



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

ANNUAL REPORT

2007

Prishtinë
2008

INTRODUCTORY SPEECH

In this annual report for 2007 is presented a summary of the major works and activities of Energy Regulatory Office (ERO), of the Steering Board and its technical services. Furthermore herein are presented observations, data and results based on an overall analysis of the activities in the energy sector of Kosova, particularly those of market and public services' development in this sector. Herein are included basic financial reports relative to office's budget for the year 2007. In the report are given further the technical-economic data for the regulated activities of the sector.

ERO which was established in 2004 in compliance with the Law on Energy Regulator plays an important role in transformation of the energy sector, operation of the competitive and regulated market, regulation of the energy companies that hold positions of monopoly, in granting operation licenses for the market shareholders as well as in monitoring of market and licensees.

ERO is financed through own source incomes, taxes collected by licensees. ERO's budget has been approved by the Kosova Assembly. During this year, besides sufficient incomes, ERO was allowed a limited budget for financing of its activity; in particular have been shortened the means dedicated for the category of wages and salaries. This shortage has inflicted huge problems due to leaving of a large number of professional staff from ERO as well as difficulties relative to recruitment of new staff of a particular skills and experience from the field of regulation.

During the year 2007 ERO has successfully completed the duties and responsibilities outlined by the basic laws regulating particular activities in the energy sector, as well as secondary laws extracted based on these laws. Most of the secondary legislation has been drafted and approved as foreseen by relevant laws, by ensuring a solid legal ground for opening of the energy market. New terms/conditions for obtaining of eligible customer's status are published, in this way creating premises for further opening of the energy market.

ERO has paid particular attention to the cooperation with relevant Ministries of Kosova, Parliamentary Committees of the Kosova Assembly and UNMIK, in order to align the activities dealing with implementation of the strategies and policies in the energy sector. It has further been worked on drafting the draft-regulations on granting the authorizations for new energy generation capacities' building and in those for establishing of an adequate legal framework on usage of the energy renewable sources and co-generation.

Valuable technical assistance for implementation of this goal as well as for extending of staff capacities have given donors i.e. EBR, USAID and World Bank. ERO has continued its cooperation with international organizations and institutions in the field of Regulation such as: Council of European Energy Regulators (CEER) and Regional Association of Energy Regulators (ERRE). ERO has taken active part in the process of establishing the Regulatory Board of the Energy Community (ECRB), as well as

working groups in its frame pursuant to South Eastern European Energy Community Treaty (SEECT).

During this year has continued the licensing of the activities in the energy sector, especially for supplying/trading with electrical energy. Another important activity of the energy sector has been monitoring of licensees in order to ascertain if the licensed activities are performed in compliance with the terms of the issued licenses intent to improve the service level as well as secure supplying of the customers.

For the first time it has been conducted the pricing review and establishing of new electrical energy tariffs based on Tariff Methodology. These tariffs are disbanded and based on production and service costs; gradual elimination of the cross-subsidies between the customer's categories and the affordability of the customers.

A particular importance has been given to the field of customers' protection via monitoring of the energy enterprises, through considering complaints and particular customers' disputes regarding the conditions and quality of the energy supplying services (measurement, billing, unauthorized usage of the energy etc).

Continuously, ERO publishes the decisions that are important to the public, through electronic and written media. Activities, statements, news and more important events relative to the energy market are kept updated in the ERO web-page.

Respectfully,



Dr. Ali Hamiti
Chairman of the Board

CONTENT

CHAPTER 1.....	1
GENERAL INFORMATION ON THE ENERGY REGULATORY OFFICE OF KOSOVA	1
1.1 LEGAL GROUNDS AND MANDATE OF THE ENERGY REGULATORY OFFICE	1
1.2 ENERGY REGULATORY OFFICE ORGANIZATIONAL CHART AND HUMAN RESOURCES	1
1.3 BUSINESS PLAN.....	6
1.4 ANNUAL FINANCIAL REPORT OF ENERGY REGULATORY OFFICE – YEAR 2007.....	6
CHAPTER 2.....	9
REGULATORY DEVELOPMENTS	9
2.1 ACTIVITIES RELATIVE TO DEVELOPMENT AND APPROVAL OF SECONDARY LEGISLATION	9
2.2 ACTIVITIES RELATIVE TO LICENSING AND MONITORING OF THE LICENSED OPERATORS	10
2.3 PUBLIC INFORMATION	11
2.4 DECISIONS OF ERO BOARD DURING 2007	11
CHAPTER 3.....	12
DEVELOPMENTS IN THE ENERGY SECTOR.....	12
3.1 ACTIVITIES RELATIVE TO REFORMING OF THE ELECTRICITY SECTOR.....	12
3.2 ELECTRICITY MARKET	13
3.3 ELECTRICITY GENERATION AND CONSUMPTION	15
3.4 IMPORT AND EXPORT OF THE ELECTRICITY.....	19
3.5 LOSSES IN THE ELECTRIC-ENERGY (POWER) SYSTEM OF KOSOVA.....	21
3.6 ACTIVITIES FOR ELECTRICITY TARIFFS SET UP IN 2007	22
3.6.1 RETAIL TARIFFS STRUCTURE.....	23
3.6.2 SUMMARY OF THE TARIFF APPROVAL PROCESS.....	25
3.6.3 SCHEDULE AND APPROVAL PROCESS OF THE REGULATED TARIFFS.....	26
3.6.4 RESULTS OF THE NEW TARIFF APPLICATIONS AND DIFFERENCES WITH THE EXISTING ONES	27
3.7 GAS SECTOR IN KOSOVA	30
3.8 DISTRICT HEATING SECTION	32
3.8.1 SUMMARY OF DEVELOPMENTS IN THE DISTRICT HEATING SECTOR.....	32
3.8.2 THE PERFORMANCE OF THE DISTRICT HEATING COMPANIES	32

3.8.3	THE REVIEW OF THE DISTRICT HEATING PRICES FOR THE HEATING SEASON 2007/2008	36
3.9	ACTIVITIES RELATIVE TO FURTHER DEVELOPMENT OF THE KOSOVA – C PROJECT	39
CHAPTER 4		42
CONSUMER PROTECTION		42
4.1	LEGAL AND REGULATORY GROUNDS	42
4.2	COMPLAINTS AND ERO ACTIVITIES IN DISPUTE SETTLEMENT	43
4.2.1	CONSUMERS CLAIM SETTLEMENT	44
4.2.2	OTHER CPD ACTIVITIES.....	47
CHAPTER 5		48
COOPERATION WITH NATIONAL AND INTERNATIONAL INSTITUTIONS AND PUBLIC INFORMATION		48
5.1	COOPERATION WITH NATIONAL INSTITUTIONS AND ORGANISATIONS AS WELL AS PARTICIPATION IN VARIOUS COMMITTEES.....	48
5.2	INTERNATIONAL COOPERATION AND PARTICIPATION IN MEETINGS ORGANIZED IN THE FRAMEWORK OF THE SEE ENERGY COMMUNITY	48

List of Abbreviations

ATC	Allocation of Transmitting Capacities
KTA	Kosova Trust Agency
EAR	European Agency for Reconstruction
GAMI	Guaranteeing Agency for Multilateral Investments
IDA	International Development Association
LPTA	Lignite Power Technical Assistance
TA	Technical Assistance
KCB	Kosova Consolidated Budget
EU	European Union
ARG	Asset Regulatory Ground
IBRD	International Bank for Reconstruction and Development
ČEZ	CEZ Electricity supply / Trade License Company (Czech Company)
PED	Project Evaluation Document
LLD	Legal and Licensing Department
CPD	Customer Protection Department
AERA	(Albanian Electricity Regulatory Authority)
SEE	South Eastern Europe
EFT	Energy Financing Team
EGL	Elektrizitats Gesellschaft Laufenburg
WRF	World Regulatory Forum
ERGEG	European Regulators Group for Electricity and Gas
GWh	Giga Watt hours
HPP	Hydro Power Plant
SPPH	Slovenian Power plant holding
PISG	Provisional Institutions of Self-Governance
KEK	(Power Corporation of Kosovo)
KESH	(Power Corporation of Albania)
KOSTT	Kosova Operator System for Transmission and Trade
KNOST	Compensation through TSO
IFC	International Finance Corporation (World Bank Group)
GCOC	Governmental Committee of Operational Codes
EEPC	Electricity Purchase Contract
ICMM	Independent Commission of Mines and Minerals
DHC	District Heating Company
KW	Kilowatt
KWh	Kilowatt/per hour
ERCM	Energy Regulatory Commission of Macedonia
EC	Energy Community
SEEEC	South Eastern Europe Energy Community
SEEER	South East European Energy Regulators
OM	Operations Manual
MEF	Ministry of Economics and Finance

MEM	Ministry of Energy and Mining
MESP	Ministry of Environment and Spatial Planning
MLSW	Ministry of Labor and Social Welfare
MW	Megawatts
MWh	Megawatts per hour
AWCC	Average weighted capital cost
NERA	NEAR Economic Consulting – Intern. economic consulting company
DH	District Heating
DHU	District Heating unit
NA	Not applicable
MPE	Municipal Public Enterprise
PE	Public Enterprise
RR	Recovery Rate
KOSTT	Kosova Operator System for Transmission and Trade
SETSO	South Eastern European Transmission System Operator
SO	System Operator
TSO	Transmission System Operator
TO	Trade Operator
DNO	Distribution Network Operator
DSO	Distribution System Operator
CLRP	Clean-up Land Reclamation Project
LPTAP	Lignite Power Technical Assistance Project
QPT	Third party approach
RTK	Radio Television of Kosova
SEEER	South Eastern European Energy Regulators
EMS	Elektro Mreža Srbije (Serbian Electricity Network)
SIRB	Study on Balkan's Regional Infrastructure
SEETEC	Southern European Electric System Technical support Project
SRO	Licensed company for trading/supply with electricity
EZPADA	Czech Company
SIGH	Investment study on generation
SFTE	Energy Supply and Market Structure
NARUC	National Association of Regulatory Utility Commissioners
J.S.	Joint Stock
EI	Expression of Interest
UTS	Usage of Transmission System
ERRA	Energy Regulators Regional Association
TF	Task Force
TPP	Thermal power plant
CTT	Cross-border trading
ETCU	Electricity Transmission Co-ordination Union
UNMIK	UNMIK United Nations Interim Administration Mission in Kosovo
USAID	United States Agency for International Development
FAO	Fiscal Affairs Office
ERO	Energy Regulatory Office

GENERAL INFORMATION ON THE ENERGY REGULATORY OFFICE OF KOSOVA

1.1 LEGAL GROUNDS AND MANDATE OF THE ENERGY REGULATORY OFFICE

Pursuant to the Law on Energy Regulator no.2004/9, the Energy Regulatory Office (ERO) has been established as an independent authority that exercises economic regulation in the electricity sector, district heating and natural gas.

Responsibilities of the Energy Regulatory Office are set by sec.15 of Law on Energy Regulator and are thereby exercised through: issuing licenses and monitoring of energy activities, issuing licenses for building new generation capacity, gas networks, direct electric-energy lines and direct pipelines, approval of the tariff and pricing methodology for activities that are not part of a competitive market, adopting secondary legislation that regulates the energy sector, monitoring of effective unbundling and development of competition in the energy sector, and dispute settlement in the Energy Sector.

1.2 ENERGY REGULATORY OFFICE ORGANIZATIONAL CHART AND HUMAN RESOURCES

■ Board of the energy regulatory office

ERO is organized in conformity with Chapter 2 of Law on Energy Regulator. It is directed by five Board Members. In their first mandate, two Board members were elected by the Assembly of Kosovo while three other members including the Chairman of the Board were elected by SRSG. In the beginning of 2007 the current Chairman of the Board was approved by the Assembly of Kosovo after being nominated by the Government. Future Board members will be selected in a similar manner under the law.

Board members fulfill the duties, obligations and responsibilities set by the Law on Energy Regulator.

■ **Energy regulatory office departments**

Legal and Licensing Department

Pursuant to prevailing laws in Kosova the Legal and Licensing Department (LLD) provides legal support to ERO regarding all issues pertaining to the energy sector. While preparing laws and other sub-legal acts the LLD, besides referring to Kosova Laws, also refers to EU Directives, Laws and Regulations. LLD also prepares diverse forms of licenses, applications, procedures and authorizations for the establishment of, and operation of all activities in the energy sector. Upon licensing of energy activities by ERO, the LLD supervises and monitors these activities pursuant to requirements given under the respective licenses and ERO Decisions.

Customer Protection Department

The Customer Protection Department (CPD) deals with customer's complaints and disputes between energy sector licensees. In accomplishing its duties and responsibilities, the department cooperates with all the organizations that legitimately represent the customers.

Pricing and Tariff Structure Department

The Pricing and Tariff Structure Department (PTD) deals with tariffs in general. It analyzes tariff systems proposed by energy organizations, tariff structures and tariff levels. It establishes a cost monitoring system, and compiles studies on costs and prices that are comparable with other national and international companies. It is responsible for modeling and analyzing the energy market and thus supporting regulatory activities. It also models various markets, analyzes the behavior of the market participants, and proposes market rule amendments that establish efficient competition. It is responsible for implementation of new elements of competition in market.

Energy Supply and Market Structure Department

The Energy Supply and Market Structure Department (ESMSD) gather and analyses information regarding energy capacities and balance. It analyses the influence of various factors (inflation, fuel prices, depreciation etc) on market price and on regulated prices of the ultimate customer. This department also monitors market prices.

Technical advisory group

The Technical Advisory Group offers technical advice to ERO Board and Departments in order to fulfill their function of establishing a competitive energy market, in conformity with the law. It assists in drafting of licenses for energy enterprises for activities such

as: generation, transmission, distribution and supply. It reviews and comments the Market Rules and Design.

