



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

ANNUAL REPORT 2012

FOREWORD

Dear all,

You have in front of you the Energy Regulatory Office's Annual Report 2012, 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 presents an overview of activities that were carried out as well as main achievements of ERO and energy sector during the calendar year 2012. The report contains information on the most important events on the energy market, the energy tariffs review, the financial report of ERO, as well as data on regulated activities in the energy sector of the Republic of Kosovo.

During 2012 have been harmonized all existing licenses for energy activities based on harmonization of the ERO secondary legislation. The whole process has been developed in consultation with third parties and the public. The harmonized and finalized licenses have been approved by the Board of ERO in public hearings.

The insufficiency of the existing generation capacities to meet the supply demands and the need for investments in the energy sector in Kosovo requires initiation of energy sector restructuring through liberalization of the market and growth of competition in the market of electricity. In order to achieve these objectives, the development of Market Design is in the process of finalization, expected to be approved by the ERO very soon. The Government of Kosovo is in the process of finalizing the privatization of distribution and supply, which are presently within KEK. New investor, based on the tendering package is expected to undertake the responsibility on distribution and supply in the beginning of May 2013.

Important investments have been done 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 situation of distribution network remains poor, with high technical and commercial energy losses and inability to ensure quality electricity supply to the customers.

The electricity produced by national generators has not been sufficient to meet the consumption demand. The shortage is imported from the regional market at relatively high prices.

ERO, also during 2012, continued with the process of monitoring licensees and supervising implementation of applicable laws and rules, in order to enhance the quality of supply and customer service.

The 2011/2012 season in the district heating sector was generally characterized by a disrupted supply, with frequent interruptions lasting to several days and finally with a termination of heating supply for nearly two months before the end of the heating season.

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

Respectfully,

Enver Halimi

Chairman of the Board of ERO

TABLE OF CONTENT

FOREWORD.....	1
1 ABOUT THE ENERGY REGULATORY OFFICE.....	6
1.1 Mandate of the Energy Regulatory Office.....	6
1.2 Organisational Structure of ERO	6
1.2.1 Board	6
1.2.2 Legal and Licensing Department.....	7
1.2.3 Energy Market Department.....	7
1.2.4 Tariffs and Pricing Department.....	7
1.2.5 Customer Protection Department.....	7
1.2.6 Thermal Energy and Natural Gas Department	7
1.2.7 Administration Unit	8
1.3 ERO Staffing Needs.....	8
1.4 ERO Capacity Building – Technical Assistance Projects and Professional Trainings	8
1.5 Technical Assistance Projects	9
1.6 Trainings and Workshops	9
2 FINANCIAL REPORT	11
2.1 Revenues	11
2.2 Budget	12
2.2.1 Budgetary Expenses.....	12
3 LICENSING AND AUTHORIZATION FOR CONSTRUCTION OF NEW CAPACITIES.....	16
3.1 Licenses	16
3.1.1 Extension of Licenses	16
3.1.2 Modification of Licenses	17
3.1.3 Monitoring of Energy Enterprises.....	18
3.2 Construction of New Generation Capacities	20
3.2.1 Issuance of Preliminary Authorisation.....	20
3.2.2 Issuance of Final Authorisation.....	20
3.2.3 Termination of Preliminary Authorisation.....	21
3.2.4 Application under review by ERO	21
3.3 Documents and Decisions Approved by the Board of ERO	22
4 ELECTRICITY SECTOR	23
4.1 Transmission Network.....	24
4.2 Distribution Network.....	27
4.3 Production	28
4.3.1 Production and Consumption of Lignite	28
4.3.2 Generation of Electricity	28
4.4 Electricity Flow and Overall Consumption	32
4.5 Load in the Kosovo Power System	33
4.6 Overall Electricity Consumption and Losses in Transmission	35
4.7 Consumption in Distribution Level	37
4.8 Distribution Losses	38
4.9 Billing and Collection	39
4.10 Electricity Market	41
4.10.1 Exchange and Flow of Electricity	41

4.10.2 Import and Export of Electricity.....	42
4.11 Electricity Supply and Service Quality Standards	45
4.11.1 Continuity of Supply	45
4.11.2 Voltage Quality	46
4.11.3 Commercial Quality	46
5 ELECTRICITY TARIFFS	47
5.1 Legal Grounds on Setting Electricity Tariffs.....	47
5.2 Sixth Electricity Tariff Review	48
5.3 Multi-Year Electricity Tariff Review (ETR7).....	51
6 DISTRICT HEATING SECTOR	53
6.1 Overview of District Heating Sector	53
6.1.1 Main Developments In the District Heating Sector	53
6.1.2 Technical Features of District Heating Systems.....	53
6.2 Performance of District Heating Enterprises.....	54
6.2.1 Fuel Consumption and Price	54
6.2.2 Generation, Heating Supply and System Losses.....	55
6.2.3 Billing and Collection	57
6.3 District Heating Tariffs for 2011/2012 Season	58
7 CUSTOMER CARE.....	59
7.1 Resolution of Complaints and Disputes.....	59
8 DEVELOPMENT OF NATURAL GAS SECTOR	62
9 ERO'S INTERNATIONAL ACTIVITY	64
9.1 ERO AND Energy Community Treaty of South East Europe	64
9.2 RB Activities during 2012.....	65
9.2.1 Electricity Working Group.....	65
9.2.2 Gas Working Group (GWG).....	66
9.2.3 Customer Working Group.....	66
9.3 Association of Regional Electricity Regulators	67

ABBREVIATIONS

AEAI	Advanced Engineering Associates International Inc
ATR	Autotransformer
UE	European Union
RES	Renewable Energy Sources
RB	Regulatory Board
EC	European Commission
SEE	Southeast Europe
ENTSO-E	European Network of Transmission System Operators for Electricity
ERRA	Energy Regulators Regional Association
GWG	Gas Working Group
GWh	Gigawat hours
HPP	Hydro power plant
ITC	Inter TSO Compensation
EC	Energy Community
ECSEE	Energy Community of Southeast Europe
KEK	Kosovo Energy Corporation
KESH	Albanian Energy Corporation
km	Kilometre
KOSTT	Kosovo Transmission System and Market Operator
kV	Kilovolt
kW	Kilowatt
OL	Overhead line
MVA	Megavoltamper
MW	Megawatt
MW _t	Thermal megawatts
MWh	Megawatt hours
NARUC	National Association of Regulatory Utility Commissioners (
DH	District Heating
SS	Substation
DSO	Distribution System Operator
TSO	Transmission System Operator
MO	Market Operator
RoR	Rate of Return
RAB	Regulated Asset Base

SCADA	Supervisory Control and Data Acquisition
J.S.C.	Joint Stock Company
TPP	Thermal Power Plant
TF	Task Force
ECT	Energy Community Treaty
HV	High Voltage
TR	Transformer
VAT	Value Added Tax
USAID	United States Agency for International Development
ERO	Energy Regulatory Office

1 ABOUT THE ENERGY REGULATORY OFFICE

1.1 Mandate of the Energy Regulatory Office

The Energy Regulatory Office (ERO) is an independent agency, established by the Assembly of the Republic of Kosovo pursuant to Articles 119.5 and 142 of the Constitution of the Republic of Kosovo.

Competences, duties and functions of the ERO are established under the Law on Energy Regulator No. 03/L-185, including: establishment as well as, efficient, transparent and non-discriminatory functioning of the energy market; establishment of criteria and requirements for issuing licenses for to carry out activities in the field of energy; 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 development of a dominant position and non-competing practices of energy enterprises, resolution of complaints and disputes in the energy sector and other duties on the energy sector.

1.2 Organisational Structure of ERO

ERO performs its duties established under the Law on Energy Regulator, Law on Energy, Law on Electricity, Law on Central Heating and Law on Natural Gas.

ERO consists of the Board, five (5) departments and administration unit.

1.2.1 Board

ERO is led by the Board composed of five (5) members, including the Chairman. The Board members are proposed by the Government and appointed by the Assembly of the Republic of Kosovo. The term of each Board members starts from the day of his/her appointment.

The Chairman of the Board represents ERO before third parties, and reports to the Assembly of Kosovo and its functional committees, upon request.

The Chairman of the Board, based on the Law on Energy Regulator, 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, in line with responsibilities given by the Law, exercises the following activities:

- approves ERO regulatory and operational policies;
- organizes and supervises ERO's operation;
- supervises implementation of the budget and financial management of ERO and approves its financial reports and statements;
- organizes employment, appoints and supervises the work of staff employed by ERO;
- approves the levels of compensation and other conditions of employment, for the employees of ERO;
- makes decisions and issues rules and other bylaws prepared by the ERO, in accordance with the Law.

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

ERO Board addresses all issues for which it is responsible, through decisions, taken in meetings open to the public. Notice of the date and time the meeting is published on the ERO's official website. Board meetings are recorded in the minutes of meetings, whereas decisions are published.

During 2012, ERO Board held 11 regular meetings, where were taken 82 decisions on various issues. In addition to regular meetings, the Board has also held a numerous informative and consultative meetings, every time it was necessary. All decisions taken by the Board during 2012 have been published on the official website of the ERO.

Until May 2012, ERO Board functioned with three (3) members. Since in February 2012, the mandate of the Chairman and two Board members had expired, regarding which ERO had notified in due time the Government and Assembly of the Republic of Kosovo. Board of the Energy Regulatory Office was completed on May 15th, 2012, as the Chairman and Board members were elected at the Assembly.

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 issuing authorizations for construction of new capacities. This Department also carries out supervision and monitoring of licensees' activities.

1.2.3 Energy Market Department

Energy Market Department is responsible for market structure, monitoring the performances of the market participants, to evaluate and analyze data in the energy sector. The Department also monitors competition and behaviour of market participants against principles of objectivity, transparency and non-discrimination.

1.2.4 Tariffs and Pricing Department

Tariffs and Pricing Department is responsible for the review of tariff applications of licensed enterprises and submits them to the board for approval; it monitors operational and capital expenses through Tariff Reviews; undertakes all necessary measures to ensure that the tariffs are cost-reflective, reasonable, non-discriminatory, based on objective criteria and established in a transparent manner taking due consideration that the tariff determination does not harm customers.

1.2.5 Customer Protection Department

Customer Department 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 its duties and responsibilities, this Department cooperates with all institutions and organizations which legitimately represent the customers.

1.2.6 Thermal Energy and Natural Gas Department

Thermal Energy and Natural Gas Department is responsible for the review and implementation of strategies, performance standards and other operational practices related to these sectors. This Department carries out the monitoring of licensed enterprises through the collection, analysis and evaluation of relevant data and information, and also it contributes to the development of reporting

systems of district heating enterprises, focusing on technical-technological elements and the integration of incentives and targets for efficiency. It also cooperates with other departments of the ERO by providing technical support and expertise on issues related to thermal energy and natural gas.

1.2.7 Administration Unit

Administration Unit supports ERO's functioning, organizes efficient recruitment of ERO staff, coordinates ERO staff trainings, supply and maintenance of office equipment and assists in arranging the office by making it suitable for work for all the staff of ERO.

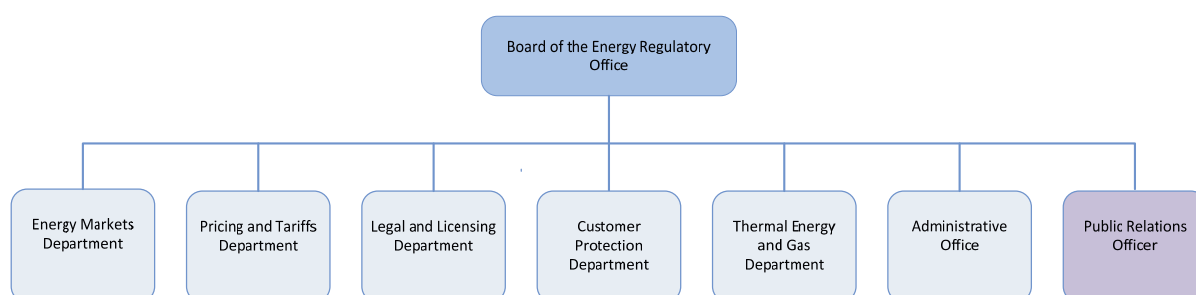


Fig. 1.1 Organizational Structure of ERO

1.3 ERO Staffing Needs

In order to fulfil the duties and responsibilities, which are growing in the context of developments in the energy sector, it is worth mentioning the need for staffing and increasing the number of ERO staff. More specifically, strengthening the role of the regulator in terms of monitoring the licensees, implementation of supply and service quality standards, as well as in the context of implementing the commitments of our country in meeting the obligations stipulated by the Energy Community (EC), having the ultimate goal of integration to the European Union.

Increase of the volume of ERO activities is mainly related to the already started privatization process of distribution and supply of KEK by the Government of Kosovo, with the privatization of a part of the generation and with the construction of new generation capacity. In these important processes, the key role of ERO is known with regard to licensing, tariff approval and monitoring of the processes in question. On the other hand, ERO in 2012 started the process of reviewing the 5 (five) years tariffs, a process that takes place for the first time in Kosovo. Insufficient number of employees will have a negative impact on fulfilling the responsibilities and duties of ERO.

1.4 ERO Capacity Building – Technical Assistance Projects and Professional Trainings

ERO pays special attention to continuous professional development of its staff, in order to perform efficiently with the duties and legal responsibilities. For this purpose, ERO has developed draft-proposals and for some of them it has secured funding from various donors.

The fact that the decision-making and professional staff knows English, enabled attending of trainings in specialized European schools in the field of energy regulation and professional development. Funding for the qualification and training of staff was partly covered from the budget

of ERO, whereas the major part was sponsored by USAID and ECLO donors, with whom we have cooperation relationships.

1.5 Technical Assistance Projects

“Assistance to the Energy Regulatory Office” Project, funded and administered by EU funds and managed by the European Commission Liaison Office (ECLO), started in November 2008 and will end in January 2013. The purpose of this project was to support ERO in further development and completion of secondary legislation, efficient implementation of regulatory procedures and in meeting the requirements arising from the Laws related to energy as well as obligations from the ECT of SEE.

“Consulting to Assist in the Privatization of KEK's Distribution” Project, was funded by USAID and implemented by the contractor “Advanced Engineering Associates International Inc.” (AEAI). This assistance program is intended to help the successful implementation of the transactions related to the privatization of KEK's Distribution and Supply.

One component of the project is dedicated to the ERO, to assist in supplementing, clarification and / or, where appropriate, development of relevant legislation in order to support efficiently the privatization of KEK Distribution.

1.6 Trainings and Workshops

ERO staff during 2012 has attended and successfully completed several trainings and workshops organized inside and outside the country, as below:

24 January 2012 - Workshop organized by IPF where it was presented and reviewed EU-funded Feasibility Study on Implementation of Energy Efficiency Measures in Public Buildings in Kosovo Municipalities;

09 - 10 February 2012 - Workshop organized at KOSTT on Market Rules.

27 February – 1 March 2012 - ERRA training regarding the Regulation of Prices and Tariffs, held in Budapest, Hungary;

10 - 13 May 2012 – Training on Modern management of official documentation in institutions / archiving according to ISO 15489 standard, organized by AGF Consulting, in Durres, Albania.

24 - 27 May 2012 – Training on Public expenditure procedures, organized by the Kosovo Institute of Management, held in Istanbul, Turkey.

07 June 2012 - Workshop on Public services with a view to protect consumers, organized by the Ministry of Trade and Industry, Prishtina;

27 - 28 June 2012 - Training for new commissioners organized by NARUC for the Energy Regulatory Office, Prishtina.

29 July – 3 August 2012 – Training on Advanced Course on Energy Prices, organized in PURC, Gainesville, Florida, USA.

23 - 26 August 2012 – Training on Development of primary and secondary legislation, organized by the Kosovo Institute of Management, within the Public Institutions of the Legislative Council of the Assembly of the Republic of Albania, held in Durres, Albania.

10 September 2012 - Workshop organized by the Working Group for Customers within the ECRB on Switching Suppliers from Customers, held in Beçiq, Montenegro.

5 - 6 November 2012 – Training on Effective strategy and media management in case of emergencies in the energy sector in London, UK.

07 November 2012 – Workshop on Electricity imbalance settlement, Vienna, Austria

08 November 2012 – Workshop on Gas supply quality, Vienna, Austria.

21 November 2012 - Workshop on Electricity Market Rules in Kosovo;

23 November 2012 – Workshop on Implementation of the Law on Competition in the Energy Sector, organized by the Energy Community Secretariat, Vienna, Austria

27 November 2012 - Workshop by AEAI - USAID: Advisory services for the privatization of the distribution and supply;

27 November 2012 - Workshop on the role and importance of monitoring the licensees, organized by AEAI - USAID, Prishtina;

06 - 09 December 2012 - Workshop on energy sector organized by the Ministry of Integration, Durres, Albania.

2 FINANCIAL REPORT

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 of the energy sector.

2.1 Revenues

All revenues collected by ERO were deposited in 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 2012, ERO generated revenues in the amount of 589,555.92 €. Based on the Law on the Budget of the Republic of Kosovo for 2012, the amount of unspent revenues in 2011 in the value of 109,279.00 € was carried forward to 2012 budget. The total amount of generated and carried forward revenues for 2012 is therefore 698,834.92 €, respectively 20,378.92 € more than the budget of ERO for 2012.

Tab. 2.1 Revenues

Description	Revenues
Own source revenues 2012	589,555.92
Own source revenues carried forward form 2011	109,279.00
Total revenues	698,834.92

The following table presents the amount of revenues generated from the fees collected in 2012, from each licensed company separately.

Tab. 2.2 Revenues by licensed companies.

Name of the licensee	Amount
KEK-Electricity Generation-Kosova A	173,302.51
KEK- Electricity Generation -Kosova B	313,818.52
Energy Financing Team AG (EFT)	32,724.34
POE Ibër Lepenc HPP Ujmani	4,020.50
Kelkos Energy LLC	675.73
GEN-I Tirana, Kosovo Branch	45,915.92
Rudnap Group AD	3,372.60
KEK- Public Supplier	2,725.80
Triangle General Contractors INC	5,000.00
Matkos Group LLC	3,000.00
Hep-KS LLC	2,000.00
Drini I Bardh JSC	3,000.00
Total	589,555.92

In order to reconcile the Revenues with the ERO Budget for 2012, the Board of ERO, at its meeting held on 01 October 2012, reached a decision that, during the period of March – October 2012, the licensees shall be exempt from paying the annual fee. Thus, the licensees were exempted from the payment of fees, at a total of 771,824.52 €.

This amount of financial means will be reflected during the reconciliation and setting of the Allowed Revenues for energy enterprises for 2013, and will be reflected on the regulated customer tariffs.

