



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

ANNUAL REPORT 2008



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Approved by the Assembly of Republic of Kosovo on 14th of May 2009

INTRODUCTION

Dear,

It is with pleasure that I present the annual report on the work and activities of the Energy Regulatory Office (ERO) that were developed during 2008 to the Assembly of the Republic of Kosovo.

The report presents a summary of the main activities of the Office: the Steering Board, the professional technical and administrative services, including also key financial reports regarding budget implementation for this year.

The report contains essential technical and economic data on energy companies, in particular regarding their regulated activities. Based on a comprehensive analysis of activities in the energy sector, especially in the infrastructure development, market and public services, it presents observations, results and conclusions relevant to the existing situation and directions for action to improve this situation.

The energy sector still faces numerous infrastructure problems and problems of organizational nature, and as such can not meet the needs of customers for sufficient and quality electricity. The Government of the Republic of Kosovo and donors have allocated funds for investing in energy companies (KEK and KOSTT), which have given positive effects, but substantial improvements need far more resources, which are missing.

To meet the needs of electricity consumption it is necessary to construct new generating, transmission and distribution capacities. So this year the activities have continued to begin construction of power plant "Kosova e Re", with the opening of a new lignite mine in Sibovc. Good work was done in attracting investors for the construction of generating capacity from renewable energy sources, especially small hydropower plants and wind power generators. Clearly, investment in generation should be accompanied by investments in transmission and distribution. It is worth mentioning here the work begun to construct substation Peja 400/110kV III and enlargement of the conductors' section in some overloaded lines.

On the basis of the Law on Energy Regulator, ERO has an active role in developing and adapting a suitable regulatory framework for the development and successful implementation of any activity subject to regulation in the energy sector.

The work of the ERO Board has been difficult because the mandate of two members had expired and thus left the Office, while the Board remained with only three members and, under the existing law, there was no quorum sufficient to issue necessary decisions. With the Law on Regulator amended on June the Board's operation was unblocked. At the end of the year the Assembly also appointed two new members and the Board became complete.

ERO carried out its duties and responsibilities assigned by basic laws and secondary legislation adopted following the basic ones. Most secondary legislation has been drafted and approved, providing a good legal basis for the transformation of the energy sector; for opening and functioning of the market, for regulating energy companies that have a monopoly position, for awarding operating licenses for participants in the market and for overseeing the market and the licensees.

Approval of Authorization Rule for the construction of generating capacities and determination of Feed-in tariffs on energy production from small hydropower and wind plants has increased interest of private investors to apply for obtaining authorization for building renewable source capacities.

Adoption of Law on Public Enterprises has created a legal basis for the continuation of further restructuring of energy companies, with the aim of developing and increasing their efficiency.

In this regard the Government of the Republic of Kosovo has taken a decision for unbundling of supply and distribution network activities to begin by KEK, and creating a new enterprise, which would include those two activities, with the aim of developing procedures for their privatization.

For the purpose of coordinating activities in implementing energy sector strategy and policy, the Office has cooperated with relevant ministries of the Government of Kosovo and with parliamentary committees of the Assembly of the Republic of Kosovo.

In the sphere of regional and international cooperation, the Office has continued to perform its obligations promptly, in accordance with the Energy Community South-East Europe Treaty (ECSEE, Britain.), through the Energy Community Regulatory Board (ECRB) and working groups within it. ERO is an associate member and regularly takes part in the activities of the Energy Regulators Regional Association (ERRA).

In October 2008, ERO signed Memorandum of Understanding for partnership with the Illinois Commerce Commission (ICC) of the USA, sponsored by the USAID, aimed at training and exchange of experiences.

The activity of the Office is funded by own source revenues collected from fees for services delivered for the licensees, while the annual budget is approved by the Kosova Assembly.

During 2008 as well, the Office continued to have technical assistance available for staff capacity building from donors such as EU, USAID and the World Bank.

The Office has continued monitoring of licensees to ascertain whether their activities are conducted in accordance with the terms of licenses issued in order to improve the level of service and safe supply for customers. Particular importance was dedicated to the area of customer protection, by reviewing and resolving their specific complaints and disputes regarding the conditions and quality of energy supply services.

Another special activity was the review of prices and establishment of new electricity and district heating tariffs, based on production and service cost, taking into account also the issue of affordability by the customers.

I am proud with my colleagues, associates and staff of the ERO and commend them for their knowledge and dedication to successfully discharge their duties and responsibilities in delivering services for energy customers and to support infrastructure and market development that will help to meet the challenges the Kosova energy sector faces.

Sincerely,



PhD Ali Hamiti
Board Chairman

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LIST OF ABBREVIATIONS

EAR	European Agency for Reconstruction
KCB	Kosova Consolidated Budget
CAO	Coordinated Auction Office
LLD	Legal and Licensing Department
CPD	Customer Protection Department
ECLO	European Commission Liaison Office
ECRB	Energy Community Regulatory Board
EFT	Energy Financing Team
SEE	South Eastern Europe
EPS	Power Corporation of Serbia
GWh	Giga Watts per hour
HPP	Hydro Power Plant
EC	Energy Community
SEEC	South East European Community
KEK	Power Corporation of Kosova
KESH	Power Corporation of Albania
DHC	District Heating Company
KOSTT	Kosova Operator System for Transmission and Trade
kV	Kilovolt
kW	Ministry of Energy and Mining
kWh	Megawatt
MEM	Megawatts per hour
MW	Non Applicable
MWh	Megawatts per hour
NA	Non Applicable
NARUC	National Association of Regulatory Utility Commissioners
NERA	NERA Economic Consulting
SO	System Operator
DSO	Distribution System Operator
TSO	Transmission System Operator
SETSO	South East Europe Transmission System Operator
TO	Trade Operator
RCEPR	Regional Center for Energy Policy Research
RTK	Radio Television of Kosova
SEE-CAO	Coordinated Auction Office in South East Europe
JS	Joint Stock
UDS	Usage of Distribution System
UTS	Usage of Transmission System
TPP	Thermal Power Plant
SEEET	South East Europe Energy Treaty
UNMIK	United Nations Interim Administration Mission in Kosova
USAID	United States Agency for International Development
ERO	Energy Regulatory Office

1. GENERAL INFORMATION ON THE ENERGY REGULATORY OFFICE OF KOSOVA

1.1 LEGAL GROUNDS AND MANDATE OF THE ENERGY REGULATORY OFFICE

The Energy Regulatory Office (ERO) was established by Law No. 2004/9 on Energy Regulator, approved by the Kosova Assembly on 29th April 2004 and promulgated by the Special Representative of the Secretary General (SRSG) with Regulation No. 2004/21 dated 30th June 2004. This Law was amended by Law No.03/L-080 on Amending Kosova Assembly Law No.2004/9 on Energy Regulator (Ahtisaari Package Laws), approved by the Assembly of the Republic of Kosova on 13 June 2008.

Responsibilities of the Energy Regulatory Office are set by sec.15 of Law on Energy Regulator mentioned above 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.

It must be emphasized that the Law No.2004/9 on the Energy Regulator amended by Law No.03/L-080 On Amending Kosova Assembly Law 2004/9 on the Energy Regulator is in full conformity with the Article 119, section 5 of the Constitution of the Republic of Kosova stating: "The Republic of Kosova shall establish independent market regulators where the market alone cannot sufficiently protect the public interest", and provisions of the Article 142, section 1 of the Constitution of the Republic of Kosova stating: "Independent agencies of the Republic of Kosova are institutions established by the Assembly based on respective laws that regulate their establishment, operation and competencies. Independent agencies exercise their functions independently from any other body or authority in the Republic of Kosova".

1.2 ENERGY REGULATORY OFFICE ORGANIZATIONAL CHART AND HUMAN RESOURCES

1.2.1 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. Board members fulfill the duties and obligations in conformity with the responsibilities set by the Law on Energy Regulator.

During the whole year 2007 ERO Board had 4 members. Despite the request of the ERO Board Chairman addressed to the Kosova Assembly, there was no fifth member appointed. The mandate of a Board member nominated by the SRSG expired on February. For a certain period, ERO Board remained non-operational due to the lack of a quorum. On June 2008, the Kosova Assembly amended Law 2004/09 on Energy Regulator by Law No. 03/L-080. This amendment enabled ERO Board to become operational and issue decisions with the majority of participating members.

Upon the Kosova Government's proposal, on December 2008, the Kosova Assembly appointed two remaining Board members thus making ERO Board complete.

During 2008, ERO Board held eight meetings and issued 81 decisions.

1.2.2 ENERGY REGULATORY OFFICE DEPARTMENTS

LEGAL AND LICENSING DEPARTMENT

Pursuant to applicable laws in the Republic of Kosova the Legal and Licensing Department (LLD) provides legal support regarding all issues pertaining to the energy sector. The LLD prepares all forms of licenses, diverse applications and procedures for licensing and authorization. The Legal and Licensing Department is also responsible for supervising and monitoring licensed activities.

