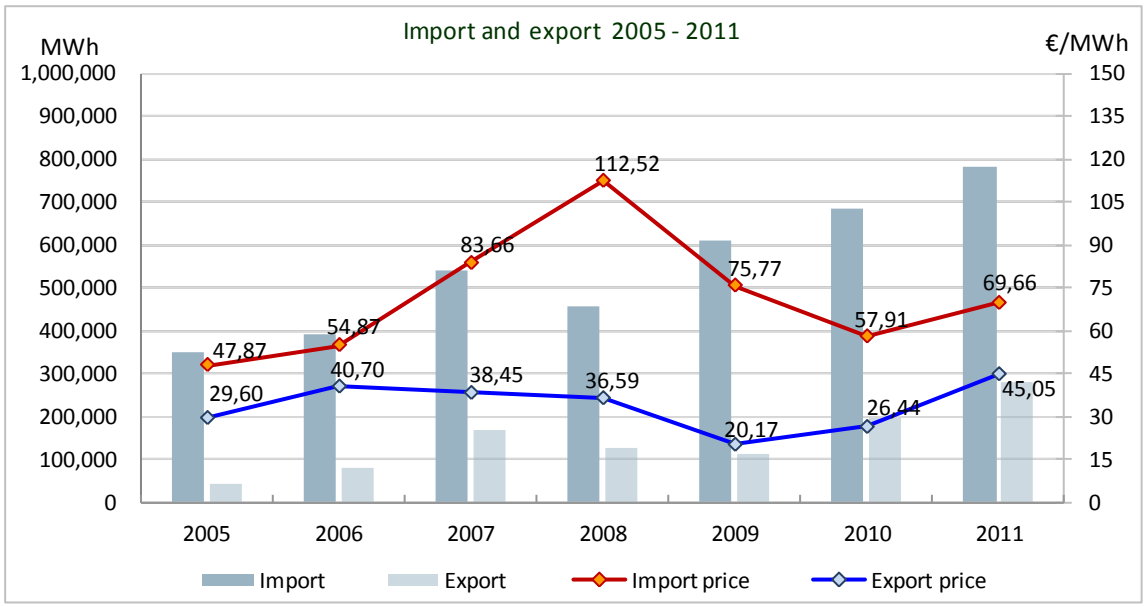



*Fig.4.19 Import, export and prices in from 2005 – 2011*

### 4.7.3 Comparison of import prices with regional countries

Import prices of electricity derived from KEK in 2011 were close to prices in the region, and the curve of KEK's prices follows closely the curve of prices in the region. The figure indicates that the prices in DESMIE market (Greece) have visible impact upon the prices in Kosovo market.

The ratio of electricity prices of KEK imports in 2011, compared to imports in the region is given in the figure below.

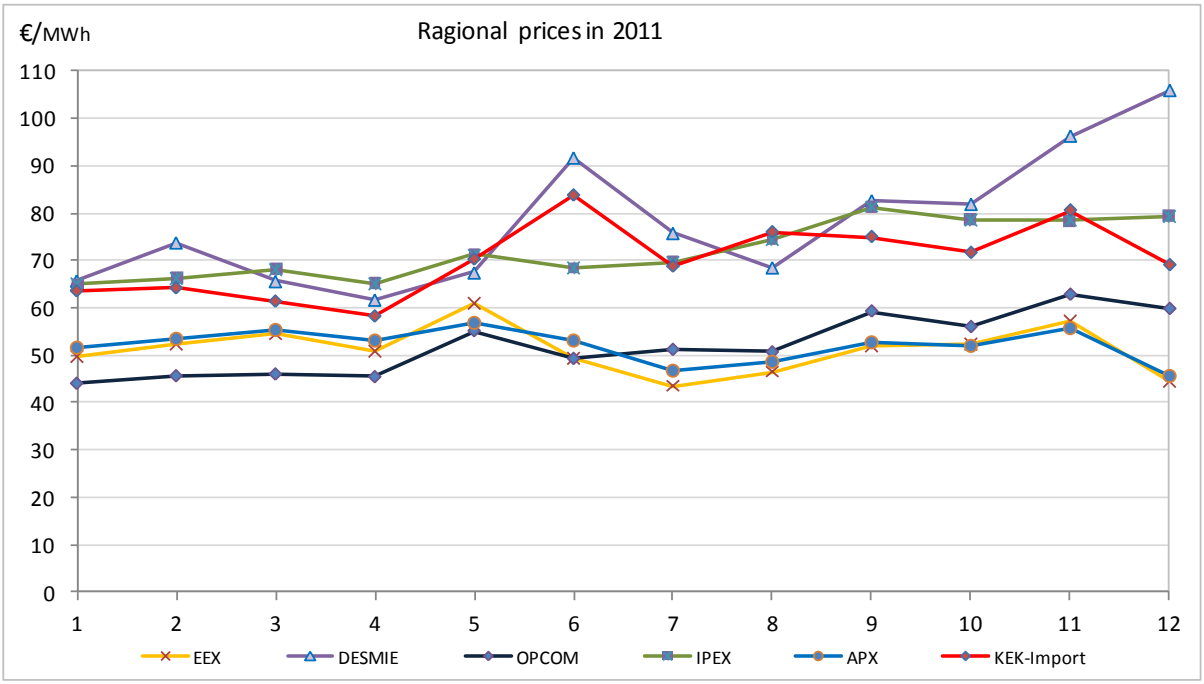



*Fig. 4.20 The diagram of prices in the region and KEK's imports during 2011*

The electricity imported by KEK is of a different character than of the region, as the price comparison has been done using market prices as a basis such as: "day ahead", prices within the day ("intraday"-EEX) and from bilateral trade of several European markets, whereas KEK prices are contracted prices for modulated energy, peak energy, day-ahead energy and emergent supply.

# 5 ENERGY TARIFFS

Energy Regulatory Office set energy tariffs in line with tariff methodology. The established tariffs are based upon reasonable costs, which allow for investment in the system, consider customer and environment protection and eliminate cross-subsidizing between different customer categories.

## 5.1 Harmonizing pricing rules

ERO has harmonized secondary legislation to reflect amendment effected upon the primary legislation.

Most significant changes are summarized below:

- Determination of maximum allowed revenues includes asset value before 2006 in the Regulated Asset Base[2].
- Cross-subsidizing between different customer categories to be eliminated by 31 December 2014.
- Regulated entities are allowed to recover a reasonable amount of bad debts[3], and
- Price setting is done for a regulatory period of 5 years, except to generation which is done for 4 years period.