2.2 Budget

By the Law No.04/L-079 - on the Budget of the Republic of Kosovo for 2012, Kosovo Assembly has approved the ERO budget in the amount of 678.456 €, which was entirely allocated as a government grant, even though by the Law on Energy Regulator, ERO is financed from its own source revenues and only when these revenues are insufficient, then ERO may use allocations in the form of a government grant. ERO budget, by economic categories, is as follows:

Tab. 2.3 Approved budget

Description	Amount
Wages and salaries	372,456.00
Goods and services	250,000.00
Utilities	12,000.00
Capital expenditures	44,000.00
Total	678,456.00

2.2.1 Budgetary Expenditures

For the funding of activities conducted during 2012, ERO spent 643,501.67 €. By economic categories, ERO expenditures are as follows

Tab. 2.4 Expenditures by economic categories

Description	Amount
Wages and salaries	372,319.46
Goods and services	219,893.29
Utilities	10,158.56
Capital expenditures	41,130.36
Total	643,501.67

Budget expenditure implementation compared to the approved budget for fiscal year 2012 is 94.85%. The degree of budget expenditure by economic category, expressed in percentage, is shown in Table 2.6.

Tab. 2.5 Implementation of budget expressed in percentage

Description	Budgeted	Spent	Difference	Expenditure in %
Wages and salaries	372,456.00	372,319.46	136.54	99.96
Goods and services	250,000.00	219,893.29	30,106.71	87.96
Utilities	12,000.00	10,158.56	1,841.44	84.65
Capital expenditures	44,000.00	41,130.36	2,869.64	93.48
Total	678,456.00	643,501.67	34,954.33	94.85

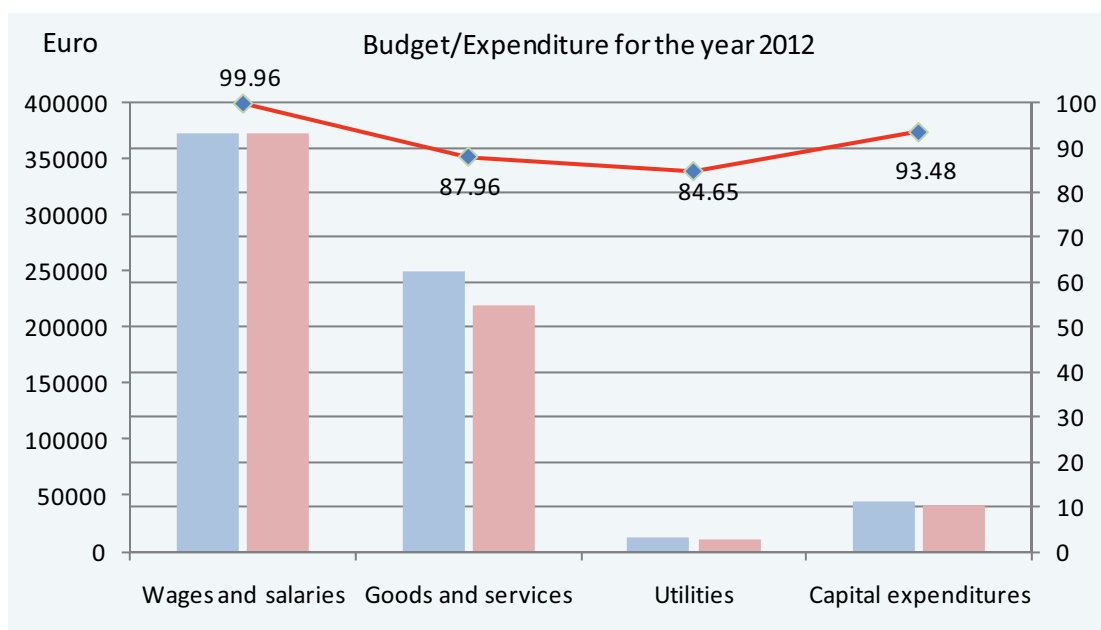


Fig. 2.1 Budget/expenditures in 2012

The following tables reflect the expenditures by main economic sub-categories.

Tab.2.6 Wages and salaries

Wages and salaries	Amount
Net wages	310,215.44
Personal income tax	26,644.96
Employer's pension contribution	17,729.53
Employees' pension contribution	17,729.53
Total wages and salaries	372,319.46

Tab. 2.7 Utility expenditure

Utilities	Amount
Electricity	8,139.56
Water	704.49
Landline telephone expenses	1,314.51
Total utility expenses	10,158.56

Tab. 2.8 Capital expenditure

Capital expenditure	Amount
Information technology equipment	17,650.36
Vehicles	23,480.00
Total capital expenditures	41,130.36

Tab. 2.9 Goods and services

Goods and services	Amount
Business travel expenses abroad	12,448.62
Per diem for business travel abroad	17,649.16
Accommodation for business travel abroad	12,028.84
Other business travel expenses abroad	3,605.36
Internet expenses	2,752.80
Mobile telephones expenses	9,660.17
Postal expenses	266.35
Education and training services	7,879.34
Representation and lawyers services	4,077.14
Different intellectual and advisory services	12,885.49
Printing services	3,695.00
Other contracting services	3,195.50
Technical services	5,008.78
Membership expenses	2,500.00
Furniture	7,400.00
Telephones	660.00
Office supplies	7,601.87
Beverages	4,814.04
Accommodation	547.50
Heating oil	9,578.10
Generator fuel	1,126.80
Fuel for vehicles	3,726.03
Registration of vehicles	285.00
Vehicle insurance	2,000.03
Municipal fee for vehicle registration	30.00
Security of premises	9,075.55
Maintenance and repair of vehicles	1,321.00
Maintenance of premises	8,353.12
Maintenance of information technology	4,231.20
Maintenance of furniture and equipment	513.80
Rent	57,216.00
Advertisements and competitions	360.00
Official lunches	3,400.70
Total	219,893.29

According to the data above, it is clear that in 2012, ERO generated revenues in the amount of 698,834.92 €, whereas the value of budgetary expenditures realized is 642,501.67 €. The difference in the amount of 56,333.25 €, between the revenues and expenditures 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 2013 as well as Article 64 of the Law on Management of Public Finances and Accountability, will be carried over to 2013.

Tab. 2.10 Carried own-source revenues

Own-resource revenues carried forward in 2013	56,333.25
Revenues carried forward from 2011	109,279.00
Revenues received in 2012	589,555.92
Total revenues 2012	698,834.92
Expenditures on wages and salaries	372,319.46
Expenditures on goods and services	219,893.29
Utilities	10,158.56
Capital expenditures	41,130.36
Total expenditures 2012	643,501.67

3 LICENSING AND AUTHORIZATION FOR CONSTRUCTION OF NEW CAPACITIES

3.1 Licenses

Article 27 paragraph 2 of the Law on Energy Regulator (Law no. 03/L-185) and Article 4, paragraph 1 of the Rule on Licensing of Energy Activities in Kosovo (dated 29.08.2011) define all energy activities licensed by ERO within the territory of Kosovo.

Energy companies wishing to carry out energy activities in Kosovo, can do this only if they are equipped with a license issued by the ERO. For some activities, no license is required, such as: generation of electricity under 5 MW; generation of thermal energy below 1 MW; generation of electricity and thermal energy for own consumption if the generation plant or the customer is not connected to the transmission or distribution system; and storage of natural gas with the total storage capacity not exceeding ten thousand cubic meters.

So far ERO received applications for licensing of energy activities from several enterprises, in accordance with applicable laws and rules, while ERO has issued licenses for the following activities:

- Electricity generation;
- Transmission System Operator;
- Electricity Distribution System Operator;
- Market Operator;
- Electricity public supply ;
- Electricity import/export;
- District heating generation;
- District heating distribution ;
- District heating public supply.

In addition to applications for a license for Import and Export of electricity, ERO in 2012 did not receive applications for the licensing of any other activity in the energy sector. The only enterprise licensed by ERO to import and export electricity is HEP KS LLC. Details of this company are as follows:

Tab. 3.1 License issued by the Energy Regulatory Office in 2012

No.	Name of the licensed enterprise	Description of licensed activity	Number of license	Address, HQ of the licensee	Validity of license
1	HEP - KS LLC	Import and export of electricity	ZRRE/Li_38/12	Luan Haradinaj, No.1 Prishtina, Republic of Kosovo	30.11.2012 - 30.11.2017

3.1.1 Extension of Licenses

The validity of all licenses issued by the ERO may be extended if the licensee meets the requirements and obligations of the license in accordance with the applicable laws, and if the licensee submits a written request for extension of the validity of license not later than six months before the date of expiry of the license.

During 2012 ERO extended the licenses of enterprises that have made such a request. In the following table are shown the enterprises to which ERO extended the license.

Tab. 3.2 Extended licenses by the Energy Regulatory Office during 2012

No.	Name of the enterprise	Description of licensed activities	Number of license	Address, HQ of the licensee	Validity of license
1	Kosovo Energy Corporation (KEK) JSC	Generation of electricity	ERO/Li_05/06_A	Mother Theresa 36, Prishtina, Republic of Kosovo	04.10.2012 - 04.10.2013
2	GEN-I TIRANA LLC Kosovo Branch	Electricity import and export	ZRRE/Li_34/09	Gustav Mayer 16, Prishtina, Republic of Kosovo	29.12.2011 - 29.12.2016

3.1.2 Modification of Licenses

Amendments of the energy sector primary legislation in 2010 forced ERO to align the secondary legislation in the energy sector, with the primary one. Based on this, ERO in accordance with Article 34 of the Law on Energy Regulator begun modifying (amending) the licenses in 2011 and this process was finished in 2012.

In order to be transparent to third parties, ERO published the modifications made in the licenses on its official website, so, the parties were given the opportunity to contribute by giving their comments on all licenses of electricity and district heating.

ERO has reviewed and took into consideration relevant comments of all third parties and in the public hearing dated July 18th, 2012, the Board decided to modify the following electricity licenses:

- Public Electricity Supply License, granted to Kosovo Energy Corporation (KEK JSC) - Supply Division.
- Electricity Distribution License, granted to Kosovo Energy Corporation (KEK JSC) - Distribution Division.
- Electricity Generation License, granted to Kosovo Energy Corporation (KEK JSC)- Generation Division TPP Kosovo A.
- Electricity Generation License, granted to Kosovo Energy Corporation (KEK JSC) - Generation Division TPP Kosovo B.
- Transmission System Operator License, granted to Transmission System and Market Operator (KOSTT JSC).
- Energy Market Operator License, granted to Transmission System Operator and the Energy Market (KOSTT JSC).
- Electricity Generation License, granted to the enterprise POE "Iber – Lepenc".
- Electricity Generation License, granted to the enterprise "KelKos Energy" LLC.
- Electricity Import and Export License, granted to the enterprise GEN-I Tirana LLC. - Kosovo Branch.

Same as for the modification of electricity licenses, ERO continued also with the process of modification of District Heating licenses, where the Board of ERO on October 12th, 2012 decided to modify the following district heating licenses:

- District Heating generation license, granted to the publicly owned enterprise "TERMOKOS" JSC.
- District Heating generation license, granted to "DISTRICT HEATING GJAKOVA" JSC

- District Heating distribution license, granted to the publicly owned enterprise “TERMOKOS” JSC.
- District Heating distribution license, granted to “DISTRICT HEATING GJAKOVA” JSC
- District Heating public supply license, granted to the publicly owned enterprise “TERMOKOS” JSC.
- District Heating public supply license, granted to “DISTRICT HEATING GJAKOVA” JSC

3.1.3 Monitoring Energy Enterprises

ERO, in conformity with the Law on Energy Regulator, the Law on Electricity and the Reporting Manual approved by ERO, carries out monitoring of licensed enterprises on energy activities

Monitoring present an efficient manner of supervision of the licensees and aims to achieving the following objectives:

- Evaluation of the level of fulfillment of obligations arising from the relevant licenses and regulatory framework by the licensees;
- Correct identification of shortcomings and issues to be resolved in terms of fulfillment of obligations;

Planning of ERO's activities and respective enterprises, in terms of determining specific requirements and instructions for the licensees as well as the concrete measures to be taken by each party in order to eliminate the shortcomings and to resolve the identified issues. ERO carries out several types of monitoring:

- Comprehensive monitoring, as provided in Article 37, paragraph 3 of the Law on Energy Regulator;
- Monitoring based on annual, quarterly and monthly reports, submitted by the Licensees pursuant to the Reporting Manual;
- Monthly monitoring of electricity flows (exchange, import and export);
- Monitoring of energy and technical performance by the licensed enterprises - energy generation, customer supply and losses in the system.
- Ad hoc monitoring;

Comprehensive monitoring of the licensees is carried out by the monitoring teams of ERO in accordance with the program prepared in advance, includes the following areas:

- Fulfillment of the license conditions, with special emphasis on:
 - compliance with the requirements and conditions of licenses, technical codes and preparation of relevant documents as required by the license requirements;
 - unbundling of accounts for the licensed activities; and
 - periodic reporting as required by the Reporting Manual;
- Application of the regulatory framework approved by ERO, mainly for:
 - The Rule on general conditions of energy supply;

- Rule on disconnection and reconnection of customers in the energy sector;
- Rule on dispute settlement procedures in the energy sector.
- Implementation of tariffs and actual realization of inputs provided for the determination of allowed revenues, which mainly included:
 - incomes from energy services - billing and collection according to the prescribed targets;
 - operational and capital expenditures;
 - Energy balance and relevant technical data.

Based on the Law on Energy Regulator - "findings of the monitoring report are prepared and published every two (2) years, therefore ERO's Report will be prepared in 2013 and will be published on the official website of the ERO.

Regarding the monitoring based on annual and quarterly reports, ERO carries out this type of monitoring based on the Reporting Manual on Energy Sector. Except for the district heating enterprise District Heating Gjakova JSC, all the other enterprises licensed by ERO have submitted quarterly and annual reports on compliance with the conditions of the license, in accordance with this manual.

Unable to implement certain provisions of the licenses and codes due to technical reasons, some energy enterprises have requested from ERO to derogate (postpone) the fulfillment of certain provisions for a certain period of time. ERO has reviewed the requests for derogation and considering the circumstances, permitted or denied such requested derogations. All derogations have been published on the website of ERO.

Monthly reports are prepared primarily to monitor the reliability of electricity supply based on Article 37 of the Law on Energy Regulator. Reports are prepared by the ERO Market Department on exchange, export and import of electricity based on contracts, in accordance with the data of the licensees. This type of report helps ERO to assess the achievement of the balance between the supply and demand in the energy sector, the level of demand forecast, as well as the forecast for the necessary generation and transmission capacity, and those under construction. Such reports are compared with energy balances, developed by the Ministry in accordance with the Law on Energy, to assess the achieved and expected levels of reliability of the operation of the system;

Ad hoc monitoring is made in cases when it is noticed by ERO staff, through data analysis notices any irregularity, or when ERO is made aware from customers for any negative phenomenon or irregularity that affects the customer or the energy system and that is related to the performance of the Licensee.

In these cases, the relevant department of ERO holds meetings with the licensee, and the case is investigated based on the information requested from the licensee by the relevant department of ERO.

3.2 Construction of New Generation Capacities

ERO during the year continued to receive applications for authorization for construction of new generation capacities from Renewable Energy Sources. Applications are reviewed within the timelines prescribed by Rule on Authorization Procedure, and ERO has issued preliminary authorizations and final authorization for construction.

3.2.1 Issuance of Preliminary Authorization

ERO has reviewed the applications received to obtain preliminary authorization for construction of new generation capacities, and has ensured that such applications are reviewed in an objective, transparent and non-discriminatory manner. In reviewing these applications, ERO has taken into account the relevant criteria to be fulfilled by the applicants in accordance with the Rule on authorization procedure for construction of new capacities.

To the applicants who fulfilled the requirements and criteria set forth in the procedure for issuance of the decision on notification for preliminary authorization, the Board of ERO issued four (4) preliminary authorization, see table 3.3.

Tab. 3.3 Enterprises granted with the Notice on Preliminary Authorization

No.	Name of the enterprise	Description of activity	Installed capacity	Location	Date of issuance
1	Euro-Kos JH & Loreto Consult AG	Construction of generator for generation of electricity from water	9.33 MW	Brod and Restelica River, MA Dragash, Republic of Kosovo	10.02.2012
2	Matkos Group LLC	Construction of generator for generation of electricity from water	9.85 MW	Lepenc River, MA Kaçanik, Republic of Kosovo	24.12.2012
3	Triangle General Contractors INC Branch Kosova	Construction of generator for generation of electricity from water	11.7 MW	Erenik River, MA Junik, Republic of Kosovo	24.12.2012
4	Drini i Bardhë JSC	Construction of generator for generation of electricity from water	9.9 MW	Drini i Bardhë River (Dobrushë), MA Prizren, Republic of Kosovo	28.12.2012

Decision on Notification for Preliminary Authorization specifies that applicants have demonstrated their eligibility for construction of new generation capacities, but that they have not yet met the other relevant requirements, where it is specified also that this does not entitle the holders of preliminary authorization to continue with construction of new generation capacities before they fulfill all the conditions and requirements set out with the applicable legislation. The decision obliges them within a two (2) years period to submit a written application requesting to be granted with a Final Authorization for construction of new generation capacities from RES.

3.2.2 Issuance of Final Authorization

ERO, in accordance with the conditions and criteria set out in the Rule on authorization procedure continued to review application for issuance of Final Authorization and received the applications along with complete documentation for conversion of decision on notification for Preliminary Authorization into Final Authorization. In the following is presented the company that has granted with the Final Authorization for Construction of New Generation Capacities (see table 3.4.)

Tab. 3.4 Enterprise granted with Final Authorization

No.	Name of the enterprise	Description of activity	Installed capacity	Location	Final Authorization Issuance Date
1	Kelkos – Energy LLC	Construction of generator for generation of electricity from water	23.1 MW	Deçan River, MA Deçan, Republic of Kosovo	15.06.2012

3.2.3 Termination of Preliminary Authorisation

ERO has reviewed also the decisions on termination of preliminary authorization, as a consequence of incomplete documentation. Below are presented the enterprises to whom was terminated the preliminary authorization:

Tab. 3.5 Enterprises to whom was terminated the preliminary authorization

No.	Name of the enterprise	Description of activity	Installed capacity	Location	Decision Issuance Date
1	Kosova Ter. Wind park company LLC.	Construction of generator for generation of electricity from wind	100 MW	Te Pishat, MA Shtime, Republic of Kosovo	12.11.2012
2	Devollo Group LLC.	Construction of generator for generation of electricity from water	5.4 MW	Lepenc River, MA Shtërpce and Kaçanik, Republic of Kosovo	12.10.2012
3	Devollo Group LLC.	Construction of generator for generation of electricity from water	7.28 MW	Erenik River, MA Junik, Republic of Kosovo	12.10.2012
4	United Albanian Energy-LLC.	Construction of generator for generation of electricity from water	7.5 MW	Brod and Restelica River, MA Dragash, Republic of Kosovo	12.10.2012
5	United Albanian Energy-LLC.	Construction of generator for generation of electricity from water	6.4 MW	Plavë River, MA Dragash, Republic of Kosovo	12.10.2012
6	NEK Umwelttechnik Ag, Branch in Kosovo	Construction of generator for generation of electricity from wind	30 MW	Wind Park Zatriç, MA Rahovec, Republic of Kosovo	30.11.2012

3.2.4 Application under review by ERO

Also this year ERO continued reviewing applications for issuance of authorization for construction of new generation capacities, which are currently at the stage of completing the applications. In the following is presented the list of applicants who are under review. (see table 3.6.).