Administration office

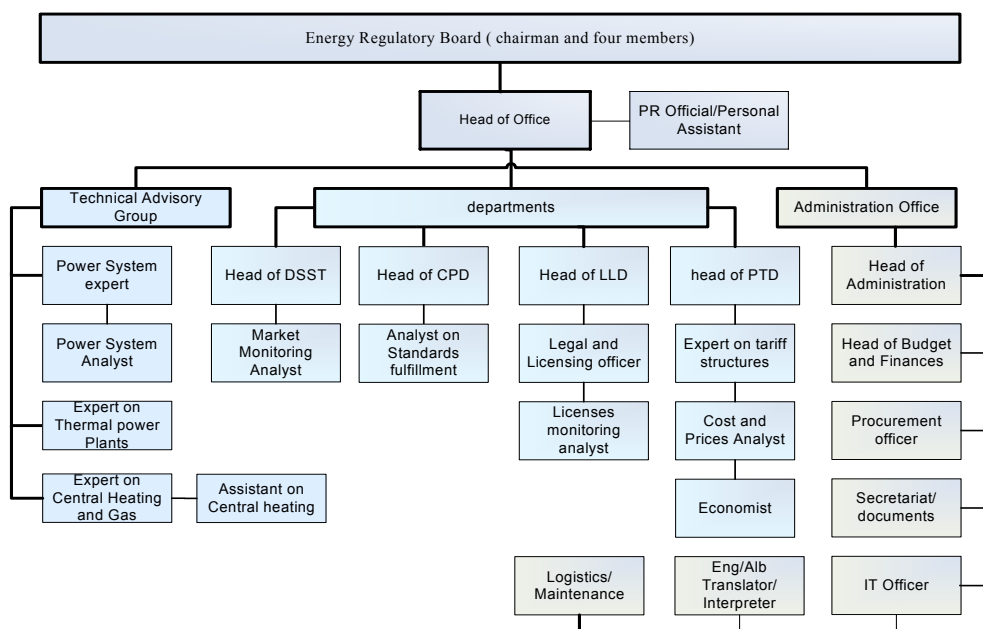
The Administration Office supports ERO Management and the normal functioning of the departments. It organizes efficient recruitment of ERO staff, and coordinates ERO staff training, coordinates supply and maintenance of office equipment, and helps to maintain a convenient office environment for all ERO Staff.

■ The Staff of energy regulatory office

At the beginning of 2007 ERO had 21 staff members. During the year the ERO encountered the problem of its staff (mainly professional staff) leaving the institution due to budget reductions and legislative definition of the budgetary line for salaries. This resulted in decrease of the staff number to 15 members. In total, six members of professional staff including one Board Member, all of them having been intensely trained for 2 years and with specific skills, have resigned from their positions due to budgetary restrictions imposed in 2007. This background and training was gained through ERO capacity building projects financed by donors such as USAID, EAR, and the World Bank. This loss of prepared staff has caused ERO great difficulties in fulfilling its obligations given under respective laws of the energy sector.

Following ERO request, the Parliament of Kosova allowed a budgetary line change. That enabled ERO to recruit in the second part of the year, and fill most of the job vacancies. Despite all the difficulties, ERO during 2007 has managed to remain functional and efficient in accomplishing its activities. During implementation of financial procedures all the authorized Heads/managers have been local nationals (including the authorizing official).

■ Organizational chart of energy regulatory office



Pic. 2.1 Organizational Chart of the Energy Regulatory Office

■ Training and technical assistance

The main goal of the project “Providing assistance for ERO capacity Building” financed by EAR and implemented by the international consulting company “NERA Economic Consulting” has been to efficiently implement the regulatory framework, and to provide transparent and non-discriminatory conditions for the functioning of the energy market in Kosovo in full compliance with the energy laws of Kosovo and the requirements of South-Eastern European Energy Community Treaty, Kosovo being a signator.

The project has strengthened ERO in areas essential for market monitoring and operation:

- review and approval of various technical and operational codes;
- Implementation of price reviews for various activities of electricity market based on tariff methodology;
- design, analysis and evaluation of licensing requirements, taking into account the license issuing requirements
- Design and preparation of information technology specifications necessary for ERO work;
- introduction to qualitative ERO work management procedures;

- Training of ERO staff in the fields mentioned above.

Within the framework of this project a part of ERO Staff made a study visit in “E-Control”, at the Electricity and Gas Regulatory Agency in Vienna, Austria.

- In February 2007 two staff members, one from the Pricing and Tariff Department and the other from Customer Protection Department attended the distance learning course “Pricing and Tariff Regulation” organized by ERRA. The main objective of the course was to teach the participants the major concepts, objectives as well as design and tariff structure evaluation techniques used in the energy sector.
- In March 2007 two staff members from the Legal and Licensing Department participated in the conference “European Research Standards for Electricity E-TRACK” organized and implemented by Flemish Energy Association in Brussels, Belgium. The topics discussed were related to green energy.
- In June 2007 ERO professional staff members participated in a workshop organized by the Center for Development of the Energy Sector and Natural Resources of the American University of Kosova. The topic of the workshop was “Electricity Restructuring in USA: South Eastern Europe Experiences”. This workshop was held in the American University of Kosova.
- In July 2007, a staff member of Legal and Licensing Department participated in the ERRA-organized summer school in Budapest, Hungary. The main course objective was to deliver basic regulatory, technical, economical and legal skills necessary to manage successful regulatory systems in the electricity Industry.
- In July 2007, the Chairman of ERO Board attended Commissioner’s training course organized by (NARUC/ERRA) in Budapest, Hungary.
- In July 2007, a staff member of the Legal and Licensing Department participated in the ERRA organized summer school in Budapest, Hungary. The main course objective was to deliver basic regulatory, technical, economical and legal skills.
- In September 2007, ERO Chairman participated in the conference held in Jable, Slovenia, supported by the British Government, entitled “Energy Training Program for South Eastern Europe”. The topics discussed were: challenges in the South Eastern European Energy Sector, liberalization of energy market, importance of a sustainable environment to a regional cooperation, impact of oil price into European electricity and gas market, possibilities of electricity and gas trading in regional level.
- Starting from September 2007, four (4) ERO management staff member joined the one year course “Professional Enhancement Program” financed by USAID and implemented by the US consulting company “BEARING POINT”.
- In november 2007, two ERO staff members , one from the Energy Supply and Market Structure Department and the other from the Pricing and Tariffs Department

participated in the training “Energy and Regulation” organized and supported by the Slovenian and British Governments in cooperation with the “South Eastern European Energy Community Secretariat”. The training took place in Jable, Slovenia.

1.3 BUSINESS PLAN

This document defines ERO’s strategic orientations for the 2005-2009 period and in general contains the ERO mission, mandate, objectives and structure: provides a view of development perspectives and structure in the Kosovar energy sector; identifies the challenges which ERO faces in meeting the objectives and challenges; specifies the projects and sets out strategies and initiatives for this financial period; defines the requested resources for project implementation and projected initiatives: and contains detailed financial forecasts for the planned five years period.

More specifically for 2007 this plan projected:

- Cooperation with the stakeholders in energy sector regarding implementation and improvement of legal framework;
- Business monitoring of all energy companies;
- Monitoring and assisting in development of competitive energy market;
- Participation in review of energy company prices and ensuring consistency with the tariff methodology adopted by ERO in the regulated sector and that these prices do not reflect misuses in the un-regulated sector;
- Gathering, verifying and publishing data from energy companies;
- Conducting an awareness development campaign on customer protection;
- Ensuring that no energy company abuses its dominant position and hinder anti-competitive practices;
- Supporting dispute settlement procedures between energy companies and their customers;
- Establishing favorable new investment conditions and market opening for new Heating Companies;

1.4 ANNUAL FINANCIAL REPORT OF ENERGY REGULATORY OFFICE – YEAR 2007

The Energy Regulatory Office during 2007 was financed from its own source revenues in conformity with Law on Energy Regulator, Chapter 4, respectively through ERO set and collected license fees ERO has collected 944,104 €, from licensee’s annual fees for 2007. An additional payment of licensee obligations for 2007 amounting to 351,979 €, will be collected in 2008. Pursuant to Article 20.3 of the Law on Energy Regulator, the unexpended budget will be transferred in the budget of ERO for the next fiscal year.

The Assembly of Kosova through decision 02-2844-1/06 dated 23.12.2006, approved the ERO budget of 537,623.00 €.

The approved budget was systemized into four major categories:

1. Wages and Salaries	198,123.00 €
2. Goods and services	296,000.00 €
3. Municipal Expenditures	21,500.00 €
4. Capital Expenditures	22,000.00 €

During the period of budgetary reviews, Energy Regulatory Office requested the Budgetary and Finance Committee of Kosova Assembly to allow transfer of means amounting 45,000.00 € from the category of goods and services into the wages and salaries category. This request was approved from the Budget of Kosova through Decision no: 02- 3615-1/07, dated 27 August 2007.

Based on this decision the allocation of the budget by main category became:

1. Wages and Salaries	243,123.00 €
2. Goods and services	251,000.00 €
3. Municipal Expenditures	21,500.00 €
4. Capital Expenditures	22,000.00 €

The following tables present financial data in detail:

Tab. 1.1. The sources of Expenditures and means

ENERGY REGULATORY OFFICE	YEAR 2007	
	BUDGET	ACTUAL
FUNDING SOURCES		
Incomes transferred from 2006	134.597	134.597
Incomes collected in 2007	1.102.582	944.104
TOTAL FUNDING SOURCES	1.237.179	1.078.701
SPENDING OF FUNDS		
Staff expenditures	243.123	186.799
Goods and services	251.000	170.846
Municipal expenditures	21.500	8.481
Capital expenditures	22.000	21.261
TOTAL FUND SPENDING	537.623	387.387

Wages and salaries expenditures as well as goods and services are summarized in main sub-categories:

Table. 1.2 Wages and salaries expenditures, goods and services

WAGES AND SALARIES	AMMOUNT
Net salaries	146.777
Personal income tax	8.895
Employer's pension contribution	8.895
Employees pension contribution	22.232
Total wages and salaries	186.799

GOODS AND SERVICES	SHUMA
Travel expenses	11.313
Internet expenses	1.040
Other telephone expenses	8.343
Postal expenses	2.931
Service expenses	7.076
Furniture and equipment	9.659
othere expense	36.857
Fuels	8.393
Maintenance	16.031
Rent	49.560
Marketing Expenses	12.374
Representation expenses dinners/lunches	457,60
Food expenses during official trips	6.811,40
Total expense goods and services	170.846

Tab. 1.3 Total percentile ERO expenditures for 2007

Index of budgetary lines	Approved amount	Amount Spent	Percentage of the expenditures per category
Staff expenditures	243.123	186.799	76,83%
Goods and services	251.000	170.846	68,07%
Municipal expenditures	21.500	8.481	39,45%
Capital expenditures	22.000	21.261	96,64%
Total	537.623	387.387	72,06%

REGULATORY DEVELOPMENTS

2.1 ACTIVITIES RELATIVE TO DEVELOPMENT AND APPROVAL OF SECONDARY LEGISLATION

Energy Regulatory Office in conformity with its mandate during 2007 continued the completion and approval of the secondary legislation in the Rules and Decrees format, in order to establish the very large secondary regulatory framework for the Energy Sector in Kosova foreseen in the Law on Energy Regulator and other laws on Energy. Development of the Regulatory Framework in ERO has mostly relied on technical assistance projects financed by EAR and USAID granted donations.

The following rules were drafted and approved during 2007:

Operational/Technical code management procedure

This rule develops the governing procedures for review and approval of Operational/Technical codes in the electricity sector in Kosova by determining the pattern of establishing code governing Committee.

Rule on confidential information

The rule sets out the Energy Regulatory Office right to determine whether a particular material contains confidential information, the policy and procedures for determining and approach to such confidential information.

During 2007 there were also presentations and public discussion on rules that are expected to be approved by the ERO board during 2008.

- Rule on Administrative Measures and Fines;
- Rule on Authorization Procedure and New Generation Capacity Building;
- Work Manual and
- Energy Sector Reporting Manual.

It must be noted that the Rule on Administrative Measures and Fines as well as the Rule on Authorization Procedure for New Generation Capacity Building which has been revised twice still are not approved due to their complexity. These rules are expected to be approved during 2008 after public discussion.

Energy Regulatory Office during 2007, among other daily activities reviewed a number of requests and has decided on various issues that have to do with the licensed enterprises: KEK, KOSTT and other district heating companies.

2.2 ACTIVITIES RELATIVE TO LICENSING AND MONITORING OF THE LICENSED OPERATORS

Pursuant to the Law on the Energy Regulator, ERO has the authority to issue, modify and revoke licenses. ERO activities in this field are presented below:

During 2007, more enterprises have applied for obtaining the license from ERO, while the following have been licensed for supply/trading with electricity:

“GSA SHPK”-Albania, “ATEL ENERGY AG”- Switzerland, and “RUDNAP GROUP A.D” – Serbia,

Enterprises that have applied but not received the license for supply/trading electricity since they have not fulfilled the requirements of the Rule on Licensing the Energy Activities in Kosova are: “MC INVEST CONSULTING” – Serbia, and “SAS” Energy Enterprise –Switzerland, Kosova branch.

Also during 2007 the application for licensing of trading/supply with electricity of the enterprise “KORLEA INVEST A.S” – Republic of Slovakia was received. A licensing decision will be made in the beginning of 2008.

Up to the end of 2007, ERO has issued 15 licenses to legal entities. The number and type of the issued licenses is the following: four licenses for electricity generation; one license for public supply of electricity; once license for distribution of electricity; one license for conveying of electricity; one license for the electricity market operator; two licenses for public supply with district heating; two licenses for generation of district heating; two licenses for distribution of district heating ;ten licenses for supply/trading of electricity.

The year 2007 has been the first full year after the licensing of energy enterprises. ERO during this period monitored these enterprises and followed the consistency of the licensee enterprises with their license conditions.

The document “Reporting Manual” determines the monitoring pattern as well as the trimester and annual reporting timelines from all the licensees. For the licensees at the beginning of the year 2007 ERO organized a workshop where all the licensees were informed about the reporting pattern and submission timelines.

Most of the licensed enterprises have done timely and within-the-foreseen deadline submission of these reports. Yet there have been cases when some enterprises could not submit the reports on time. The reasons for failing to submit were presented as problems emerging due to staff changes in these enterprises, respectively changing of the contact persons between the licensed company and ERO. These reports were subsequently submitted due to ERO persistence.

Licensees have been issued licenses with conditions for completion of their activity. Due to various reasons it has not been possible to fulfill some of the binding obligations of the licenses, nevertheless in such cases the licensees have requested in writing

from ERO, the postponement of the deadline (for fulfillment of these obligations) for a certain period of time. After reviewing the reasons and justifications of each request, ERO has decided in favor of the requests, based on their specifics.

2.3 PUBLIC INFORMATION

A major objective of ERO in its activities for communication with public, national and international institutions has been the accurate and transparent information on regulatory developments Kosova as well as developments within ERO. The Law on Energy Regulator of Kosova determines the obligations of the regulator relative to participation of public during the decision-making process, opening of Board sessions to the public, communication with other participants in the sector etc.

During 2007, all ERO activities relative to Board meetings have been announced in advance through its web-page www.ero-ks.org; also the adopted decisions have been presented to the public through press conferences, participation in special television emissions per sector, communiqués, press releases, interviews, letters addressed to key institutions such as MEM , the government, UNMIK as well as energetic organizations. The public has mainly been informed on developments of the energy market, district heating tariffs, electricity tariffs, KOSTT's technical codes, decisions on licensing the trading activities etc.