In relation to the harmonization of legislation, pricing rules on electricity are developed, which superseded Tariff Methodology:

- Rule on generation pricing;
- Rule on pricing for Transmission System Operator and Market Operator;
- Rule on pricing for Distribution System Operator, and
- Rule on pricing for Public Electricity Supplier.

Pricing rules are the basis for evaluating maximum allowed revenues for licencees applicable during the relevant tariff year, in order to cover the reasonable development, operation and maintenance costs, in line with the Law on Energy Regulator. Rules define the process on the basis of which the maximum allowed revenues will be reviewed and re-evaluated periodically, as well as the process to set energy charges and generation capacity charges, distribution use of system (DUOS), charges for use of transmission network (TUOS – transmission use of system), charges for system transmission operation, charges for market operator and retail tariffs charged by public supplier of electricity.

## 5.2 Fifth electricity tariff review (ETR5)

In fulfilling its legal mandate prescribed under Article 14 of the Law on Energy Regulator, ERO in 2011 set electricity tariffs for the fifth time. Tariff review is an interactive process between the ERO, licensees, and other interested parties, with the view of setting Allowed Revenues that serve as a basis for assessing and setting the electricity tariffs. This includes regulated retail tariffs and KOSTT charges.

2 Based on Rules on pricing, the Regulatory Asset Base shall be a regulatory value of the Regulated company's used and useful fixed assets.
3.Till ETR5, ERO does not allow companies to recover cost of bed debt.

In order to promote transparency, ERO proposals are summarized in Consultation Papers, which are published in ERO's official website along with stakeholders' comments.

In its tariff application, KEK and KOSTT asked for Allowed Revenues of 202 mil€, which represent an increase of 3.8 % of regulated average tariff. Upon analysis and application assessment, and regular consultation with stakeholders, but also taking into account government subsidy on import of electricity, ERO found that current tariffs shall remain in effect, as they provide Maximum Allowed Revenues, which are sufficient to ensure sustainable business of licensees.

The table below presents main components for determining Maximum Allowed Revenues, according to KEK and KOSTT's licensed activities.

*Tab.5.1 Summary of Allowed Revenues in ETR5*

| ALLOWED REVENUES | | KEK | | | | | KOSTT | Total |
|---|---|---|---|---|---|---|---|---|
| | | Mining | Generation | Distribution | Supplier | Total KEK | | |
| Operating costs | €000s | 42,244 | 30,802 | 16,714 | 19,217 | 108,976 | 5,339 | 114,315 |
| Depreciation | €000s | 8,899 | 4,912 | 1,143 | 439 | 15,392 | 2,059 | 17,451 |
| Allowed return | €000s | 22,152 | 6,663 | 3,308 | 1,421 | 33,544 | 1,302 | 34,846 |
| Import | €000s | | | | 50,114 | 50,114 | | 50,114 |
| Power purchases outside KEK | €000s | | | | 3,971 | 3,971 | | 3,971 |
| Ancillary services | €000s | | | | | 0 | 0 | 0 |
| CA Costs | €000s | 5,551 | 2,639 | 1,945 | 1,926 | 12,061 | | 12,061 |
| Total allowed costs | €000s | 78,846 | 45,016 | 23,110 | 77,086 | 224,058 | 8,699 | 232,758 |
| Sales to qualified customers | €000s | | | | 0 | 0 | | 0 |
| Export | €000s | | | | -4,467 | -4,467 | | -4,467 |
| Other operating revenues | €000s | -1,500 | 0 | | | -1,500 | | -1,500 |
| Subsidies | €000s | | | | -27,350 | -27,350 | | -27,350 |
| Adjustments | €000s | -1,861 | -2,074 | -1,809 | -13,345 | -19,088 | -25 | -19,113 |
| Total allowed revenues | €000s | 75,485 | 42,942.35 | 21,301 | 31,924.96 | 171,653 | 8,674.45 | 180,328 |
| | | | | | Current tariff | | €c/kWh | 5.6 |
| | | | | | Requested tariff | | €c/kWh | 5.8 |
| | | | | | Request for tariff increase | | | 3.8% |

Block tariffs are used to encourage efficient electricity consumption. Simultaneously, these tariffs may be used for social cases whereby a regulator, on the basis of available records, is not satisfied with the level of coverage of vulnerable customers by other subsidy mechanisms.

The Regulated retail tariff change to reflect the season cost and day-night tariffs in order to encourage efficient consumption of electricity.

Under ETR5, ERO has set for the first time the regulated tariff for customers supplied at 200kV voltage level, as previously there were no customers regulated at this voltage level.

End-customer tariffs approved by the Board of ERO are given in the table below.

*Tab.5.2 Structure of regulated retail electricity tariffs, in effect as of 1 April 2011.*

| Tariff group | Voltage level of supply | Tariff element | Unit | Time-of-day | Approved | |
|---|---|---|---|---|---|---|
| | | | | | High season | Low season |
| | | | | | 1 October - 31 March | 1 April - 31 September |
| 0' | 220kV | Standing (customer) charge | €/customer/month | | 167.67 | |
| | | Standing (demand) charge | €/kW/month | | 13.26 | |
| | | Active energy (P) | €c/kWh | | 2.05 | |
| 0 | 110kV | Standing (customer) charge | €/customer/month | | 83.83 | |
| | | Standing (demand) charge | €/kW/month | | 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*

The following represents average tariffs of countires in southeast Europe, including Kosovo, obtained from Energy Regulators Regional Association.

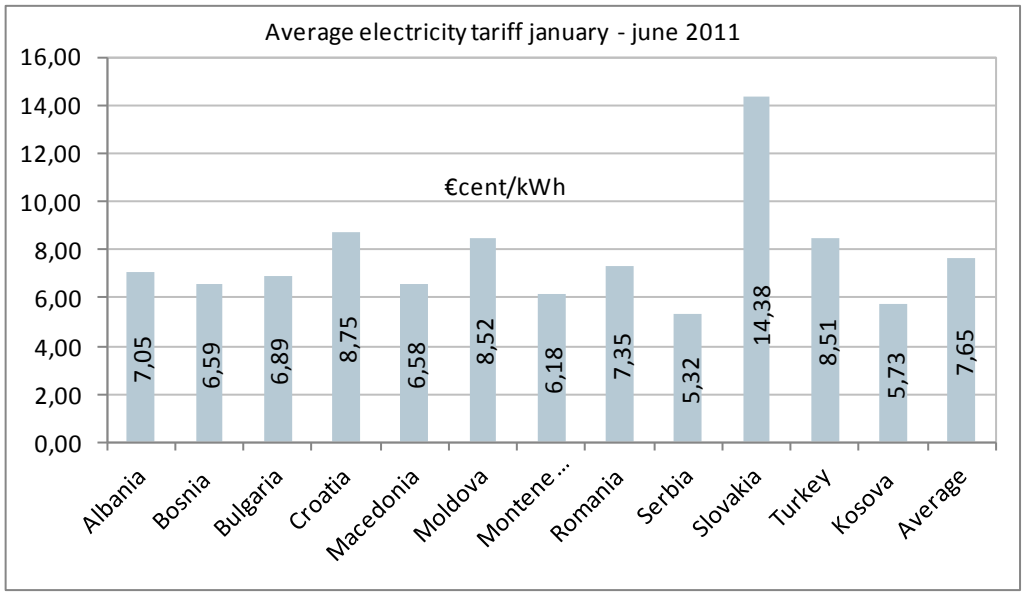



*Fig. 5.1 Average electricity tariffs in the region for January – June 2011*

## 5.3 Cost components for regulated retail tariff

Costs associated with supply of regulated customers are divided into components given below.