Tab. 3.6 Enterprises currently under the review process for issuance of decision for preliminary authorization

No.	Name of the enterprise	Description of activity	Installed capacity	Location	Date of application
1	Edelweiss Energy LLC	Construction of generator for generation of electricity from water	6.5 MW	Drini i Bardhë River (HPP Ura e Shenjtë), MA Gjakovë, Republic of Kosovo	14.03.2012
2	N.T.SH. RIMED	Construction of generator for generation of electricity from water	3.1 MW	Peja River (HPP Kuqishtë), MA Pejë, Republic of Kosovo	02.08.2012
3	Triangle General Contractors INC Branch Kosova	Construction of generator for generation of electricity from water	3.6 MW	Lepenc River (HPP Shtërpce), MA Shtërpce, Republic of Kosovo	27.08.2012
4	Triangle General Contractors INC Branch Kosova	Construction of generator for generation of electricity from water	5.2 MW	Lepenc River (HPP Lepenc & Shtërpce), MA Shtërpce, Republic of Kosovo	27.08.2012
5	Triangle General Contractors INC Branch Kosova	Construction of generator for generation of electricity from water	2.2 MW	Lumbardhë River of Prizren (HPP Reçan), MA Prizren, Republic of Kosovo	27.08.2012
6	Upwind International I GmbH, Branch in Kosovo	Construction of generator for generation of electricity from wind	30 MW	Wind Park Zatriç, MA Rahovec, Republic of Kosovo	30.10.2012

3.3 Documents and Decision Approved by the Board of ERO

During 2012, the Board of ERO, in its regular meetings reviewed and approved a number of documents and decisions:

- Electricity retail tariffs for regulated customers, implemented by KEK j.s.c. as of 01 June 2012.
- Transmission tariffs and charges, implemented by Kosovo Transmission System and Market Operator (KOSTT) j.s.c. as of 1 June 2012.
- District Heating tariffs for the District Heating (DH) Termokos JSC for the heating season 2012/2013, and
- District heating tariffs for the District Heating (DH) Gjakova JSC for the heating season 2012/2013
- Regulatory parameters –Weighted Average Cost of Capital, the Curve of Distribution Losses Reduction, Bad Debt Level and Efficiency Factor
- Transfer of assets 400/220/110 kV, transformers 220/35/10 (20) kV, as well as lands, buildings, auxiliary equipment and staff from KEK j.s.c. to KOSTT j.s.c.
- Standards on planning and safety of DH Termokos j.s.c. distribution system

4 ELECTRICITY SECTOR

Economy of a country, among others, may be determined from the level of the electricity consumption, particularly by the industrial consumption level. Therefore, development of energy sector is a basis for overall economic development. There is a need for restructuring and investments to be done both in electricity generation as well as transmission and distribution. Government of Kosovo is making continuous efforts to encourage investments in new generation capacities but also, through privatization of a particular parts of electricity sector, in its restructuring.

In 2012, electricity sector in Kosovo faced with insufficient electricity generation to cover the electricity consumption demand that is increasing as well as high technical and commercial losses and power cuts due to the lack of electricity.

Existing generation capacities do not fulfill customers supply demand, therefore, there is an immediate need for investments in the electricity sector of Kosovo. Together with it is required encouragement of market liberalization in order to increase electricity market competition. In support to these objectives, KOSTT developed a New Market Design which is at the final stage and it is expected to be approved by ERO in the beginning of 2013. The Market Design will be such a design so as to attract the necessary investments for the development of electricity sector in Kosovo, it shall support privatization of the majority of the sector, support market liberalization, encourage regional cooperation and shall be in harmony with requirements of the Energy Community Treaty (ECT). Pursuant to the Market Design, KOSTT is developing the Market Rules.

In February 2012 have been finalized Draft documents on construction of new generation capacities with respect to Kosova e Re package project. Later on, Kosovo Government announced the expression of interest for the Kosova e Re project package. Initially this package included also the TPP Kosova B, however, based on a decision rendered by Kosovo Government, TPP Kosova B was removed from the tender package of Kosova e Re project. ERO was a participant in the steering committee and in the working group for development of the tender package documents.

Privatization of KEK Distribution and Supply is in the process of conclusion. The Limak-Çalik Consortium has been announced as the winner of the tender on privatization of the KEK-J.S.C. distribution and supply and currently is continuing the completion of the support documentation and conclusion of the process, expected to occur during May 2013.

Renewable energy source (RES) represents a special interest for the energy sector. European Directives and liabilities deriving from the ECT define requirements related to the Renewable Energy Sources. These sources shall take important place in forecasting investments in the energy sector. Also, laws on energy sector in Kosovo support investments in the Renewable Energy Sources.

The RES investment criteria shall take into consideration the customer affordability level, system stability and their impact to the system balance.

Respective Ministry for Energy has set targets for various types of RES. Pursuant to these set targets, ERO will determine energy prices for each type of the energy. It is necessary that these processes provide incentives for new investments at least until accomplishment of these targets. In this respect, there are expectations for investments from private investors in constructing small generation capacities from renewable sources especially in hydro energy and windmills for which there is a bigger interest, in relation to which ERO has already issued several construction authorizations.

4.1 Transmission Network

Transmission network plays an important role in security of supply and welfare of overall power system. Transmission network of Kosovo is an important node and it is interconnected to the regional and European power interconnection system. This is done through the 400 kV and 220 kV lines. With neighboring countries exists 400 kV interconnectivity lines, except with Albania with whom exists only the 220 kV line. It is expected that will be implemented 400 kV interconnection line SS Kosova B – SS Kashar (Tirana).

Transmission network is mainly stabile, sustainable and due to investments during the last years, accurate metering and proper management, loses in the Transmission network have been significantly reduced. In order to maintain a desirable level of supply, further reduction of loses but also further improvement in security and quality of services, investments are required to be done in certain system parts, both in new capacities and in maintenance and upgrading of the existing capacities.



Fig. 4.1 Image from SS Kosova B

In 2012, there have been made significant investments in the transmission system network. Below is a list of capital projects implemented or presently under development in the transmission system:

1. Projects started in earlier years and completed during 2012:

1. Projektet e filluara në vitet e mëparshme e që kanë përfunduar në vitin 2012:

- Revitalization of high voltage equipment SS 220/110 kV Prizreni 2 and installation of TR 3 150MVA;
- IT System for Market Operator;
- Replacement of relay protection in SS Prishtina 2 and SS Prishtina 3;
- Rehabilitation of self consumption equipment in SS 400/220 kV Kosovo B;
- Supply of the E-plan software;

- New foundation for ATR 150MVA in SS 220/110kV Kosovo A;
 - Rehabilitation of SS Prishtina 3;
 - Separation of bus bars in two sections in SS Gjilani 1 and SS Theranda;
 - Rehabilitation in 110 kV lines, OHL 126/4 (old part) and OL 1801;
2. Projects that began in previous years and continued in 2012 and beyond:
- Installation of Supervisory Control and Data Acquisition, (SCADA/EMS & telecommunication network);
 - Construction of interconnection lines 400kV Kosovo – Albania (technical specification is in the tender stage);
 - Secondary Control (LFC) Kosovo – Albania;
 - Connection of SS Lipjan into the OHL 112;
 - Rehabilitation of the HV equipments in SS Ferizaji 1 and Gjilani 1;
 - Reallocation of 110 kV line OHL 1806, SS Gjakova 1 - SS Gjakova 2 & Replacement of HV 110kV installations in SS Gjakova 1;
 - Replacement of conductors, insulation and connection equipment in 110kV, OHL 125/2 and OL 125/3 lines;
3. Projects that began in 2012 and will continue further on:
- Supply with power transformers;
 - Installation of two new 110kV lines in SS 220/110kV Prizreni 2;
 - Installation of metering groups in the new border between KOSTT and KEK /DSO;
 - Construction of the new fence in SS Kosova B & installation of lighting around it;
 - Revitalization of HV installations in SS 110/10kV Prizreni 3;
 - Installation of the surveillance camera (CCTV) in SS Kosova B and warehouse;
4. Projects ended in 2012 but will be carried over in 2013 by KEK:
- Package Project SS 110/10(20) kV-Gjilani 5 with transmission lines;
 - Package Project SS 110/10(20) kV-Palaj with transmission lines;
 - Package Project SS 110/10(20) kV-Prishtina 7 with transmission lines 110 kV;



Fig. 4.2 Image of high voltage towers near SS Kosova B

During 2012 was carried out the transfer of a part of KEK distribution assets to the transmission network –KOSTT. These assets comprise substations 110/x kV including transformers.

The tables below show the transforming 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
220/35/10(20)	KOSTT	1	1	40
220/10(20)	KOSTT	-	1	40
110/35/10(20)	KOSTT	3	4	158
110/35/6.3	Trepça	1	2	126
110/35	Trepça	-	2	63
110/35	Ujmani	1	1	20
110/6.3	Sharri	1	2	40
110/10(20)	KOSTT	15	19	678
110/35	KOSTT	10	19	638
110/10	KOSTT	8	11	347

Tab. 4.2 Basic data on transmission network lines

Voltage (kV)	Owner	Length (km)
400	KOSTT	188.49
220	KOSTT	231.83
110	KOSTT	791.30

4.2 Distribution Network

Distribution network over the years had improvements in customer supply and service quality. However, besides all the investments made during the last years, it is still incapable to ensure quality supply with electricity to its customers. There are additional investments required both in the medium and low voltage levels.

Due to transfer of a part of the KEK distribution assets to the transmission network of KOSTT, the distribution network now includes 35/x kV substations and below and 35 kV lines and below.

Basic data on substation and lines by voltage level and length in the distribution system are given in the table below.

Tab. 4.3 Substations by voltage level in DSO

Transformer (kV/kV)	Owner	SS No.	TR No.	Power (MVA)
35/10	KEK	50	103	682.80
35/10/6	KEK	9	21	69.00
35/0.4	KEK	12	15	38.28
10(20)/0.4	KEK	2,074	2,119	732.06
10/0.4	KEK	5,286	5,401	1,649.81
6/0.4	KEK	49	49	14.27

Tab. 4.4 Basic data of DSO lines

Voltage (kV)	Owner	Aerial network (km)	Cable network (km)	Total (km)
35	KEK	595.76	29.00	624.76
10(20)	KEK	665.46	293.35	958.81
10	KEK	5,141.32	774.00	5,915.32
6	KEK	44.23	5.42	49.65
0.4	KEK	11,294.43	610.45	11,904.88

KEK in 2012 implemented the following investments:

- Network reinforcement;
- Distribution transformers;
- Installation of simple electronic meters;
- 20kV and 35kV rooms;
- Supply and installation of the AMR (Automatic Meter Reading) software.

4.3 Production

4.3.1 Production and consumption of lignite

Lignite presents the main reserve as a primary source of the energy in the Republic of Kosovo with 97% participation in the overall electricity production. South West Sibovc Mine and Bardhi & Mirashi Mines, supply with lignite the TPP Kosova A and Kosova B. Bardhi & Mirashi mines are at the end of their life.

The table below presents the lignite production and consumption on monthly bases during 2012.

Tab. 4.5 Production and consumption of lignite

Lignite production/consumption 2012	1	2	3	4	5	6	7	8	9	10	11	12	Total
Lignite production (t*1000)	623	723	877	761	600	560	515	602	584	698	689	798	8,028
Lignite consumption (t*1000)	899	736	842	710	624	584	573	505	561	698	689	798	8,219
Lignite market consumption (t*1000)	0	0	0	0	0	0	0	0	0	660	735	894	2,289

Production and consumption of lignite in 2012 is lower than in 2011. Production in 2012 is 8,219 tons and consumption in 2012 is 8,028 tons.

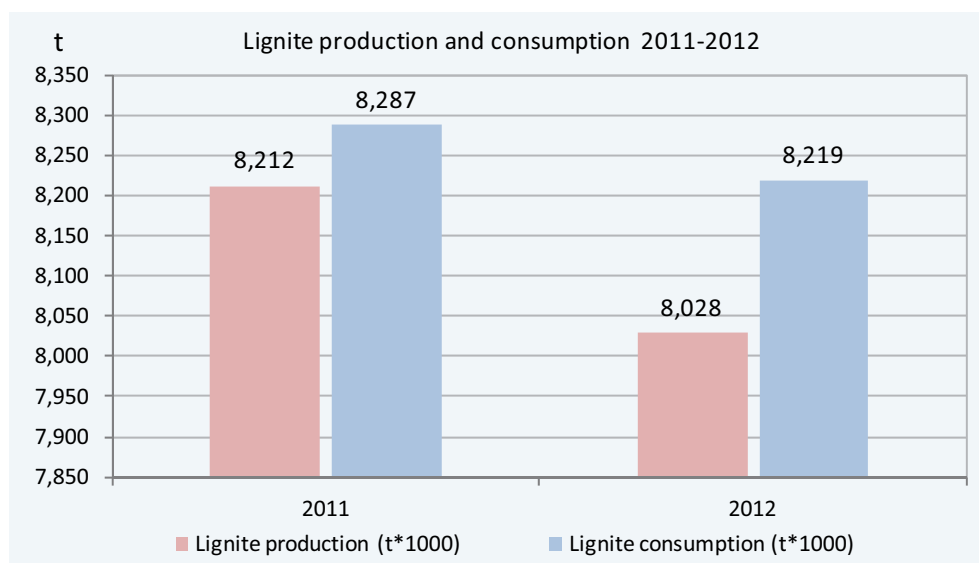


Fig. 4.3 Lignite Production and consumption in 2011 and 2012

4.3.2 Generation of Electricity

Generation of electricity, as mentioned above, is mainly based on lignite and represents about 97% of the total installed capacity. The other part is covered by HPP Ujmani and the renewable sources of energy.

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

Tab .4.6 Generation capacities

Generation unit	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 Kosova 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	8.80	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	46.56	42.58		
Wind Power	1.35	1.35		2010
Total	1,525.91	1,214.93		

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



Fig. 4.4 Image from PP Kosova B

The overall production of electricity in 2012 was 5,314 GWh, which compared to year 2011, when the production was 5,167 GWh there is an increase of 2.8 %. The share of production is: PP Kosova A with 1,840 GWh, PP Kosova B with 3,378 GWh, Ujman with 65 GWh, and Distribution HPP (HPP Dikanci, HPP Radavci, HPP Burimi) with 31 GWh. The share of generators into the overall production in 2012 is given in the chart below.

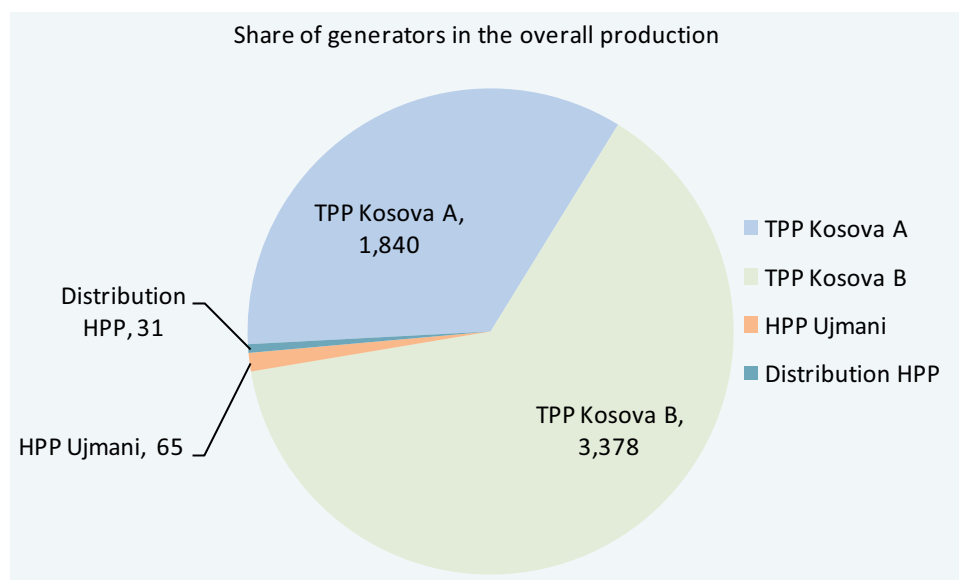


Fig. 4.5 Share of generators in the overall generation in 2012

Self-consumption of electricity of thermal power plants consists of around 10% of the overall production. In calculation of self-consumption sometimes exists a misunderstanding due to the fact that self-consumption of TPP Kosova A and TPP Kosova B is implemented directly, while the other part through transmission lines. The self consumption of PP Kosova A includes consumption of A1 unit, which was out of production but it caused, nonetheless, maintenance consumption. Detailed monthly production, including self-consumption is presented in the following table:

Tab. 4.7 Production of electricity by months in 2012

Generation units (MWh)	January	Feb	March	April	May	June	July	August	September	October	November	December	Total
A3	97,461	57,616	69,594	52,275	57,439	79,822	86,446	2	0	0	0	5,603	506,257
A4	46,608	51,572	67,385	104,160	60,661	97,797	86,180	50,021	100,901	87,723	54,386	101,375	908,769
A5	103,037	50,462	59,752	0	0	0	19,150	105,805	66,028	99,545	84,929	104,002	692,709
Self-consumption - TPP A	31,416	23,132	24,481	19,606	15,417	21,327	23,536	19,269	20,190	23,000	19,152	27,250	267,776
TPP Kosova A	215,689	136,518	172,250	136,829	102,683	156,292	168,240	136,560	146,739	164,268	120,162	183,730	1,839,959
B1	155,924	169,892	192,223	174,504	197,539	180,983	4,592	0	0	102,051	212,817	204,147	1,594,673
B2	214,022	199,272	202,574	164,217	133,184	35,442	202,401	196,527	216,623	170,155	190,816	219,556	2,144,788
Self-consumption - TPP B	37,200	36,294	38,350	33,284	31,744	20,756	20,355	19,574	21,210	27,859	36,344	38,483	361,454
TPP Kosova B	332,746	332,870	356,448	305,437	298,979	195,668	186,638	176,953	195,413	244,347	367,289	385,219	3,378,007
HPP Ujmani	2,386	5,093	4,959	5,381	5,807	8,208	5,462	4,513	3,691	3,759	4,059	11,726	65,045
Distribution HPP	926	724	2,304	5,437	6,709	5,102	1,800	862	696	1,168	2,370	2,606	30,705
Total Hydro	3,312	5,817	7,263	10,819	12,516	13,310	7,262	5,374	4,387	4,927	6,429	14,333	95,750
Total production	551,748	475,205	535,961	453,085	414,179	365,270	362,139	318,887	346,539	413,542	493,880	583,282	5,313,716

During 2012 electricity production exceeded forecasted production in energy power balance for 6%. Production in TPP Kosova A for 25% higher than in the forecasted power balance and in TPP Kosova B was achieved 99.5% of production of the forecasted Balance. HPP Ujmani in 2012 achieved 79% of the forecasted production compared to 2012 power balance and Distribution HPP and RES achieved 60% of the forecasted Power Balance plan.