CUSTOMER PROTECTION DEPARTMENT

The Customer Protection Department (CPD) deals with customer’s complaints and disputes between energy sector organizations. 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 and establishes tariff systems for decision-making, as well as structures and tariff rates proposed by energy organizations. It is responsible for implementation of new elements of market competition.

ENERGY SUPPLY AND MARKET STRUCTURE DEPARTMENT

The Energy Supply and Market Structure Department (ESMSD) gathers 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 functions in conformity with the law.

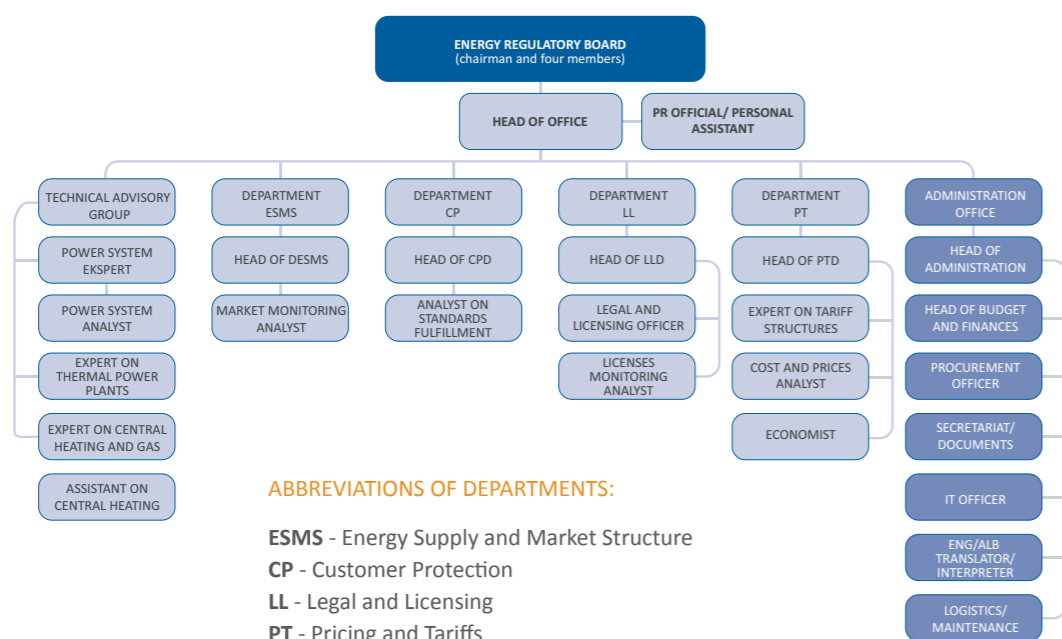
ADMINISTRATION OFFICE

The Administration Office provides administrative support to all other departments, ERO Board as well, to ensure a normal functioning of the Office.

1.2.3 THE STAFF OF THE ENERGY REGULATORY OFFICE

At the beginning of 2008 ERO had 20 staff members. During the first months of the year 2008 ERO managed to fill in the vacancies of the Expert for District Heating and Gas, Head of the Customer Protection Department and Cost and Pricing Analyst. This resulted in better and more efficient functioning of the ERO.

1.2.4 ORGANIZATIONAL CHART OF THE ENERGY REGULATORY OFFICE



1.3 TECHNICAL ASSISTANCE, TRAININGS, PUBLIC INFORMATION AND OTHER ACTIVITIES OF THE ENERGY REGULATORY OFFICE

TECHNICAL ASSISTANCE

The technical assistance project “Providing assistance for ERO capacity Building” financed by EAR and implemented by the international consulting company “NERA Economic Consulting” continued till August 2008. The main goal of the project was to efficiently implement the regulatory framework, and to provide transparent and non-discriminatory conditions for the functioning of the energy market in Kosova in full compliance with the energy laws of Kosova and the requirements of South-Eastern European Energy Community Treaty, Kosova 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 and district heating 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 in May 2008 seven ERO staff members including a Board Member made a study visit in “RAE” at the Electricity and Gas Regulatory Agency in Athens, Greece.

Technical Assistance Project “Establishment of Regulatory Framework on Renewable Sources in Kosova”, funded by World Bank is yet in the preparation stage.

The primary objective of this project is to support ERO in developing key components of the regulatory framework on renewable sources that fall under its jurisdiction and increase ERO capacity to meet its regulatory responsibilities.

The aim is that the team of consultants work with the ERO staff and senior management to develop rules, policies and the decision making process. It is expected that this project will be implemented within a year. The project is still in the process of selecting the consulting company.

Also, with regard to regulatory issues in the energy sector in general, ERO is supported by a USAID consultant.

PUBLIC INFORMATION

Energy Regulatory Office (ERO), during its work, has dedicated a special importance to transparency and to informing the public about its work.

All secondary legislation issued by the ERO has gone through a process completely open to the public, which included public hearings, through which public comments are received. In addition, the decision-making process is conducted in open sessions, giving the public the opportunity to provide comments to the last moment, when deciding also about the approval of various documents.

In accordance with its Statute, ERO announces all its Board meetings in the official ERO web page five days in advance, while decisions adopted by the Board are published in the web page after these meetings. Besides annual report and other documents, ERO publishes monthly reports that cover all activities conducted by its departments

Whenever Board discussed and adopted decisions on issues of direct public interest, such as for example the issue of electricity tariffs, in order for the information to be as comprehensive as possible, in addition to publication in the web page and information provided to stakeholders, it also invites the public to provide comments, attracting also the attention of the media through press releases and press conferences

Besides daily monitoring of media for information regarding energy sector, ERO also maintains daily communication with journalists from all media, providing explanations on any issue related to regulation of the energy sector that they bring up for discussion. Given the goal for correct information, different ERO experts have always shown willingness to participate in interviews, meetings and various shows as requested by the media in Kosovo.

TRAINING

Four ERO staff members have attended one-year training "Professional Development Program", funded by USAID and implemented by Bearing Point. The goal of the training was to strengthen management staff by improving the quality of work and enhancing work efficiency and productivity.

In January 2008 ERO participated in training with the topic "Energy Market" organized by the Regional Association of Energy Regulators, the US Agency for Development and Regional Center for Energy Policy Research (RCEPR). The goal of the training was "Regulation towards Market Liberalization", market structure, state intervention (regulation - liberalization), alternative models of the energy market: the basic principles for the energy market, energy market integration, energy wholesale price, the development of the regional market, the road to liberalization of energy market and energy exchange in Europe.

In March 2008 ERO participated in the advanced course "FSR on Electricity Market" organized in Florence, Italy. The goal of this course was to analyse the functioning and regulation of the energy market in various specifications such as wholesale market: bilateral contracts, daily market, the balance; as well as the retail market: tariffs, customer protection, and quality. One of the goals of the course was also to examine approach for market oversight and softening of the market power, and to look at opportunities and obstacles arising in the energy market from network such as losses, congestion and need for investment

In November 2008, we participated in the Energy Training Program, organized in Ljubljana, Slovenia. The goal of the program was market liberalization and design, governments and regulators, certificates of origin, renewable energy.

1.4 ANNUAL FINANCIAL REPORT OF THE ENERGY REGULATORY OFFICE - 2008

The Energy Regulatory Office is financed by own source revenues pursuant to the Law on Energy Regulator, Chapter 4, respectively fees collected from licensees.

REVENUES

All funds of the Energy Regulatory Office collected have been deposited in the official bank account created by the Treasury's General Director in conformity with the Article 20 of the Law on Energy Regulator and Article 64 of the Law on Public Financial Management and Accountability.

For the year 2008, the Energy Regulatory Office planned to collect revenues amounting to 1,135,659 Euros, while the amount of revenues that ERO actually collected for this year was 1,145,130.33 euros, that is 9,471.33 euros less than the planned amount.

Out of unspent revenues of 2007, ERO had 150236.07 Euros carried forward in 2008.

Compared to 2007 with the amount of revenues collected by ERO at 944,104 euros, for the year 2008 ERO collected 201,026.33 euros more, specifically by 21:29%.

Tab.1.1 Revenues

Description	Revenues
Own source revenues 2008	1,145,130.33
Own source revenues carried from 2007	150,236.07
Total revenues	1,295,366.40

BUDGET

The Kosova Assembly through the Decision V-013 dated 15.02.2008 approved the budget of the Energy Regulatory Office amounting to 1,062,545 euros, systemized into major economic categories as follows:

Description	Amount
Wages and salaries	401,045.00
Goods and services	604,000.00
Municipal expenditures	17,500.00
Capital expenditures	40,000.00

In the reviewing process, the budget of the Energy Regulatory Office underwent no changes, and there were no transfers of funds from one economic category into the other.

Out of unspent revenues from 2007 amounting to 691,314.00 euro, 541,077.93 euros remained as revenues for the Budget of the Republic of Kosova, while 150,236.07 euro were carried forward to the ERO budget for 2008 into the following economic categories:

Description	Amount
Wages and salaries	56,324.32
Goods and services	80,154.13
Municipal expenditures	13,018.62
Capital expenditures	739.00

This shows that the budget of the the Energy Regulatory Office for the year 2008 was 1,212,781.07 euros.