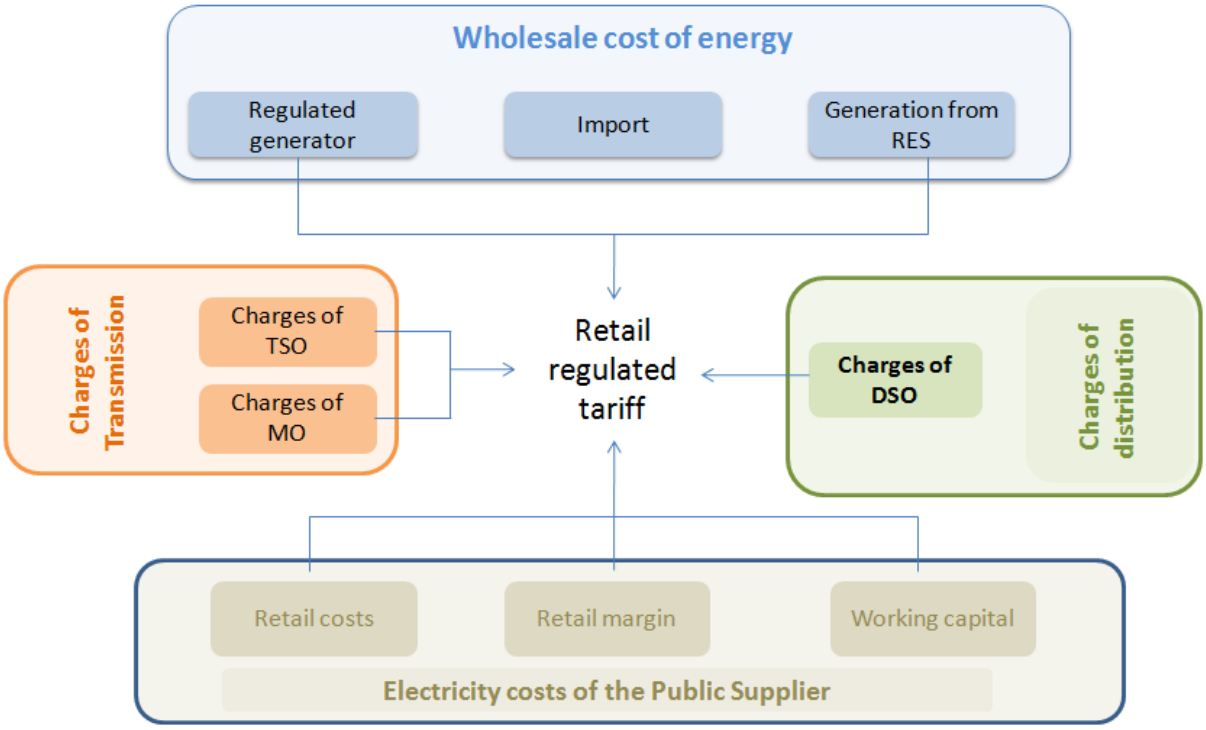



*Fig. 5.2 Cost components of regulated tariffs*

Through public consultation, during 2011, ERO issued the document on indicatve targets for Weighted Average Cost of Capital (WACC) as well as distrubtion loss reductions.

The Weighted Average Cost of Capital (WACC) is calculated taking into account comparable commercial equity cost of the company and actual cost of funding the debt, weighed in the ratio between the debt and total equity (leverage).

Allowed losses are set by using the targets established by ERO. This target is indicative and considers the actual level of losses in 2011, loss reduction by 3 % (percentile points) in the first 3 years and by 2.5 % (percentile points) in the 3 subsequent years.

## 5.4 Setting of criteria for effective competition

According to legislation in effect, qualified customers shall be supplied with electricity at regulated prices, except when ERO is not satisfied about the effectiveness of competition in electricity supply.

ERO has determined criteria for effective competition through the process of public consultation. Based on these criteria, it found that in Kosovo there is no yet effective competition in electricity supply. Therefore, it decided that eligible customers shall be supplied with electricity at regulated tariffs.

# 6 DISTRICT HEATING SECTOR

## 6.1 Overview of district heating sector

The District Heating sector is made of four systems, which supply urban centres of the following municipalities: Prishtina, Gjakova, Mitrovica and Zveçane. This sector meets about 5% of the general heating demand in Kosovo.

The following is the layot uf district heating and respective enterprises.


*Fig.6.1 Layout of district heating systems in Kosovo*

A promising development towards improving the supply of thermal energy/heating, is signing of Funding Agreement on implementing the project: Improvement of District Heating, between DH Termokos, Municipality of Prishtina, Ministry of Finance, European Commission and German Development Bank (KfW). The main component of the project is co-generation of thermal energy from TC Kosova B for supply of district heating system of Prishtina. The project also entails a thermal energy generation capacity of 2x90 $MW_t$, which would ensure a reliable and quality supply of heating, fuel costs reduction and consequently, operational costs of DH Termokos. Funding Agreement also includes another component – rehabilitation and expansion of capital's district heating system. The project is planned to commence in the first half of 2012 and complete by the end of 2013.

### 6.1.1 Technical features of district heating systems

Generation plans

Heating generation plans of DH Termokos are made of main heating plant of overall capacity 121.62 $MW_t$ and an auxiliary plant located at the Clinical University Centre of 14 $MW_t$ capacity.

District Heating of Gjakova is equipment with two boilers of oil fuel, nominal installed capacity of 38.6 $MW_t$ – of which one is of 20 $MW_t$ generation capacities and the other of 18.6 $MW_t$, which is presently inoperable.