Fig. 4.6 Image from SS Kosova A

An operation indicator of generation unit is also the number of outages from the system, planned and unplanned.

- TPP Kosova B – unit B1 during this year had 25 outages (8 failures and 17 disconnections). Unit B2 had 19 outages (6 failures and 13 disconnections).
- TPP Kosova A – Unit A3 had 16 outages (5 failures and 11 disconnections), unit A4 had 20 outages (6 failures and 14 disconnections) and unit A5 had 10 outages (1 failure and 9 disconnections).

Percentage share of generation units into the overall production by months for 2012 is given in the figure below.

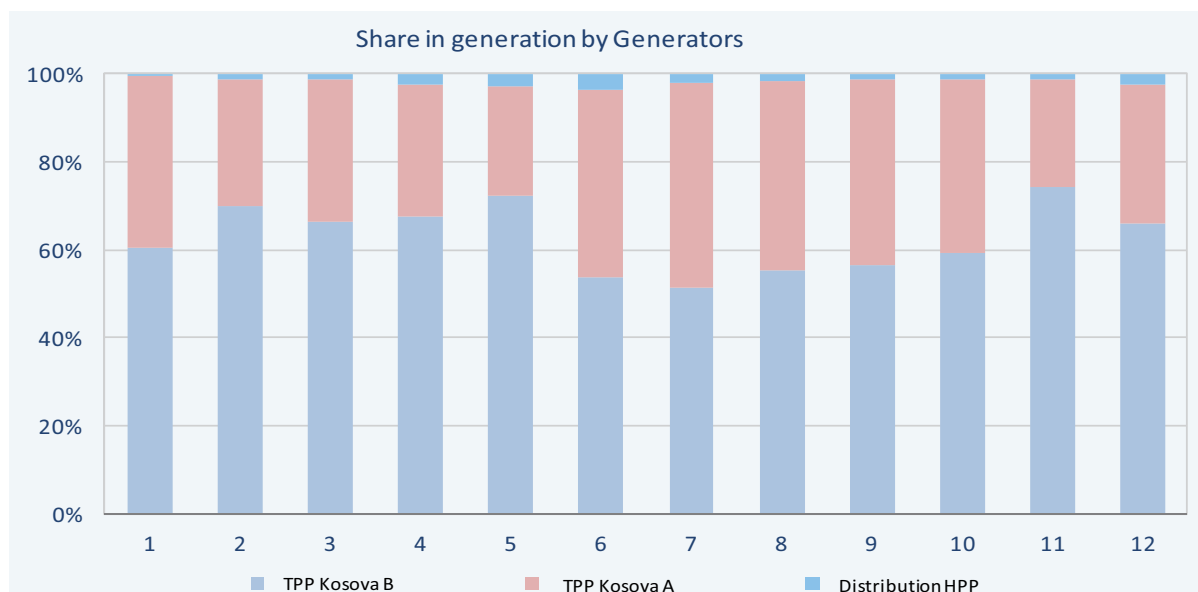


Fig. 4.7 Share in production by the generation units by months in 2012

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

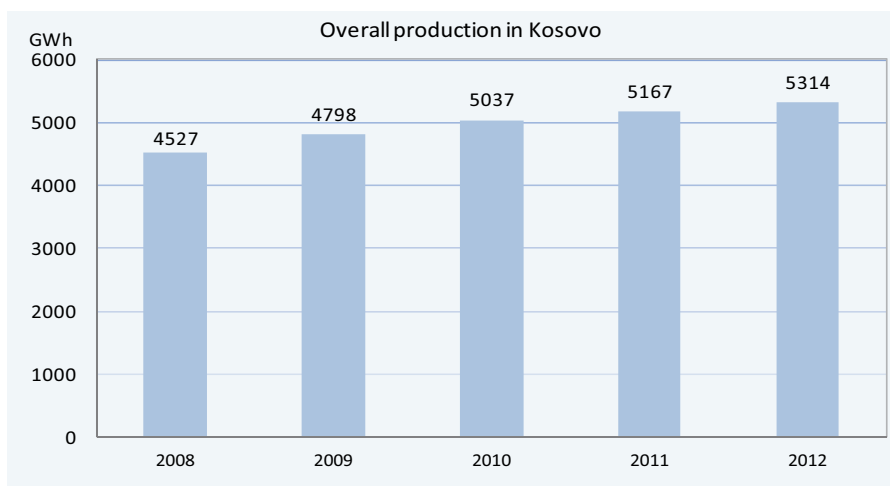


Fig. 4.8 Production of electricity 2008 - 2012

4.4 Electricity flow 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 favorable position as a regional node, therefore there is considerable electricity flows through its transmission network. These flows are presented in the figure below for every inter-connected line of Kosovo, in both directions.

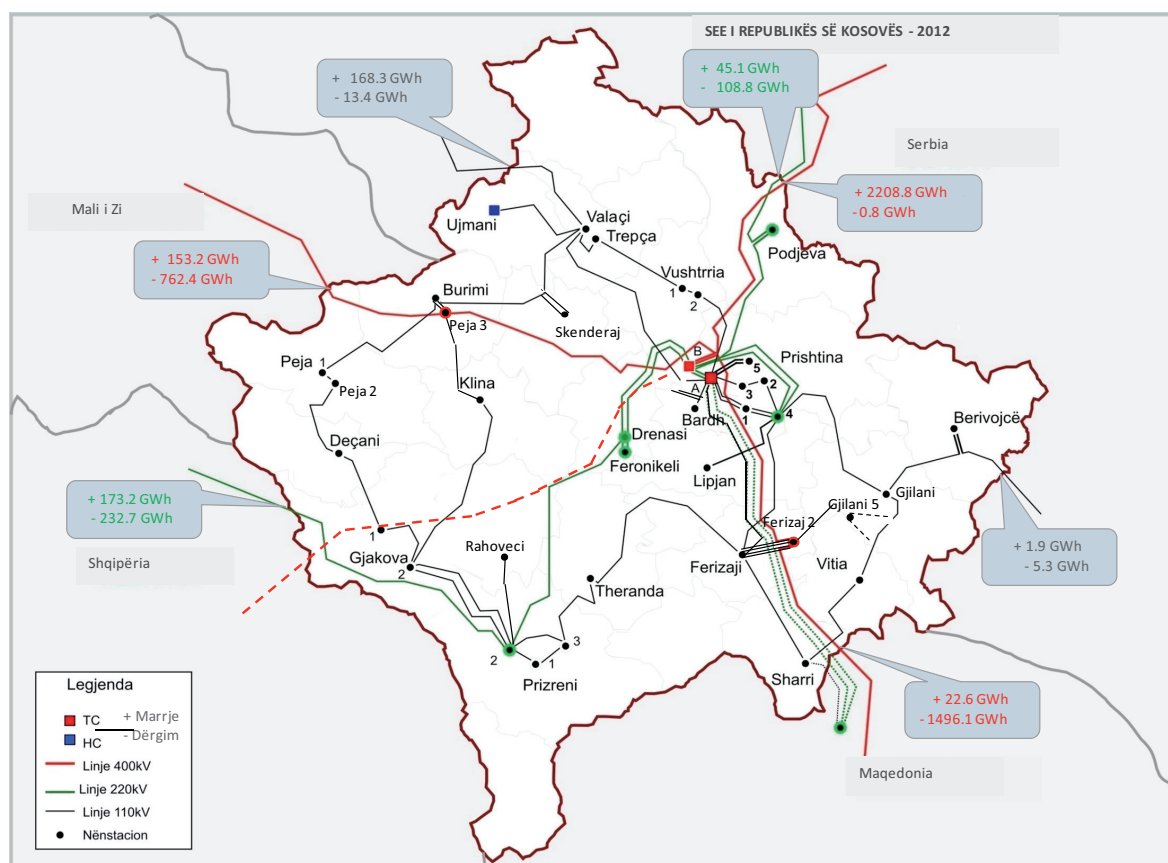


Fig. 4.9 Flow of electricity through inter-connection lines

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 inter TSO compensation (ITC mechanism) and does not allocate interconnection capacity lines due to the problems with Serbia.

Although the Secretariat provided a positive opinion on the dispute raised by KOSTT on utilization of interconnection capacities, this issue still remains unsolved.

4.5 Load in the Kosovo Power System

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 especially at the peak. It is therefore necessary to take five (5) peak values (maximum loads) occurred at various weeks of the year. Along with the peaks in the following table, there are also the overall consumption values and consumption at 220 kV level, i.e. Ferronikel, as an integral part of the overall value.

Tab. 4.8 Five peak values at various weeks of 2012

Peak	Load (MWh/h)	Date	Month	Week	Day	Hour	Ferronikeli
I	1,168	31.01.2012	1	6	Tuesday	20	80
II	1,109	31.12.2012	12	54	Monday	18	7
III	1,107	09.01.2012	1	3	Monday	19	79
IV	1,103	17.02.2012	2	8	Friday	19	73
V	1,097	04.01.2012	1	2	Wednesday	19	79

The highest consumption in Kosovo's electricity system, 1168 MWh/h, was registered on 31 January 2012.

Consumption undergoes changes at daily and seasonal periods. 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, the diagram of yearly cumulative for every hour, is reflected in the figure below. In addition to consumption, the diagram also presents hourly production, exchange and load shedding.

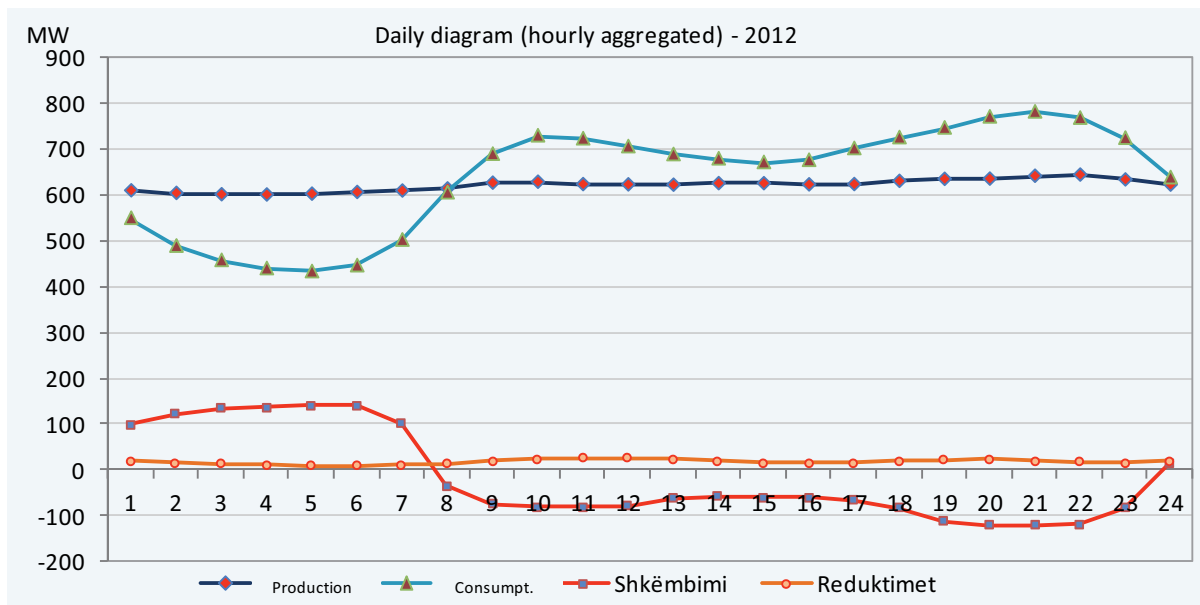


Fig. 4.10 Daily diagram taken as an average for 24 hours for 2012

Difference between the average of daily maximums and minimums of consumption during 2012 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.

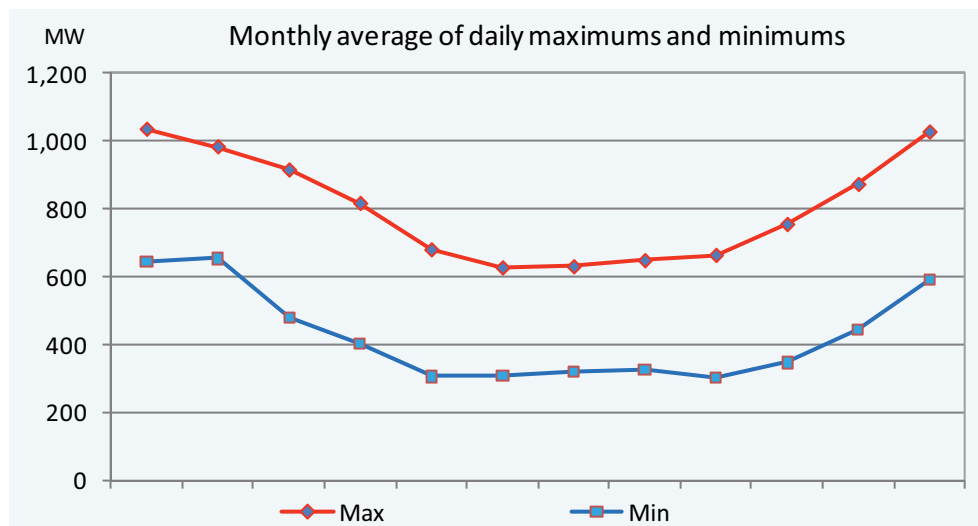


Fig. 4.11 Monthly average of maximum and minimum daily loads 2012

If consumption cannot be covered through generation and import, than there is a need for load-shedding.

4.6 Overall electricity consumption and losses in transmission

Overall consumption in the Kosovo power system did not increase comparing with last year and presents 93.9% of the forecasted value in the 2012 Power Balance.

The trend of reducing electricity losses in transmission continued in 2012 as well, where the losses were 109 GWh, or percentage wise 1.99 % against the overall consumption while in 2011 these losses were 115 GWh or 2.06 %.

Tab. 4.9 Overall consumption and losses in transmission occurred, and according to 2012 power balance

2012	Gross cons realized	Gross cons balance	Real/Bal	Transmission losses realized		Transmission losses balance	
	MWh	MWh	%	MWh	%	MWh	%
January	623,446	652,151	95.60	11,214	1.80	13,998	2.15
February	562,630	563,471	99.85	9,677	1.72	12,121	2.15
March	517,555	561,835	92.12	9,381	1.81	12,230	2.18
April	445,611	442,674	100.66	8,761	1.97	10,324	2.33
May	381,242	420,720	90.62	7,950	2.09	9,649	2.29
June	348,053	378,763	91.89	6,758	1.94	8,539	2.25
July	367,672	398,395	92.29	8,110	2.21	8,781	2.20
August	369,488	392,745	94.08	8,260	2.24	8,409	2.14
September	349,991	393,187	89.01	7,205	2.06	8,449	2.15
October	408,254	493,960	82.65	8,330	2.04	10,874	2.20
November	480,461	509,720	94.26	10,040	2.09	11,506	2.26
December	612,738	613,923	99.81	13,340	2.18	13,318	2.17
Total	5,467,139	5,821,544	93.91	109,028	1.99	128,197	2.20

Within the transmission losses have been included also the losses caused by the transit.

The table 4.10 presents the total consumption in the power system of Kosovo and transmission losses for the past five years, where it is noted a continuous loss reduction.

Tab. 4.10 Consumption and losses in transmission 2008-2012

Year	Gross consum.	Transmission losses	
	MWh	MWh	%
2008	4,943,714	214,814	4.35
2009	5,275,108	174,573	3.31
2010	5,505,716	131,043	2.38
2011	5,584,370	115,315	2.06
2012	5,467,139	109,028	1.99

It shall be mentioned that in the transmission network electricity losses in 2012 have been included also the losses for 9 months caused by assets (110kV substations) transferred from KEK to KOSTT.

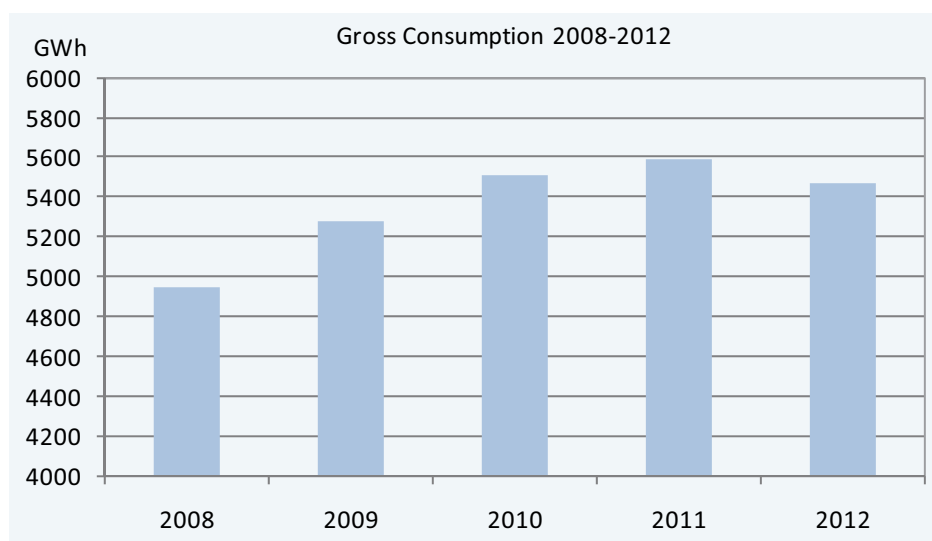


Fig. 4.12 Overall consumption for 2008-2012

It is important analyzing consumption based on customers' categories, including technical and commercial losses. Customer category based electricity consumption for 2012 is provided in the table below:

Tab. 4.11 Customer category based electricity consumption and losses in 2012

No.	Consumers	MWh
1	Gross distribution	4,767,384
2	Net distribution	3,018,521
3	Internal KEK consumption (LOMAG)	117,658
4	Trepça + Sharrceci	66,373
5	Ferronikeli	406,697
6	Technical losses	778,239
8	Commercial losses (1-2-3)	970,623
9	Transmission losses	109,028
10	Gross consumption (1+5+6+7+8+9)	5,467,139

A part of customers like Ferronikeli, Trepça and Sharrceci, are connected to the transmission network.

In the following figure is presented the chart on monthly consumption based on categories and losses in the transmission and distribution network.