BUDGET EXPENDITURES

To finance the activities developed in 2008, ERO spent 435,848.62 euros, out of which 372,484.55 euros were from own source revenues of 2008, while 63,364.07 euros were revenues carried forward from the year 2007.

The expenditures of ERO as per economic codes are as follows:

Description	Amount
Wages and salaries	45,309.96
Goods and services	183,407.68
Municipal expenditures	7,130.98
Total	435,848.62

- Having two Board members not appointed for the whole year 2008 directly influenced the scale of budget spending in wages and salaries;
- The budget planned for consultancy services amounting to 305,000.00 euro has not been spent because expenditures for this destination have been covered by donations ERO benefitted from the World Bank (WB) valued at 176,648.00 dollars and the European Commission Liaison Office (ECLLO) valued at 985,600.00 euros;
- The majority of expenses for official trips abroad were covered by the Energy Community Secretariat based in Vienna;
- The budget planned for capital expenditures (40,000 euros) was not spent due to unsuccessful procurement activity.

The scale of budget expenditures is presented in Table 1.2. as per economic categories.

Tab.1.2 Budget expenditures expressed in percentage

Description	Budget	Expenditures	Expenditures in %
Wages and salaries	457,369.32	245,309.96	53.63%
Goods and services	684,154.13	183,407.68	26.80%
Municipal expenditure	30,518.62	7,130.98	23.36%
Capital expenditures	40,739.00	0.00	0.00%
Total	1,212,781.07	435,848.62	35.94%

The following tables show ERO expenditures as per main economic subcategories.

Tab.1.3 Wages and salaries

WAGES AND SALARIES	AMOUNT
Net salaries	193,221.86
Personal income tax	28,725.24
Employer's pension contribution	11,681.43
Employee's pension contribution	11,681.43
Total wages and salaries	245,309.96

Tab.1.4 Goods and services

GOODS AND SERVICES	AMOUNT
Travel expenses within Kosova	3,255.22
Travel expenses abroad	9,632.54
Internet	2,669.94
Other phone expenses (roaming and scratch phone cards)	10,673.73
Postal expenses	132.10
Educational and training services	2,803.40
Various Intelligence and Consulting Services	100.00
Printing services	4,843.00
Other contracted services	12,586.24
Software maintenance	2,745.00
Furniture	830.00
Photocopying machines	4,986.40
Other equipment	980.00
Computer	3,582.00
Office supplies	9,795.97
Beverage and food supply	4,070.98
Accommodation	3,066.54
Heating Oil	12,010.01
Fuel for generator	3,677.83
Fuel for vehicles	2,368.82
Vehicle Registration and Insurance	896.21
Security of premises	10,781.40
Vehicle maintenance and repair	3,059.53
Maintenance of premises	8,640.00
Maintenance of information technology	2,964.90
Rent	50,198.00
Marketing expenses	6,651.00
Publications	276.00
Representation expenses dinners/lunches	5,130.92
Total goods and services	183,407.68

Tab.1.5 Utilities

UTILITIES	AMOUNT
Electricity	4,429.46
Water	330.70
Landline phone expenses	2,370.82
Total utility expenses	7,130.98

Based on data above we may conclude that the revenues ERO collected in 2008 (1,295,366.40 Euros) exceed budget expenditures (435,848.62 Euros). The difference between revenues and expenditures in the amount of 859,517.78 euros represents sufficient funds that ERO collected this year and which, in conformity with Article 20 of the Law on Energy Regulator, should be carried forward in 2009.

Tab.1.6 Own source revenues carried forward

Revenues carried forward from 2007	150,236.07
Revenues received during 2008	1,145,130.33
Total revenues 2008	1,295,366.40
Expenditures on wages and salaries	(245,309.96)
Expenditures on goods and services	(183,407.68)
Utilities	(7,130.98)
Total expenditures 2008	(435,848.62)
Own source revenues carried forward	859,517.78

2. REGULATORY DEVELOPMENTS

2.1 COMPLETION OF REGULATORY LEGAL FRAMEWORK

During 2007 Energy Regulatory Office (ERO) continued in conducting a series of activities aimed at completing the regulatory legal framework, including providing comments on proposals for changes to primary legislation on energy, development and approval of secondary legislation and amendments to the existing secondary legislation. In preparing these rules, LLD ensured that they are in conformity with EU Directions and Regulations, and applicable laws in Kosovo.

During this period there were various requests relating to the licensing of energy enterprises, as well as supervision and monitoring of licensed activities, where ERO has been ready to monitor compliance with licence requirements and its respective decisions.

2.2 RULES APPROVED

Among important activities of the ERO relating to the development and adoption of several rules, amendment of some existing regulations and licensing of energy enterprises, are the following:

I. Rule on Authorization Procedure for the construction of new generation capacities, gas networks, direct electric-energy lines and direct pipelines (Authorization Rule)

The Rule establishes criteria and procedures for granting authorization for the construction of new generation facilities, gas networks, direct electric-energy lines and direct pipelines in order to create conditions for a more efficient and cost-effective energy consumption, with due care towards people's health, safety and environment.

It should be noted that this year ERO held many meetings with potential investors interested in investing in renewable energy sources. They asked explanations from ERO about the construction of such generation capacities. ERO instructed interested parties that such investments can be implemented after the approval of the Rule on Authorization and approval of "Feed-in" Tariffs for renewable energy sources.

II. Rule on Administrative Measures and Fines

This rule was issued in accordance with the mandate of the ERO set out in Article 57 of the Law on Energy Regulator. The Rule was finalized and approved during 2008 and establishes fines and administrative measures that the Office can undertake against licensees when the licensees act contrary to the license terms, when applicable prices and fees are not being complied with or when rules, acts, decisions and guidelines issued by the ERO are not complied with.

III. Rule on Confidential Information

The Rule has been developed and approved by the ERO and contains procedures related to determining when a document submitted to the ERO contains confidential information and material considered special, as well as procedures for access to that confidential information.

2.3 DOCUMENTS DRAFTED

The following two documents have been drafted, but have yet to be finalized. While the first document (Work Manual) must pass through the Board's approval procedure, the second document (Reporting Manual) is considered as a guide for licensees and does not require any approval.

I. WORK MANUAL

Work Manual was drafted at the end of 2007. It is a huge document (of 146 pages), which determines the internal procedures assisting and guiding the staff concerning their responsibilities within the office and towards the public in general. It also describes internal organization of the ERO and its roles, responsibilities and procedures covering activities both within and outside the ERO. This document, due to the specifications and importance mentioned above, has not been finalized so far and it is planned to be finalized and adopted during 2009.

II. REPORTING MANUAL

Reporting Manual is a guide, whose role is to help licensees on how to better organize to meet obligations arising from licenses. This document also specifies the way and schedule for (quarterly and annual) reporting for the licensees regarding the fulfillment of obligations arising from the license terms.

2.4 AMENDMENT AND ADDITION TO EXISTING RULES

Due to the arising need for advancing and facilitating implementation of existing secondary rules, ERO has launched the initiative to amend the following rules. These rules have gone through all stages of public participation (working tables, public presentation) and include many comments provided by stakeholders. Their approval is expected to take place during 2009.

Rule on General Conditions of Energy Supply.

Rule on Connection and Disconnection of Customers in the Kosovo Energy Sector, and

Rule on Dispute Settlement Procedure in Energy Sector

Among the important activities that the Office has developed during 2008 are the adoption of a series of technical codes, rules and documents compiled by the licensees, complemented, commented and approved by the Office. Among these documents will point out only a few: Network Code, Measurement and Distribution Code, Electrical Equipment Code, Transmission System, Safety and Planning Standards, Safety Standards of the System Transmission's Operation, Code of Access to Land and Buildings, Technical Indicators of the Transmission System Operator's Performance, Tariff Methodology for Connection in the Transmission Network of KOSTT JSC etc.

2.5 LICENSING AND MONITORING ACTIVITIES

On the basis of the Law on Energy Regulator ERO has the authority to issue, modify and revoke licenses. Activities developed with regard to the licensing of energy enterprises during 2008 are the following:

LICENSING

This year several foreign companies applied for an electricity supply/trade license. Applications were subject to the evaluation procedure by the Office staff, and upon verifying that they meet all the requirements arising from Kosovo primary and secondary legislation on energy and the Law on Trade Organizations, the Office issued 5 (five) electricity supply/trade licenses.

CONTINUATION OF LICENSES

Electricity supply/trade licenses are awarded for a period of two (2) years, while they may be continued for another period of two years. Of all the companies whose term was close to expiring five (5) of them have requested that ERO continue their license term. Upon assessing the requests and checking that they comply with legislation stated under section 2.5.1, the Office continued the electricity supply/trade license term of five (5) companies for the next two (2) years.

As the requests for continuation of licenses should be made six (6) months before their term expires, at the end of this year ERO received three (3) requests for the continuation of existing electricity supply/trade licenses. All these requests are undergoing evaluation procedure by the Office. Decisions regarding requests will be issued during the month of May 2009.