Generation capacities of Working Unit of District Heating (WUDH) Termomit, Mitrovica, includes: primary heating plant of only one functional boilerof nominal capacity 9.3 $MW_t$, and heating plan in hospital centre, with three minor boilers of overall capacity 7.6 $MW_t$.

In District Heating Enterprise (DEH) Zveçan, heating is generated by the the heating plant of total capacity 1.6 $MW_t$ – two boilers of diesel, at 800 $kW_t$.

Distribution System

Primary distribution network of DH Termokos is of 31.5 km length of, of 300 MW. An integral part of the distribution system is also the pumping station and heat exchangers, as well as 267 active substations, which are separation poins between primary and secondary network.

Primary distribution network of DH Gjakova is of 23.5 km length. Integral parts of this network are 260 active substations.

District heating system in Mitrovica is made of two separate distribution networks. The main part of the primary network is connected to main heating plant, while the other part is connected to regional hospital centre. The total length of primary distribution network is around 4.5 km with approximately 20 heating substations.

District heating system in Zveçan has a rather small distributin network, of 0.8 km total length.

District heating Termomit and Zveçane, due to known circumstances, does not meet requirements for licensing/regulation and monitoring from ERO and is therefore unable to obtain relevant updated data.

A summary of technical features of district heating systems of DH Termokos and DH Gjakova, are given 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 | 31.5 | 267 |
| | 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 | 31.50 | 267 |
| DH GJAKOVA (Gjakova) | 1 x 20 = 20 | 1 x 20 = 20 | 23.5 | 260 |
| | 1 x 18.6 = 18.60 | | | |
| Sub-total | 38.60 | 20.00 | 23.5 | 260 |
| Total | 174.22 | 155.62 | 55.0 | 527 |

## 6.2 Performance of district heating enterprises

### 6.2.1 Fuel consumption and pricing

District heating plants are equipped with boilers, which use the oil fuel, imported at reference stock exchange prices plus a "premium" for covering supplier costs. Consequently, the fuel costs is greatly affected by price fluctuations on international markets (stock exchanges), which were quite significant and had a direct impact on the overall fuel prices, and by extension, heating generation prices.

Specifically, oil fuel with sulphur content of up to 3.5 %, during the period October 2010 – April 2011, fluctuated from 326 €/t to 437 €/t, settling at the average stock exchange price of 398.50 €/t.

The figure below is a chart of oil fuel prices, based on contracts prevalent on international stock exchange "Mediterranean Cal Swap", for period October 2010 – April 2011.

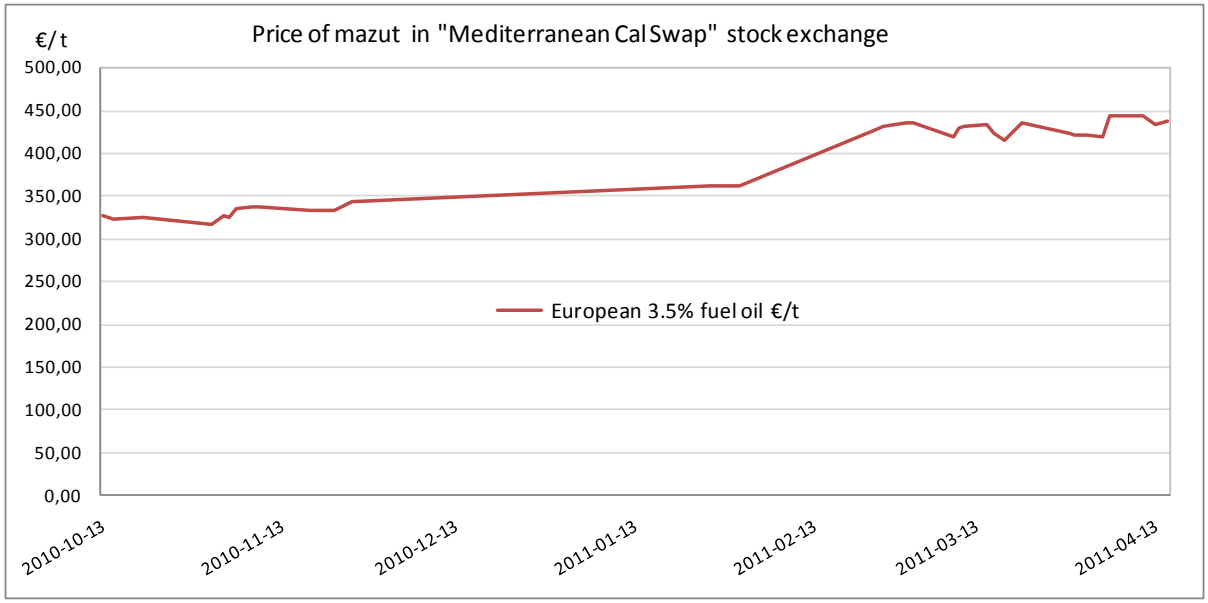



*Fig.6.2 Oil fuel price in international stock exchange "Mediterranean Cal Swap" for period October 2010 –April 2011*

During the season 2010/2011 the actual oil fuel consumption was considerably lower than the planned consumption, even when compared against the consumption during previoius seasons; this mainly comes as a result of financial difficulties affecting district heating enterprises, which rendered reliable supply of fuel impossible.

The table below represents fuel consumption for heating season 2010/2011 along with a comparision to consumption during previous season.

*Tab.6.2 Fuel consumption*

| Company - DH System | Consumption of Mazut (t) | | | |
|---|---|---|---|---|
| | Season 2009/2010 | Season 2010/2011 | Difference (t) | Difference (%) |
| DH TERMOKOS - Prishtina | 9,337 | 3,986 | 5,351 | 57.31 |
| DH GJAKOVA | 1,903 | 1,760 | 143 | 7.51 |
| Total DH Sector | 11,240 | 5,746 | 5,494 | 48.88 |

### 6.2.2 Generation, system losses and supply of district heating

Generation

Generation of heating during 2010/2011 season was considerably lower than forecasts, but also lower than previous seasons. This was especially apparent in DH Termokos, where net generation of heating was 69.44 % lower than planned. In the case of DH Gjakova, net generation of heating was 36.51 % lower than planned.

System losses

Losses in generation, in general, persisted at the same levels as during previous season, without any visible improvements. During the 2010/2011 season, generation losses of DH Termokos were 12 %, while of NQ Gjakova 27 %. Distribution network losses also remain high when compared to the usual level, established under international practices. Distribution losses in DH Termokos during 2010/2011 were 16.87 %, while DH Gjakova reported distribution losses of 17.68 %.

Heating supply

A feature of 2010/2011 season was generally irregular supply, with frequent interruptions sometimes stretching to periods of several days, resulting in final termination of heating season two months before the actual end of season.