2.4 DECISIONS OF ERO BOARD DURING 2007

Pursuant to Law on Energy Regulator, Sec. 26, Board of the Energy Regulator during 2007 held 16 meetings on which issues concerning the activities of the licensed energy enterprises have been reviewed. The most important topics have been: approval of technical codes, approval and amending of the market rules; review of licensing requests of the enterprises that have applied, approval of the allowed revenues and retail KOSTT, KEK, DH Gjakova and DH Termokos tariffs; approval of district heating supply contracts; requests regarding provisional revoking of the special conditions of licenses; approval of procedures and other various regulations dealing with licensed activities etc. These decisions and acts are published in Bulletin no.3 and 4 and may be found in the ERO official web-page.

DEVELOPMENTS IN THE ENERGY SECTOR

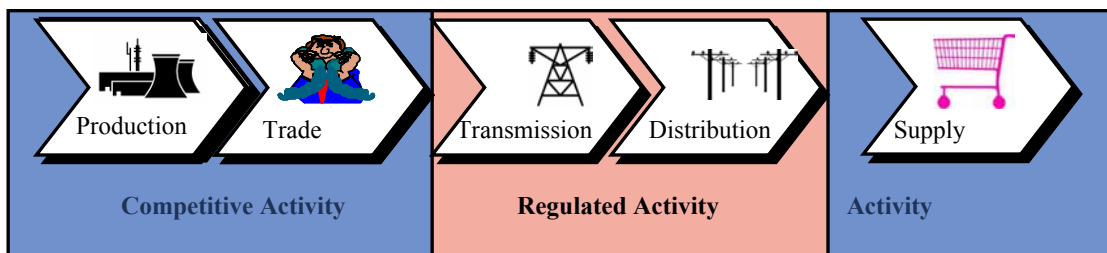
3.1 ACTIVITIES RELATIVE TO REFORMING OF THE ELECTRICITY SECTOR

Despite its many energy resources Kosova still has a significant lack of electricity. The electricity sector remains dominated from the Kosova Electrical Energy Corporation (KEK) that is still in brink of disintegration.

The long term objective of electricity generation in Kosova is covering domestic consumption with stable and uninterrupted electricity at competitive prices, as well as exporting excess production into the regional energy market and beyond. To achieve these objectives requires normal functioning of the existing power plants by repairing them as well as building new generation capacity.

Kosova as a signatory of the SEE Energy Community Agreement has made progress in development and monitoring of the liberalization of the energy market pursuant to binding requirements of the Treaty. Progress has been also achieved towards the unbundling of the vertically integrated company – KEK. Since July 1st, 2006, KOSTT-I operates as a separate transmission entity, and as a Transmission and Market System Operator, and has been duly licensed in these activities by the Energy Regulatory Office. Following the license conditions KOSTT should keep separate accounts for the Market Operator and for Transmission System operator.

In pic.3.1 are shown the activities that are actually regulated and take part in market liberalization. These will be further subject to competition similar to that expected in the future for transmission and distribution.



Pic. 3.1 Regulated and competitive Areas

Licensing of the KEK activities by ERO requires that these enterprises have separate accounts for activities such as generation, supply and distribution. In the future these must be fully separated (unbundled) pursuant to Kosovar legislation and EU directives.

A major issue for 2007 and beyond is both technical and non-technical losses as well as the low level of billed electricity collection. In order to increase the percentage of collection, KEK presented the “ABC” switching off scheme, which differs the higher level paying consumers (category A) with higher levels of service, average level (category B) with average levels of service, and low-paying (category C) with lower levels of service; which is different from the previous scheme of energy reduction which has treated all customers the same. The categorization has been made at the 10KV supply level. KEK is planning to transfer the ABC scheme from supply level 10KV into the 0.4KV network level.

3.2 ELECTRICITY MARKET

Kosova during 2007 faced a deficit of electricity and consequently there was a significant reduction of consumption. The market development of Kosova has been limited by the energy deficit and the fact that there is only one electricity producer. Notwithstanding, some concrete steps have been made towards market opening, Market Rules established previously have started to be implemented. Also during 2007 many documents that regulate a better functioning of the energy system and assist in determining of working conditions in open markets have been compiled by KOSTT J.S.C. In this category pertain; technical codes, various procedures, development and investment plans etc.

More direct steps toward market opening may be considered those of winning the status of eligible (privileged) customer:

- accordingly since January 1st, 2006, the customers switched in tension 110kV and higher have the right to earn the status of eligible customer. This right has been used by two large customers in Kosova, “Alferon” (ex_Feronikeli) in Drenas and “Sharrcem” in Hani I Elezit.
- since January 1st, 2007 the customers switched in tension 35 kV and Higher had the right to earn that status.
- while since January 1st, 2008 this status could be granted to the customers switched in 10 kV tension and higher.

During 2007 there was not exhibited any interest of customers for earning the status of eligible customer. With the initiative of MEM and in cooperation with ERO, KOSTT and KEK, meetings were held with large industrial customers and also a workshop intended to inform the customers of the possibilities and advantages the status of eligible customer provides.

The actual state of generation and transmission capacities of the system in Kosova are as follows; Operational and Generation capacities are considered to be 938 MW out of which 895 MW are thermal and 43 MW are hydro. These are not sufficient for covering of the rising consumption especially at the peak time during winter session when the consumption is significantly higher due to usage of heating energy.

Tab. 3.1 Operational capacities of HP and PP

	Year of Construction	Designed Capacity	Operational Capacity	
			Generator	System
A1	1962	65	35	32
A2	1964	125	-	-
A3	1970	200	135	120
A4	1971	200	135	120
A5	1975	210	145	130
TPP Kososva A		800	450	402
B1	1983	339	290	265
B2	1984	339	280	260
TPP Kososva B		678	570	525
HPP Ujmani	1981	35	35	35
HPP Lumbardhi	1957/2005	8	8	8
Total		1521	1063	970

Except generation capacities, limitations have been evident in transmission capacities as well. Some regions such as Dukagjini and Anamorava were especially highlighted



Fig. 3.2 Transmission network in Kosova

Some transmission capacities at distribution level are also limited and require considerable investment.

Tab. 3.2 Transmission capacities

Transmission	Unit	Tension level		
Tension	kV	400	220	110
Length	km	181	361	643.5
Transforming	kV/kV	400/220	220/110	220/35/10(20)
Transforming capacities	MVA	1200	1000	400

There were no particular activities relative to regional market and cooperation in this area

3.3 ELECTRICITY GENERATION AND CONSUMPTION

■ Lignite Production

Electricity consumption in Kosova is based on thermal power plants that are lignite based, up to 98%, while the remaining 2 % is covered by hydro-plants. Yet, despite the large lignite reserves, two lignite mining sites that are operational since 1964 now appear as limiting factor to sufficient generation of electricity. For now these two mining sites supply two thermal plants with an annual capacity of 7 million tons. A very small amount of this is used in the free market. It is expected these two mines to be used completely by 2012 or even earlier, hence the intensification of the new mining site in south east of Sibovc, for which necessary research has been made, is an absolute priority.

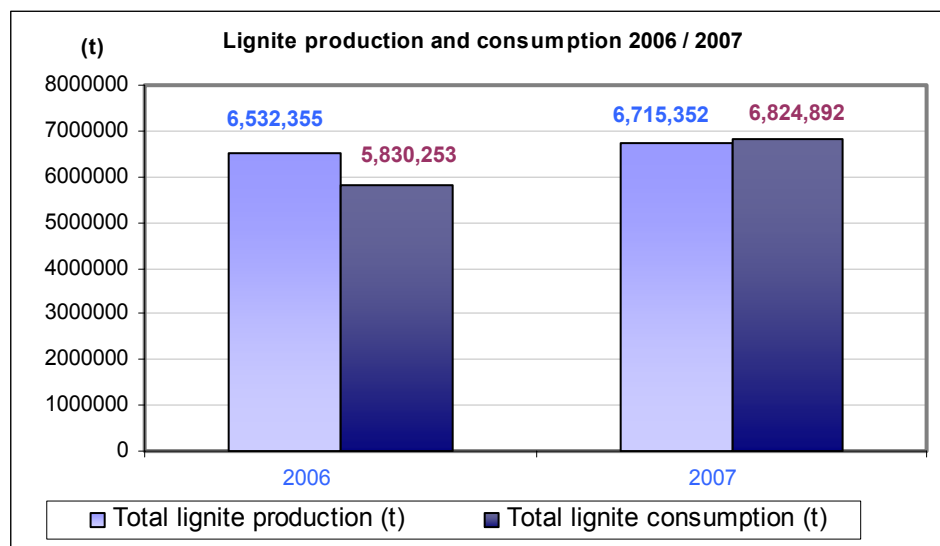


Fig. 3.3 Lignite production and consumption 2007

Tab. 3.3 Lignite production and consumption 2007

Production & Consumption of Lignite	Realization 2005	Realization 2006	Realization 2007	Bilanci 2007	Realiz/Balance 2007	Realization 2007/2006
Total Coal production (t)	6 536 759	6 532 355	6 715 352	6 960 000	96.48%	102.80%
Total Coal consumption (t)	5 796 658	5 830 253	6 824 892	6 104 700	111.80%	117.06%

Opening of that mine would provide a longer term solution to lignite supply problem of the existing plants as well as those capacities planned to be constructed.

■ Production of electricity

Installed technical capacity, security and working readiness in two thermal plants Kosova A and Kosova B is significantly decreased due to obsolete equipment and inadequate maintenance during various time periods.

Accordingly unit A1, as the oldest unit, works with reduced capacity and efficiency followed by high environmental pollution, therefore its usage remains only for extremely emergent occasions.

The A2 Unit has problems with basic construction and the block-transformer has been decommissioned.

Tab. 3.4 Net production of electricity during the period 2004 – 2007

Production / Production unit	Realization 2004 (MWh)	Realization 2005 (MWh)	Realization 2006 (MWh)	Realization 2007 (MWh)	Balance 2007 (MWh)	Realiz/Balance 2007 (MWh)
A1	6 300	64 542	7,609	-5,932	0	
A3	320 600	- 2 775	347,551	653,485	241,920	270.12%
A4	130 000	- 1 167	-1,046	565,878	561,600	100.76%
A5	519 200	584 350	544,416	10,379	133,920	7.75%
TPP Kososva A	976 100	644 950	898,529	1,223,810	937,440	139.32%
B1	1 587 500	1 476 759	1,376,516	1,726,957	1,612,764	107.08%
B2	1 207 400	1 767 575	1,595,667	1,288,556	1,455,408	88.54%
TPP Kososva B	2 794 900	3 244 334	2,972,182	3,015,513	3,068,172	91.61%
Sh.A. Kosova Thengjilli		778	0		25,000	0.00%
HP Ujmani	113 300	109 682	99,562	70,076	88,000	79.63%
Distribution HPs		0	26,624	23,588	37,781	62.43%
Total Production	3,884,300	3,999,744	3,996,897	4,332,987	4,156,393	104.25%
Intake(Imp+Exch.)	483 580	490 632	536,238	642,349	673,280	95.41%
Offtake(Exp+Exch)		225 965	252,527	378,868	92,569	409.28%

Units A3 and A4 are in better shape and were used alternatively during 2007, including periods when both were put into function. The A5 unit only became operational at the beginning of 2007, but has had rehabilitation works on it.

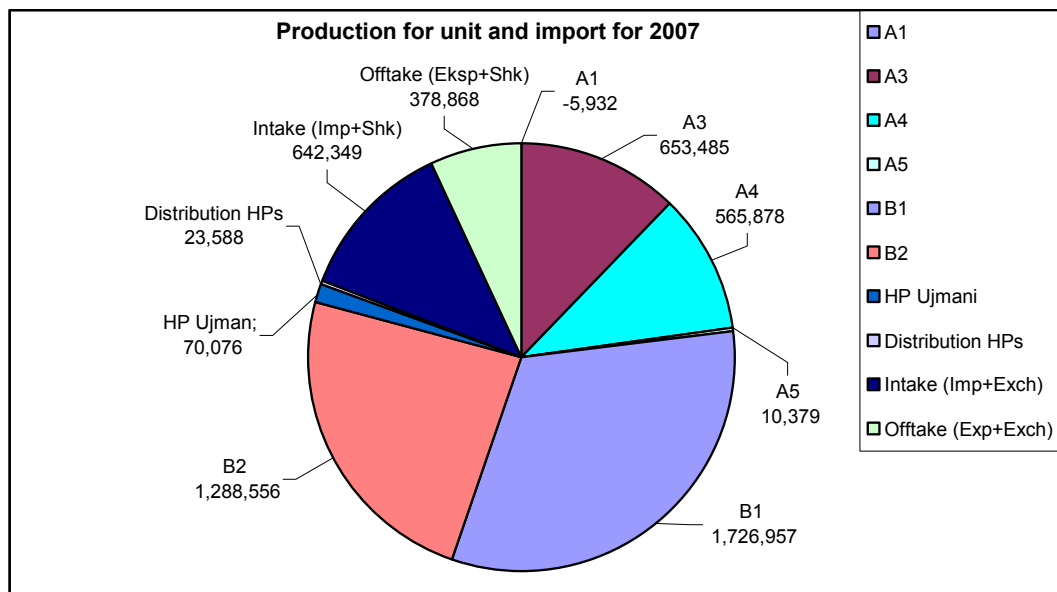
All the units in Kosova A have a low efficiency lignite usage varying between 1.9 to 2 t/MWh

Kosova B PP units are in better shape and have a higher efficiency of 1.4 to 1.5 t/MWh.

Hydro plant Ujmani 35 MW (2 units of 17.5 MW) is functioning outside of KEK and administered by water company Hydro-system “Iber- Lepenc” Prishtine.

Also the hydro plant “Lumbardhi” with 8 MW capacities, 2 units with 4 MW each, is in function. This plant is KEK’s property while it is managed by “Triangle General Contractors Inc.” following a 20 years contract for lease from and energy sales to KEK.

HP Lumbardhi and Radavci with low power are HP’s switched into the distribution network.



Pic. 3.4 Production during 2007

Electricity production in 2007 was carried out following the plan with some slight exceptions due to the timely change of generation unit repairs, especially postponement and prolonging of the repair deadline of the B2 Unit that was requested from the “Alstom” company, France.

Electricity production compared to 2006 has shown an increase of 9.5%. So the production in the beginning of 2006 has been 3 872 GWh while in 2007 it has been 4239 GWh. Production in HP has shown a decrease of 25.8 % due to the drought although that has a low impact in the overall production of the electricity in 2007. It could be concluded that during 2007 compared to 2006 there has been an increase of the electricity production for 8.4 %. This percentage could have been even higher if the repairing delays if B2 Block of TP Kosova B as well as limitations resulting in an insufficient quantity of coal production would not have existed.