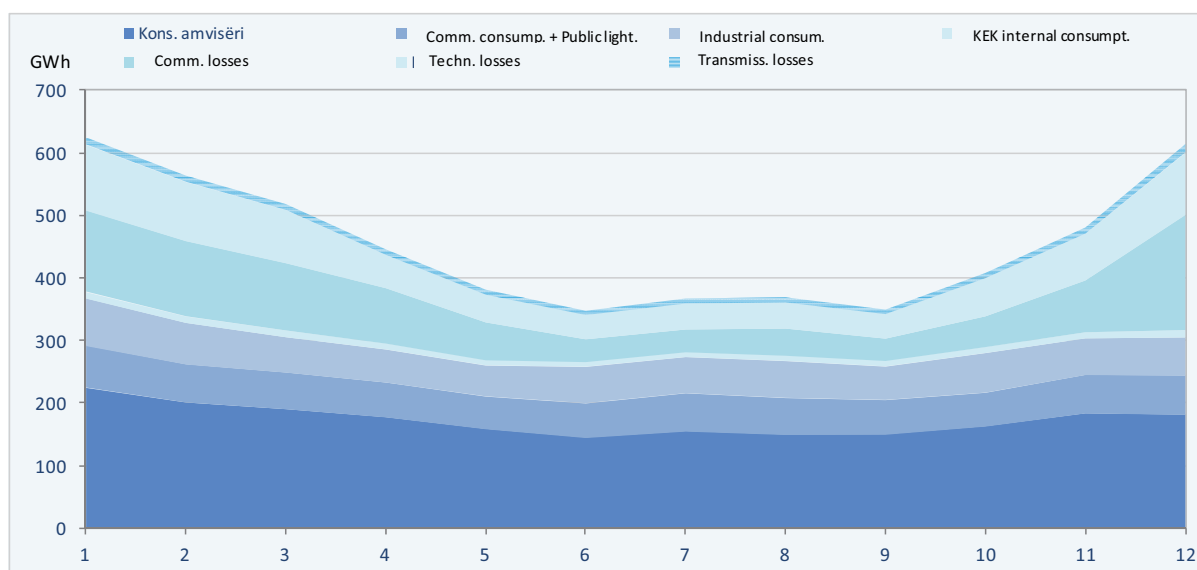


Fig. 4.13 Share of different categories in overall consumption of 2012

Commercial losses are higher during the winter season as you may observe from the above chart, a period when electricity is used for heating purposes. In other consumption and losses categories, the difference between seasons is less emphasized.

4.7 Consumption in Distribution Level

Electricity consumption at distribution level in 2012 was 4,768 GWh, while in 2011 it was 4,682 GWh, with a growth of 1.8 %.

Electricity consumption at distribution level can be analyzed also for each district. The highest consumption is measured in Prishtina district 30.8 % against the overall consumption at distribution level and the lowest consumption was measured in Gjilanit district with 8.8 %.

Tab. 4.12 Consumption at distribution level divided by districts in 2012

Districts	Consumption (MWh)	Consumption share
Prishtina	1,470,929	30.8%
Mitrovica	658,058	13.8%
Peja	519,410	10.9%
Gjakova	450,205	9.4%
Prizreni	650,883	13.6%
Ferizaji	599,504	12.6%
Gjilani	419,394	8.8%
Total in distribution	4,768,383	100%

Share of domestic consumption is still dominant against the overall consumption billed and consists of 69 %. In the below figures is presented in the share in percentage of consumption categories compared to the overall consumption (with and without losses at distribution level).

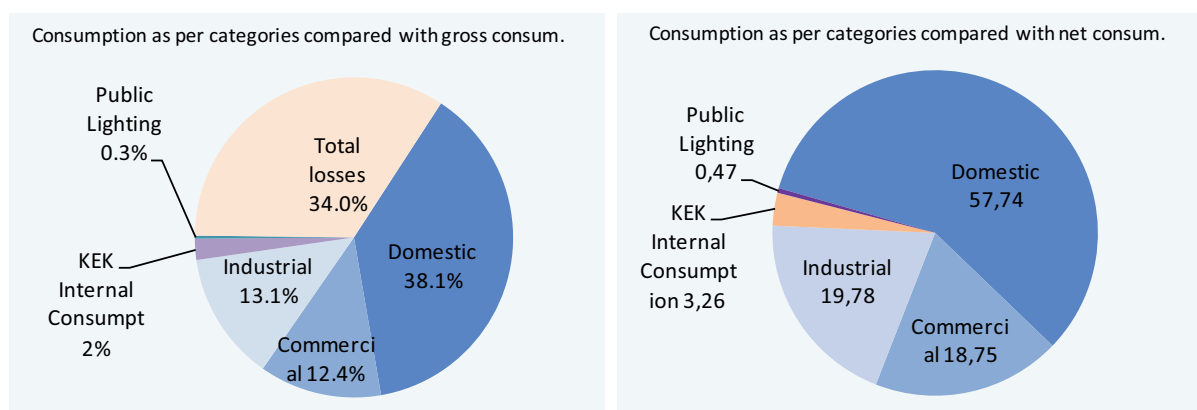


Fig. 4.14 Share of categories at gross and net consumption

4.8 Distribution Losses

By the Decision no. V_399_2012 dated 6 February 2012, ERO set Losses Target for Distribution System Operator in order that losses reduction curve in distribution level shall start from the value achieved in 2011 and shall be reduced for 3% (percentage point) during the first three years and 2.5% (percentage point) during 3 following years.

Overall losses in 2012 were 1,750 GWh or 36.69 % against the energy fed into distribution while in 2011 losses were 1,786 GWh or 38.15 %.

Despite continuous reduction of losses, the overall electricity distribution losses remain quite high and targets set by ERO for 2012 were not met.

Tab. 4.13 Distribution losses by months in 2012

2012	Intake in distribution	Billed electricity	Technical losses		Commercial losses		Total losses	
	MWh	MWh	MWh	%	MWh	%	MWh	%
Janar	546,754	312,785	104,845	19.18	129,124	23.62	233,969	42.79
Shkurt	494,850	280,856	94,331	19.06	119,664	24.18	213,995	43.24
Mars	460,196	268,337	84,691	18.40	107,168	23.29	191,859	41.69
Prill	393,710	252,274	53,170	13.50	88,265	22.42	141,436	35.92
Maj	334,689	230,280	44,452	13.28	59,957	17.91	104,409	31.20
Qershor	294,283	218,980	39,021	13.26	36,283	12.33	75,304	25.59
Korrik	313,860	235,962	41,693	13.28	36,206	11.54	77,898	24.82
Gusht	313,423	228,324	41,863	13.36	43,236	13.79	85,100	27.15
Shtator	299,282	223,229	39,441	13.18	36,612	12.23	76,053	25.41
Tetor	345,533	235,460	61,060	17.67	49,013	14.18	110,073	31.86
Nëntor	422,354	265,416	74,500	17.64	82,438	19.52	156,938	37.16
Dhjetor	549,448	266,961	99,173	18.05	183,314	33.36	282,487	51.41
Totali i realizuar	4,768,383	3,018,863	778,239	16.32	971,281	20.37	1,749,520	36.69

Tab. 4.14 Consumption and losses of electricity by district

Districts	Intake in distribution	Billed electricity	Technical losses		Commercial losses		Total losses	
	MWh	MWh	MWh	%	MWh	%	MWh	%
Prishtina	1,470,929	994,802	223,613	15.20	252,514	17.17	476,127	32.37
Mitrovica	658,058	254,982	81,789	12.43	321,286	48.82	403,076	61.25
Peja	519,410	319,587	89,590	17.25	110,233	21.22	199,824	38.47
Gjakova	450,205	280,399	87,879	19.52	81,927	18.20	169,806	37.72
Prizreni	650,883	442,747	111,755	17.17	96,381	14.81	208,136	31.98
Ferizaji	599,504	402,179	111,270	18.56	86,055	14.35	197,325	32.91
Gjilani	419,394	324,166	72,342	17.25	22,885	5.46	95,227	22.71
Total in distributic	4,768,383	3,018,863	778,239	16.32	971,281	20.37	1,749,520	36.69

Losses vary by districts, with the lowest recorded losses in the district of Gjilan 22.71 %, while the highest in the district of Mitrovica 61.25% mostly to the north of Mitrovica, which is considered a commercial loss since it is not billed. This energy at entrance points was 211 GWh, which accounts for circa. 4.44 % of the energy fed into distribution.

However, electricity losses in distribution have been declining during the years. A noted decline is visible in commercial losses, while for the technical losses the decline is of a lower level due to the lack of investments in the upgrade of the distribution network. This may be seen at the table below, which presents the data for the last five years.

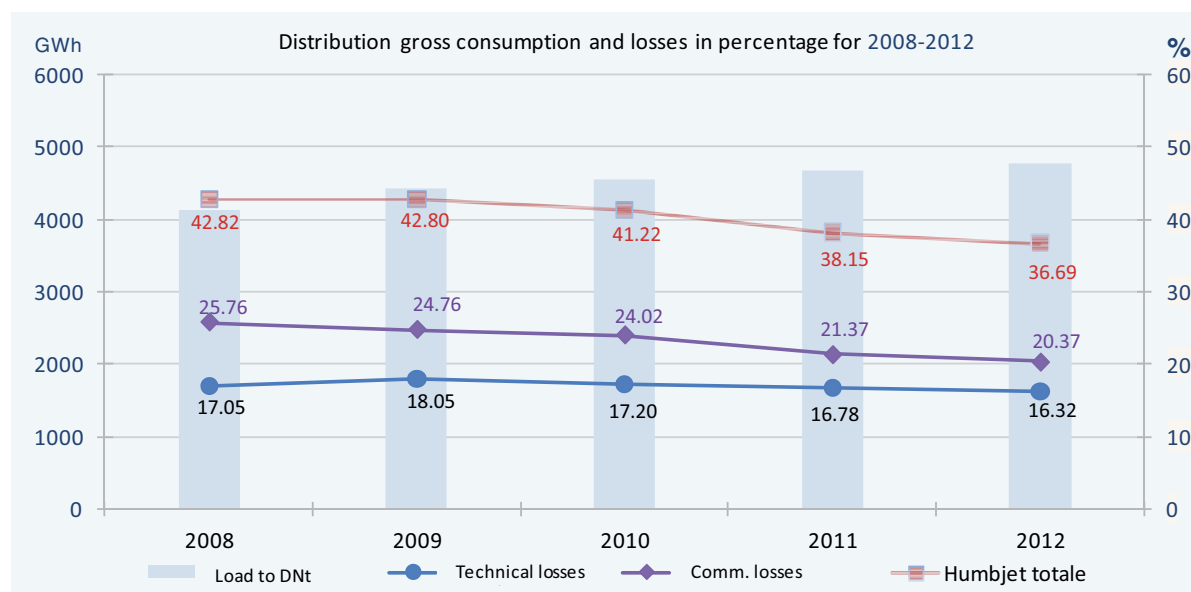


Fig. 4.15 Losses at distribution level for years 2008-2012

4.9 Billing and Collection

In 2012 there was an increase in billing and collection of electricity. Billed electricity, in monetary terms, is 232.9mil€, while the collection 209.5mil€. Of these, 25 mil€ is the value of the billed and collected from customers connected at transmission level. These values include VAT.

Collection rate versus billed electricity in distribution level for 2012 was 88.77 %, while in total it was 89.98 %.

Tab. 4.15 Billing and collection in 2012

2012	Intake of electricity	Billing	Collection	Coll/Bill
	MWh	€	€	%
Distribution	4,768,383	207,877,980	184,540,699	88.77
Transmiss. connected Customers	473,070	25,047,400	25,047,400	100.00
Total	5,241,453	232,925,380	209,588,099	89.98

In several months during 2012, there is a difference between the billed and collected electricity, and this occurs due to collection for the billed electricity in previous periods. This phenomenon is most prominent in months of April, May and June, when billing is lower while payment is made for previous months when the consumption and billing was considerably higher.

Tab. 4.16 Billing and collection on monthly bases

Distribution 2012	Intake of electricity	Billing of electricity	Billing	Collection	Coll/Bill
	MWh	MWh	€	€	%
January	546,754	312,785	23,747,584	16,240,802	68.39
February	494,850	280,856	21,227,049	18,774,842	88.45
March	460,196	268,337	20,181,661	17,605,766	87.24
April	393,710	252,274	13,509,707	16,546,207	122.48
May	334,689	230,280	12,352,242	13,884,781	112.41
June	294,283	218,980	12,842,047	16,352,977	127.34
July	313,860	235,962	13,864,359	12,318,942	88.85
August	313,423	228,324	13,453,766	13,602,535	101.11
September	299,282	223,229	13,200,875	12,705,693	96.25
October	345,533	235,460	19,279,660	12,084,296	62.68
November	422,354	265,416	21,988,002	15,818,701	71.94
December	549,448	266,961	22,231,028	18,605,156	83.69
Total	4,768,383	3,018,863	207,877,980	184,540,699	88.77

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 collected electricity was higher in the district of Prishtina, while the lowest collection rate was recorded in the district of Mitrovica due to non-payment for electricity by Serbian minority in the north part.

Tab. 4.17 Billing and collection by districts

Districts	Intake of electricity	Billing of electricity	Billing	Collection	Coll/Bill
	MWh	MWh	€	€	%
Prishtina	1,470,929	994,802	71,390,715	66,860,645	93.65
Mitrovica	658,058	254,982	17,170,257	12,824,146	74.69
Peja	519,410	319,587	22,343,783	18,356,763	82.16
Gjakova	450,205	280,399	18,711,664	17,369,590	92.83
Prizren	650,883	442,747	30,038,845	27,459,583	91.41
Ferizaj	599,504	402,179	27,193,292	23,377,343	85.97
Gjilan	419,394	324,166	21,029,425	18,292,630	86.99
Total	4,768,383	3,018,863	207,877,980	184,540,699	88.77

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

Tab. 4.18 Billing and collection in distribution 2008 - 2012

Years	Intake of electricity	Billing of electricity	Billing	Collection	Coll/Bill
	MWh	MWh	(000) €	(000) €	%
2008	4,035,076	2,093,372	165,351	118,845	71.87
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
2012	4,768,383	3,018,863	207,878	184,541	88.77

4.10 Electricity Market

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

4.10.1 Exchange and Flow of Electricity

Similar to previous years, Kosovo in 2012 was a net importer of electricity, with a quantity of 152 GWh. The balance of electricity between the entities is presented 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 GWh units.

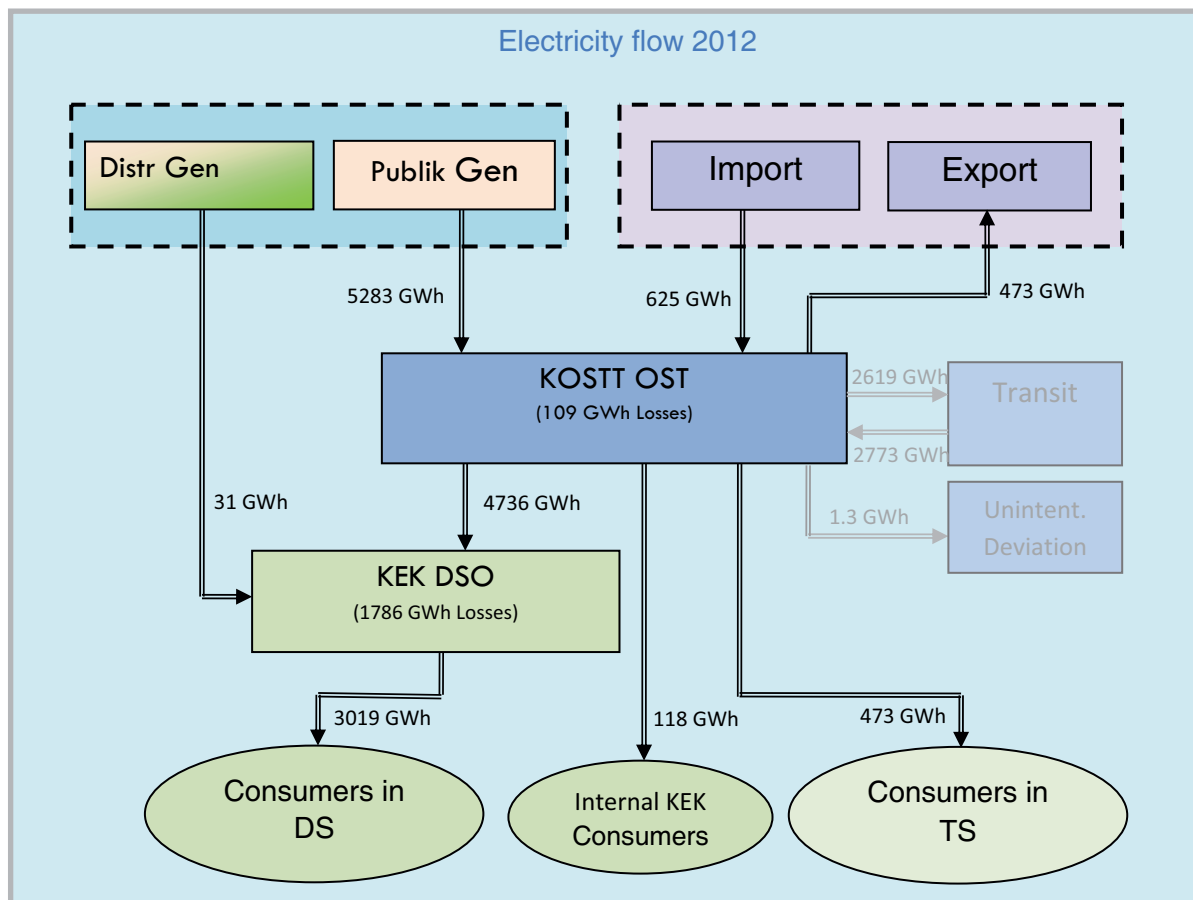


Fig. 4.16 Electricity flow in the electric power system of Kosovo in 2012

4.10.2 Import and Export of Electricity

Despite the 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 (during the night), there is a surplus of electricity. This surplus is exported and mainly occurs at summer, when the consumption is significantly lower.

The electricity imported under commercial contracts (tendering) during 2012 was 571,897 MWh, valued at 45,440,668 €, at an average price of 79.46 €/MWh, while the imported electricity in 2011 was 784,849 MWh, at an average price of 69.66 €/MWh. The quantity of imported electricity has been lower for 27.1 % while the average price increased by 14.1 % compared to 2011.

KEK also has imported electricity by means of exchange with regional power systems which amounted to 53,161 MWh with KESH (Albania). Comparing to 2011 (31,350 MWh) the imported quantity by means of exchange was increased by 69.6 %.

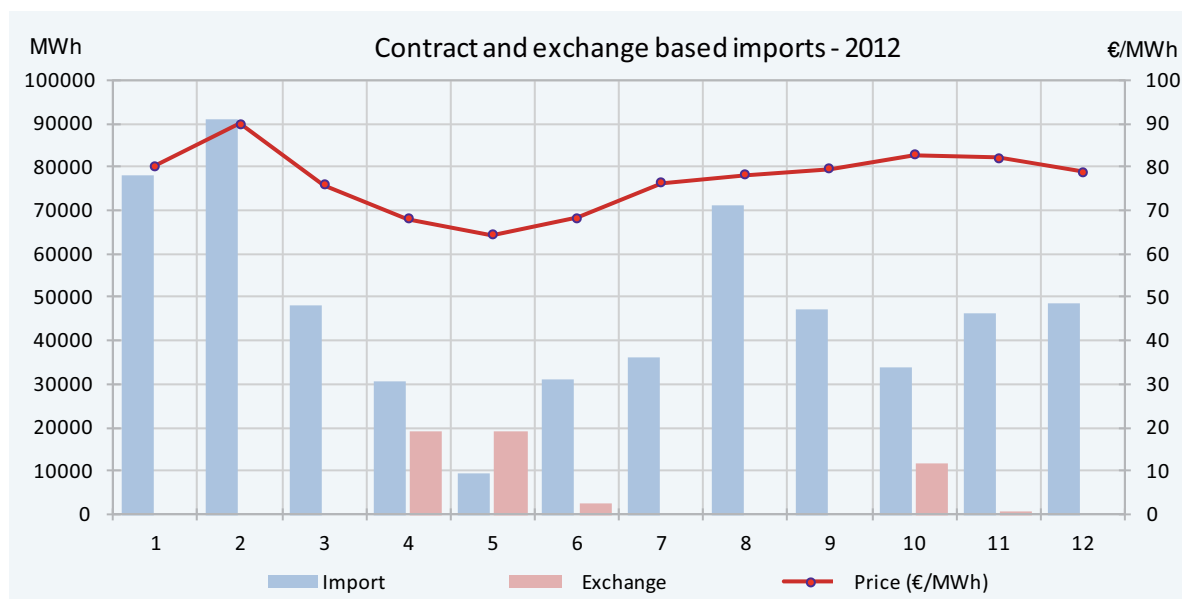


Fig. 4.17 Electricity import and price in 2012

Despite electricity shortages there were few months during 2012 when KEK had energy surpluses. These surpluses have been registered during the night (low tariff) when in the regional systems the offer for energy increases in huge amounts and this influenced export prices to be much lower than import prices.