During the 2010/2011 season, DH Termokos supplied 33,049 $MW_t$h to customers, which is 72.53 % lower than the planned supply. A similar condition prevailed with supply of customers from DH Gjakova, where supply was 11,953 $MW_t$h, i.e. 40.61 % lower than planned.

The following is a tabular and graphical representation of summarized generation and supply data, along with respective losses.

*Tab.6.3 Energy performance of district heating enterprises*

| Company | Energy from fuel | Heat generation | Generation losses | Heating plant efficiency | Distribution losses | | Supply |
|---|---|---|---|---|---|---|---|
| | ($MW_t$h) | ($MW_t$h) | ($MW_t$h) | (%) | ($MW_t$h) | (%) | ($MW_t$h) |
| DH Termokos | 45,393 | 39,755 | 5,638 | 87.58 | 6,706 | 16.87 | 33,049 |
| DH Gjakova | 19,892 | 14,520 | 5,372 | 72.99 | 2,567 | 17.68 | 11,953 |
| Total | 65,285 | 54,275 | 11,010 | 83.14 | 9,273 | 17.09 | 45,002 |

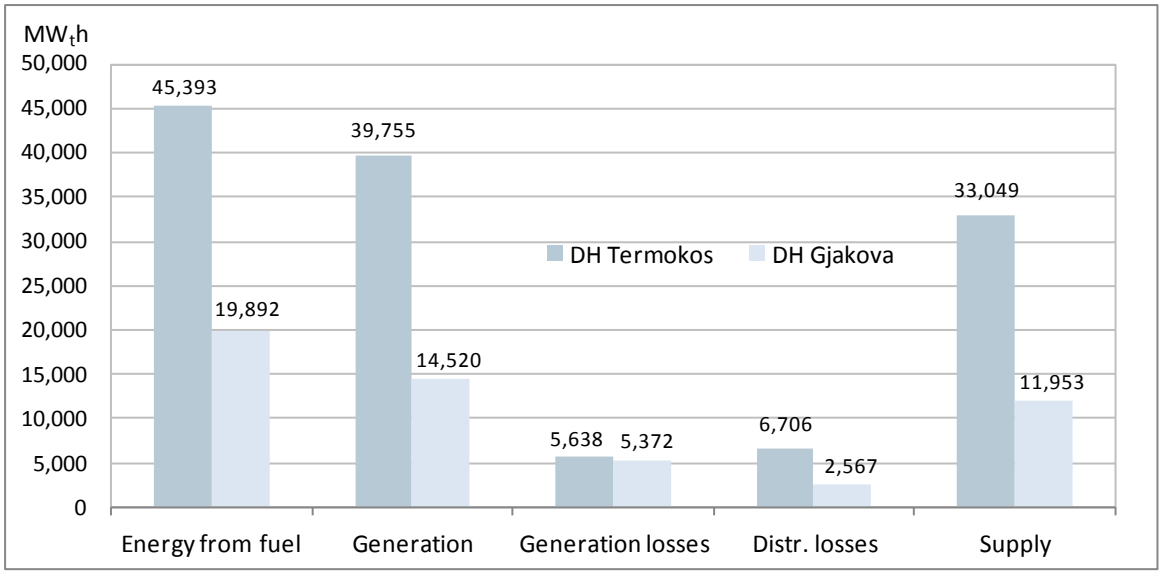



*Fig.6.3 Energy performance of district heating enterprises*

### 6.2.3 Surface area supplied with heating

The overall surface area supplied with heating from DH Termokos during 2010/2011 was 1,103,200 $m^2$, which represents an increase of 31,523 $m^2$ compared to previous season. Household customers account for 58.74 % of this area, while commercial and institutional 41.26 %.

DH Gjakova had a total supply surface of 191,088 $m^2$, which represents a considerable increase of 46,379 $m^2$ compared to previous season. Share of households to total surface area is 52.96 %, while commercial and institutional groups account for 47.04 %.

### 6.2.4 Billing and collection

Billing of customers was mainly based on pre-assessed heating surface (per square meter), due to failure to implement measurement of supplied heating quantity. With respect to billing, this year too the intended billing target was not attained due to following reasons:

- Deductions in billing due to poor quality of supply;
- Deduction in bills due to unsupplied days (mainly due to irregular supply of fuel – as stated above, a feature of 2010/2011 season were frequent interruptions).

Data reported by heating companies indicate that heating season 2010/2011 saw a decline in collection of fees from customers, mainly with the households category. As visible from data shown on the table below, the average collection rate for the whole district heating sector fell by 42.83 % which represents a decline of 15 % from the previous season.

*Tab.6.4 Heating surface, billing and collection 2010/2011*

| Heating season 2010/2011 | Heated area [$m^2$] | Tariff [€/$m^2$] | Billing (incl. VAT) [€] | Collection [€] | Collection rate [%] |
|---|---|---|---|---|---|
| ***DH Termokos Prishtina*** | | | | | |
| Households | 647,977 | 0.84 | 1,468,299 | 182,283 | 12.41 |
| Commercial and institut. | 455,223 | 1.00 | 1,127,417 | 748,949 | 66.43 |
| Total | 1,103,200 | - | 2,595,716 | 931,232 | 35.88 |
| ***DH Gjakova*** | | | | | |
| Households | 101,191 | 0.90 | 500,045 | 250,023 | 50.00 |
| Commercial and institut. | 89,897 | 1.28 | 306,614 | 275,952 | 90.00 |
| Total | 191,088 | - | 806,659 | 525,975 | 65.20 |
| Total DH sector | | | 3,402,375 | 1,457,207 | 42.83 |

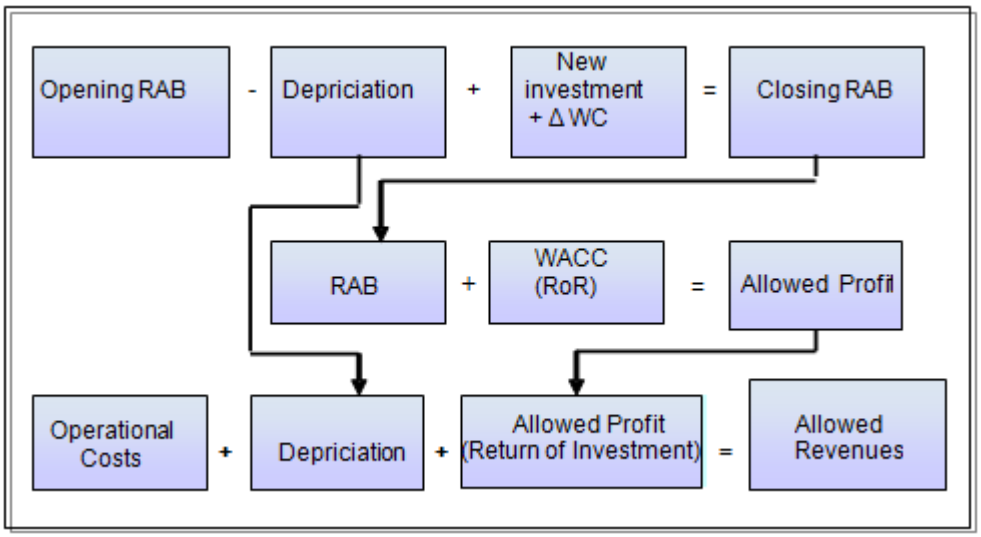
## 6.3 District heating tariffs for 2011/2012

ERO determines heating tariffs according to Tariff Methodology, developed in line with provisions of the Law on Energy Regulator.