Table. 3.5 Consumption as per tariff categories in 2007

Category	Consumer no.	MWh
110 kV	3	199,070
35 kV	14	33,419
10 kV	217	156,011
Domestic cust. under 200kWh/month and Hospitals	302,742	323,937
Domestic cust. from (201kWh to 600kWh)/month		766,040
Domestic cust over 600kWh/month		323,361
0.4 kV I	905	122,236
0.4 kV II	52,550	267,290
Public lightning	465	7,468
Domestic cust. With no meters	11,497	80,602
Prepaid domestic cust.	33	12,946
Prepaid commercial cust.	19	63
Total	368,445	2,292,443

Consumption has also been increased for 7.4 % compared to 2006. This increase is 8.3% if we take into account the energy put into distribution and the one of direct consumers.

A consumption increase was noticed by eligible customers as well as direct customers. This has especially been influenced by “Alferon” (Ferronikel), which has shown a significant increase of energy consumption compared to a year ago.

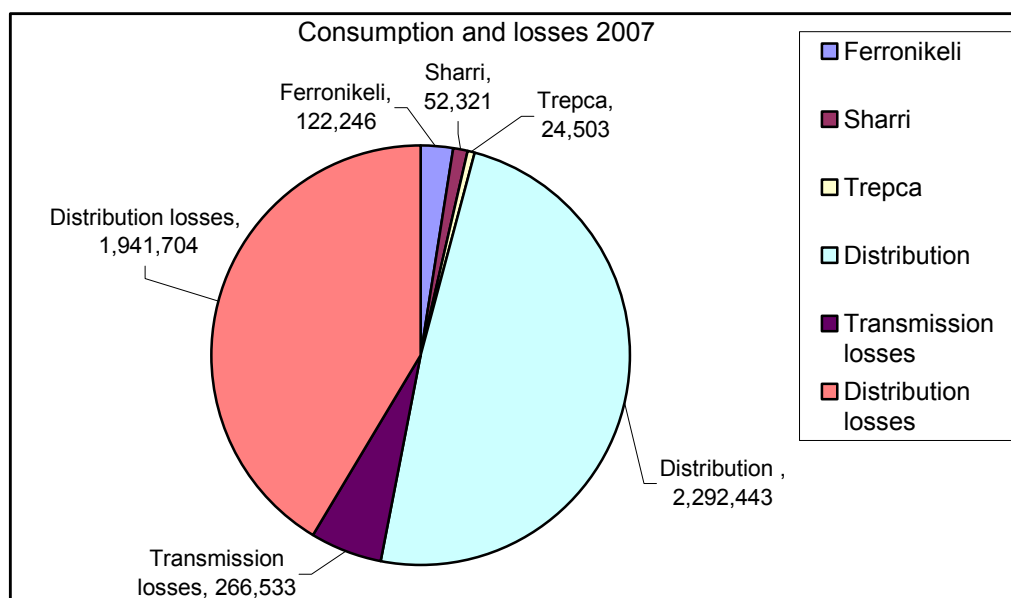


Fig. 3.5 Consumption and losses during 2007.

3.4 IMPORT AND EXPORT OF THE ELECTRICITY

KEK's Supply operator, due to an electricity generation shortage from domestic resources, has made imports. These imports during 2007 have been followed with a significant shock price of import of average 54.87 €/MWh to the 83.66 €/MWh, due to the regional energy shortage, application of allocation payment of the inter-connective transmission capacities for transmission congestion, and the fact that Kosova imports energy for peak balancing needs. These needs are greatly disproportional with the out-of-peak needs. The lack of generation reserves in Kosova combined with the presence of relatively large thermal generation units, contributes to that problem.

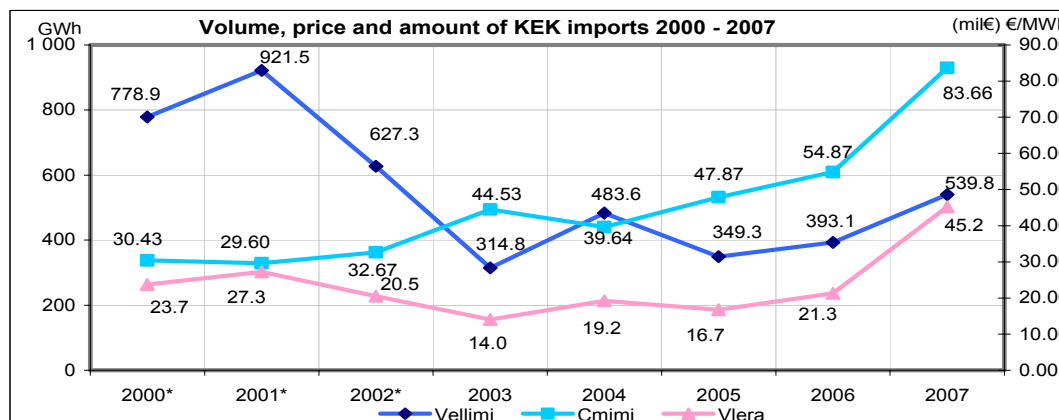
During electricity imports, Kosova has had limitations and disagreements about application of payment with Serbia and as a result only the merchants have done the realization of capacity allocation for the KEK's electricity import and export needs.

A table and chart of the import volumes for 2000-2007 as well as average import prices are presented below.

Table. 3.6 Import during the period 2000 - 2007

KEK Import	Volume	Price	Amount	Amount
Year	MWh	(\$)/€/MWh	€	mil Euro
2000*	778 870	30.43	23 701 412	23.7
2001*	921 485	29.60	27 276 960	27.3
2002*	627 265	32.67	20 491 605	20.5
2003	314 794	44.53	14 016 421	14.0
2004	483 580	39.64	19 169 111	19.2
2005	349 335	47.87	16 723 315	16.7
2006	393 054	54.87	21 566 342	21.3
2007	539 812	83.66	45 161 222	45.2
Total	4 408 195	42.67	188 106 387	187.9

Note: In 2000 - 2002 prices are displayed in US Dollars (\$) with an exchange course of 1:1



Pic. 3.6 Import and prices during the 2000 – 2007 period

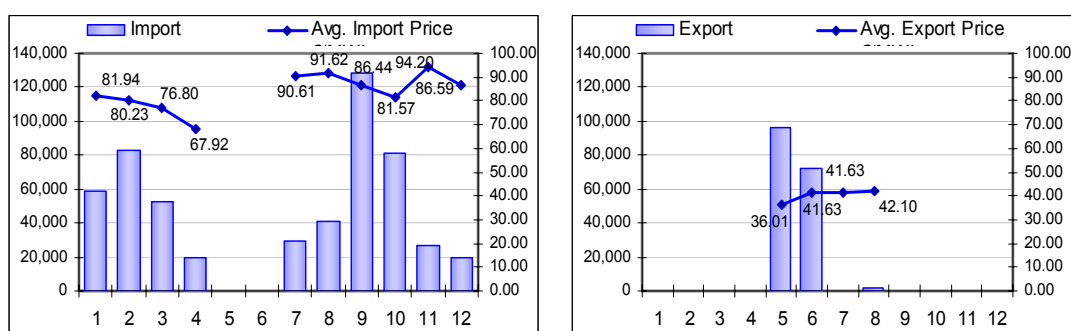
Table 3.7 Electricity Exchange, import and export during 2007

Month	Offtake-Exch	Intake-Exch	Export			Import			Total Offtake	Total Intake	Total
Unit	Quantity MWh	Quantity MWh	Quantity MWh	Value €	Avg. Export Price €/MWh	Quantity MWh	Value €	Avg. Import Price €/MWh	Quantity MWh	Quantity MWh	Quantity MWh
1	5,554	0	0	0		58,800	4,817,925	81.94	5,554	58,800	-53,246
2	13,690	2,609	0	0		83,232	6,677,652	80.23	13,690	85,841	-72,151
3	11,785	5,158	0	0		52,544	4,035,227	76.80	11,785	57,702	-45,917
4	40,138	650	0	0		19,328	1,312,790	67.92	40,138	19,978	20,160
5	24,446	1,720	96,417	3,472,342	36.01	0	0		120,863	1,720	119,143
6	10,957	3,750	71,910	2,993,398	41.63	0	0		82,867	3,750	79,117
7	17,995	5,630	0	0	41.63	29,280	2,653,167	90.61	17,995	34,910	-16,915
8	34,550	11,920	1,848	77,805	42.10	40,640	3,723,302	91.62	36,398	52,560	-16,162
9	3,790	20,400	0	0		128,728	11,127,883	86.44	3,790	149,128	-145,338
10	21,798	11,960	0	0		81,360	6,636,804	81.57	21,798	93,320	-71,522
11	3,720	9,590	0	0		26,556	2,501,563	94.20	3,720	36,146	-32,426
12	1,310	10,190	0	0		19,344	1,674,908	86.59	1,310	29,534	-28,224
Total	189,733	83,577	170,175	6,543,546	38.45	539,812	45,161,222	83.66	359,908	623,389	-263,481

It must be emphasized that during this year there were discrepancies between the electricity own-production and import tenders, which were only partly applied. Electricity prices in the region have increased and as a consequence prices have been accordingly inflated in every tender. The table below presents all the energy exchanges on a monthly basis during 2007, including the prices.

Until August 2007, the incoming energy in Kosova was lower than the out-going one. Practically, between January 2007 through August 2007, Kosova was an energy exporting country, yet in the remaining months, this situation essentially changed.

Energy as import + exchange (Intake) till the end of Aug 315 261 MWh,
Energy as export + exchange (Offtake) till the end of Aug 329 290 MWh.

**Fig. 3.7** Contracted import and export and prices in 2007

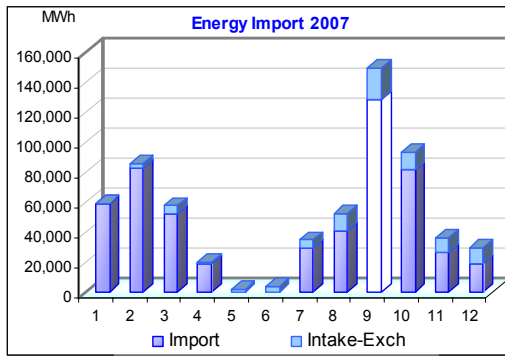


Fig. 3.8 Import and exchange (Intake) 2007,

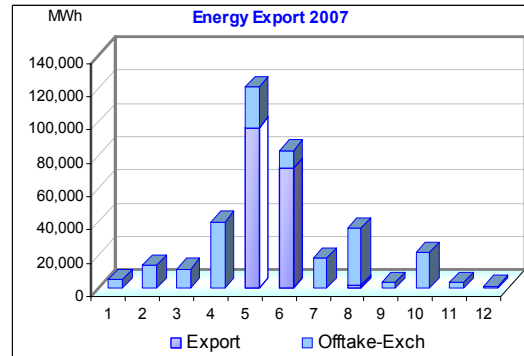


Fig. 3.9 Export and exchange (Offtake) 2007

Import and export are done mainly through contracts and energy exchange. Exchanges are made through TSO-s of the neighboring countries i.e Albania, Montenegro, Serbia and Macedonia usually on daily bases. In many cases this energy is considered to be emergent and has a relatively high return coefficient with a ratio of 1 to 2. Such an exchange has mainly been a practice of EMS (Serbia). This results that the quantity of energy taken from Serbia is much smaller than the one that has been returned.

3.5 LOSSES IN THE ELECTRIC-ENERGY (POWER) SYSTEM OF KOSOVA

Transmission and network system losses are determining factors that influence the amount of energy cost, the regularity of supply to customers, and the risk of line and transformer overload. Losses cause a significant increase of electricity import. The network losses problem, despite KEK's J.S.C staff commitment in 2007, shifted to 2008 without any essential change as a problem that requests a systematic institutional approach.

It is noteworthy that transmission losses are influenced also by energy transit that passes through the Kosova transmission system. This part of losses should be compensated by shippers that are in fact countries of the region. The compensation for this is based on the compensation mechanism through Transmission Operator's, energy flows through interconnections. KOSTT J.S.C is seeking this compensation from EMS of Serbia, through the ETSO monitored meetings, yet due to obstructive behavior of EMS there are no results. EMS has collected revenues from the region for transit through Kosova while maintenance and losses inflicted by this transit remain the burden of KOSTT J.S.C. This issue remains in relations between KOSTT J.S.C and EMS.

Tab. 3.8 Energy Losses in the period 2005 – 2007

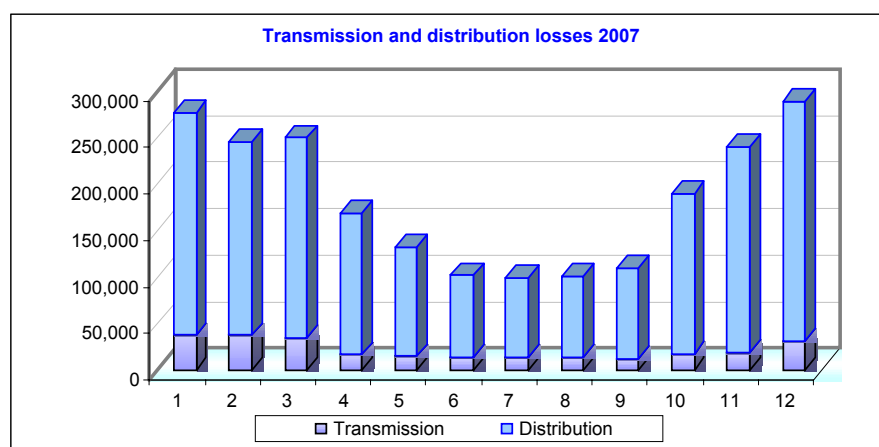
Year	2005	2006	2007
Description	GWh	GWh	GWh
Transmission losses	276	280	267
Distribution incoming energy	3,883	3,896	4,036
Distribution losses	1,873	1,850	1,942
Technical distribution	582	584	702
Non-technical distribution	1,291	1,266	1,239
Total losses	2,149	2,130	2,209

Distribution losses are characterized by two components: technical and non-technical losses. Reduction of both technical and non technical losses has been and remains a priority for this operator.

Table. 3.9 Energy Losses in 2007

Losses	Unit	Jan	Feb	March	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Totali
Transmission	MWh	37,703	37,746	34,802	16,893	15,196	13,652	14,202	13,967	12,121	18,320	19,984	31,947	266,533
Distribution	MWh	239,250	208,014	215,376	152,352	117,986	88,482	85,421	87,410	97,189	171,933	220,911	257,380	1,941,704

It must be emphasized that, until now losses in general have been very slightly dealt with because KEK J.S.C has been a vertically integrated enterprise. With tariff unbundling, it the need for accurate determination of losses and those who will cover them is critical.