The total quantity of electricity that KEK exported during 2012 was 371,316 MWh, at an average prices of 31.16 €/MWh. This quantity of export, generated an income of 11,569,451 € for KEK. When compared to 2011, it is apparent that the export has grown by 33.42 %, while the average price has been reduced by 30.84 % comparing with previous year (export price in 2011 was 45.05 €/MWh).

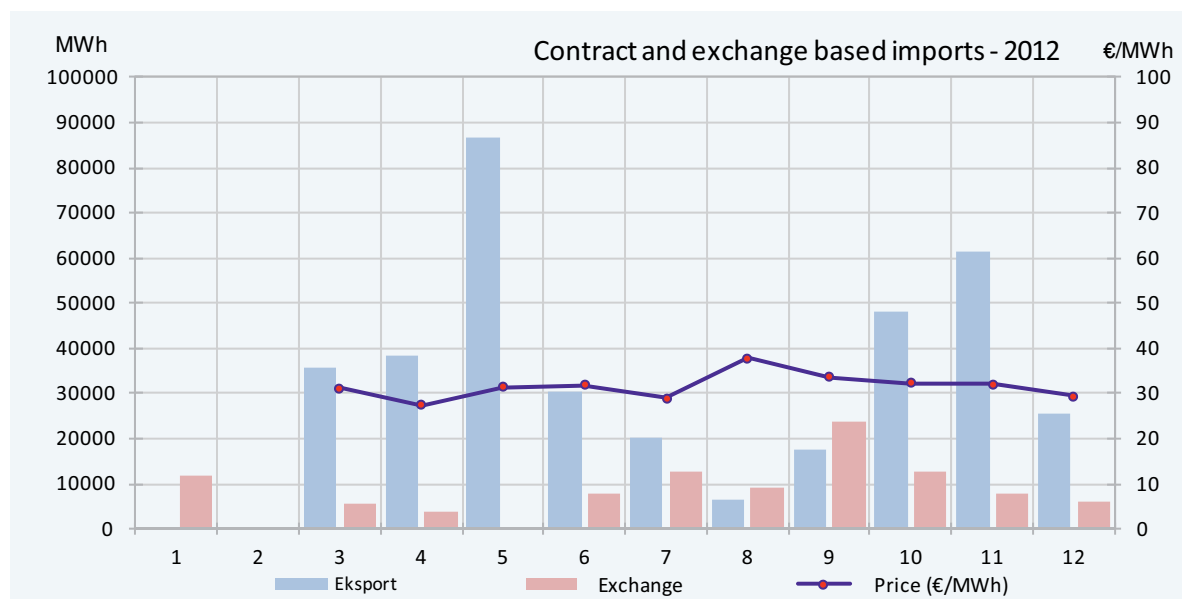


Fig. 4.18 Electricity export and price in 2012

KEK in 2012 has exported 101,478 MWh of energy in the exchange based form. The difference between the exchange based import and export is 48,317 MWh, indicating that KEK has exported more electricity in the exchange based form than imported.

The following table shows the detailed data for the monthly based quantity and price of import, export and exchange - (off take and intake) of electricity during 2012. According to the data, the exchange is in favor of off-taken electricity that is mainly a return of the debt from previous years.

Tab. 4.19 Import, export and exchange of electricity in 2012

2012	Import			Export			Exchange			Total		
	Quantity MWh	Price €/MWh	Amount €	Quantity MWh	Price €/MWh	Amount €	Intake MWh	Offtake MWh	Differ. MWh	Intake MWh	Offtake MWh	Difference MWh
1	78,151	80.32	6,277,072	0		0	0	11,890	11,890	78,151	11,890	-66,261
2	90,958	89.80	8,168,199	0		0	0	280	280	90,958	280	-90,678
3	48,228	75.83	3,657,137	35,880	31.08	1,115,036	0	5,641	5,641	48,228	41,521	-6,707
4	30,486	68.05	2,074,668	38,500	27.46	1,057,214	18,940	3,751	-15,189	49,426	42,251	-7,175
5	9,515	64.32	612,025	86,658	31.37	2,718,306	18,971	0	-18,971	28,486	86,658	58,172
6	30,900	68.36	2,112,378	30,540	31.88	973,596	2,400	7,606	5,206	33,300	38,146	4,846
7	36,220	76.22	2,760,853	20,240	28.94	585,794	0	12,555	12,555	36,220	32,795	-3,425
8	71,186	78.17	5,564,395	6,490	37.77	245,125	0	9,194	9,194	71,186	15,684	-55,502
9	47,321	79.59	3,766,159	17,750	33.67	597,691	0	23,882	23,882	47,321	41,632	-5,689
10	33,875	82.86	2,806,883	48,273	32.20	1,554,306	11,930	12,820	890	45,805	61,093	15,288
11	46,360	82.01	3,802,190	61,495	32.05	1,971,014	920	7,843	6,923	47,280	69,338	22,058
12	48,697	78.83	3,838,710	25,490	29.48	751,369	0	6,016	6,016	48,697	31,506	-17,191
Total	571,897	79.46	45,440,668	371,316	31.16	11,569,451	53,161	101,478	48,317	625,058	472,794	-152,264

The figure below indicates monthly based net import and export of electricity performed during 2012.

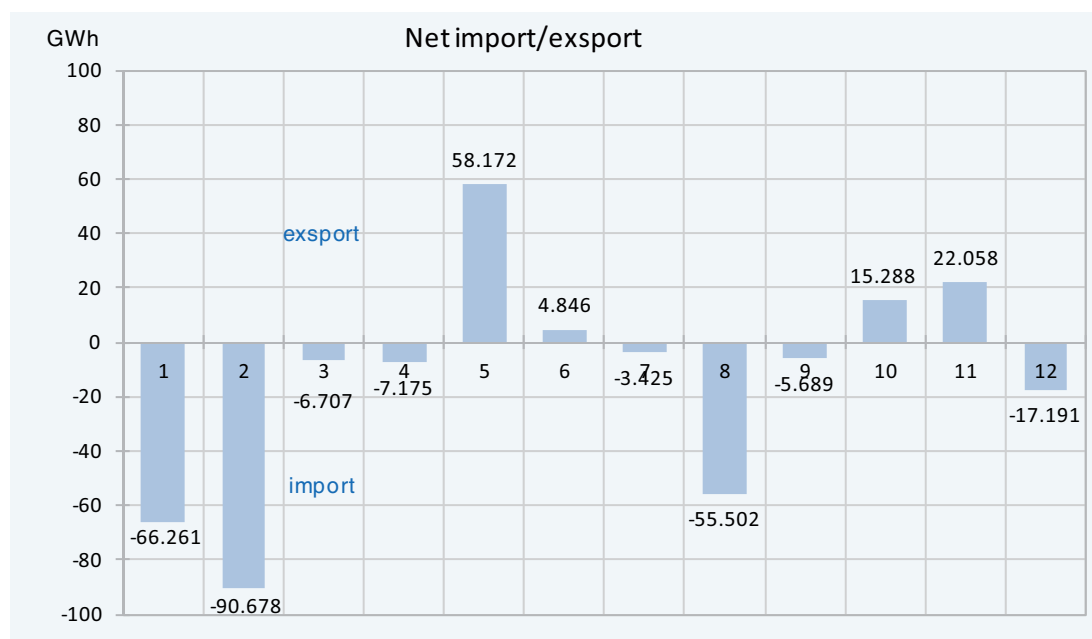


Fig. 4.19 Net import and export in 2012

4.11 Electricity Supply and Service Quality Standards

ERO, based on Article 14 of the Law on Energy Regulator, has jurisdiction over determination of the electricity supply and services quality standards to be met by the licensees.

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

Electricity supply and service quality standards are defined and monitored by:

- Continuity of supply;
- Voltage quality;
- Commercial quality.

4.11.1 Continuity of Supply

Continuity of supply is related to the availability of electricity and is measured by the following indexes:

- SAIDI – System Average Interruption Duration Index;
- SAIFI – System Average Interruption Frequency Index;
- ENS – Electricity Non Supplied.

Electricity supply and services quality standards that the Distribution System Operator should have met, according to the ERO decision were as follows:

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

Annual indexes during the reporting year were as follows:

- SAIDI – for the planned interruptions in the distribution system were 4.92 hours;
- SAIDI – for the unplanned interruptions in the distribution system were 109.61 hours;
- SAIFI – for the planned interruptions in the distribution system were 2.59;
- SAIFI – for the unplanned interruptions in the distribution system were 56.91;
- ENS- distribution system was 68.51 GWh.

Below in the figure are presented values of the SAIDI and SAIFI indexes during 2012.

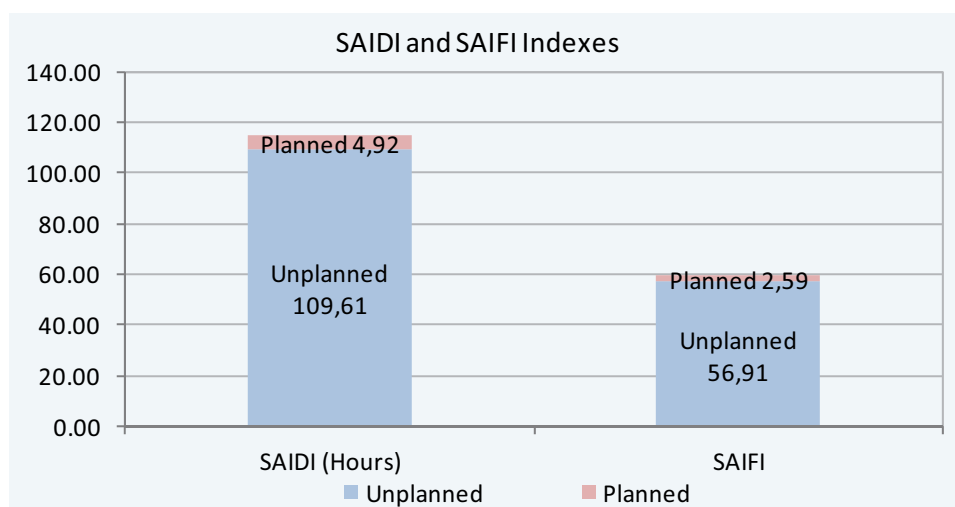


Fig. 4.20 SAIDI and SAIFI during 2012

4.11.2 Voltage Quality

Voltage quality standards are established under the Rule on 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 by recording customer complaints related to voltage quality.

4.11.3 Commercial Quality

Commercial quality determines the speed 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 the Energy Sector and Rule on Dispute Settlement Procedure in the Energy Sector in Kosovo.

5 ELECTRICITY TARIFFS

5.1 Legal Grounds on Setting Electricity Tariffs

Based on Article 41 of the Law on Energy Regulator and other bylaws (Pricing Rules), ERO has duties and competences related to determining the Allowed Revenue for licensees and regulated energy sector activity fees.

In this context, one of the main tasks of the ERO in 2012 was the review of applications of the licensees for the allowed revenues and tariffs in the energy sector, including generation, transmission, distribution and electricity retail supply for the regulated tariff customers. Through an inclusive and careful analysis of the technical, economic and financial information presented in the applications that were submitted by licensees, ERO reviewed the allowable revenues and tariffs for them. ERO set the allowed revenues for the above mentioned activities, then the fees for the transmission system operator and market operator and electricity retail tariffs for regulated customers.

Two concepts of regulation are known:

- Traditional regulation known as the Cost of Service / Rate of Return (COS / RoR), applied by the ERO in the one-year tariff regulation period, and
- Incentive-based regulation that is commonly used for multi-year tariff period, that includes:
 - Regulating the price cap (price cap - maximum prices allowed)
 - Regulating the revenue cap (revenue cap - maximum income allowed)

Incentive-based regulation sends signals to regulating companies to improve their efficiency, and provides financial incentives for regulated companies to minimize their costs. In fact, the incentive-based regulation aim is that companies gain profits if they are able to reduce their costs and gain no benefit if they are inefficient. So, if such an incentive is effective, for long-term regulation, costs are expected to be lower, therefore the efficiency shall be higher, thus resulting to the price reduction.

In determining tariffs, ERO follows the principles of regulation that apart from “economic” regulation focusing on the prices, quality of service, supply security and investments; it shall take into account also the “social” aspect, environment, health, and price affordability for customers.

In accordance with the respective rules and methodologies, electricity tariffs are based on the principle of the true cost of service for each customer group at different voltage levels. It turns out that for different voltage levels will have different levels of tariffs. Costs involved in regulated tariffs should be allocated among customer categories, within each group of customers, while the base load for each cost shall be determined. The main components of the tariff and charges are as follows:

- Electricity charge applied for the measured consumed energy (kWh) for each customer group.
- The demand charge applied for the measured maximum demand (kW) for each customer at any time of the load.
- The capacity charge applied for the connected and contracted capacity (in kW or kVA) for the customer group to which the capacity is applied.

- The customer's charge (also known as fixed charge) applied with a fixed rate for each customer at any time of load.
- Reactive power charge that can be applied on various grounds, but is associated with the customer's power¹ factor.

Charging period is measured on a monthly basis. Tariffs may vary by time of day use (day-night) and seasonal (winter-summer). Four different periods of energy charges are defined, and they are presented in the following table.

Tab. 5.1 Electricity charge periods

Tariff/ Season	Winter 1 oct - 31 mart	Summer 1 apr - 30 sept
High	07:00 - 22:00	08:00 - 23:00
Low	22:00 - 07:00	23:00 - 08:00

Within the functional, legal and financial division of the licensees, the costs and tariff allocation is performed in order to apply the principle for allocation of payments for production, transmission, and distribution and up to the final customer supply services that facilitates liberalization of the electricity market and privatization process.

5.2 Sixth Electricity Tariff Review

During 2012, ERO has continued with the sixth tariff review which is the first review conducted by applying pricing rules for Generation, Transmission System and Market Operator and Distribution System Operator, and the Public Supplier of Electricity, which are in line with the new Law on Energy Regulator.

According to these rules, the first periodic review of the allowed revenues for license holders TSO / MO and DSO, is implemented in accordance with the transitional provisions, where the allowable revenues, allowed fees and charges, are set for a period of one year.

Retail tariffs for Public Electricity Supplier (PES) are determined on the basis of power purchase cost (from local producers and imports) and charges for use of the network, in addition to the determination of other values within the transitional provisions such as assets allowed lifetime, allowances for bad debts and export division factor.

Licensees in the tariff application for 2012 have requested tariff increase of 19% for households with two-tariff meters and 14% to other domestic customers, and in order to completely ensure allowed revenues, they have proposed that the non-household customers tariffs is increased by 5%.

ERO, following analysis and review of applications, regular consultations with stakeholders decided that electricity regulated tariffs are increased for 8.9%. This increase is implemented in the same proportion for all regulated customers that reflected the Maximum Allowed Revenues value, sufficient for sustainable business of the licensees.

The main effect in the increase of maximum allowed revenues consists of the following:

¹ 1.0 power factor indicates that the voltage and current are in phase, the power factor below 0.95 requires the generators to generate more than the minimum of volt-amperes necessary for the real supply of energy (watt) needed and therefore implies the need for a form of reactive power charge for those customers with power factor below 0.95

- inclusion of prior to 2006 assets in the RAB during calculation of their depreciation that reflects the amendments made to the Law on Energy Regulator where is required that these assets are included into the RAB;
- expected import costs increase due to increase of the import demand and price;
- reduction of subsidies paid to PES from Kosovo Budget; and
- increase of the coal royalty amount as of January 2013.

According to the Law on Mines and Minerals, new prices for coal royalties entered into force from January 1, 2013 and have impact only to the last quarter of covered period from the tariff review (1 January 2013 until 31 March 2013).

Regulated retail tariffs apply to non-eligible and eligible customers when ERO determines that there is no effective competition for the supply. During the ETR6, it was estimated that there is no effective competition and all consumers in Kosovo are supplied by the PES with the regulated retail tariff. A typical example which shows the electricity costs share by the licensees for the end users is presented in the following chart.

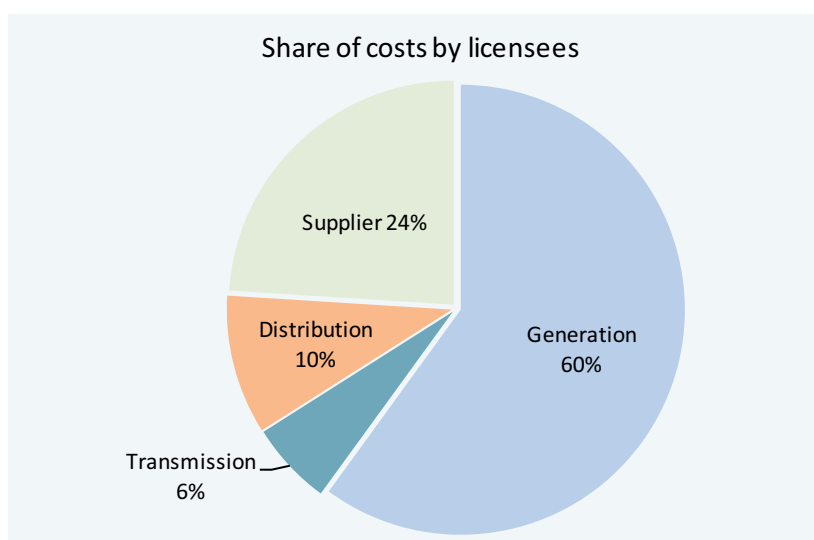


Fig. 5.1 Share of costs by licensees in 2012

ERO follows social-economic policies in the energy sector by applying the three-block tariff structure for domestic consumers, in order that the payment for electricity becomes affordable to low-income families, who currently benefits from the block tariff with energy consumption under 200kWh/month who do not use electricity for heating and they are charged with lower price than the average electricity price and who are not eligible for assistance, as social cases are defined and which are identified by the Ministry of Labor and Social Welfare. Consumption in other blocks has higher price in order to subsidize the tariffs of the first block of consumption. The fundamental theory of block tariffs is that it charges customers who consume less energy with discounted prices, while it charges consumers who consume more with higher prices. In this way the poorest consumers benefit lower prices for the electricity used. This is based on the generally worldwide accepted premise that consumers who are poorer consume less electricity, while consumers with better financial condition consume more electricity.