Tariff Methodology

For formulation/calculation of tariffs and district heating pricess, ERO developed and implemented the method of Rate of Return (RoR) or the so-called cost plus.

Schematically, the RoR methodology is presented below:




* ΔWC: Difference in working capital

*Fig.6.4 The allowed revenues calculation scheme under RoR methodology*

Based on RoR methodology, for establishing district heating tariffs, ERO determines the Allowed Revenues that central heating enterprise has to generate through tariff, i.e. reasonable allowed costs, which should be recovered along with a reasonable profit rate calculated according to Rate of Return (RoR), based on Regulated Asset Base (RAB).

The table below represents district heating tariffs approved for season 2011/2012.

*Tab.6.5 Summary of district heating tariffs for 2011/2012*

A. DISTRICT HEATING TARIFFS FOR UNMETERED CUSTOMERS

| DH 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.) | 0.09 | 0.12 |
| | Supplied heating (variable comp.) | 0.88 | 1.27 |

B. DISTRICT HEATING TARIFFS FOR METERED CUSTOMERS

| DH COMPANIES | Tariff components | Metering unit | Price |
|---|---|---|---|
| DH TERMOKOS JSC | Contracted heating capacity (fixed comp.) | € / kW per month | 0.70 |
| | Supplied heating (variable comp.) | € / MWh | 45.50 |
| DH GJAKOVA JSC | Contracted heating capacity (fixed comp.) | € / kW per month | 0.91 |
| | Supplied heating (variable comp.) | € / MWh | 58.76 |

District heating tariff review for 2011/2012 resulted in a slight increase of tariffs for DH Gjakova. Whereas, tariffs of DH Termokos remained the same as in previous season, as DH Termokos did not ask for increase under the justification of wishing to restore customer confidence amidst insufficient supply during 2010/2011 season.

# 7 CUSTOMER CARE

ERO is responsible for monitoring and implementation of legislation, which includes customer protection in energy sector. According to article 14 of the Law on Energy Regulator, ERO is responsible for resolution of complaints and disputes between customers and energy companies, system operators and energy enterprises, as well as between two energy enterprises. In the course of exercise of its duties and responsibilities, ERO cooperates with all organizations which legitimately represent the customers.

With the amendment of primary legislation, ERO harmonized the secondary legislation, including rules that are related to customers: Rule on the Resolution of Complaints and Disputes in Energy Sector and Rule on Disconnection and Reconnection of Customers in Energy Sector.

With completion of the Law on Electricity, respectively introduction of article 39 and amendment of the Rule on the Resolution of Complaints and Disputes in the Energy Sector, complaints qualified as unauthorized use of electricity from September 2011 are no longer reviewed by ERO, as they are the competence of courts.

During this year, ERO was engaged in providing customer protection services, analysis of data provided by KEK, participation in reviewing the KEK procedures, in order to ensure that proposed procedures are not discriminatory and that customers are treated equally.

## 7.1 Resolution of Complaints and Disputes

Rule on the Resolution of Complaints and Disputes in Energy Sector determines conditions and procedures for submission, reviewing and resolution of customer complaints against energy enterprises as well as resolution of disputes among licensees.

According to provisions of the Rule above, all customers are entitled to submit complaints related to services provided by supplier or system operator, where these complaints are first submitted to the supplier, who reviews the complaint and issue a response within legal period. The customers, upon receipt of response, may approach ERO for further review.

During 2011, ERO registered 139 customer complaints/disputes, of which 48 were resolved, while unresolved complaints for the reporting period are in process of completing documentation and collecting necessary evidence for their resolution. In addition to complaints resolved in 2011, ERO also has 157 customer complaints from previous years, where in total for this year are resolved 205 complaints.

KOSTT j.s.c. in 2011 raised a dispute against KEK j.s.c, which ERO reviewed and resolved. The dispute involved several issues:

- Refusal to pay for transmission services and return of bills for months of November and December 2010;
- Failure to pay reconciliation bills for 2008 and 2009; and
- Failure to sign connection agreement between KOSTT – KEK.

Customer complaints registered in ERO were of various natures and are represented in the table below.

*Tab.7.1 Customer complaints by nature of complaints during 2011*

| Nature of complaints | No. | Percentage [%] |
|---|---|---|
| Unauthorized use of electricity | 115 | 82.73 |
| Dispute of electricty bill | 17 | 12.23 |
| Dispute of debt of electricity bill | 3 | 2.16 |
| Settlement of electricty debt | 1 | 0.72 |
| Change of tariff group | 1 | 0.72 |
| Regulation of electricty debt | 1 | 0.72 |
| Dispute of two energy enterprises | 1 | 0.72 |
| Total | 139 | 100.00 |

From the table above of registered complaints, it shows that the biggest number of customer complaints was related to unauthorized use, where their participation rate was about 83%.

The table below represents the number and percentage of registered complaints by customer categories.

*Tab.7.2 Customer complaints by categories during 2011*

| Customer complaints by category | No. | Average [%] |
|---|---|---|
| Household | 107 | 77.54 |
| Commercial | 31 | 22.46 |
| Industrial | 0 | 0.00 |
| Total | 138 | 100.00 |

The biggest number of registered customer complaints belongs to household category.

Based on the Rule on the resolution complaints and disputes in energy sector, ERO returned for review to KEK's Department of Customers 74 customer complaints, after evaluating that the rules and procedures in force have not been complied with. In addition to registered complaints, ERO staff also held 583 meetings and 306 telephone conversations with parties, which approached the office on various contractual issues between parties and energy companies. During the communication with the parties, customers were informed and advised on rules, procedures as well as rights and obligations related to energy supply.

The chart below represents the number of customer complaints registered by years.