TERMINATION OF LICENSES

The OstElektra GmbH Company has been licensed by the ERO for a period of two years (30 October 2006 to October 30 2008) and on 29 August 2008 it requested that ERO terminate its license. On 18 September 2008, ERO terminated the license in question through Decision No. V_117_2008:

Whereas the "Holding Slovenske Elektrane Doo" Company has also been licensed by the ERO for a period of two years (30 October 2006 until 30 October 2008), but it has requested no continuation of the license, so its license has already expired.

All decisions regarding issue of licenses and issued licenses are published in the ERO web page: www.ero-ks.org

MONITORING OF LICENSED ACTIVITIES

Under powers granted by the Law on Energy Regulator, Articles 15 and 54, ERO exercises oversight of licensed activities to check whether they are in accordance with license conditions, are the tariffs and prices being applied and are the acts, decisions and instructions issued for the license being complied with.

Based on what was said above, during the period of 28 January 2008 to 1 February 2008, the following licensed energy companies, including respective divisions were subject to ERO monitoring at the site: Kosova Energy Corporation (KEK) JSC, Transmission and Trade Operator System (KOSTT) JSC, District Heating (DH) Termokos JSC and District Heating (DH) Gjakova JSC. Monitoring of licensees for the 2007 monitoring period included the following key areas:

- Fulfilling the conditions of the licenses with special focus on:
 - Unbundling of accounts for licensed activities,
 - compliance with technical codes and market rules, and
 - periodic reporting as defined by the Reporting Manual;
- Implementation of the regulatory framework approved by the ERO; and
- Implementation of tariffs and actual realization of inputs provided to determine allowed revenues.

Monitoring provides an effective way of overseeing licensees and aimed at achieving the following objectives:

- Assessing the extent to which obligations arising from the licenses and regulatory framework, have been met by the licensees;
- Identifying accurately the deficiencies and issues needing solution towards fulfillment of obligations; and
- Planning ERO activities, in terms of determining specific requirements and guidelines for licensees and concrete measures to be undertaken by each party in order to eliminate gaps and resolve identified issues.

As regards the monitoring mentioned above, ERO has compiled a voluminous report of over 100 pages, which was sent to all stakeholders, and licensees, through special notes, have been notified concerning failure to meet license terms, as well as deadlines and actions to be undertaken to meet them.

3. ELECTRICITY SECTOR

3.1 GENERATION AND TRANSMISSION CAPACITIES

Generation capacities of electricity supply for the customers of the Republic of Kosova are primarily thermal at 98%. These capabilities consist of two thermal power plants: TPP Kosova A and TPP Kosova B, while the rest consist of hydro-power plants: HPP Ujmani and HPP Lumëbardhi involving about 2%.

Tab. 3.1 Generation capacity

Unit	Construction year MW	Designed capacity MW	Operational capacity	
			Generation MW	System MW
A1	1962	65	35	32
A2	1964	125	-	-
A3	1970	200	135	120
A4	1971	200	135	120
A5	1975	210	145	130
TC Kosova A		800	450	402
B1	1983	339	290	265
B2	1984	339	280	260
TC Kosova B		678	570	525
HPP Ujmani	1981	35	35	35
HPP Lumbardhi	1957/2005	8	8	8
Total		1,521	1,063	970

As seen from the table above, due to the obsolete equipment and inadequate maintenance, operational capacity of thermal production units is significantly lower than designed capacity.

The consumption growth and reduction of operating production capacity are the reasons why Kosova is facing a lack of power and energy capacity. In addition to this, it is also the overload of transmission and distribution capacity. Thus in some regions there continue to exist congestions as a result of the decrease of voltage below nominal value.

TRANSMISSION CAPACITY IN TRANSMISSION NETWORK

During the years 2000-2008 there were investments made in capacity building of the transmission network. These investments have contributed in increasing transmission power of the transmission network.

During the year 2008 there were investments made in building transmission capacity. The most important investments are the following:

- Enlargement of conductor's section LP 110 kV: Kosova A - Vushtrri 2 Vushtrria 2 – Vushtrria 1, Prizren 2–Prizren 1;
- Construction of LP 110 kV Prizreni 2 - Rahovec, which is expected to be launched in May 2009 with the launch of substation 110/35/10 kV Rahovec;
- Changing relay protection in substations in Kosova B and Pristina 4;
- Starting construction of substation Peja 3 400/110 kV;
- There were also other investments in improving operating situation in substations.

In December 2008 electricity transformer of 220/110 kV, with the power of 100 MVA in the substation Kosova A was damaged. This resulted in the reduction of transmission capacity.

Below is a table showing the substations, the number of transformers and installed power as per the transformation rate, as well as the length of lines as per voltage level.

Tab. 3.2 Transformatorët dhe linjat në rrjetin e transmisionit

Voltage	Length	Voltage (kV/kV)	Owner	NS No.	TR No.	Power (MVA)
kV	km	400/220	KOSTT	1	3	1,200
400	181.4	220/110	KOSTT	3	6	900
220	231.9	220/35/(20)/10	KOSTT	1	2	80
110	645.0	220/35/10(20)	Alferon	1	2	320

Rajonet kryesore në të cilat paraqiten ngulfatje janë dy (rajonin e Dukagjinit dhe i Ferizajt). Ndërtimi i nënstacionit Peja III 400/110 kV, në të cilin kanë filluar punët nga fundi i vitit 2008, do të mundësojë që rajoni i Dukagjinit, që përbën pjesën më të mbingarkuar, ta zgjidhë këtë çështje duke rritur sigurinë dhe kualitetin e furnizimit të konsumatorëve. Mbetet të zgjidhet edhe problemi me ngulfatje (fyte të ngushta) në rajonin e Ferizajt, për të cilin janë paraparë investime në vitet e ardhshme.

Fig.3.1 Transmission network in Kosovo



TRANSMISSION CAPACITIES IN DISTRIBUTION NETWORK

Distribution network for the most part is overloaded and outdated. Despite investment in recent years to repair and develop it, there remain a lot of congestions in some sections. A major impact in increasing overload has played the increase in overall consumption, especially in household consumption.

The most important investment carried out in the distribution network during 2008 is the following:

- Construction of substation 110/35/10 kV Rahovec (according to plan its completion is expected for the month of May 2009);
- Investment in strengthening the distribution network worth about 5 000 000 euros.

Below are tables showing the length of the lines per voltage level divided into cable and air network. Also, the substations are presented, including the number of transformers and their capacity.

Tab. 3.3 Distribution Network Lines

Voltage	Air network	Cable network	Length
kV	km	km	km
35	647.7	26.4	674.1
20	245.0	94.4	339.4
10	4,779.4	764.6	5,544.0
6	46.8	0.4	47.2
0.4	11,314.7	467.8	11,782.5

Tab. 3.4 Transformers connected in the distribution network

Voltage (kV/kV)	Owner	NS-No.	TR-No.	Power (MVA)
110/35/10(20)	KEK	1	1	32
110/35	KEK	11	21	673
110/(20)10	KEK	3	6	206
110/10	KEK	8	13	410
110/35/6.3	Trepça	1	2	63
110/35	Trepça	-	2	126
110/6.3	Sharri	1	2	40
110/35	Ujmani	1	1	20
35/10	KEK	53	104	671
(10)20/0.4	KEK	694	705	133
10/0.4	KEK	5,106	5,207	1,455
6/0.4	KEK	31	31	6

3.2 ELECTRICITY PRODUCTION AND CONSUMPTION

PRODUCTION OF LIGNITE

Lignite constitutes the largest reserves of natural source energy in the Republic of Kosovo. Its use by thermal power plants enables generation of electricity for customers supply.

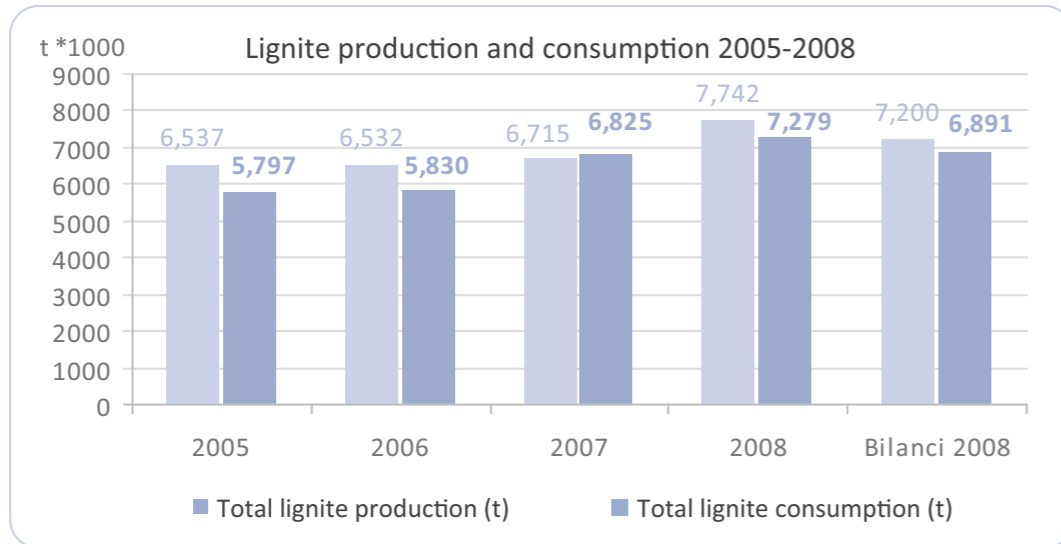
Two open lignite mining sites supply thermal power plants Kosova A and Kosova B with a capacity over 7 million tons per year. Out of the entire amount produced only a very small part is used for sale in the free market.