**Fig 3.10** Transmission and distribution losses in 2007

3.6 ACTIVITIES FOR ELECTRICITY TARIFFS SET UP IN 2007

Tariff reform presents one of the basic development strategy objectives of the electricity sector. The new tariff system that reflects real costs along with other activities is sanctioned by the following legislation : Sec. 45 through 48 of the “Law on Energy Regulator” no. 2004/9, Provisions of the Rule on Tariff Calculation Principles in

the Electricity Sector (Price rule) as well as in ERO's Tariff Methodology for the Electricity Sector.

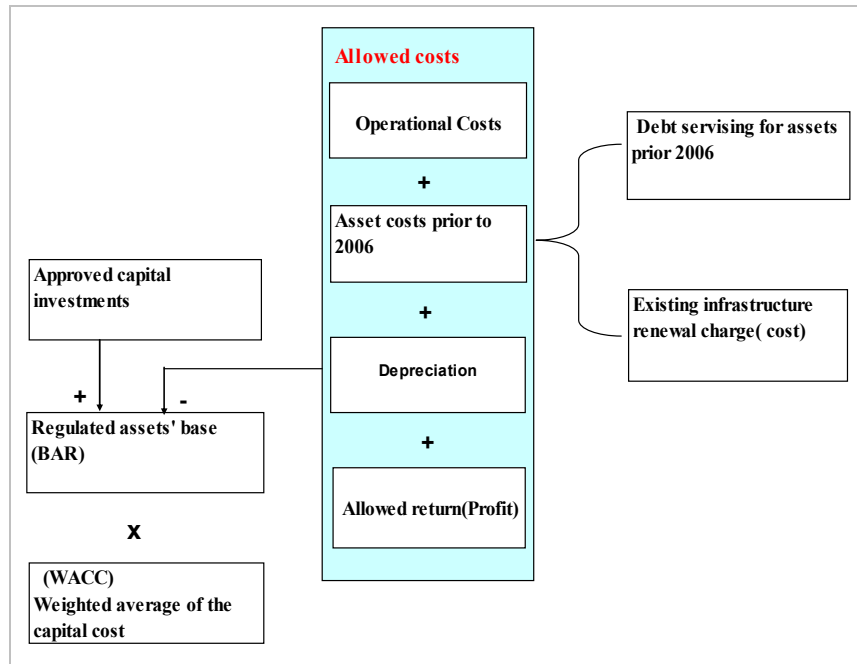


Fig. 3.11 Building block approach of the allowed costs

The Tariff Methodology is based on the principles given under the Law on Energy Regulator and has been developed taking into account recovery of reasonable operational and maintenance costs as well as return of and on the asset's commercial financing (capital costs).

By means of Tariff Methodology principles, the allowed annual revenues are calculated pursuant to "building block" principles shown in the diagram below Pic. 3.11.

3.6.1 RETAIL TARIFFS STRUCTURE

Retail Tariffs for final customers are a combination of the supply tariff and distribution system usage tariff. Each of the retail tariffs are comprised of elements reflecting costs and which could be measured, or which contain one or more cost categories.

Retail tariffs include:

- Energy Tariffs expressed in €/kWh, with various norms that are applied in the winter/summer and day/night season. These tariffs cover the variable supply costs (fuel costs, generation costs and energy import costs).

General Energy Costs present the amount of the Market Operator (MO) allowed costs as well as System Operator (SO) costs distributed among the non-qualified customers, and general costs of energy purchase, by subtracting the part that is considered to have to deal with the request (engaged power)

For other consumers, request-distributed costs are further added to the energy tariffs calculated as above. The content of energy purchase capacity costs is added to the energy tariffs applied in seasonal periods (winter and summer). The content of the tariffs capacity (UST) and usage of the distribution system (UDS) are added to the energy tariffs applied in all periods.

For domestic consumers (categories 5-6) two changes were made as follows¹:

- In order to maintain the existing ratio between the low period tariffs and high period ratio at 2:1 a decision was adopted to increase the adjustment of low and high season tariffs are re-calculated between the two periods.
- A three-block structure for domestic customers was approved

Reactive energy tariffs for consumers of categories 1-3, are calculated as:

- For larger consumers with adequate metering (expressed in €/kVAh). The reactive energy tariffs cover the allocated reactive energy costs.

ERO's first revision of electricity tariffs (denoted as "FET 1") also brought a series of changes compared to the previous retail tariff structure:

■ **Fixed tariffs for consumers**

Fixed tariffs (expressed in €/consumers/month) are used in order to recover supply costs related to: meter reading, billing, collection, information services (such as energy efficiency promotion) as well as other operational costs.

■ **Tariffs of the engaged power request**

Power tariffs for consumers in categories 0-3 (large industrial and commercial consumers) are costs that are made in order to fulfill the maximal hourly demand requests (kW) for the customers in each functional level of generation, transmission and distribution.

- Required/power tariffs for metered consumers (expressed in €/kW and applied for power request) measured during the peak for each month. This tariff covers fixed supply costs required to assure the capacity needed to assure availability of power during the peak (including provision of network and generation capacities).

¹ There is another further regulation in order to convert the final tariffs of both periods and two seasons into one tariff per season and one period for the consumers with one-tariff meters

■ Tariffs of the transmission system usage

In addition to determining retail tariffs, ERO has also set the transmission system usage tariffs (UTS) which cover the KOSTT J.S. costs. There are three different such tariffs:

- Capacity (infrastructure) tariff which cover the investment costs, general maintenance of network assets, direct operational costs of the TSO including offices, staff, hardware, software, ancillary services and energy purchase cost in order to cover network losses.
- All system users' benefit from the system operator services, therefore they should contribute to paying the system operator direct costs. Therefore, producers and consumers that use the network, make payments for UTS in order to cover these costs.
- Market operator tariffs cover the KOSTT J.S costs in their role as TO. The tariff has been calculated as a total cost of the TO, divided by the amount of energy anticipated to enter the transmission system from the Kosovar sources and which exits from the transmission system in all sites, resulting in a tariff expressed in €/kWh. Market operator tariffs are paid by the producers and the supplier.

3.6.2 SUMMARY OF THE TARIFF APPROVAL PROCESS

As defined in the Tariff Methodology and Price Rule, tariff review covered a three-year period in its first revision and subsequently the future revisions are made in five year periods. Actually the revision timelines define the allowed revenues for each year separately based on which the energy enterprises apply for a new tariff each year. Since the first revision was made in conformity with the basic legislation already approved by Kosova's assembly, therefore this revision covered the three year period: 2007-2009.

The allowed revenues of the licensee are calculated by ERO as a spending budgetary line cost, whose levels are then monitored by ERO. These budgetary lines, when added together as an annual revenue requirement of the licensee, should provide sustainability of electricity supply in the future.

During the review of the allowed revenues, the cost calculation is done considering the licensee's licensed activities. For example, for KEK that includes generation (to which are added the lignite supply cost) transmission, distribution and supply. Allocated costs pursuant to disbundled activities and tariffs are more controllable and contain objectives that may be set also to KEK J.S.C and KOSTT J.S.C and which will be important during the analysis of the results and undertaking of effective measures for their improvement.

Allowed revenues are also set based on performances and will be monitored by ERO during the whole period. In Dec 21st, 2006 ERO has issued the decision on KEK J.S.C and KOSTT J.S.C's allowed revenues. Comments, suggestions and relevant additional data obtained by the Government on the allowed revenues; subsidies, support of social cases, investments (PIP) since September 12th, 2006 until December 20th, 2006 have been taken into account.

3.6.3 SCHEDULE AND APPROVAL PROCESS OF THE REGULATED TARIFFS

By using the allowed approved revenues, ERO in cooperation with the international consultancy have prepared a revision and tariff approval timeline based on respective legislation. The 2007 price revision commenced with a public notice dated January 24th, 2007.

The most important dates of the revision and tariff approval process for 2007 are the following:

On February 23rd, 2007 an application was made by KEK and KOSTT based on the allowed revenues previously determined by ERO Board in Dec. 21st, 2006.

On March 15th, 2007 ERO approved retail tariffs for KEK and for KOSTT transmission tariffs.

The ERO decisions were published in the web-site for the KEK retail tariffs and KOSTT transmission tariffs, on March 15th 2007.

On March 19th, 2007, ERO informed the stakeholders regarding the KEK and KOSTT applications, while the notification for media was made on March 28th, 2007 by ERO.

After adoption of these decisions, KEK and KOSTT request revisions to them, based on new information which suggested that the revenue requirement may be smaller than those requested by each enterprise for the year 2007.

In April 25th 2007, KEK and KOSTT officially sent a request to ERO for modification of the previous decision for the allowed revenues. The revised value of KEK and KOSTT request was approximately 5% lower than the value of the previously approved revenues. This was filed as an addition to the original application filed by KEK on February 19th 2007. Stakeholders raised many issues regarding the tariff structure, in the context of KEK intent to be transformed in to a commercially oriented enterprise to improve the electricity metering, billing and collection.

On May 7th, 2007, the ERO Board issued a decision by which it decided to reconsider the previous decision on the level of allowed revenues for KEK and KOSTT and

summoned the enterprises to propose to ERO updated retail and transmission tariffs, so they may be reviewed by ERO Board.

Based on the provisions of the prevailing legislation and the decisions approved by ERO Board, KEK filed on May 10th:

- Tariff Application (revised) – KEK Supply-retail tariffs
- Tariff Application (revised) – KEK Distribution for usage of the distribution network

Based on the annual revised revenues KOSTT applied for revised tariffs for its three units on May 10th: including as Transmission, System Operator and Market Operator.

On May 31st 2007, the ERO Board reviewed and adopted the decision on KEK and KOSTT requests relative to their allowed revenue reduction and in conformity with this approved electricity retail tariffs for KEK, and KOSTT transmission tariffs.²

On October 10th, 2007 ERO issued a notification for the second review of electricity tariffs 2 (REET2) including tariff application principles and timelines for KEK and KOSTT for the 2008 tariffs. Notice was published on the ERO web page.

During the review process, ERO emphasized in particular the importance of public consultations, receiving and including public comments. ERO published the key tariff filing documents on its web-page, held public sessions and direct discussions with the stakeholders including licensees, government and Parliament representatives as well as consumers.

3.6.4 RESULTS OF THE NEW TARIFF APPLICATIONS AND DIFFERENCES WITH THE EXISTING ONES

Review of the KEK's revised application by ERO ascertained that the proposed tariffs are in compliance with the revised allowed revenues but the proposed structure is not in full compliance with the set principles in the review process. Thus ERO presented its final draft, to which KEK did not have objections after the ERO presented arguments.

Setting up a life-line tariff

The allowed revenues are the grounds for KEK and KOSTT applications for new tariffs. Following the legislation, KEK is naturally granted the liberty of designing the tariff so long as the proposed design does not exceed the amount of the allowed revenues.

The tariff reforms process has taken into consideration low income consumers, which

² The regulator in the process of tariff review has applied the operator's right for revised revenues by not changing or breaching the decision adopted in March 15th, 2007.

has been done by setting the “block tariff” (“life-line tariff”).
The three approved consumption blocks are:

<200kWh/month – represents the ERO calculation of electricity minimal needs for the consumers who do not use electricity for heating. They are charged with the lower tariff at 70 % of the average tariff of domestic customers.

201-600kWh/month – represents the ERO calculation for reasonable electricity needs of consumers who use electricity for heating. They are charged 90% of the average tariff for domestic customers.

>600/kWh/month – are charged a higher tariff in order to cover the revenue shortage resulting from the retail tariffs proposed by KEK and those recovered pursuant to first blocks approved by ERO.

Table. 3.10 .Consumption percentage and energy consumption according to consumption levels (block tariffs)

Domestic consumers 0.4 V	Bi-tariffs meter (000)€	Single tariff meter (000)€	No meter (000)€	Consumption per blocks (%)	Consumption per blocks MWh
First Block	14110	2354	1144	34	490693
Second block	20999	3453	2607	39	560980
Third block	20452	3316	348	27	385886
Total	55561	9303	4099	100	1437559

Subsidies granted by the KCB for KEK in 2007 are the following:

- For purchase of electricity (import) in 2007 a total of 12.9 million euros;
- For social cases in 2007 a total of 4,5 million euros;
- The allowed non-technical losses for 2007 are 21%;

A main goal of ERO tariff methods is to induce reduction of non-technical losses. This is related to other rules approved by ERO such as Rule on General Terms of Energy Supply, Rule on Switching-off of the Consumers, Rule on Dispute Settlement Procedures etc. If these rules are applied correctly, losses will be necessarily reduced.

Outcomes

New tariffs were applicable starting May 1st, 2007. The average tariffs for domestic consumers as well as consumers in general are the same level as the old tariffs, but have a new structure as presented below.

Table. 3.11 Retail Tariffs approved by ERO and applicable by KEK J.S.C since May 1st, 2007

Tariff Group	Supplying Tension level	Tariff Elements	Unit	Day-time (a)	Approved	
					High season	Low season
					1 Oct - 31 March	1 April - 30 Sept
0	110kV	Fixed consumer's tariff	€/consumer/year		34,00	
		Engaged power	€/kW		519,00	519,00
		Active Energy (P), from which:	€/kWh	High Tariff	6,03	1,78
			€/kWh	Low tariff	2,50	1,47
		Reactive Energy (Q)	€/kVArh			
1	35kV	Fixed consumer's tariff	€/consumer/year		30,00	
		Engaged power	€/kW		540,00	540,00
		Active Energy (P), from which:	€/kWh	High Tariff	6,30	2,73
			€/kWh	Low tariff	3,33	2,47
		Reactive Energy (Q)	€/kVArh		0,04	0,04
2	10kV	Fixed consumer's tariff	€/consumer/year		34,00	
		Engaged power	€/kW		466,00	466,00
		Active Energy (P), from which:	€/kWh	High Tariff	7,07	3,15
			€/kWh	Low tariff	3,81	2,87
		Reactive Energy (Q)	€/kVArh		0,32	0,32
3	0.4kV Category I (consumers with reactive energy)	Fixed consumer's tariff	€/consumer/year		29,00	
		Engaged power	€/kW		270,00	270,00
		Active Energy (P), from which:	€/kWh	High Tariff	7,85	4,36
			€/kWh	Low tariff	4,95	4,11
		Reactive Energy (Q)	€/kVArh		1,53	1,53
4	0.4kV category II	Fixed consumer's tariff	€/consumer/year		34,00	
		Engaged power	€/kW			
		Active Energy (P)	€/kWh	The only tariff	9,68	6,26
		Active Energy (P), from which:	€/kWh	High Tariff	11,64	7,63
			€/kWh	Low tariff	5,82	3,81
5	0.4kV Domestic Bi-tariff meter (double-value) c)	Fixed consumer's tariff	€/consumer/year		24,00	
		Active energy (P), for consumption:				
		<200 kWh/month (First Block)	€/kW		0,00	0,00
		200-600 kWh/month (Second Block)	€/kW		0,00	0,00
		>600 kWh/month (Third Block)	€/kW		0,00	0,00
		Active energy (P), for consumption:				
		<200kWh/month (First Block) from which:	€/kWh	High Tariff	4,42	3,17
			€/kWh	Low tariff	2,21	1,58
		200-600 kWh/month(Second Block) from wh	€/kWh	High Tariff	5,97	4,28
			€/kWh	Low tariff	2,99	2,14
		>600 kWh/month (Third Block) from which:	€/kWh	High Tariff	8,67	6,21
			€/kWh	Low tariff	4,33	3,11
6	0.4kV Domestic single tariff meter (single value) c)	Fixed consumer's tariff	€/consumer/year		24,00	
		Active energy (P), for consumption:				
		<200 kWh/month (First Block)	€/kW		0,00	0,00
		200-600 kWh/month (Second Block)	€/kW		0,00	0,00
		>600 kWh/month (Third Block)	€/kW		0,00	0,00
		Active energy (P), for consumption:				
		<200kWh/month (First Block) from which:	€/kWh	The only tariff	3,94	2,82
		200-600 kWh/month (Second Block) from wh	€/kWh	The only tariff	5,32	3,81
		>600 kWh/month (Third Block) from which (€/kWh	The only tariff	7,72	5,53
7	0.4kV domestic without meter)	Consumption evaluated <400kWh/month	€/consumer/month		20,00	
		Consumption evaluated 400-800kWh/month	€/consumer/month		36,00	
		Consumption evaluated >800kWh/month	€/consumer/month		61,00	
8	Public lighting	Fixed consumer's tariff	€/consumer/month		34,00	
		>600 kWh/month (Third Block)	€/kWh	The only tariff	7,82	7,82