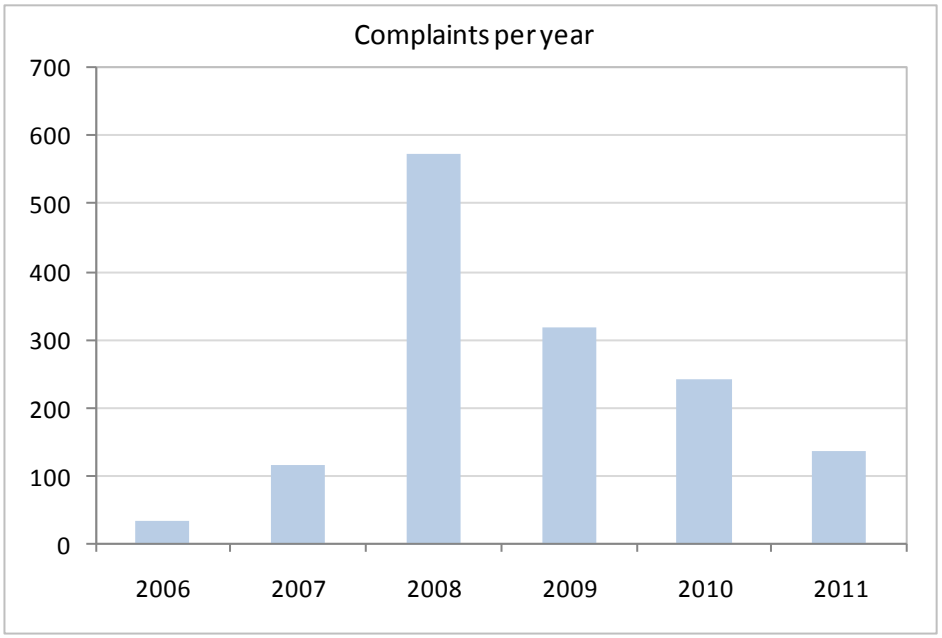



*Fig.7.1 Customer complaints by years*

ERO goal remains information and awareness of customers on their contractual rights and obligations in relation to energy enterprises, by cooperating with these companies in developing various programmes that contributing to better information of customers.

# 8 DEVELOPMENT OF NATURAL GAS SECTOR

The natural gas sector in Kosovo is underdeveloped as there is no gas infrastructure, except for an obsolete artificial lignite gas network, which transcends a lane of 254 km in total.

In order to meet the obligations deriving from the Energy Community Treaty of Southeast Europe (ECTSEE), Kosovo began completing legal framework for the natural gas sector by approving Law on Natural Gas No. 03/L-133. This law sets out organization and functioning of natural gas sector, market approach as well as conditions and criteria for conducting transmission, storage, distribution and supply of natural gas.

The objective of the Energy Sector Strategy of Kosovo is to connect Kosovo to regional gasline in near future.

"Southeast Europe Regional Gasification Study" developed for the purposes of the Treaty proposed "Energy Community's Gas Ring Concept", which connects seven countries of the Southeast Europe, and in this context, reviewed economic feasibility of introducing natural gas in Kosovo, concluding that supply for industrial and commercial purposes would be in fact possible.

To meet the legal obligations for development of regulatory framework as well as its obligations towards ECTSEE, in 2011 ERO has followed the regional developments related to natural gas and took active part in Gas Task Force within the Energy Community Regulatory Board and Gas Forum. In this aspect, ERO has, among others, contributed in preparation and finalization of documents, among which the following may be singled out:

- Study: "Recommendations for funding investments in Energy Community Gas Ring";
- Assesment paper: The Energy Community Gas Ring from Theory to Practice;
- Assesment paper: "Gas Market Models in Energy Community – focused on transparency and Penalties – and their compliance with Regulation (EC) 1775/2005".

# 9 ERO'S INTERNATIONAL ACTIVITIES

## 9.1 ERO and Energy Community Treaty of Southeast Europe

Energy Community of Southeast Europe was established under the Treaty of 2006, and in 2011 continues its activities towards meeting joint objectives deriving from appropriate "acquis communautaire" directives pertaining to electricity, gas, heating, renewable sources and cogeneration as well as safety of supply. Ratifying countires that continue to be part of the Treaty are: Albania, Bosnia and Herzegovina, Croatia, Kosovo, Macedonia, Montenegro, Serbia, Moldovia and Ukraine.


*Fig.9.1 Member countries of Energy Community of Southeast Europe*

Region 8 is made of: Albania, Bosnia and Herzegovina, Croatia, Macedonia, Moldovia, Montenegro, Serbia, Kosovo, Bulgaria, Greece, Hungary, Rumania and Slovenia. Territory of Italy is included in the region depending on the interconnection lines with other countres of ECT.

Energy Community Treaty is a key strategic element of the European Union (EU) for Southeast Europe and a very effective pre-accession tool, aimed at enhancing the benefits of the Internal Energy market before the countries of the region may join the EU.

Main institutions of the Energy Community are: the Ministerial Council (MC), the Permanent High Level Group (PHLG), ECT Secretariat based in Vienna, Regulatory Board (BD), etc.

ECTSEE Regulatory Board is made of regulatory authorities of contracting parties, while in the capacity of the observers, the following area also represented: Austria, Bulgaria, Czech Republik, Cyprus, France, Germany, Greece, Hungary, Italy, the Netherlands, Rumania, Slovakia, Slovenia and Great Britan, while the status of the "observer" is extended to: Georgia, Norway and Turkey.

The Regulatory Board established task forces on: gas, electricity, customers and task force on Implementation of Coordinated Auction Office for SEE. ERO has its nominated members in RO that

acts on behalf of Kosovo on regulator issues. RO is chaired by a chairperson elected every yeaer by representatives of national regulators, as well as deputy chairperson, who is delegated by the European Commission.

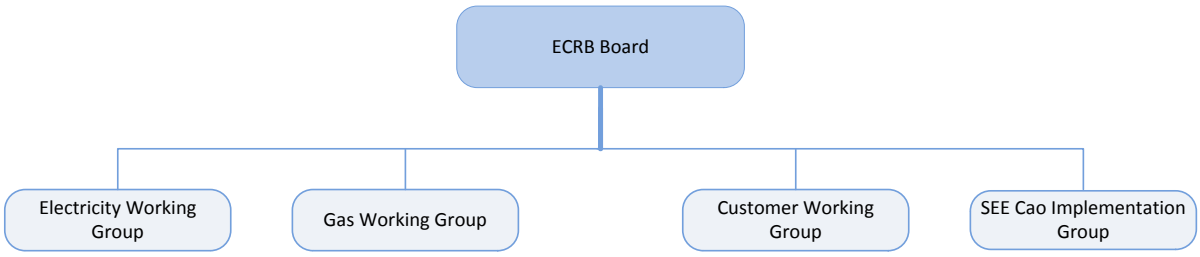



*Fig.9.2 The Structure of the Regulatory Board*

Based on provisions of the Energy Community Treaty, RO has the following responsibilities:

- Provides advise to the Ministerial Council as well as the Permanent High Level Group on statutory, technical and regulatory issues;
- Issues recommendations to parties, in line with Treaty provisions on any cross-border disagreements, etc.;
- Takes action against parties, if so authorized by MC;
- Facilitates cooperation and coordination between the regulatory authorities;
- Issues recommendations and drafts reports related to functioning of energy markets, and
- Seeks completion of parties' obligations under ECT.