Fig.3.2 Lignite mining site in Kosovo



The chart below shows a trend of ever-increasing lignite consumption as a result of the increasing need for electricity production. Besides production, there is a constant increase over years of electricity consumption, which will cause that these mining sites by 2012 or even earlier run out completely. This has prompted the intensification of the opening of the new mine southeast of Sibovc. The opening of this mine will resolve the issue of lignite supply for existing power plants, but also for those planned to be constructed in the future.

Fig. 3.3 Lignite production and consumption 2005-2008



Tab. 3.5 Lignite production and consumption 2005-2008

Lignite production & consumption	Realiz. 2005	Realiz. 2006	Realiz. 2007	Realiz. 2008	Balance 2008	Realiz./Balance 2008	Realization 2008/2007
Total lignite production (t)	6,536,759	6,532,355	6,715,352	7,742,037	7,200,000	107.53%	115.29%
Total lignite consumption (t)	5,796,658	5,830,253	6,824,892	7,278,548	6,890,555	105.63%	106.65%

PRODUCTION OF ELECTRICITY

Security and stability of the work in the two thermal power plants Kosova A and Kosova B has been significantly reduced recently due to obsolete equipment and inadequate maintenance during various time periods.

Tab. 3.6 Net electricity production for the period 2004 - 2008

Production / Production Units	Realization 2004 (MWh)	Realization 2005 (MWh)	Realization 2006 (MWh)	Realization 2007 (MWh)	Realization 2008 (MWh)	Balance 2008 (MWh)	Realiz./Balance 2008 (MWh)
A1	5 345	64 542	7 609	- 5 932	- 5 776	0	0.00%
A3	281 154	- 2 775	347 551	653 485	721 764	318 780	226.41%
A4	115 004	- 1 167	- 1 046	565 878	428 167	370 944	115.43%
A5	450 725	584 350	544 416	10 379	53 323	297 528	17.92%
TC Kosovo A	852 228	644 950	898 529	1 223 810	1 197 478	987 252	121.29%
B1	1 433 543	1 476 759	1 376 516	1 726 957	1 483 590	1 679 940	88.31%
B2	1 083 423	1 767 575	1 595 667	1 288 556	1 770 199	1 740 528	101.70%
TC Kosovo B	2 516 966	3 244 334	2 972 182	3 015 513	3 253 789	3 420 468	95.13%
SHA Kosova Thëngjilli	803	778	0	0	0	0	0.00%
HC Ujmani	113 346	109 682	99 562	70 076	53 335	76 000	70.18%
Hc Distributive	0	0	26 624	23 588	22 322	26 661	83.73%
Total prodhimi	3 483 343	3 999 744	3 996 897	4 332 987	4 526 924	4 510 381	100.37%
Marrje (Imp+Shk)	483 580	490 632	536 238	642 349	708 195	437 400	161.91%
Dhënie (Eksp+Shk)	194 665	225 965	252 527	378 868	295 696	35 691	828.49%

Units A3, A4 and A5 are in better condition after rehabilitation and have been used during 2008, while A1 as the oldest unit works with reduced capacity and a very low efficiency, causing great pollution to the environment, therefore, it remains to be used in extreme emergency conditions. Only. Unit A2 is out of use and has been decommissioned.

A better situation lies with the Kosova B thermal power plant. The two units of this power plant have been operational almost throughout the year with a high efficiency, contributing about 72% in the overall production.

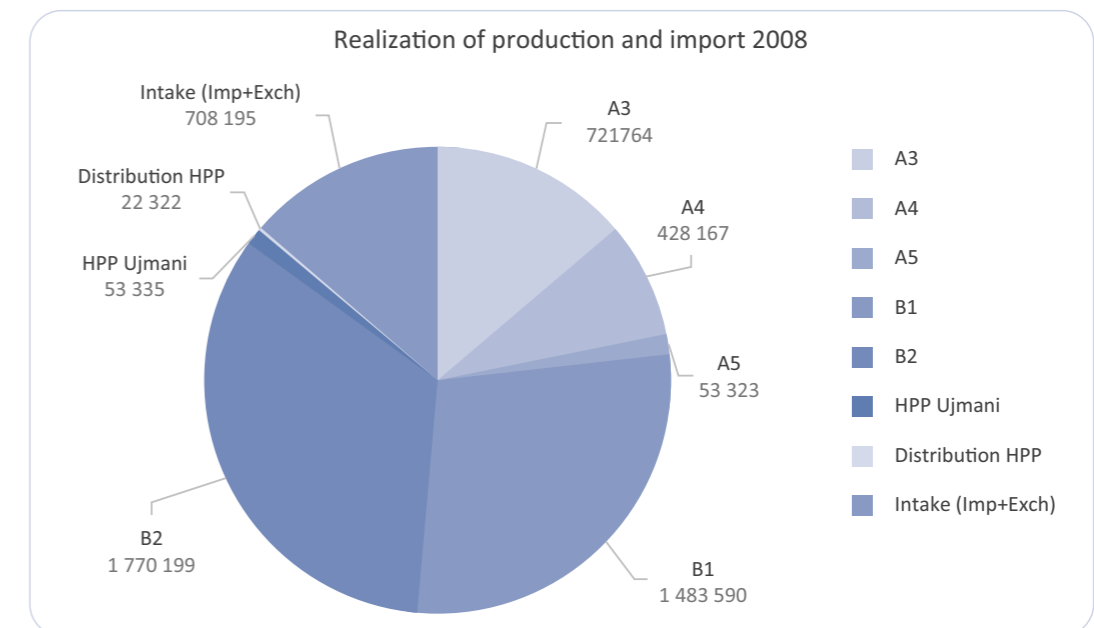
Fig.3.4 A view of TPP Kosova B



Kosova covers a small part of the energy production through hydropower plants which have a small installed capacity. During the year 2008 "Ujmani" hydropower has been operating with an installed capacity of 35 MW and it is administered by the water company "Ibër-Lepenc" Hydro-system in Pristina.

A part of generation was also carried out by the hydropower plant "Lumëbardhi" given in concession to a private enterprise, and the hydropower plant "Radavc", which is owned by KEK. These producers are switched into the distribution network.

Fig. 3.5 Production during 2008



Electricity production in 2008 was carried out following the electric-energy balance 2008 with some slight exceptions due to the timely change of generation unit repairs.

Net electricity production in the TPP in 2007 was 4 239 GWh, while in 2008 it was 4 451 GWh, showing an increase of 5.0%. Production in HPP has shown a decrease of 19.2%, however it has had a small impact on the overall electricity production in 2008. In general, during 2008 there was an increase in electricity production of 4.5% compared to the year 2007.

ELECTRICITY CONSUMPTION

The overall consumption in 2008 has increased by 7.85% compared to 2007. The table below shows data on consumption per customer categories on monthly basis for the year 2008 at the level of distribution and customer at 110 kV.

Tab. 3.7 Consumption into tariff categories in 2008

Tariff groups	January MWh	February MWh	March MWh	April MWh	May MWh	June MWh	July MWh	August MWh	Sep. MWh	October MWh	November MWh	December MWh	Total MWh
110kV (Trepça + Sharrcem)	2,965	7,168	8,050	8,095	7,562	7,562	7,528	7,763	6,893	8,067	7,532	5,126	84,311
35 kV	4,063	3,883	3,580	3,226	2,822	2,664	2,472	3,008	2,814	3,204	4,453	5,404	41,593
10 kV	17,410	15,783	14,695	14,601	13,501	12,808	12,729	13,137	13,106	15,098	15,103	16,275	174,246
Households below 200 kWh/month and hospitals	40,315	40,844	41,425	41,765	42,085	41,430	42,719	43,809	42,897	43,975	43,961	38,530	503,755
Households of (201kWh to 600kWh)/month	54,659	60,366	57,468	47,796	46,576	42,497	40,286	45,440	46,249	51,257	52,027	49,725	594,346
kWh/month	54,964	52,789	44,114	46,446	37,749	35,000	26,191	25,749	32,828	33,979	38,710	51,279	479,798
0.4 kV I	11,880	11,845	11,210	11,066	10,548	10,146	11,045	12,784	11,721	13,133	13,318	12,287	140,983
0.4 kV II	30,232	31,461	29,601	26,360	28,362	25,139	24,672	26,991	25,126	24,008	28,951	25,219	326,122
Public lighting	815	565	357	685	833	596	473	612	601	644	918	827	7,926
Un-metered household customers	6,637	6,550	6,474	6,469	6,423	6,419	6,416	6,408	6,401	6,385	6,396	6,370	77,348
Total	223,940	231,254	216,974	206,509	196,461	184,261	174,531	185,701	188,636	199,750	211,369	211,042	2,430,428

Besides distribution, eligible customers and direct customers have also increased consumption. This has especially been influenced by "Alferoni" (Ferronikel), which has shown a significant increase of energy consumption of 219.10% compared to a year ago.