- a High tariffs are applied from 07:00-22:00 during the highs season and from 08:00-23:00 during the low season
- b Consumers registered as social cases are charged by O rate up to the level allowed by the government
- c The consumer is charged with reactive energy spent over the allowed level, $\cos \varphi = 0.95$

Tab. 3. 12 KOSTT J.S.C Tariffs applicable since May 1st, 2007

Tariffs	Unit	Approved tariffs
Network Tariffs		
400/220 KV	EUR/kW/year ^a	3.025
110 kV	EUR/kW/year ^b	6.792
System operation tariffs	EURc/MWh	0.849
Market operation tariffs	EURc/MWh	0.014

a Is applied for the average need in the time of the five highest system needs per annum. This charge is allowed to suppliers only.

b Covers the charge from 400/220 kV

3.7 GAS SECTOR IN KOSOVA

Based on the Law on Energy Regulator no. 2004/9, Chapter 3, Section 15, the competences of the Energy Regulatory Office extend to the gas sector. The document Energy Strategy of Kosova for the period 2005-2015 foresees that gas should be used as and energy source as well in Kosova. It is well-known the fact that Kosova does not have gas resources, yet it is expected that gas be present in Kosova as a result of regional investments in gas-pipelines that connect the gas-sources in Caspian and Russian region with western countries. Regional development with an influence on geo-political interests will determine what if any gas lines will go through Kosova.



Fig.3.12 Perspective routs of gas-pipelines

Document source: " Base map: GIE; routes: public announcements and press releases.

Taking into account its responsibilities in the area of development (preparation) of the legal framework relative to gas, ERO has taken active part in regional working groups on gas issues. Accordingly during 2007 it has taken part in the meetings of the Gas working group, which is an organ of SEE Energy Treaty and has contributed in

finalization of the documents “Energy Community-SEE Regulatory Board, Analytical Report on Gas, Gas Working Group, September 24th, 2007 ((ECRB South East Europe- Gas Survey Gas Working Group- draft), then the document “ Regulation on Investors in New Gas Infrastructure, SEE Energy Community 2006-2007 (“New Gas Infrastructure Investment Regulation), etc.



Pic. 3.13 The Energy Community concept of gas ring in regional context

Documents source: “Base map from WinGas GmbH. © Verlag Gluckhauf GmbH, Essen 2006, with Energy Community gas transmission ring pipeline indicative route overlay by ECA.” – (Base Map from WinGas GmbH. © Verlag Gluckhauf GmbH, Essen 2006, together with the indicative lines of transmission ring from ECA)

During 2007 the study on SEE Energy Treaty needs entitled “A study on South Eastern Europe’s Gasification”, Report no. 17102007 was completed. This study was done by British Consulting and was financed by the World Bank and German Bank KfW. The purpose of the study was the identification of cross-border gas infrastructure that would be feasible and economic, its financial aspects, etc.

The study also analyzes and makes proposals for legislative and institutional approach of the problem relative to financing and implementation of gas infrastructure projects. The study analyses gas supply from Russian and Caspian sources as well as other prospective sources, assuming that gas pipelines will cross through Turkey and other transit countries (including NLG- Natural Liquid Gas).

It also estimates the supply costs and prospective gasification in nine gas markets of SEE: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Kosovo, Macedonia, Montenegro, Romania and Serbia. The authors of the study made visits in Kosovo and contacted MEM and ERO officials.

A limiting factor for the development of the legal framework on gas in Kosova has been and remains further the lack of Law on Gas. It is an urgent duty of Kosova to adopt this law which would enable the establishing of a Gas Regulatory Framework. All the documents produced by the gas group, reports and SEE ECT studies may be found in the web-page of the secretariat: www.energy-community.org.

3.8 DISTRICT HEATING SECTION

3.8.1 SUMMARY OF DEVELOPMENTS IN THE DISTRICT HEATING SECTOR

As in previous years, the district heating sector in Kosova has not shown any significant extension and remains quite small compared to the anticipated request for heating in Kosova, covering approximately 5% of the total heating needs. The sector consists only of four district heating companies/enterprises which cover the Municipalities of Prishtina, Gjakova, Mitrovica and Zvecan, and whose assets are under KTA care and administration.

The year 2007 was the second year of functioning of District Heating Companies (DHC) Termokos and Gjakova as corporations upon the finalization of corporatization as shareholding associations at the end of 2005. These two companies are still in the process of implementing the corporate governance and accomplishing objectives for successful functioning on a commercial basis. In spite of the positive developments in this area, these companies still do not function as self-sustainable and profitable businesses and accordingly they remain still dependant on KCB subsidies.

In contrast District Heating Companies Termokos and Gjakova, the District Heating Companies Termomit and Zvecan remain under municipally integrated enterprises in Mitrovica, respectively Zvecan

3.8.2 THE PERFORMANCE OF THE DISTRICT HEATING COMPANIES

The district heating sector in Kosova has four district heating systems in Prishtina, Gjakova, Mitrovica and Zvecan, which mainly supply urban areas of the mentioned municipalities.

■ Fuel consumption and heating generation

Heat generation is made in district heating plants equipped with furnaces that mainly use heavy oil and small amounts of petrol (diesel) which are imported at market prices plus a "premium" for coverage of supplier's expenses

Below is the consumed quantity of fuel and their purchase prices during the heating period 2006/2007 pursuant to data reported by DHC's.

Table. 3.13: Fuel consumption and average purchase price for the season 2006/2007

Company	Heavy Oil		Oil (diesel)	
	Cons.(ton)	Average purchase price- VAT included (€/ton)	Cons.(liter)	Average purchase price VAT included (€/liter)
TERMOKOS - Prishtina	11,910.67	294.09	NA	NA
NQ GJAKOVA	1,612.12	293.6	NA	NA
TERMOMIT - Mirovica	NA	NA	NA	NA
NQ ZVEÇAN	NA	NA	NA	NA
Total CHs sector	13,522.79	NA	NA	NA

NA – Non applicable (or not in disposal)

DHC Termokos's heating generation equipment is comprised of the main heating plant with a capacity of 120MW- two heavy oil furnaces of a 58MW capacity each, own supply furnace with a capacity of 4 MW, as well as a reserve/spare capacity – one heavy oil furnace of 29 MW (not in function). An ancillary heating facility located in the Clinical University Center is made of two diesel furnaces with an overall capacity of 14 MW- each furnace has a capacity of 7 MW.

DHC Gjakova's heating plant has two heavy oil furnaces, one with a capacity of 20MW while the other 18.6 MW, which make a total capacity of 38.6 MW. The furnace with capacity 18.6 MW is out of function.

DHC Termomit's generation capacities in Mitrovica contain: main heating plant equipped with only one functioning furnace with a nominal capacity of 9.3 MW, and the heating plant in the clinical center that has three small furnaces with an overall capacity of 7.6 MW.

In DHC Zvecan, heating generation is enabled by the heating plant of an overall capacity of 1.6 MW- two petrol (diesel) furnaces with 800 kW.

Heating distribution

A common trait of all district heating systems in Kosovo is that their distribution network is comprised of a primary network that extends up to the supply points in substations, and a secondary network which is extended from supply points in substations to the final user.

The heating distribution network of DHC Termokos is 29 km long with a capacity of 300MW implying that the distribution network is over-dimensioned. Integral parts of the distribution network are the pumping and heat exchange station located in the Bregu i Diellit and 250 substations which are boundary points between the primary and secondary network.

Distribution network of the DHC Gjakova is stretched 16 km, of which 4 km are recently constructed pipes in 2001 and approximately 4 km of network extension in 2006 and 2007. Constructed parts of this network include about 160 substations which are boundary points between the primary and secondary network. Heating Consumption meters are installed at 42 substations.

The district heating system in Mitrovica practically contains two separate distribution networks. The main part of the network is connected to the main heating plant, while the other part is connected to the hospital center. The overall length of the distribution network is around 4.5 km. There are approximately 20 heating supply substations and none of them has a meter.

The District Heating system in Zvečan has quite a small distribution network with an overall length of 0.8 km.

A summary of the technical characteristics of the district heating as well as the generation and supply data are presented in the table below.

Table. 3.14: Technical characteristics of the district heating systems

Company (Place)	Installed Capacity [MW]	Operational Capacity [MW]	Distribution network		Heating generation [MWh/year]	Heating supply consumers substation [MWh/year]
			Network length [km]	Substa. No	Season 2006/07	Season 2006/07
TERMOKOS - (Prishtinë)	2 x 58 = 116	2 x 58 = 116				
	1 x 29 = 29	2 x 7 = 14	29	250	122,058	91,430
	2 x 7 = 14	1 x 4 = 4				
	1 x 4 = 4					
Sub-total	163	134	29	250	122,058	91,430
NQ GJAKOVA	1 x 20 = 20	1 x 20 = 20	16	160	18,217	10,937
	1 x 18.6 = 18.6					
Sub-total	38.6	20	16	160	18,217	10,937
TERMOMIT(Mitrovicë)	1 x 9.3 = 9.3	1 x 9.3 = 9.3				
	2 x 3.3 = 6.6	2 x 3.3 = 6.6	4.5	20	NA	NA
	1 x 1.0 = 1.0	1 x 1.0 = 1.0				
Sub-total	16.9	16.9	4.5	20	NA	NA
NQ ZVEÇAN	2 x 0.8 = 1.6	2 x 0.8 = 1.6	0.8	NA	NA	NA
Sub-total	1.6	1.6	0.8	NA	NA	NA
Total	220.1	172.5	50.3	430	140,275	102,367

NA – Not applicable (not in disposal)

■ Consumer related issues

Supply Service

The actual scope of the heating supply service covered by Termokos for both consumer groups is around 1,008,915m² - the ratio of heat delivered between domestic and commercial/institutional consumers is 62%-38 %. In general Termokos supplies approximately 12,100 consumers: 11,540 domestic and 560 commercial and institutional consumers.

The total estimated area of the DH Gjakova heating supply service is around 127,700 m² including domestic and commercial/institutional consumers at a ratio of approximately 48% -52 %.

The heating supply service of Termomit covers two consumers groups, domestic and commercial/institutional. Due to poor conditions of the network and secondary systems, the domestic consumers, lasting recent years are not supplied with heating. The

heating supply area of the commercial/institutional consumers is estimated to be around 27,100 m².

The heating supply area of Zvecan covers only commercial/institutional consumers, which is evaluated to be around 8,900 m².

Billing and collecting

Progress towards implementing efficient billing and increased collection present the biggest problem. 2007 showed no noticeable improvement from the previous year.

Billing is still carried out according to the pre-evaluated heating area of each consumer (per square meter) due to lack of metering (measuring) of the supplied heat. Pertaining to billing, the systems experience difficulties in achieving the planned billing level due to: reductions in invoiced amounts for the days with no heating; in turn occurring as a result of system failures in heating plant and networks; lack of heating fuel, insufficient heating due to water leaks in the distribution system. Failure to achieve adequate billing level also results from failure to update and verify the consumer database.

The average rate of the payments collection for the district heating sector is evaluated to still be low, around 39.5% for the season 2006/2007 which nevertheless shows an increase of 4.5% compared to season 2005/2006.

Table. 3.15 Collection rate of the DH companies in Kosova for the season 2006/07

Heating Season 2006/2007	Heating area [m ²]	Tariff [€/m ²]	Invoicing (VAT incl.) [€]	Collection [€]	Collection rate [%]
CH Termokos Prishtina					
Domestic	630,083	0.79	2,775,666	532,937	19.2
Comercial and institutional	387,832	0.95	2,235,670	1,337,201	59.8
Total	1,008,915		5,011,336	1,870,138	37.3
CH Gjakova					
Domestic	61,400	0.87	315,601	68,996	21.9
Comercial and institutional	66,300	1.26	502,217	277,925	55.3
Total	127,700	-	817,818	346,921	42.4
CH Termomit Mitrovica					
Domestic	0	NA	NA	NA	NA
Comercial and institutional	27,100	1.3	NA	NA	NA
Total	27,100		NA	NA	NA
CH Zvecan					
Domestic	0	NA	NA	NA	
Comercial and institutional	8,889	1.23	NA	NA	NA
Total	8,889		NA	NA	NA

NA – Not applicable (or not in disposal)

Low rate of payments collection has been caused by a series of factors. Some of these factors are directly connected to the district heating companies such as: non-satisfactory performance in generation and supply, poor customer service and inefficiency in billing and collecting.

Other factors, related to the overall economic situation and the incomes of the population, are the possibility and will to pay, lack of the apartment administration, and insufficient legal measures for dealing with non-payment by the consumers. The table below presents data pertaining to heating areas, tariffs, billing and collecting of respective district heating companies.

3.8.3 THE REVIEW OF THE DISTRICT HEATING PRICES FOR THE HEATING SEASON 2007/2008

■ Legal and regulatory framework for revision of the district heating prices

In conformity with the primary legislation, sections 46, 47, 48 of the Law on Energy Regulator, ERO has authority for making a tariff methodology and tariff approval in the regulated energy sector.

Implementation includes a series of wide-reaching principles such as reasonableness and non-discrimination, pursuant to which the energy enterprises should recover all justified costs including a justifiable return of and on their investments.