The objectives and priorites of the RO are:

- Development of competitive national market in the gas and electricity sector,
- Integration of national markets and eliminating barriers for cross-border activities and competiton,
- Customer protection and social cases, regulatory aspects of safety of supply, security of electrical network and quality of supply, etc., and
- Renewable sources and energy efficiency.

## 9.2 ERO activities during 2011

### 9.2.1 Task Force on Electricity with subgroups (Task Force-TF)

- **TF-1 Congestion management**

  Deals with the issues of congestion management and allocation of cross-border transmission capacities, based on requirements of Regulation 1228/2003 of the European Commissin (EC).

  *Results in 2011:* Until now, documents for OCA are prepared by Transmission Operator, and responsibility of TF-1 on coordinating specific regulatory issues is on hold.

- **TF-2 Balancing**

  Deals with balancing electrical energy flows, which is of essential importance for functioning of transmission systems and their development as well as regional integration of energy market.

  *Results in 2011:* TF-2 prepared the Report on Balancing Mechanism in the SEE region, which was approved by RO and also prepared a questionnaire with specific questions related to balancing market. Based on the questionnaire, the Balancing Mechansim Report is amended.

- **TF-3 Opening the wholesale market and Compatible market rules**

  Deals with activities related to opening the wholesale market and compliance to regional market rules.

  *Results in 2011:* In view of the fact that Energy Community was joined by Moldavia and Ukraine, the study "Open the Wholesale Market in SEE" is expanded with part on these parties as well.

  TF-3 actively cooperated with ENTSO-E regional group in SEE, in preparation of the Action Plan for opening the wholesale market in SEE. After the approval of the Action Plan by RO, ETF commenced continuous supervision of the implementation of the action plan.

- **TF-4 Harmonizing licences**

  TF-4 deals with harmonization of licences for electrical energy trade. The work of this task force is pendin developments in EU with respect to this issue.

- **TF-5 Cooperation between the regulators and cross-border investments**

  This group deals with cooperation between the regulators and incentives for cross-border investments.

  *Rezultats in 2011:* ECT Secretariat completed in 2011 a study on regulatory incentives for potential investment.

- **TF-6 Monitoring of SEE market**

  TF-6 deals with monitoring the SEE market, starting from 2006, and therefore in 2011 it continued the project "Monitoring the SEE Market" funded by USAID.

  *Results in 2011:* The project "Monitoring of SEE Market", defines indicators and provides an overview of monitoring for cross-border activities. Data on "dry-run" stage are completed by Transmission Operators and National Regulators.

  It is worth noting that KOSTT is not fully represented on this project, as the allocation of Kosovo line capacities is carried by EMS Serbia.

### 9.2.2 Coordinated Auction Office of SEE and implementation group

During 2011, there was no visible progress on functionality of the "Coordinated Auction Office of SEE" (ECTSEE), the purpose of which is to allocate regional capacities and manage congestion in a coordinated manner in SEE.

### 9.2.3 Gas Task Force (GTF)

- **TF-1 Regulator aspects and progress related to Energy Community's Gas Ring**

  During 2011 the group was also focused in establishing and harmonizing the regulatory framework to facilitate the development of "Energy Community's Gas Ring".

  *Results in 2011:* Energy community funded a study on "Recommendations for funding investments for Energy Community's Gas Ring", which started in 2011 and is expected to complete in 2012.

- **TF-2 Gas Market Model**

  TF-2 deals with gas market model in Energy Community

  *Results in 2011:* The study „Gas Market Model in Energy Community " with special focus on transparency and fines, their compliance to Regulation (EC) 1775/2005 was finished in 2011.

### 9.2.4 Customer Task Force

Customer Task Force and its sub-groups deals with activities related to protection of vulnerable customers, quality of energy supply, etc.

Results in 2011: During 2011, in addition to other actities, two workshops titled „Dealing with vulnerable customers in the Energy Community "were held a document titled „Status review of the practice of receiving complaints in the Energy Community" was produced.

Energy Regulator Office continued its cooperation with the ECT Secretariat, both in joint meetings and by filling in many questionnaires related to energy sector in Kosovo.

In 2011 a Memorandum of Understanding between the Energy Community Secretariat, the Ministry of economic development and ERO were signed.

Representatives of Energy Community Secretariat held working visits and gave opinions on important issues such as Kosovo Market Design, etc.

## 9.3 Energy Regulators Regional Association

Representatives of ERO during 2011 attended meetings and conferences organized by the Energy Regulators Regional Association. ERO has the following task foces/committees: Committee on licencing and competition, Committee on tariffs, Legal Committee, Committee of presidents and Committee on Gas. ERO is represented in all these Association working groups.

## 9.4 Partnership between the Energy Regulatory Office and Illinois Commerce Commission

The partnership signed during 2008 between the Regulatory Agency of Illinois (Illinois Commerce Commission-ICC) of USA and ERO continued in 2011 as well, with mutual visits to USA and Kosovo. The partnership is financially supported by USAID, while the activities are managed by NARUC.

## 9.5 Training and workshops

Staff of ERO during 2011 attended various training and workshops that contributed to their professional development. These trainings and workshops are presented below in a chronological order:

- 28 February – 4 March 2011 – Course on Energy Statistics organized by the International Energy Agency (IEA), in Paris, France;
- 11 July - 15 July 2011 – Training held in Budapest summer school: Introduction into Energy Sector Regulation, organized by Energy Regulators Regional Association;
- 03 November 2011 – Workshop on monitoring the electrical energy market in Southeast Europe including Southeast Europe Electricity Market Monitoring System (SEEAMMS), organized by the Energy Community Secretariat (ECS), and United States Agency for International Development (USAID), in Vienna, Austria;
- 16 November 2011 – Workshop on Natural Gas Market Models, organized by Energy Community Secretariat (ECS), in Vienna, Austria.

## ERO's Addresses

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