

KEK'S ADDITIONAL COMMENTS TO ERO ON ITS CONSULTATION PAPER AND PROPOSED ADJUSTMENTS TO ALLOWED REVENUES

KEK respectfully submits these additional comments and explanations concerning the ERO's proposed adjustments to the Allowed Revenues submitted by KEK.

CAPEX Depreciation and Return Adjustment

KEK disagrees with the ERO's reduction of € 7.9 million for CAPEX depreciation and return. This reduction would result in KEK not having the revenues in 2009 to fund new needed equipment. If KEK had actually collected the funds from customers in 2008, and had exceeded the amount of allowed revenues, then the ERO might be justified in having KEK refund the over amount to customers. However, KEK did not collect the ERO's Allowed Revenues in 2008, in fact were far short of that amount, thus KEK did not over-collect revenues in the amount of ERO's proposed adjustment. KEK did not earn more than allowed by the ERO, hence the proposed adjustment for the return is not justified.

Mining Equipment and Depreciation

KEK disagrees with the ERO's proposed depreciation life for mining equipment to be 35 years. The appropriate remaining life over which to depreciate the capital expenditures being made for mining equipment is 15 years. This is based on two significant factors.

1. The capital expenditures being made at the mine are for the primary purpose of "Life Extension". Much of the existing equipment was acquired 20 to 30 years ago and the expenditures being made now are expected to extend the life another 15 years.
2. The Mining Capital Expenditures are being financed by a loan from the Government of Kosovo to KEK with a repayment schedule over the next 15 years. Recovery of the cost of equipment in the form of depreciation and return on investment over a 15 year period is critical to meet KEK's debt service requirements (repayment of principle and interest) to the Government. It is important to note that KEK has no access to capital markets and, therefore, has to rely on recovery of the capital costs in tariffs.

Corporate Services

Corporate Support Services (HQ) is continuing its efforts to increase efficiency, improve KEK's customer service and continue to reduce commercial losses. However, to carry out these efforts requires an increase in the 2009 budget, as reflected in KEK's Tariff Application. The major budget items are described here:

Internal Audit, Anti Corruption, and Revenue Protection Office:

KEK is enhancing its Internal Audit Unit to improve internal controls throughout its operations. The Anti Corruption Unit is focused specifically on detecting and preventing fraud and embezzlement on the part of KEK employees. KEK is also building an effective Revenue Protection Department focused on reducing commercial losses. This

requires an increase of 54 skilled personnel. The 2009 operating costs for this new unit are expected to be 550,000 Euros.

Information Technology:

New personnel with up to date skills in Data Base Administration, Network Management, Communications, and Application Development are required. The additional number of people budgeted for this department is 3.

Operating costs for the IT Department are budgeted higher in 2009 due to the following:

- Additional OPEX related to KEK's participation in the World Bank CLRP project- €650,000
- Additional IT costs related to a) creating a new data center in Elektrokosova building and moving the IT servers, network, and communication equipment from Toskana to Elektrokosova - €365,000; b) providing additional communication capacity to all customer offices with a second communication line so that the offices can continue to process payments in the event of an interruption of the primary line- €132,000;
- Renewal of software licenses and fees of €247,000
- Audit and consulting related to the registration of the new Network and supply company - €150,000;
- Additional Elektrokosova building maintenance related to moving KEK HQ from Toskana and modifying office space to accommodate for the newly registered Disco. €218,000.

Public Relations:

It's obvious that KEK must become more effective in managing its relations with the public and the press. The impending privatization adds additional complexity to this task. The number of personnel is budgeted to increase by 3 and additional operating expenditures of €150,000 are required.