Tab. 5.2 Structure of retail electricity tariffs for KEK JSC regulated customers, applied as of June 1, 2012.

Tariff Group	Voltage level of supply	Tariff element	Unit	Time-of-day	Approved	
					High season	Low season
					1 October - 31 March	1 April - 30 September
0'	220kV	Standing customer charge	€/customer/month		182.53	
		Rate of power input	€/kW/month		14.44	
		Active energy (P)	€/kWh		2.23	
0	110kV	Standing customer charge	€/customer/month		91.27	
		Rate of power input	€/kW/month		6.09	6.09
		Active energy (P), of which	€/kWh	High Tariff	7.07	2.09
			€/kWh	Low Tariff	2.94	1.72
		Reactive energy (Q)	€/kVArh		0.00	0.00
1	35kV	Standing customer charge	€/customer/month		12.07	
		Rate of power input	€/kW		6.33	6.33
		Active energy (P), of which	€/kWh	High Tariff	7.39	3.20
			€/kWh	Low Tariff	3.91	2.88
		Reactive energy (Q)	€/kVArh		0.72	0.72
2	10kV	Standing customer charge	€/customer/month		4.99	
		Rate of power input	€/kW		5.45	5.45
		Active energy (P), of which	€/kWh	High Tariff	8.28	3.69
			€/kWh	Low Tariff	4.46	3.36
		Reactive energy (Q)	€/kVArh		0.72	0.72
3	0.4 kV Category I (large reactive power consumers)	Standing customer charge	€/customer/month		2.81	
		Rate of power input	€/kW		3.17	3.17
		Active energy (P), of which	€/kWh	High Tariff	9.20	5.11
			€/kWh	Low Tariff	5.80	4.82
		Reactive energy (Q)	€/kVArh		0.72	0.72
4	0.4kV Category II	Standing customer charge	€/customer/month		3.18	
		Active energy (P)	€/kWh	Single Tariff	11.33	7.33
		Active energy (P), of which	€/kWh	High Tariff	13.64	8.94
			€/kWh	Low Tariff	6.82	4.46
5	0.4kV domestic 2 Rate meter	Standing customer charge	€/customer/month		2.27	
		Active energy (P) for consumption:				
		<200kWh/month (First Block):	€/kWh	High Tariff	5.05	3.63
			€/kWh	Low Tariff	2.54	1.81
		200-600kWh/month (Second Block)	€/kWh	High Tariff	7.00	5.01
			€/kWh	Low Tariff	3.51	2.51
		>600 kWh/month (Third block):	€/kWh	High Tariff	10.16	7.27
			€/kWh	Low Tariff	5.07	3.65
6	0.4kV domestic 1 Rate meter	Standing customer charge	€/customer/month		2.27	
		Active energy (P) for consumption:				
		<200kWh/month (First block):	€/kWh	Single Tariff	4.51	3.22
		200-600kWh/month (Second block)	€/kWh	Single Tariff	6.24	4.46
		>600 kWh/muaj (Third block):	€/kWh	Single Tariff	9.05	6.49
7	0.4kV (domestic unmetered)	Estimated consumption:				
		<200 kWh/month	€/customer/month		23.41	
		200-600 kWh/month	€/customer/month		42.37	
		>600 kWh/month	€/customer/month		71.40	
8	Public lightning	Standing customer charge	€/customer/month		3.18	
		Active Energy (P) for consumption:	€/kWh	Single Tariff	9.17	9.17

High Tariff applies from 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 $\cos(\Phi)=0.95$

Structure tariff in Kosovo allows three tariff blocks for domestic customers, in order to focus on helping vulnerable customers and increase the flexibility so that the domestic consumers have the opportunity to determine their average monthly price by using electricity with higher efficiency.

Pricing rules also define the process by which the maximum allowed revenues will be reviewed also for the charges for use of the transmission network (TUOS), transmission system operation charges, and market operation charges.

Below are presented tariffs and charges for use of the Transmission Network (TUOS), charges of Transmission System Operation, and charges of the Market Operation that reflect the level of Maximum Allowed Revenue or the MAR set for KOSTT.

Tab. 5.3 Structure of tariffs and charges for kostt jsc applied as of june 1, 2012

Tariff Group	Connection voltage level	Tariff Element	Unit	Approved
Generation	400/220 kV	System Use Charge	€/kW/year	0.000
		System Operation Tariff	€/MWh	0.576
		Market Operation Tariff	€/MWh	0.023
Generation	110 kV	System Use Charge	€/kW/year	0.000
		System Operation Tariff	€/MWh	0.576
		Market Operation Tariff	€/MWh	0.023
Generation	Distribution	System Use Charge	€/kW/year	0.000
		System Operation Tariff	€/MWh	0.158
		Market Operation Tariff	€/MWh	0.023
Supply	400/220 kV	System Use Charge	€/kW/year	4.813
		System Operation Tariff	€/MWh	0.576
		Market Operation Tariff	€/MWh	0.023
Supply	110 kV	System Use Charge	€/kW/year	9.927
		System Operation Tariff	€/MWh	0.576
		Market Operation Tariff	€/MWh	0.023

5.3 Multi-Year Electricity Tariff Review (ETR7)

In June 2012 ERO has initiated the Seventh Electricity Tariff Review (ETR7) which will enable setting of the Maximum Allowed Revenue for a multi-year period (2013-2017). These Maximum Allowed Revenues should be sufficient to cover the reasonable operation costs and capital costs related to regulated activities. In order to determine the amount of needed Revenues, ERO is assessing the licensees' predictions for necessary and reasonable costs. Legal basis obliges the licensees to provide all the data required by ERO for the purpose of assessing this analysis.

In accordance with the new pricing rules issued by the ERO in 2011, ERO will determine revenues for the following periods:

- 5 years for licensed activities of the TSO, MO and DSO;
- 4 years for licensed production activities;
- 1 year for licensed activities of the public supplier.

Below are presented the average tariffs for domestic customers and those as end users for two quarters (which includes: the period January-March and April-June) of the Southeast European countries including Kosovo, taken from the Energy Regulators Regional Association (ERRA).

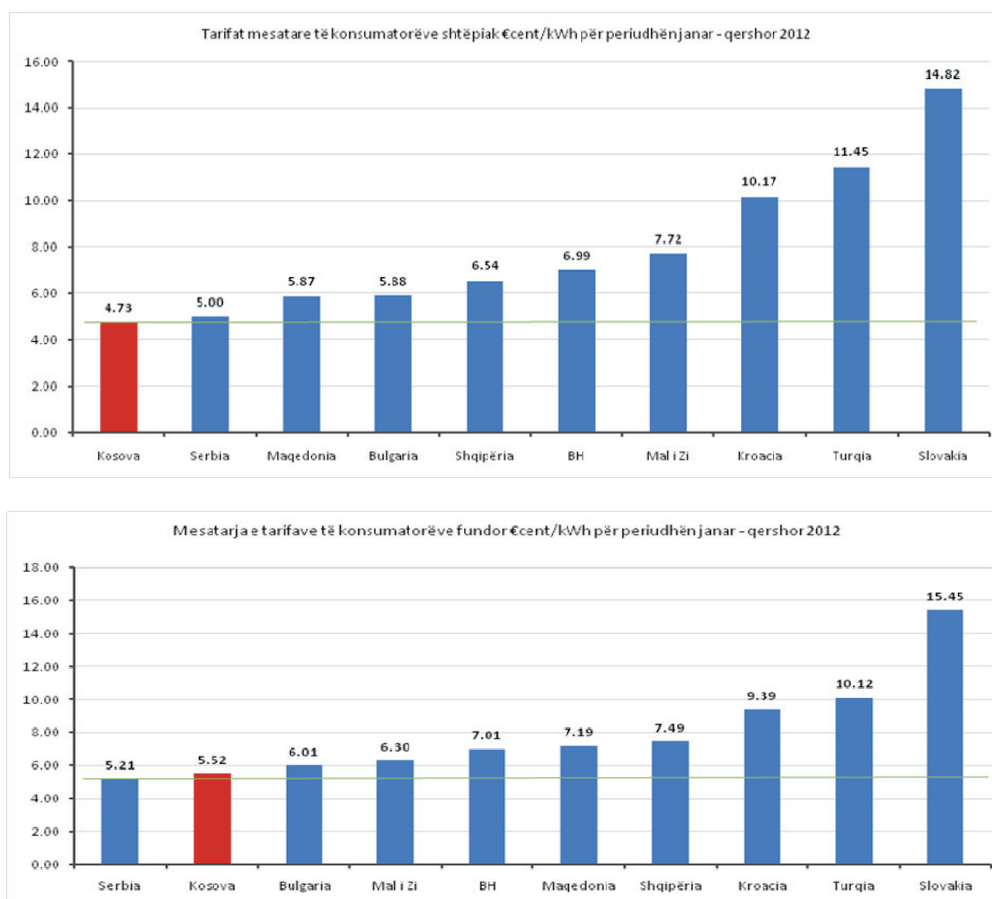


Fig.5.2 Average tariffs for domestic and end customers

The data presented are only for the first six months of the year 2012 since the data for the second six months of 2012 from other countries have not been sent yet at ERRA. The data presented in the chart are without VAT.

6 DISTRICT HEATING SECTOR

6.1 Overview of District Heating Sector

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

6.1.1 Main Developments in the District Heating Sector

In 2012 has been made a progress in implementation of the co-generation project – supply of thermal energy from TPP Kosova B to the district heating system for DH Termokos. At the beginning of this year, a consulting company was selected that shall assist Termokos in implementation of the project, including: drafting technical specification, investment costs estimation and other tender documentation as well as evaluation of bids and monitoring project implementation.

In this regard, tender documentation has been prepared and tender procedure for two packages has been initiated:

- Pipelines for transporting thermal energy from TPP Kosovo B to the DH Termokos system;
- Thermal energy exchange stations in Kosovo B and DH Termokos

Also, by the ALSTOM, a turbine manufacturing company, was completed an engineering study which assessed the technical feasibility and determined the optimal technical solution for the extraction of steam from the turbines as well as it was determined the impact into the turbine's operation and consequently in the electricity generation process.

It is expected that in the first quarter of 2013, the tender procedure will be finalized and thereafter implementation works will initiate.

Given the large increase of the price of the crude oil, which is currently used as a fuel in the district heating, the DH Gjakova has initiated a project whose main component relates to modification / replacement of existing boilers due to the fuel change. The project proposal was presented to the WBIF ("Western Balkans Investment Framework"). In early December 2012 this proposal is accepted by the WBIF Steering Committee and now is expected the formal decision of the EC to start with feasibility study and then based on the results of the study on implementation of the project.

In December of 2012, the study for the district heating in Prizren, Peja, Ferizaj and Gnjilane has been finalized, funded and supported by the MED and drafted by the Institute of Science and Technology - INTECH. This study evaluated the possibility for expansion of the district heating sector, with the main objective to identify the most favorable technical and economic options for the extension of district heating systems in the four aforementioned cities.

It should be noted that ERO had continuous cooperation and is actively involved in the above projects on the regulatory related matters, but not limited to.

6.1.2 Technical Features of District Heating Systems

Generation plants

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

District Heating Gjakova is equipped with two boilers of oil fuel, with a general installed capacity of 38.6 MW_t – of which one is of 20 MW_t generation capacity and the other of 18.6 MW_t, which is presently out of operation.

Distribution Systems

Common specifics of all district heating systems in Kosovo are that their distribution network is composed of the primary network expanded up to the supplying point at the substation and secondary network which is expanded from the supplying point at the substations until the district heating end users.

Primary distribution network of DH Termokos is of approximately 35 km length. An integral part of the distribution system is also the pumping station and heat exchangers located in Sunny Hill, as well as 312 active substations, which are separation points 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 serving as separation points between the primary and secondary network.

It must be emphasized that Termomit and Zveçane District Heatings, due to known circumstances, do not respond to the requirements for licensing/regulation and monitoring from ERO and therefore it is unable to obtain relevant updated data.

A summary of technical features of the district heating systems of DH Termokos and DH Gjakova, are given in the table 6.1.

Tab. 6.1 Technical data of district heating systems

Enterprise (City)	Installed capacity [MW _t]	Operational capacity [MW _t]	Distribution network	
			Network length [km]	Subst. No.
	2 x 58 = 116	2 x 58 = 116		
DH TERMOKOS	2 x 7 = 14	2 x 7 = 14	35.0	312
(Prishtina)	2 x 0,81 = 1.62	0		
	1 x 4 = 4	1 x 4 = 4		
Sub-total	135.62	134.00	35.00	312
	1 x 20 = 20	1 x 20 = 20	23.50	249
DH GJAKOVA (Gjakova)	1 x 18.6 = 18.60			
Sub-total	38.60	20.00	23.50	249
Total	174.22	154.00	59.00	561

6.2 Performance of District Heating Enterprises

6.2.1 Fuel Consumption and Price

During the 2011/2012 season, the fuel consumption – crude oil - has been significantly lower than planned consumption; this was mainly due to the continuous rise of the crude oil price and financial difficulties that district heating enterprises have been faced with, which has prevented them from the reliable supply with fuel. During the 2011/2012 season DH Termokos has consumed only 5,050.67 tons, i.e. about 43% of the planned quantity. Also, the DH Gjakova fuel consumption was very small 980.07 tons, or 45% of the planned quantity.

The following table presents fuel consumption for the 2011/2012 season and a comparative presentation with planned quantities.

Tab. 6.2 Consumption of fuel

Company - DH System	Crude oil consumption (t)			
	Planned Season 2011/2012	Realized Season 2011/2012	Difference (t)	Achieved (%)
TERMOKOS - Prishtina	11,700	5,051	6,649	43.17
DH GJAKOVA	2,160	980	1,180	45.37
Totali od DH Sector	13,860	6,031	7,829	43.51

The crude oil fuel is imported at reference stock exchange prices plus a “premium” for covering supplier costs. Consequently, the fuel costs are greatly affected by price fluctuations on international markets (stock exchanges), which mostly were continuously growing. More concretely, the crude oil fuel prices with sulphure content increased by 3.5% during the period October 2011 – April 2012, its fluctuations were from 442.68 €/ton until 533.02 €/ton, respectively the average stock exchange price for this period was 484.11 €/ton.

The figure below is a chart of oil fuel prices, based on contracts prevalent on international stock exchange “Mediterranean Cal Swap”, for period October 2011 – April 2012.

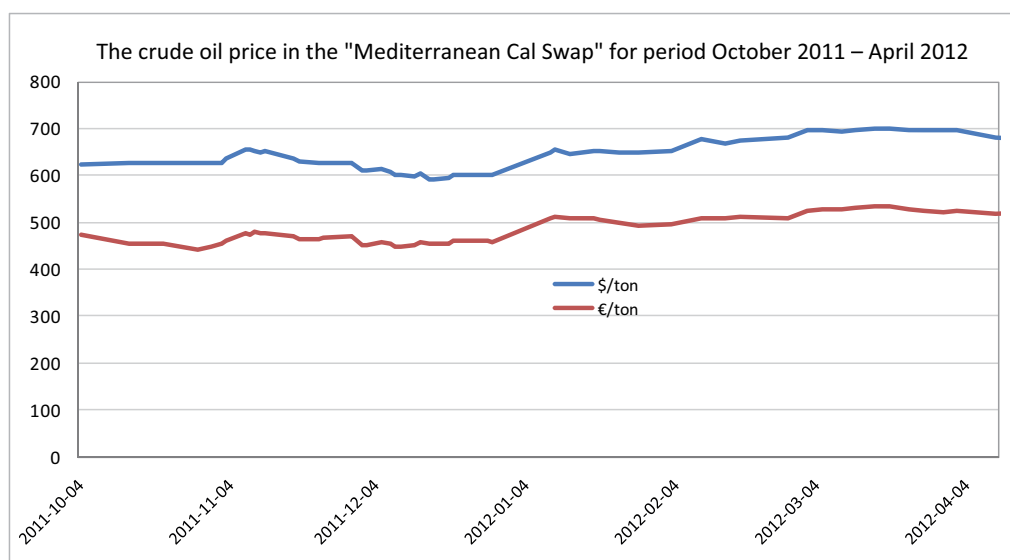


Fig. 6.1 Crude oil price in the international stock exchange “Mediterranean Cal Swap” for period October 2011 –April 2012

6.2.2 Generation, Heating Supply and System Losses

Prodhimi

Generation

Generation of heating during 2011/2012 season was considerably lower than forecasts due to difficulties with fuel supplies. Net generation achieved at DH Termokos was 50,025 MW_th - 42.04% compared to planning. While in DH Gjakova, net generation was 7,858 MW_th – 36.58% compared to planning.



Fig. 6.2 Image from DH Termokos

Supply with Heat

Season 2011/2012 was characterized with insufficient supply - significantly lower than the planned supply. There were frequent interruptions for several days and poor quality of heat, and due to the lack of supply with fuel, the heat supply ceased completely for about 1 and a half months before the official end of the heating season.

Supply to customers from the DH Termokos was 38% of the planned supply, and the heating performance of the DH Gjakova was 34% of planned supply.

System losses

Losses in the generation and distribution network generally have shown the same level as in previous seasons without any significant improvement. In the table and chart below are summarized the heating generation and supply as well as the respective losses.