Tab. 3.8 Consumption compared for the years 2007 – 2008

Spender	2007 MWh	2008 MWh	%
Net distribution	2,093,372	2,363,276	12.89%
Distribution losses	1,941,704	1,769,502	-8.87%
Distribution charge	4,035,076	4,132,778	2.42%
Trepça+Sharrcemi	76,824	83,363	8.51%
Ferronikeli	122,246	390,083	219.10%
Kosova Thëngjilli+Cons.outside KEK	5,500	1,255	-77.18%
Intern. Consum. of KEK +SS Palaj	77,538	121,421	56.60%
Total spending outside Distribution	282,108	596,122	111.31%
Transmission losses	266,533	214,814	-19.40%
Total	4,583,717	4,943,714	7.85%

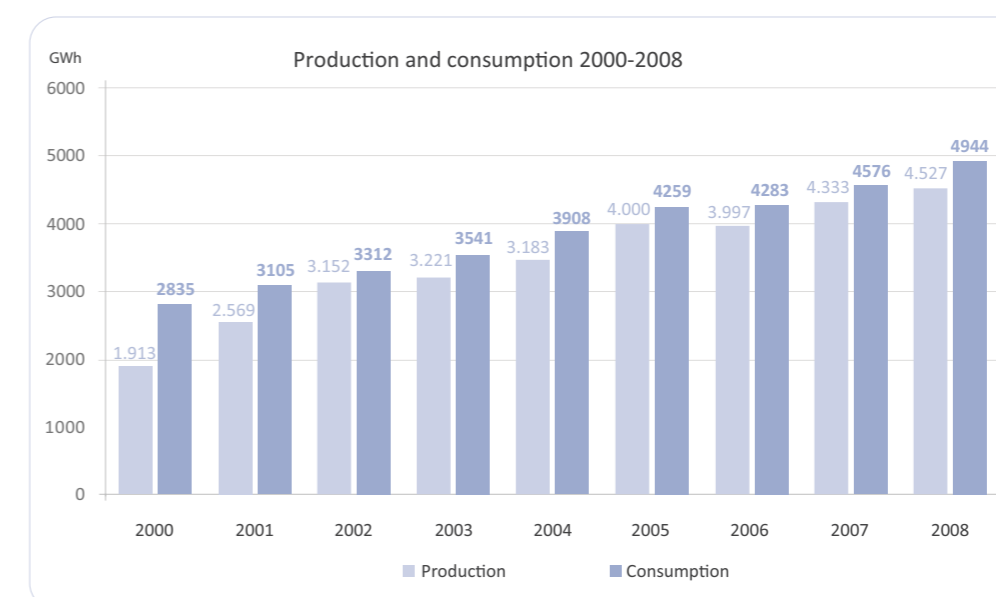
The highest consumption during this year has been in the winter season, during evening hours. The table below presents five highest (peak) values during 2008. The table shows that the maximum load during this year is dated 17 February 2008 at 21:00 hrs, which was 967 MW. These values are a result of overloads in the transmission network and cannot be considered as values that apply for longer transmission periods.

Tab. 3.9 Five highest (maximum) values during 2008

Hrs	Peak (MW)	Date	Week	Declining peak
21	967	17/02/2008	7	First peak
20	963	22/12/2008	52	Second peak
21	961	29/09/2008	40	Third peak
20	961	20/12/2008	51	Fourth peak
22	946	7/12/2008	49	Fifth peak

Both production and consumption have increased over the years. The chart below shows that there is higher production growth, which in 2000 was 1 913 GWh, while in 2008 it reached 4 527 GWh. Expressed in percentage, it results that production since 2000 to 2008 has shown an increase of 136.6%. While consumption in 2000 was 2 835 GWh, in 2008 it reached 4 944 GWh, resulting in a percentage growth of 74.4%.

Fig. 3.8 Threshold production and gross production 2000-2008



CUSTOMER SUPPLY – ABC PLAN

During the year 2008, KEK has not regularly supplied electricity for customers. Supply for customers is made according to ABC reductions plan. Under this plan better supply enjoy customers who are regularly paying for electricity and have low commercial losses, while a reduced supply is for customers who have not been regularly paying for electricity and have greater commercial losses.

On the basis of reports on supply plan carried out following ABC plan, during 2008, category A enjoyed electricity supply 24:0 or 5:1, category B was supplied 5:1 or 4:2, while category C with 4:2 or 3:3

Criterion for determining the ABC categorization up to December 2007 has been the percentage of collection into feeders 10 kV.

ABC plan is changed every month. Criterion for determining the ABC categorization up to December 2007 has been the percentage of collection into feeders 10 kV, while after December 2007 the Following criteria have been used:

- Percentage of collection in relation to energy billed according to the feeders 10 kV per specified month
- Percentage of commercial losses according to feeders 10 kV per specified month

The implementation of this plan benefits customers who regularly pay for electricity, but it sanctions customers who are regularly paying for electricity supply, and receive electricity from feeders 10 kW which fall in the B and C category.

In accordance with the Board decision, ERO - D_08_2005, KEK is obliged to submit to the ERO the proposal for compensation to customers who are regularly paying, and are classified into the B or C category, and to actually carry out such compensation. Likewise, the monitoring report sets out a requirement for applying appropriate forms of compensation for regular paying customers who are in the B or C category, until the end of September 2008.

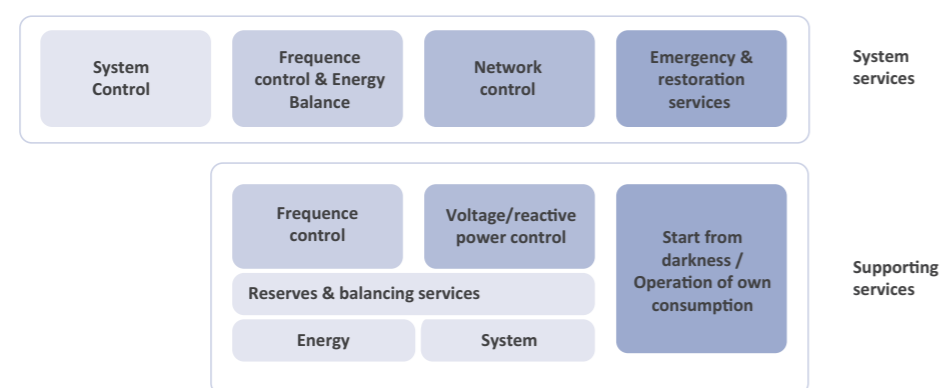
Despite all requirements listed above, KEK has not yet submitted its proposal to the ERO for the compensation of regular paying customers, who are in B or C categories.

3.3 ELECTRICITY MARKET

In the mid '80s a large number of European and world-wide countries have entered the market reform through initiatives such as liberalization, privatization and/or restructuring of electricity supply.

The motive for changing the way this industry is organized varies, but generally this is done to enable competition, in order to achieve higher efficiency, more transparent prices and to transfer a portion of risk to private investors not only to taxpayers. This results in an increase of productivity, in work and fuel cost being economized, in most recent technological innovations being selected so that all bring a lower cost and more quality services for customers.

For a better functioning of the electricity market, especially when taking into account small areas that often can have problems with balance (surplus or shortage of electricity), this market has been liberalized because a free market is an incentive for better quality of supply, lower cost and greater supply safety.



System services and supporting services also have an important impact in balancing electro-energy system. The chart below shows the impact of these services.

Regulation, especially regulation of services and activities that are like a natural monopoly are necessary for an efficiently functional, transparent and non-discriminatory market.

In some US states regulation began being applied since the year 1907, while in Europe, it was Great Britain the first to establish regulatory agency in the '80s based on the experiences in the USA.

With the signing of the South East Europe Energy Community Treaty, Kosova takes the obligation of implementing the requirements arising from the Treaty, including regulations and EU directives related to energy. Fulfilling these obligations is a continued imperative and duty. Progress in meeting these obligations has been reached with the start of unbundling process of the vertically integrated company, KEK, which resulted in the establishment of KOSTT, which is currently operating as a separate transmission entity and has also been licensed by the Energy Regulatory Office, as Trade and Transmission System Operator. The remaining company, which consists of Mining sites, Distribution and Supply are under KEK management

Unbundling is expected to further intensify the separation of distribution and supply by creating a joint stock company which is expected to be privatized later. This gained strength also by the decision of the Government of the Republic of Kosova, requiring unbundling of KEK till 31.03.2009 and the creation of a company for electricity distribution and supply as a joint stock company (JSC).