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

Pursuant to legal obligations and its competences, ERO in June 11th 2007 noticed initiation of the district heating price review for the heating season 2007/2008 with the main objective to evaluate the financial and technical information provided by DHCs, so that the district heating tariffs reflect realistic costs.

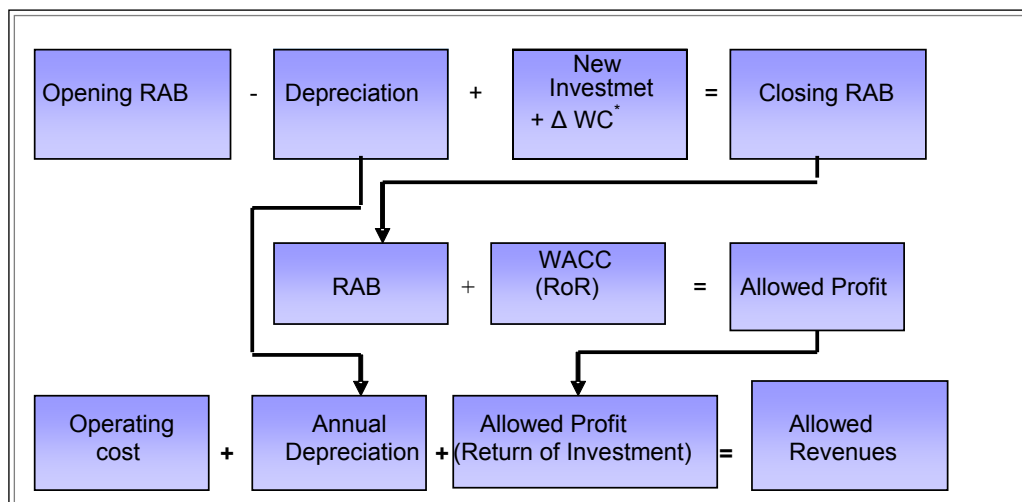
Related to this, ERO issued two instructions:

- Provisional Instruction I_04_2007 on the Regulatory Reporting of the District Heating Companies
- Provisional Instruction I_05_2007 on Tariff and Pricing Calculation Principles in the District Heating Sector in Kosova for the Heating Season 2007/2008

Tariff Methodology

In order to formulate/calculate tariffs and prices ERO applied a Rate of Return Methodology (RoR), also called "cost-plus". The RoR Methodology defines the total allowed cost including a reasonable return (including normal profit) on investment which should be earned by the DHC. That profit has been calculated pursuant to Allowed Return Rate (RoR) on Asset Regulated Base (RAB).

Schematically, the RoR methodology may be shown as below:



Pic. 3.14: The chart of the allowed incomes' calculation pursuant to RoR methodology

* ΔWC: Change in working capital

■ Price review process

ERO has started preparations on time, through issuing and publishing instructions and other relevant documents, Information meetings were held and other actions taken with DHCs and stakeholders involved in the district heating sector in order to explain and clarify the instructions and main aspects of the price review process.

In conformity with the procedures foreseen in the aforementioned instructions, the price review process commenced with handing to ERO of the regulatory reports, followed by tariff applications for the district heating companies. It must be emphasized as in previous years; regulatory reporting and tariff applications handed by DHC Termokos and Gjakova had shortcomings, while the DHC Termomit- Mltrovica and DHC Zvecan have not handed in any regulatory report or tariff application.

Price review process for the season 2007/2008 has covered these main phases:

- Synchronizing the allowed incomes based on the difference between the projected incomes for the previous heating season (2006/2007) and those actually completed in this season;
- Determining the allowed incomes based on the information and projected data handed with the tariff application for the heating Season 2007/2008;
- Tariff calculation based on the allowed incomes and tariff proposal which were subject to final approval from ERO.

As a result of the mentioned phases, ERO issued the following documents:

- Synchronizing for DHC Termokos and Gjakova, along with all-encompassing regulatory reports for each DHC given as additions to determining synchronization;
- Decisions on approval of the allowed incomes for DHC Termokos (D_70_2007) and DHC Gjakova (D_71_2007) which are attached to the all-encompassing detailed regulatory report in the format of an addendum to the decision on the allowed incomes.

Determination of the allowed incomes has mainly covered:

- Evaluation and determination of the allowed operational costs;
- Evaluation and determination of the depreciation rate;
- Determining of the allowed return in RAB where are included : i) determining RAB and ii) calculation of “WACC” and the allowed profit;
- Synchronization based on the difference between the projected and actual incomes of the previous season.

We emphasize that determining of allowed incomes is the ground for final tariff calculation of the DHCs’ tariff proposal by ERO

Decisions on approval of the tariff norms and addendums for each DHC, accomplished in the price review for the 2007/2008 season are as follows:

- The decision D_72_2007 issued in November 12th, 2007 on tariff approval of DHC Termokos;
- Decision D_73_2007 issued in Nov.12th, 2007 on tariff approval for DHC Gjakova.

Table. 3.16a: Summary of the tariffs for the district heating companies in Kosova- heating season 2007/2008

A. HEATING TARIFFS FOR UN-METERED CONSUMERS			
COMPANIES CH	TARIFF COMPONENTS	DOMESTICi per m ² a monthj	Commercial and institutional per m ² a month
CH TERMOKOS SH.A	Contracted heating capacity(fix.comp)	€ 0,11	€ 0,13
	Supplied heating (variable comp.)	€ 0,68	€ 0,82
CH GJAKOVA SHA	Kapaciteti ngrohës i kontraktuar(komp. fikse)	€ 0,18	€ 0,22
	Supplied heating (variable comp)	€ 0,67	€ 1,01
NPK STANDARD / CHU TERMOMIT	Contracted heating capacity(fix.comp)	NA	€ 0,25
	Supplied heating (variable comp)	NA	€ 1,05
NPK ZVEÇAN	Contracted heating capacity(fix.comp)	NA	€ 0,10
	Supplied heating (variable comp)	NA	€ 1,13

B.HEATING TARIFFS FOR METERED CONSUMERS		
COMPANIES CH	TARIFF COMPONENTS	Per metering unit
CH TERMOKOS SH.A	Contracted heating capacity(fix.comp)	€ 1.09 / kW per month
	Supplied heating (variable comp.)	€ 41.00 / MWh
CH GJAKOVA SHA	Contracted heating capacity(fix.comp)	€ 1.80 / kW per month
	Supplied heating (variable comp.)	€ 45.89 / MWh
NPK STANDARD / CHU TERMOMIT	Contracted heating capacity(fix.comp)	NA
	Supplied heating (variable comp.)	NA
NPK ZVEÇAN	Contracted heating capacity(fix.comp)	NA
	Supplied heating (variable comp.)	NA

NA–Not applicable

As mentioned above, DHC Termomit, Mitrovica and DHC Zvecan have failed to hand over any tariff application for the season 2007/2008. ERO has considered that, in absence of the application and taking into account the known objective circumstances, the same tariffs as approved by ERO for the heating season 2006/2007 should be applied. Table 3.16 presents the district heating tariffs for the heating season 2007/2008.

Follow-up on tariff implementation for the season 2007/2008

ERO continuously monitors closely tariff implementation through contacts and regular meetings with DHCs. Major monitoring aspects are: implementation of planned billing, collection of consumer payments, tariff impact on collection rate, as well as the quantity and quality of supplied heating.

ERO continuously encourages the DHC to go from “normative tariffs” into “consumed energy tariff” as much as possible by emphasizing that the “consumed energy tariff” based on the real measured heating consumption motivates consumers to conserve heat, so that, the consumer is billed only for the energy he has consumed and needed, which in turn may increase the collection rate. Furthermore, the implementation of the ‘consumed energy tariff’ will be a legal requirement emerging from the District Heating Law which is awaiting the official publication.

3.9 ACTIVITIES RELATIVE TO FURTHER DEVELOPMENT OF THE KOSOVA – C PROJECT

“The technical assistance project – Energy from Lignite” (acronym LPTAP) supported by the World Bank, under the leadership of a Project Steering Committee (PSC) and headed by the Minister of the MEM, has continued its activities during 2007 in accomplishing project objectives, which are:

- To assist PISG to strengthen the political, legal and regulatory frameworks favorable to new investments in the Energy Sector; development of various political, legal and regulatory instruments in energy in compliance with the best international practices/examples, and development of technical assistance for

organizing the offering/bidding and negotiations which would result in financial closure into the new investments sector;

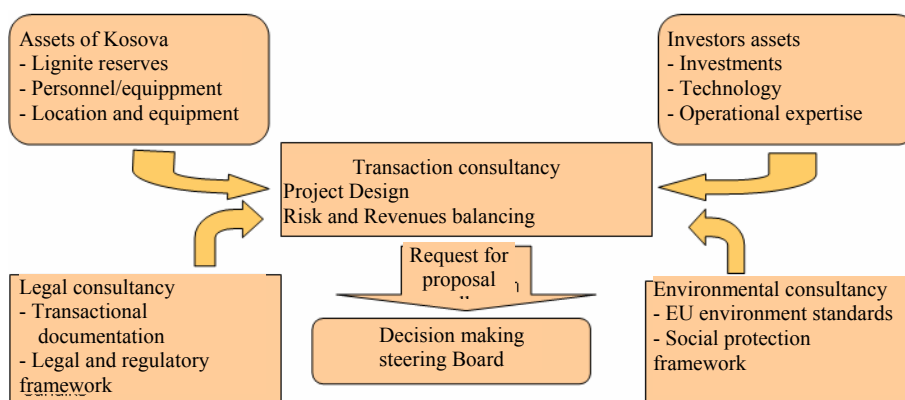
- To assist PISGs in a pilot-transaction for attracting private investments for construction of new lignite based energy generation capacity, following the sustainable environmental and social principles;

Details regarding the organization and functioning of the project's office and earlier undertaken activities are presented in the ERO's annual report of 2006. The ERO representatives have taken part regularly in the meeting organized during 2007 by PSC and have given useful comments in all developments relative to this project.

During 2007 the Project office has undertaken a series of activities, in conformity with the timely diagram of the project development such as procurement of consultancy services for transaction advisors, legal and regulatory advisors, advisors on environmental and social issues, and activities on foundation and operationalizing of the office to provide information and data that are important for project development.

The project consultancy during 2007 has helped PSC of LPTAP by:

- Review of the market, environmental and legal structure by proposing measures to facilitate or enable the completion of transactions,
- Preparation of the financial investment model based on optional analyses and giving recommendations relative to the short list of the qualified bidders.



Pic. 3 15 The role of consulting into project development

Project advisors during 2007 prepared an: Initial Diagnostic Draft Report; as well as a study on environment and social issues, including related to participation in the development of the new generation capacities, requirements for supporting transmission, and development of Sibovc mine. These documents present the existing status of legislation, market, regulation, social and environmental issues, etc.

The PSC in 2007 approved documents such as: Work Manual (WM), the code of conduct and the code of ethics etc. In the Work Manual are the principles, procedures and rules for implementation of technical assistance on lignite based energy, identifying connections to a dozen of primary documents such as: a financing agreement and the project evaluation document, an annual work plan which derives from the project implementation plan, instructions of the World Bank relative to the loan financed procurements.

The code of conduct and ethics intends to be: A Guide to the representatives of the MEM, Committee of the LPTAP project (PSC) and Project Office (PO) which take part in the business process of procurement of services in all phases for all direct or indirect services.. Relative to this “Kosova – C project”, additional information may be obtained from the Project Office, at www.lpi-ks.com.

CONSUMER PROTECTION

4.1 LEGAL AND REGULATORY GROUNDS

Pursuant to sec. 15.2 g) of the Law on Energy Regulator, the Energy Regulatory Office has competency to settle disputes between consumers and energy enterprises, system operators and enterprises as well as between two enterprises. Pursuant to sec. 17.1 of the Law on Energy Regulator, the Energy Regulatory Office may compile procedures for dispute settlement in the energy sector including the complaints:

- a) from consumers against licensees related to offered services;
- b) from licensees against other licensees regarding performance of licensed activities;
- c) That has to do with the approach of a third party and transmission or distribution of electricity and natural gas as well as cross-border transmission of electricity and natural gas.

The Board of the Energy Regulatory Office pursuant to the authority granted under sec. 17.1 of the Law on Energy Regulator in session held on January 17th, 2006 approved the Rule on Dispute Settlement Procedures in the Energy Sector.

The Rule on Dispute Settlement Procedures in the Energy Sector defines the obligations of licensees, ERO and consumers, how they are to be applied, accepted, registered, processed and appeals solved. Each licensed enterprise is obliged to prepare internal procedures for settling dispute settlement with consumers, in conformity with this Rule. on Dispute Settlement in the Energy Sector determines the terms, conditions and procedures relative to the dispute settlement so they :

- a) ensure transparent and non-discriminatory accomplishment of energy activities in Kosova;
- b) Protect consumers through promotion of a transparent and open approach towards information on settlement of consumer appeals and disputes;
- c) solve disputes between consumers and suppliers as well as between energy enterprises;
- d) ensure equal and non-discriminatory treatment towards all the consumers in Kosova, with respect to their rights and obligations relative to energy services.

ERO Customer Protection Department (CPD) is responsible for ensuring the application of customer protection legislation in the energy sector in Kosova. The Head of the ERO CPD has the mandate to issue "Decisions" for the appeals coming from

domestic consumers and prepare “Recommendations” to the ERO Board for the complaints of other consumers (commercial, institutions, industries etc). This department filled its staff levels in March 2005

4.2 COMPLAINTS AND ERO ACTIVITIES IN DISPUTE SETTLEMENT

Based on provisions of the Rule on Dispute Settlements in the Energy Sector, during 2007, the ERO CPD recorded 115 consumers’ appeal in the ERO appeals registry. Table 4.1 presents the complaints reviewed by ERO and their nature.

Table. 4.1. The amount of the complaints recorded by CPD during 2007

	Unauthorized usage	PEP (RTK tax)	Unmetered invoicing	Switch off fines	Debt transfer	Inaccurate reading	Social cases	Others	Total
Jan	1	1	1	0	1	1	0	1	6
Feb	0	0	1	4	0	0	0	1	6
Mar	1	1	1	2	0	0	0	2	7
Apr	3	0	0	0	0	0	0	3	6
May	3	2	1	1	0	1	0	5	13
Jun	4	1	2	1	3	0	0	2	13
Jul	5	4	3	0	3	0	4	1	20
Aug	1	0	1	0	0	0	0	4	6
Sep	0	3	0	2	2	0	2	1	10
Oct	0	3	0	2	1	0	0	1	7
Nov	3	1	1	1	3	2	0	0	11
Dec	2	1	0	1	0	1	0	5	10
Total	23	17	11	14	13	5	6	26	115

The complaints registered by the CPD are of various natures: un-authorized usage, un-metered billing, prepayment for RTK, switch-off fines, debt transfer, inaccurate reading/billing, social cases etc.