Tab. 6.3 Energy performance of district heating enterprises

Company	Energy from fuel	Heat generation	Generation losses	Heating plant	Distribution losses		Supply
	(MW _t h)	(MW _t h)	(MW _t h)	(%)	(MW _t h)	(%)	(MW _t h)
DH Termokos	57,073	50,025	7,048	87.65	10,259	20.51	39,766
DH Gjakova	11,075	7,858	3,217	70.96	1,414	17.99	6,445
Total	68,147	57,883	10,264	84.94	11,672	20.17	46,211

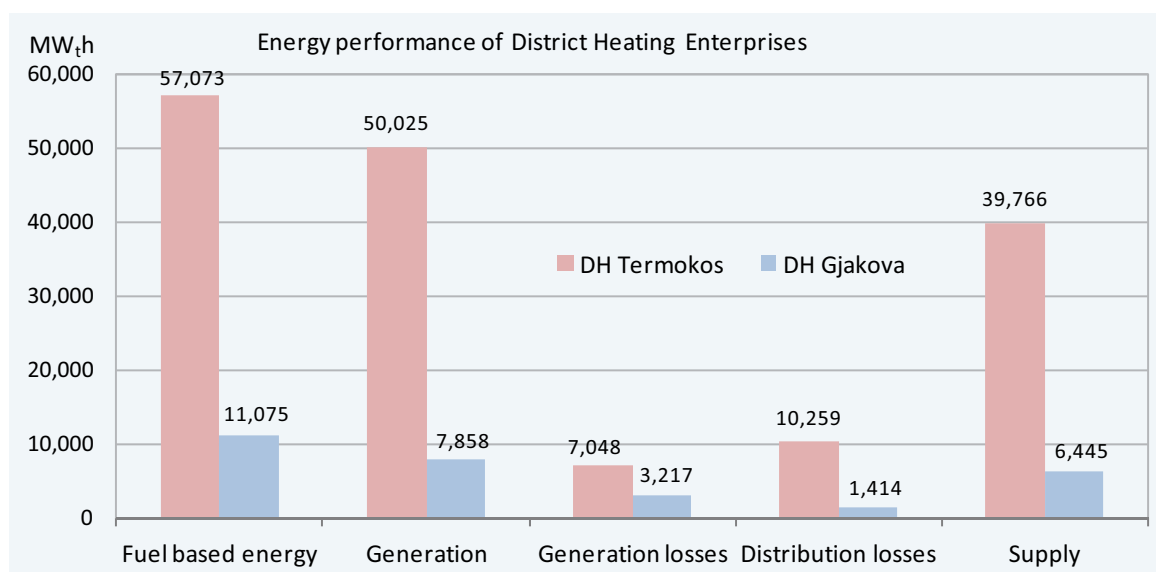


Fig. 6.3 Energy performance of district heating enterprises

6.2.3 Billing and Collection

Most of district heating customers were billed mainly based on pre-assessed heating area (per square meter). With respect to billing, this year the intended billing target was not attained due to following reasons:

- deductions in bills due to lack of heat supply days (mostly due to irregular heat supply);
- Deduction in billing due to the supply quality; and
- Deductions of the area for heat following field verifications, and non-billing of premises that were disconnected during different heating seasons.

Data reported by the district heating enterprises indicate that heating season 2011/2012 mainly continued with same collection trends without any improvement. As it can be seen from the data shown in the table 6.3, the average collection rate for the whole district heating sector fell by 41.97% and especially it is of concern the low collection rate at the domestic customers.

Tab. 6.3 Heating area, billing and collection - 2011/2012 heating season

Heating season 2011/2012	Heating area [m ²]	Tariff [€/m ²]	Billing (incl. VAT) [€]	Collection [€]	Collection rate [%]
DH Termokos Prishtina					
Domestic	655,166	0.84	1,100,262	190,592	17.32
Comm. and Instit.	423,735	1.00	1,066,728	688,335	64.53
Total	1,078,901	-	2,166,990	878,926	40.56
DH Gjakova					
Domestic	91,543	0.97	302,505	82,770	27.36
Comm. and Instit.	66,415	1.39	324,202	210,731	65.00
Total	157,958	-	626,707	293,501	46.83
Total DH	1,236,858		2,793,697	1,172,428	41.97

The overall area supplied with heating from DH Termokos during 2011/2012 was 1,078,901 m². Domestic customers account for 60.67% of this area, while commercial and institutional customers 39.23%.

DH Gjakova had a total supply area of 157,958 m². Share of domestic customers in the total area is 57.95%, while the commercial and institutional groups account for 42.05%.

6.3 District Heating Tariffs for 2011/2012 Season

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

While district heating sector, in respect to the heat transportation and distribution, is qualified as a natural monopoly, in absence of a competitive heat generation and supply, then the district heating tariffs containing all components listed to the above are subject to approval by the ERO.

For calculation of tariffs and district heating prices, ERO selected and applied the method of Rate of Return (RoR) or the so-called cost plus.

Based on RoR methodology, ERO determines the Allowed Revenues that the district heating enterprise has to generate through tariff, i.e. the 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 presents heating tariffs for the 2012/2013 heating season:

Tab. 6.4 Summary of district heating tariffs for 2012/2013

A. DISTRICT HEATING TARIFFS FOR UNMETERED CUSTOMERS

DH COMPANIES	Tariff components	Domestic customers [€/m ² per month]	Commercial and Institutional customers [€/m ² per month]
DH TERMOKOS JSC	Contracted heating capacity (fixed comp.)	0.07	0.08
	Supplied heating (variable comp.)	0.77	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	0.66
	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

7 CUSTOMER CARE

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. To facilitate these activities, ERO has approved the Rule on the resolution of complaints and disputes in Energy Sector, Rule on General Conditions of Energy Supply and the Rule on Disconnection and Reconnection of Customers in the Energy Sector.

Direct treatment of the energy customer complaints is considered as one of the important activities in exercising ERO activities.

Same as the last years, during this reporting year ERO has been very much engaged in providing consumer protection services, analyzing KEK provided data, commenting, reviewing and approving KEK procedures in order to ensure the proposed procedures are not discriminatory.

In this reporting year, ERO, through its Department for Consumer Protection has processed many customer complaints as well as a complaint of a licensee against another licensee.

7.1 Resolution of Complaints and Disputes

According to provisions of the Rule on Claims and Disputes Resolution in the Energy Sector, 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 issues a response within the legal period. The customers, upon receipt of response, may address to ERO for further review.

During 2012, ERO registered 71 customer complaints/disputes, of which 52 or 73.24% 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 2012, ERO also has 130 customer complaints from previous years, where in total for 2012 were resolved 182 complaints. From the 182 resolved customer complaints, during this reporting year, 123 complaints have been approved in favor of the customers or 67.58%, while 59 complaints or 32.42% have been dismissed as ungrounded.

Customer complaints registered in ERO in 2012 were of various natures and are represented in the table below.

Tab. 7.1 Customer complaints by nature of complaints during 2012

Nature of complaints	No.	Percentage [%]
Dispute of electricity bill	23	32.39
Dispute of electricity debt	20	28.17
Transfer of electricity debt	12	16.90
Lump sum billing	7	9.86
Joint consumption	3	4.23
Correction of tariff group	1	1.41
Dispute between two energy enterprises	1	1.41
Other	4	5.63
Total	71	100.00

From the table above of registered complaints, you may observe that the biggest number of customer complaints was related to challenging the electricity bills, with a share of 33 %.

During this reporting year, it must be noted that KEK has taken some actions about transfer of debts of several metering points made passive by KEK and the created debts were passed on to other active customers who are currently using facilities or locations where these metering points were placed. Many customers have challenged this action of KEK arguing that debts belong to previous persons and that they are not generated by them and therefore they have refused to pay such a debt (debt transfer). Through a letter sent to KEK, ERO has responded and asking to immediately terminate this action. Following ERO reaction, KEK, acting in compliance with the requirements, terminated debt transfer.

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

Tab. 7.2 Customer complaints by categories during 2012

Customer complaints by category	No.	Percentage [%]
Household	53	75.71
Commercial	15	21.43
Industrial	2	2.86
Total	70	100.00

In addition to complaints registered, during this year were conducted 534 meetings and 286 complaints by telephone from parties took place, who have addressed their complaints to the office relating to different contractual issues between customer and energy enterprise. In communication with the parties, customers were informed and instructed about the rules, procedures and the rights and obligations associated with power supply.

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



Fig. 7.1 Customer complaints by years

Protecting and enforcing the role of customers, well informing on contractual rights and obligations in relation to energy enterprises, remains a very important challenge in the ERO's further work.

Besides complaints between customers and energy enterprises as we have noted above, ERO has authority under the law to resolve disputes between the two energy enterprises. In 2012 KOSTT JSC has filed a claim against KEK JSC which ERO has reviewed and resolved. Subject of the dispute brought by KOSTT against KEK has been "Denial of payment for transmission services and return or invoices for October, November and December 2011."

After resolving this dispute, KEK has opposed the decision of the Board of ERO at the Supreme Court. On the basis of facts and explanations provided by the ERO, the Supreme Court has rendered a Judgment in favor of ERO's Decision.

8 DEVELOPMENT OF NATURAL GAS SECTOR

Kosovo has approved the Law No. 03/L-133 on Natural Gas although there is no market and natural gas infrastructure. This law sets out the basis on organization and functioning of natural gas sector, market approach as well as the conditions and criteria for conducting transmission, storage, distribution and supply of natural gas..

This law has been drafted and approved by Kosovo Assembly having two main goals: fulfillment of obligations that Kosovo has to the EC Treaty and opening a perspective for the development of this sector.

The perspective of developing a natural gas sector is closely related to gas infrastructure projects in Southeast Europe, especially with the EC Gas Ring connecting seven countries in the region, among which is also our country.

In this respect, 2012 was characterized by two very important moments at the regional level, from which Kosovo could potentially benefit:

- EC Regional Strategy, which, inter alia, contains a very important component for the development of gas infrastructure in the region of Southeast Europe – Projects of EC interest (PECI - "Projects of Energy Community Interest"). It is envisaged that the projects specified / listed as projects of interest to the region will have political priority in the decision-making but also financial support eventually.
- Regional Initiative "Gas for electricity", originally launched by the World Bank and accepted by the ECT, provides an incentive and necessary measure for the development of Gas Ring. Regarding this, the ECT Secretariat proposed a study: Approach of the Consortium for the Development of the Initiative Gas for Electricity and Gas Ring of the ECT. In June 2012 this study was approved to be funded by the WBIF and the World Bank as a leading Financial Institution. The study which is expected to be completed during 2013, will assess the feasibility of planned capacities for generation of electricity from gas, as well as will provide recommendations on the way of implementation of these investments, financing generation capacity and Gas Ring infrastructure and regulatory incentive measures for these investments.



Fig. 8.1 Concept of the "Energy Community Gas Ring (source: ECT Secretariat)

Following the completion of the legal responsibilities for the development of a regulatory framework and obligations towards ECT SEE, ERO in 2012 closely followed regional developments related to natural gas, and has actively participated in the work of the Working Group within the Gas Regulatory Board of EC and Gas Forum. In this regard, among others ERO contributed to the preparation and finalization of a number of relevant documents.

9 ERO'S INTERNATIONAL ACTIVITY

9.1 ERO and Energy Community Treaty of South East Europe

Energy Community of South East Europe (ECSEE) was established under the Treaty of 2006, and in 2012 it continued its activities towards meeting joint objectives deriving from the respective “acquis communautaire” directives pertaining to the sectors of electricity, gas, heating, renewable sources and co-generation as well as security of supply. Ratifying countries that continue to be part of the Treaty are: Albania, Bosnia and Herzegovina, Croatia, Kosovo, Macedonia, Montenegro, Serbia, Moldova and Ukraine.



Fig.9.1 Member states of the Energy Community of Southeast Europe

Region 8 consists of: Albania, Bosnia and Herzegovina, Croatia, Macedonia, Moldova, Montenegro, Serbia, Kosovo, Bulgaria, Greece, Hungary, Rumania and Slovenia. The territory of Italy is included in the region depending on the interconnection lines with other countries of ECT.

Energy Community Treaty (ECT) is a key strategic element of the European Union (EU) for the 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, are represented the following: Austria, Bulgaria, Czech Republic, Cyprus, France, Germany, Greece, Hungary, Italy, the Netherlands, Rumania, Slovakia, Slovenia and Great Britain, while the status of the “observer” is extended to: Georgia, Norway and Turkey.

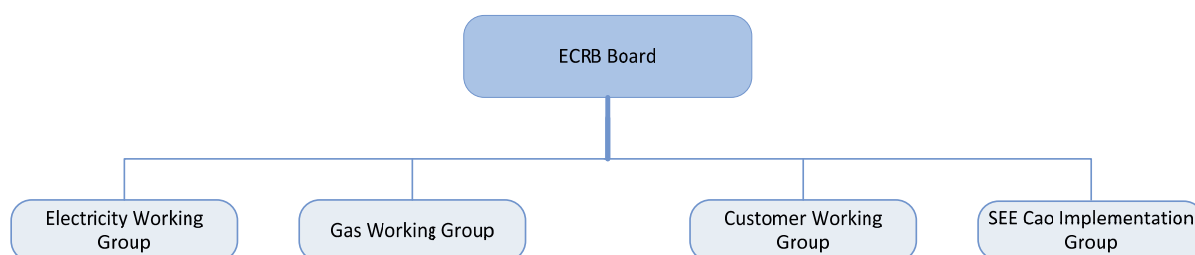


Fig.9.2 Regulatory Board Structure

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

- Provides advice 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.;
- Undertakes 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
- Require fulfilling of the obligations of parties under ECT.

The objectives and priorities of the RB are:

- Development of competitive national market in the gas and electricity sector,
- Integration of national markets and eliminating barriers for cross-border activities and competition,
- 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 RB Activities During 2012

The Regulatory Board established working groups on: gas, electricity, customers and the Working Group on Implementation of Coordinated Auction Office for SEE. ERO has its nominated members in the RB and in every working group that acts on behalf of Kosovo on regulator issues. RB is chaired by a chairperson elected every year by the representatives of national regulators, as well as the deputy chairperson, who is delegated by the European Commission.

9.2.1 Electricity Working Group

In favor of efficiency, this group has established Task Forces (TF).

- TF-1 Congestion Management:

Deals with the issues of congestion management and allocation of cross-border transmission capacities, based on requirements of Regulation 714/2009 of the European Commission (EC). In 2012 has been prepared the RB WG Report on the mechanisms for allocation of cross-border capacities in the Southeast Europe, by quarters-2012.

- TF-2 Balancing:

Balancing electricity flows is of essential importance for functioning of transmission systems and their development as well as regional integration of energy market. In 2012, this group developed the Balancing Vocabulary and balancing mechanism implemented by the ECT member states.

- TF-3 Wholesale Market Opening and Compatibility of Market Rules:

Opening the wholesale market and compatibility of market rules still remains a main regional objective. The Regional Group of SEE within the ENTSO-E reported on impediments to development of the regional market.

- TF-4 Harmonization of licenses:

Harmonization of market licenses remains a priority for the mutual recognition of licenses by contracting parties of the ECT. In 2012 no activity has been undertaken on this matter.

- TF-5 Cooperation Between the Regulators and Cross-border Investments:

Special attention was paid to cooperation among WG and RB of SEE and ACER ERI/CEER (ACER- Agency for Cooperation of the European Regulators, ERI- Electricity Regional Initiative, CEER-The Council of Electricity European Regulators).

- TF-6 Monitoring of SEE Market:

Monitoring of the SEE regional Market was in focus since 2006 by the project "Monitoring the SEE Market", implemented by a consulting company from USA "Potomac Economics", and continued also during 2012 by defining indicators and providing an overview of monitoring for cross-border activities. Data on "dry-run" stage are controlled by Transmission Operators and National Regulators, by rotation in alphabetic order.

- TF 7 Renewable Resources:

This sub-group was established in 2012. During this year there were few presentations of settlement experiences for supporting renewable resources at the 8th region states.

Electricity Working Group, during the year 2012, held four meetings, in which took part also the ERO representative.

It should be noted that, in documents and projects treated by this group, KOSTT is still not represented as an equal participant. This is primarily due to outstanding problems between KOSTT and Transmission Operator of Serbia (EMS), regarding allocation of capacity of Kosovo lines and Regulatory Area related matters. ERO has commented and reacted on how the KOSTT is presented in those documents insisting that KOSTT should be treated as the sole operator of the Regulatory Area acting in the territory of Kosovo. This problem has remained unsolved, and KOSTT is still not equally treated as other regional TSOs. KOSTT is not yet recognized as a member of ENTSO-E.

9.2.2 Gas Working Group (GWG)

This group focuses its activities in the natural gas regulatory matters, harmonizing the regulatory framework at regional level and other matters related to development of the natural gas infrastructure in the SEE region. For efficiency purposes and in favor of treatment of specific issues, specific task forces have been established ("Task Force" – TF).

- TF-1 Regulator Aspects for the Development of Energy Community Gas Ring

The main objective of this "Task Force" is to evaluate regulatory options and incentive measures for the implementation of the "Energy Community Gas Ring". In connection to this, attention was paid to review of requirements for harmonization of the regulatory framework and incentive measures for funding investments for Energy Community Gas Ring.

In the context of the work of this subgroup, in 2012, it was finalized and published the study on: "Recommendations on the Financing of Investment in the Energy Community Gas Ring," and was prepared the draft document: Assessment of the Regulatory Framework for Northern and Southern Segment of the Energy Community Gas ring

- TF-2 Gas Balancing

The work of this "Task Force" included evaluation of rules and mechanisms for regional balancing and needs for their harmonization with a main objective to the functioning of the transparency and non-discriminatory based market as well as opening and integration of the regional natural gas market.

In this regard, a draft assessment document was prepared: Balance of Gas Transmission Networks in the Energy Community – Harmonization Needs.

- TF-3 Transmission System Interoperability

This "Task Force" dealt with the review of technical interoperability of transmission systems and assessment of necessary measures for the regional level harmonization, with the aim of creating conditions to facilitate cross-border flows of gas.

Review of technical interoperability at the regional level is carried out through questionnaires and based on the analysis of the data collected, measures to improve the interoperability of gas transmission systems have been proposed.

9.2.3 Customer Working Group

Customer Working Group and its task forces deal with activities related to protection of vulnerable customers, quality of energy supply, etc.

- TF1 – Customer Protection

This task force was engaged in protection of customers and vulnerable customers, through analysis and discussions on secondary legislation, other state's practices on this very sensitive subject. During 2012 the Energy Community Secretariat has organized a round table working on diverse issues related to social practices of different countries and social issues and in September 2012 was organized Social Forum .

- TF2 – Change of supplier

During 2012 this task force has been focusing on the development of best practices related to change of supplier, where questionnaires were prepared by a consulting company regarding change of supplier and these were filled in by member states of the ECT. In 2012 by a consulting company conducted a study on "Development of best practices for change of supplier by customers in the Energy Community".

- TF3 – Small electricity producers

The main objective of this task force has been to develop a joint document of the ECT signatory states, to look into the best practices in these countries about renewable energy sources, especially for small producers of electricity. Respective questionnaire has been prepared and then based on the responses of states, it was prepared a joint document containing the legal and technical basis on this new field in the region.

- TF4 – Connection to the network

The main focus of this task force has been to develop a joint document of the ECT signatory states concerning customer connections in the distribution operator network. In 2012 was prepared the document on the "Analysis of existing rules relating to the connection of customers in the electricity network and relationships between customers and distribution system operators."

- TF5 – Guidelines on the best practices on implementation of the use of voltage quality

The activities of this task force relate to filling in the questionnaires on the quality of voltage, primary and secondary legislation as well as respective codes and procedures. During 2012 there have been some activities on this matter like: filling in questionnaires on voltage quality as well as on rules and procedures.

9.3 Association of the Regional Electricity Regulators

Representatives of ERO during 2012 attended meetings and conferences, organized by the Energy Regulators Regional Association. ERRRA has the following committees / task forces: Committee on licensing and competition, Committee on tariffs, Committee on legal regulation, Committee of Board Presidents and Committee on Gas. In these committees are treated various regulatory matters and are exchanged knowledge and experiences between the states representatives. ERO is represented as an associate member and takes place in the General Assembly and in the work of committees of this association. Namely, in 2012, ERO representatives took place in the following ERRRA activities:

- Meeting of the Working Group on Legal Regulation, held in Budapest, Hungary
- General Assembly 12th meeting and regular meeting of the Committee on Tariffs held in Bratislava, Slovakia;
- Regular meeting of the Committee on Legal Regulation, held in Izmir, Turkey.

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