Another step in opening market was taken by changing the process for obtaining the status of eligible customer. The following customers will be entitled to it:

- 1 January 2006, customers connected in voltage 110 kV and higher.
- 1 January 2007, customers connected in voltage 35 kV and higher.
- 1 January 2008, customers connected in voltage 10 kV and higher, who have a special line
- 1 January 2009, customers connected in voltage 10 kV and higher, who were not included in 2008

As part of awareness-raising activities, during 2008 MEM, ERO, KEK KOSTT organized business meetings with large industrial customers in order to raise awareness of customers for the opportunities and positive effects from the eligible customer status on their business.

However, due to lack of electricity and high prices in the free market when compared with regulated prices, the number of those interested to obtain the eligible customer status is small. The inability to select a different supplier has an impact in this as well, although Market Rules provide for it.

In the regional context activities have been undertaken in relation to the opening of the market, but with no specific results. Lack of energy in the whole region has also contributed in this. But, within the Energy Community efforts are being made in this regard. Thus activities are underway for the implementation of the Coordinated Auction Office (CAO) for allocating interconnection capacities. Work is being done on Market Monitoring Plan for SEE to harmonize licenses and market rules at regional scale. It remains to be continued during 2009 as well.

In this period consultancy firms have been selected to conduct a study on SEE wholesale market integration - "POYRY", which have held meetings with SEE members and will propose wholesale market design.

Then the other consultancy firm "Kelemenis & Co" will identify legal obstacles for operation and participation in the SEE CAO and also organize meetings with all members of the region.

3.4 ELECTRICITY IMPORT AND EXPORT

Quality power supply and affordable prices is the fundamental objective of the energy sector. To achieve this goal huge efforts and a coordinated functioning of coal production, electricity eneration, transmission, distribution, exchange etc. are needed

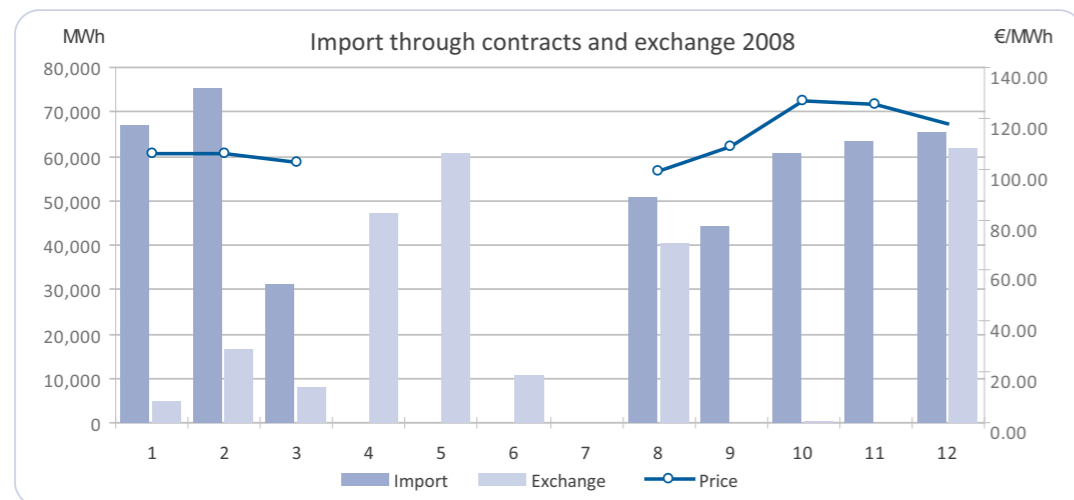
Kosova still faces shortages of electricity which has resulted in significant reductions and fairly large import and high prices. Normally given that the Kosova system is designed to generate basic electricity, not balancing electricity, surpluses that had to be exported surfaced.

Tab.3.10 Import and export 2008:

Type	Import			Export			Exchange			Total		
	Quantity MWh	Price (€)	Amount (€)	Quantity MWh	Price (€)	Amount (€)	Intake MWh	Offtake MWh	Difference MWh	Intake MWh	Offtake MWh	Difference MWh
1	66,741	106.13	7,083,381.72	0		0.00	4,940	80	4,860	71,681	80	-71,601
2	75,280	106.23	7,996,898.72	0		0.00	16,658	80	16,578	91,938	80	-91,858
3	31,296	102.40	3,204,709.92	9,360	32.95	308,410.00	7,850	5,450	2,400	39,146	14,810	-24,336
4	0		0.00	29,397	31.66	930,706.00	47,080	0	47,080	47,080	29,397	-17,683
5	0		0.00	19,120	32.07	613,267.50	60,561	900	59,661	60,561	20,020	-40,541
6	0		0.00	18,639	35.93	669,695.74	10,580	2,708	7,872	10,580	21,347	10,767
7	0		0.00	17,761	39.65	704,277.77	0	18,730	-18,730	0	36,491	36,491
8	50,582	99.40	5,027,949.40	4,505	40.16	180,905.70	40,400	37,214	3,186	90,982	41,719	-49,263
9	44,552	109.13	4,862,026.93	14,000	45.22	633,019.55	0	26,557	-26,557	44,552	40,557	-3,995
10	60,751	126.77	7,701,435.24	9,205	44.46	409,291.01	400	31,140	-30,740	61,151	40,345	-20,806
11	63,408	125.22	7,939,969.40	3,290	40.79	134,206.10		20,490	-20,490	63,408	23,780	-39,628
12	65,207	118.04	7,697,086.70	0		0.00	61,909	27,070	34,839	127,116	27,070	-100,046
Total	457,817	112.52	51,513,458.03	125,277	36.59	4,583,779.37	250,378	170,419	79,959	708,195	295,696	-412,499

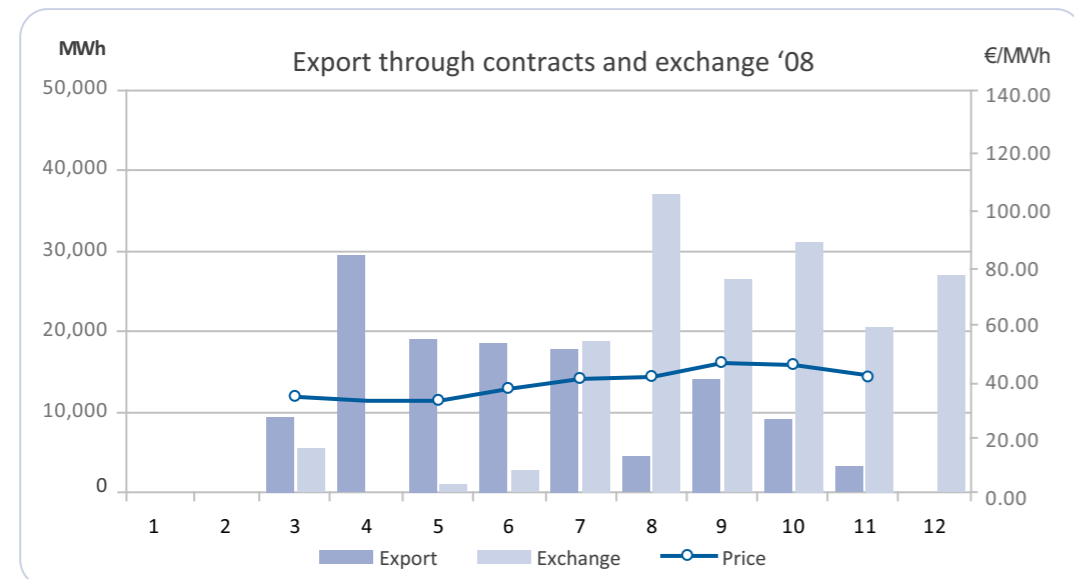
The import and export ratio for 2008 reveals that the average price of imported energy is high, whereas the price of exported energy is low. The table shows that the amount of imported energy through contracts in 2008 was 457,817 MWh worth of € 51,513,458.03. Average price of imported energy this year is 112.52€/MWh. It should be noted that imported energy is mainly of the high tariff which also implies higher price. In addition to such imported electricity, KEK has also imported energy in the form of exchange in the quantity of 250,378 MWh.

Fig. 3.7 Import through contracts and exchange, 2008



Export through contracts was 125,277 MWh worth a total of € 4,583,779.37. Average price of exported electricity was 36.59 €/MWh and this mainly is electricity of lower tariff. Electricity has also been exported in the form of exchange in the quantity of 170,419 MWh.

Fig. 3.8 Export through contracts and exchange, 2008



In general, KEK has imported (contracts + exchange) 708195 MWh, and exported (contracts + exchange) 295696 MWh. Imports are higher than exports by 412,499 MWh. If we add to this also the reductions carried out we find the difference between production and demand in 2008, which shows that the demand is still fairly higher than production and that such capacity does not meet the consumption needs in Kosovo. Exchange also represents a very important issue, since the difference of energy exchanged was 79,959 MWh in favor of imports, which means that KEK enters 2009 with quite a large debt in exchanges, which should be return in the period ahead.