From tab. 4.1 of the registered claims in the ERO CPD, it is obvious that the biggest number of customer claims has been the unauthorized usage, where their participation in the overall number of claims has been 20%

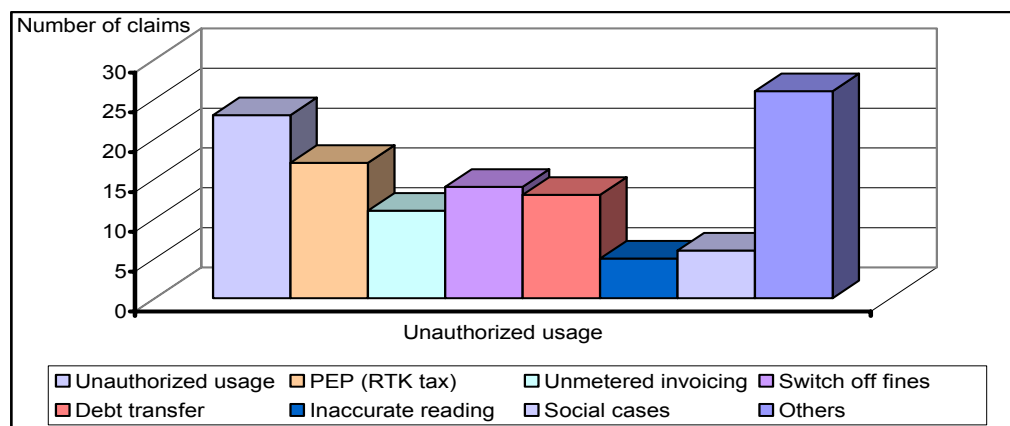
Unauthorized usage has been related directly to the commercial losses of electricity. In analyzing these claims many weaknesses were noticed in the processes prepared by KEK, therefore the number of the solved claims up to date for this kind of claim is small (6). ERO has required sustainable evidence from KEK in order to support/argument the unauthorized energy usage.

ERO CPD decisions have not and will not encourage consumers to use energy without proper unauthority, yet it will be required from KEK an accurate application of the legal and regulatory framework in place so it may prevent and punish the consumers who illegally take energy.

Payment of the public television tax (RTK Tax) has caused huge dissatisfaction among consumers. This tax has been included in the electricity bill pursuant to Law no. 02/L-47, for the Radio Television of Kosova, approved by the Assembly of Kosova, and a governed by a contract signed between RTK and KEK. Many consumers refuse the payment of electricity bills merely because of the RTK tax. CPD has explained to the consumers that such action of KEK is in conformity with the Law but it has emphasized that their concern will be presented before the legislative branch. CPD as an implementing party of the legal and regulatory framework has acted upon Law no. 02/L-47 therefore all complaints of that nature have been denied.

During 2007 KEK undertook review of passive consumers. As a result action has been taken to transfer the debt of some passive measuring points to the active consumers that are now users of the premises or locations where passive measuring points are located.

Many consumers have disputed this decision of KEK by arguing that debts belong to the previous owners and accordingly they refuse payment of this charge. CPD has analyzed each case and required additional evidence from both parties in order to complete the cases so the CPD decisions are in compliance with the law.



Pic. 4.1. Graphic presentation of the complaints/claims registered by ERO CPD

Out of 115 complaints registered in CPD we have:

- 86 complaints from domestic consumers;
- 28 complaints of commercial consumers;
- 1 complaint of the industrial consumer.

4.2.1 CONSUMERS CLAIM SETTLEMENT

ERO CPD classifies consumer claims depending on the category of the consumer, such as: domestic consumers, commercial consumers and industrial consumers. Based on sec. 14.1 of the Rule on Dispute Settlement in the Energy Sector, CPD upon

receiving the complaint, registers it, analyses it, requires a complete documentation, conducts field visits, requires from the parties to use the possibility of dispute settlement through alternative solution of the problem (negotiation, mediation) and ultimately issues a decision or recommendation pursuant to Sec. 14.3 and 14.5 on claims references.

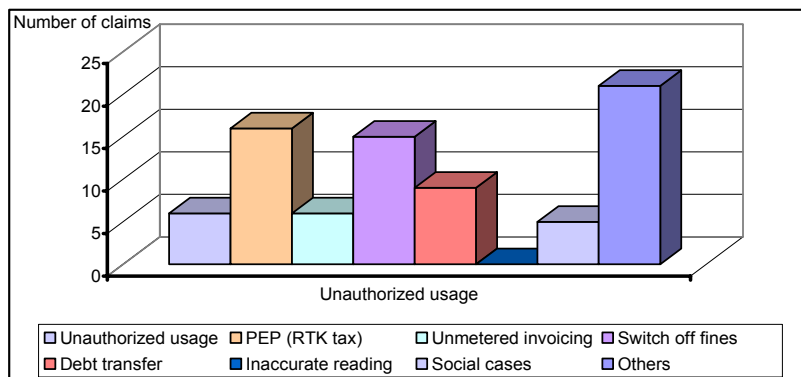
Table 4.2. Number of the cases solved by ERO CPD during 2007

	Unauthorized usage	PEP (RTK tax)	Unmetered invoicing	Switch off fines	Debt transfer	Inaccurate reading	Social cases	Others	Total
Jan	0	0	0	0	0	0	0	5	5
Feb	0	0	0	0	0	0	0	0	0
Mar	1	1	0	1	0	0	0	0	3
Apr	0	0	0	0	0	0	0	0	0
May	0	1	0	1	0	0	0	2	4
Jun	0	2	1	4	0	0	0	1	8
Jul	0	0	1	1	0	0	0	1	3
Aug	0	3	3	1	0	0	3	0	10
Sep	0	1	0	1	2	0	1	6	11
Oct	1	2	1	1	4	0	1	6	16
Nov	1	3	0	1	1	0	0	0	6
Dec	3	3	0	4	2	0	0	0	12
Total	6	16	6	15	9	0	5	21	78

ERO CPD during 2007 processed and solved 78 consumer's claims of various natures and consumer categories. For 75 of the solved claims during 2007 CPD issued:

- **41 "Decisions"** for domestic consumers,
- **15 "Recommendations"** for ERO Board (13 for commercial consumers, 2 for industrial consumers), after which the Board has issued "Decisions",
- **19 "Replies/notifications"** for claims that have to do with disputes before 2004. These replies/notifications are based on sec.32.1 of the Rule on Dispute Settlement Procedure in the Energy Sector, which states: that "for consumers disputes before 2004, regardless on the nature of the dispute, Energy Regulatory office does not have any competences as to their solution but the competent court does".
- **3 consumers' "Appeals"** were withdrawn from ERO CPD since the consumers reached an agreement with KEK J.S.

In table. 4.2 are presented a number of the solved claims by month and claim type. Each column show different kind of complaints, including consumer claims for overcharging, request for debt dismissal, meter change, requests for passive meters etc.



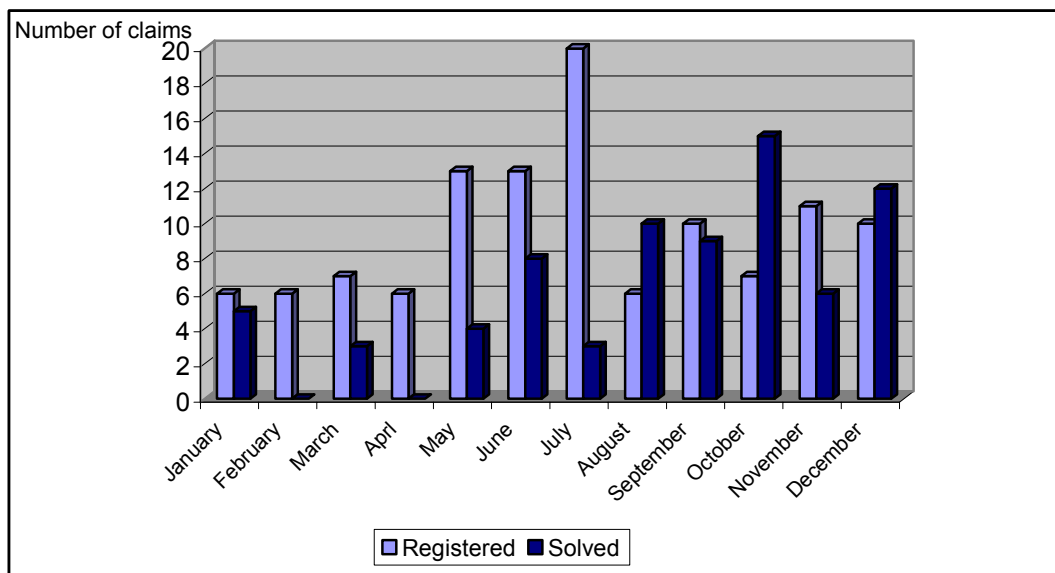
Pic. 4.2. Graphic presentation of the solved claim/complaints by CPD

In the beginning of 2007, 22 unsolved claims were shifted from the year 2006. ERO CPD solved 15 of these claims in 2007.

Tab. 4.3. The comparison between the registered and solved claims by ERO CPD (the year 2007)

	Registered	Solved	Unsolved in end of month
<i>Dec-06</i>			22
<i>January</i>	6	5	23
<i>February</i>	6	0	29
<i>March</i>	7	3	33
<i>April</i>	6	0	39
<i>May</i>	13	4	48
<i>June</i>	13	8	53
<i>July</i>	20	3	70
<i>August</i>	6	10	66
<i>September</i>	10	9	67
<i>October</i>	7	15	59
<i>November</i>	11	6	64
<i>December</i>	10	12	62
Total	115	75	62

Unsolved claims (62) are in the process of completing the relevant documentation and facts for their solution, while for 15 claims have started the procedure of solving through an agreement between KEK and the consumer, therefore we expect to reaching of an agreement in order to complete these cases.



Pic. 4.3. Graphic presentation of the registered claims and those solved by ERO CPD during 2007

4.2.2 OTHER CPD ACTIVITIES

The Customer Protection Department during 2007 had technical assistance from ERO's international consultancy financed by EAR. A result of this has been the preparation of five reports as follows:

- Customers Awareness Report;
- Customers Representation report;
- Dispute Settlement report;
- Service Quality Report;
- Customers claims completion report;

A representative of ERO CPD in 2007 was a member of a work group on "Public Awareness Campaign" intended to improve collections and energy efficiency, financed by EAR and implemented by a domestic company. In this working group, besides the ERO representative are representatives from KEK J.S., MEM, and EAR. A public awareness campaign for improvement of collection and energy efficiency started in March 15th, 2007 and was completed in Aug.15th, 2007. During this campaign there were many television previews; various booklets, posters were placed throughout Kosovo; radio-commercials, radio interviews were presented, and many other activities.

ERO CPD has made constant contacts with the KEK J.S. representative . In these meetings were discussed issues of customers' protection as well as KEK actions for improvement of customer services.

COOPERATION WITH NATIONAL AND INTERNATIONAL INSTITUTIONS AND PUBLIC INFORMATION

Kosova has signed and ratified the Treaty Agreement for establishment of SEE Energy Community in 2005 and by this, Kosova has obtained obligations as to establishing a national energy market and building the regional energy market. ERO's duty in this process is to lead and coordinate the regulation of the electricity sector, natural gas sector and district heating pursuant to regional regulatory processes.

5.1 COOPERATION WITH NATIONAL INSTITUTIONS AND ORGANISATIONS AS WELL AS PARTICIPATION IN VARIOUS COMMITTEES

During 2007 ERO, based on responsibilities and duties foreseen by Law on Energy Regulator of Kosova no. 2004/9, held a series of business meetings with state authorized institutions as well as other national and international institutions acting in Kosova such as: The Government, the Parliament, Parliamentary Committees, Ministries, Energy Enterprises : KEK, KOSTT, "IBer-Lepenc", "PS Lumbardhi"; Steering Committee of project "KOSOVA –C", donors such as : USAID, World Bank, KFW, EAR etc. In these meetings were discussed mainly issues which pertain within the scope of responsibilities and ERO legal obligations such as tariffs, the new generation capacity construction problems, renewable sources, customers protection, further institutional support of ERO etc.

From the end of 2007, ERO has assisted MEM in updating the "Road Map" sent by SEET with new data and concrete activity plans for each Kosovar institution during 2008. The Secretariat is located in Vienna and all the activities and reports during 2007 may be found in the web-page: www.seenergy.org.

ERO representatives have been part of the European integration group in MEM.

5.2 INTERNATIONAL COOPERATION AND PARTICIPATION IN MEETINGS ORGANIZED IN THE FRAMEWORK OF THE SEE ENERGY COMMUNITY

During 2007 ERO was an active participant in the organs of the SEE Energy community treaty, foremost in its regulatory organs. SEET regulatory organ is the Regulatory Board (Energy Community Regulatory Board – ECRB), comprised out of representatives of the national regulators, representatives of the European Committee,

as well as the assistance of a representative of an EU regulator, and a representative of a EU Regulators Group for electricity and gas (ERGEG).

■ **ECRB Regulatory Board**

The ECRB Regulatory Board (ECRB RB) acts in Athens. Pursuant to its work plan, in 2007 the ECRB RB obligations include the following: advisory role for the ECRB Ministerial Council in monitoring issues and access in the electric-energy system and regional market with suggestions for regular functioning of the regional market, recording of the legislation and actions incompatible with ECRB, challenging the cooperation between the regulators for the sake of implementing the *“acquis communautaire” in energy issues, cross-border disputes through national transmissions, working towards a common electricity and gas market, further opening of the market, mutual recognition of the licenses in the region, taking stands relative to regional balancing, establishing an office for auctions for SEE region, while in the gas sector has been completed the report “ Regulations on Investments in the New Gas Infrastructure, SEE Energy Community 2006-2007” (NGIR).*

The Energy Regulatory Office during 2007 took part in groups and various committees established within ECRB such as: **working group for electricity, working group for gas etc.** The ERO representatives participated in committees, workshops, trainings organized by ERO as well as in the legal and regulatory issues group, licensing and competition committee, tariffs etc.

■ **Association of regional energy regulators** (Energy Regulators Regional Association -ERRA)

This organization was established by the independent national energy Regulators of the District, Eastern Europe and most of Baltic countries. This association has a total of 22 regular members and 4 associates. Due to the politically unsolved status Kosova is an associated member. The National Association of Regulatory Utility Commissioners, USA, is also an associated member. ERRA's initiative has formed a matrix of data on regional regulators. ERO has actively worked with ERRA in this activity.

Energy Regulatory Office
Street: "Hamdi Mramori" nr.1
Prishtine-Kosove
tel:+381 (0) 38 247 615 lok 101
Faks: +381 (0) 38 247 620
E-mail: ero-ks.org