Compared to 2007, the quantity of import through contracts has declined from 539,812 MWh in 2007 to 457,817 MWh in 2008, but in the form of exchange it has increased significantly from 83,577 MWh to 250,378 MWh. Export through contracts has declined from 170,175 MWh in 2007 to 125,277 MWh in 2008; in the form of exchange it also shows a small decline.

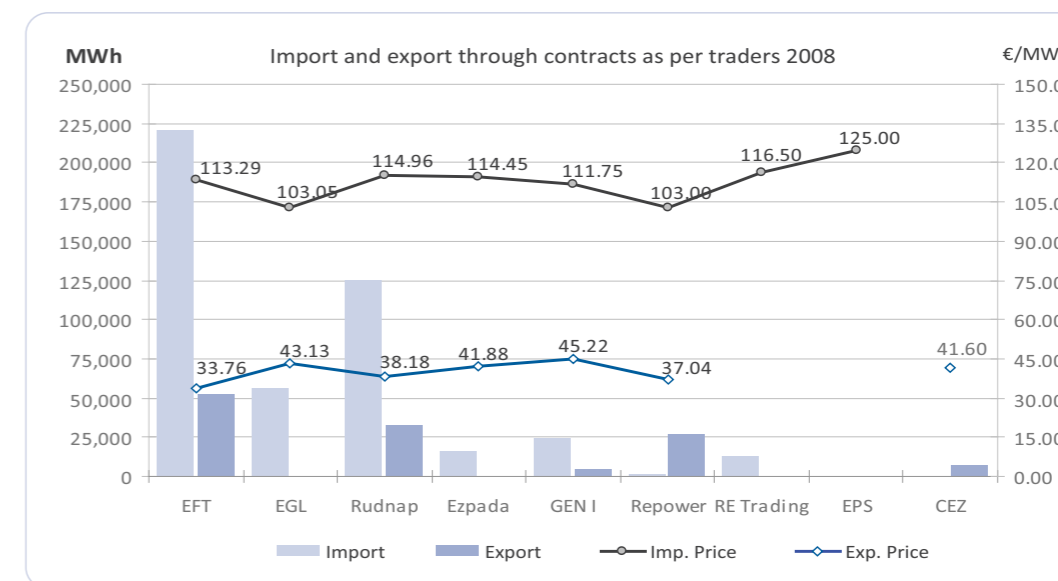
Price comparison shows that there is a huge increase of import price from € 83.66/MWh in 2007 to €112.52/MWh in 2008, while the export price varies only slightly declining from €38.45/MWh in 2007 to 36.59 MWh in 2008.

Traders' analysis shows different price variations, but for them it is common the high price of imports, while export shows almost threefold lower values and almost no differences from the export in 2007

Tab. 3.11 Import and export as per traders

Traders	Import			Export		
	Quantity	Imp. Price	Amount	Quantity	Exp. price	Amount
EFT	220,663	113.29	24,998,522	52,514	33.76	1,773,044
EGL	56,091	103.05	5,780,019	910	43.13	39,253
Rudnap	125,381	114.96	14,413,239	32,526	38.18	1,241,886
Ezpada	16,260	114.45	1,860,900	630	41.88	26,387
GEN I	23,922	111.75	2,673,217	4,495	45.22	203,263
Repower	1,725	103.00	177,675	26,946	37.04	998,119
RE Trading	13,175	116.50	1,534,888			
EPS	600	125.00	75,000			
CEZ				7,256	41.60	301,830
Total	457,817	112.52	51,513,458	125,277	36.59	4,583,779

Fig. 3.9 Import and export as per traders



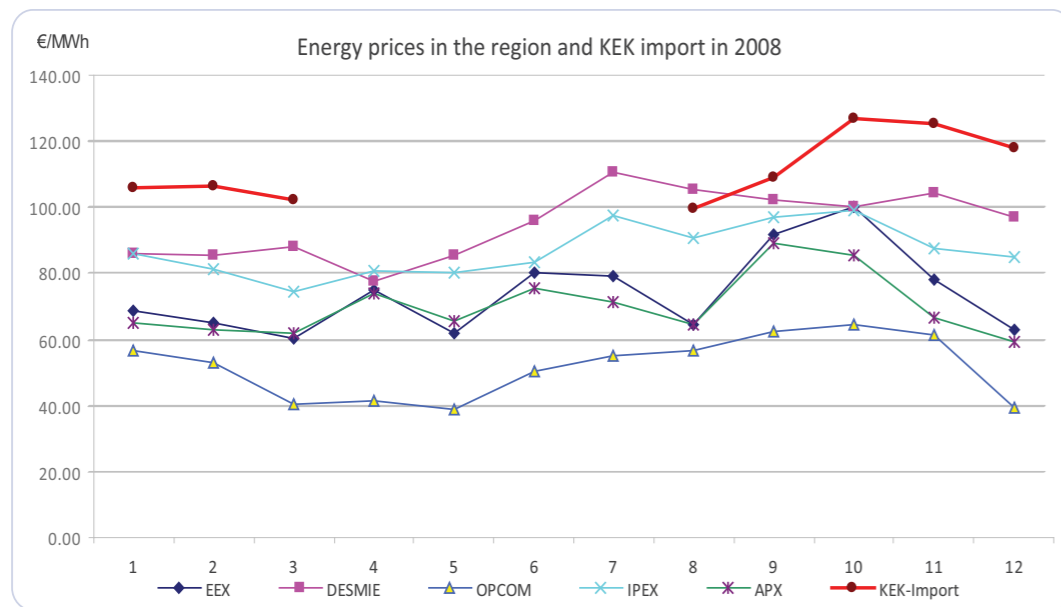
The chart above shows that EFT dominates with the quantity of electricity that KEK has imported, while RE Trading has the highest price is higher if EPS is not taken into account which has provided emergency energy in quite negligible quantities. Also, EFT leads with the quantity exported by KEK. The highest export price was realized with the GEN, but in small quantities.

Tab.3.12 Energy prices in the region and import prices in KEK

2008 Month	EEX		DESMIE		OPCOM		IPEX		APX		KEK-IMPORT		
	MWh	€/MWh	MWh	€/MWh	MWh	€/MWh	MWh	€/MWh	MWh	€/MWh	MWh	€/MWh	€
January	160,629	68.48	4,633,790	86.16	570,650	56.60	29,382,901	86.24	2,072,997	65.22	66,741	106.13	7,083,382
February	129,460	65.19	4,279,478	85.60	472,068	52.94	28,037,468	81.49	1,840,100	62.77	75,280	106.23	7,996,899
March	168,165	60.07	4,004,371	88.18	445,388	40.30	28,279,622	74.54	1,922,618	61.90	31,296	102.40	3,204,710
April	191,914	74.95	3,823,857	77.58	413,599	41.46	26,608,515	80.62	2,037,518	73.84	0		0
May	214,260	61.72	4,127,749	85.47	373,346	38.90	27,089,030	80.09	2,121,152	65.65	0		0
June	210,596	80.21	4,734,288	95.70	399,676	50.45	28,536,349	83.49	2,055,170	75.33	0		0
July	221,450	79.39	5,521,788	110.74	394,224	54.84	31,113,127	97.32	2,172,700	71.37	0		0
August	196,045	64.29	5,051,918	105.17	428,708	56.49	25,340,986	90.95	2,125,415	64.37	50,582	99.40	5,027,949
September	194,654	91.59	4,342,979	102.13	411,291	62.24	28,374,248	97.23	2,058,344	89.07	44,552	109.13	4,862,027
October	188,482	100.31	4,026,583	99.96	392,585	64.73	28,892,110	99.07	2,213,916	85.29	60,751	126.77	7,701,435
November	223,954	77.92	4,059,974	104.53	425,188	61.22	27,834,750	87.65	2,030,126	66.78	63,408	125.22	7,939,969
December	192,756	62.88	4,397,232	97.18	480,131	39.39	27,472,189	84.87	2,178,946	59.35	65,207	118.04	7,697,087
Total	2,292,365	73.92	53,004,007	94.87	5,206,854	51.63	336,961,295	86.96	24,829,002	70.08	457,817	112.52	51,513,458

An important factor is the comparison of KEK import prices with the prices in the region, which is presented in the table above, but it is better presented in the chart below.

Fig.3.10 Energy prices in the region and KEK import prices



3.5 LOSSES IN THE ELECTRICITY SECTOR

Transmission of electricity from production to customer is followed by loss of power and electricity in the system. The value of losses in electro-energy systems ranges from 7-14% of electricity compared to consumption.

Losses of electricity in the electro-energy system are categorized into:

- Technical losses, and
- Commercial (non-technical) losses.

Technical losses are a result of electro-magnetic processes in electro-energy facilities during transmission and distribution of electricity. These losses depend on many factors, of which the most important are: the network density, load, conductors section, form of daily load diagram, lines length, etc.

Kosovo electro-energy system is characterized by huge losses, both technical and commercial. Technical losses are estimated to be 17-18%, while commercial losses 30%.

Transmission losses include losses in the system 400, 220 and 110 kV (lines 400, 220 and 110 kV and transformers 400/220 kV, 220/x kV)

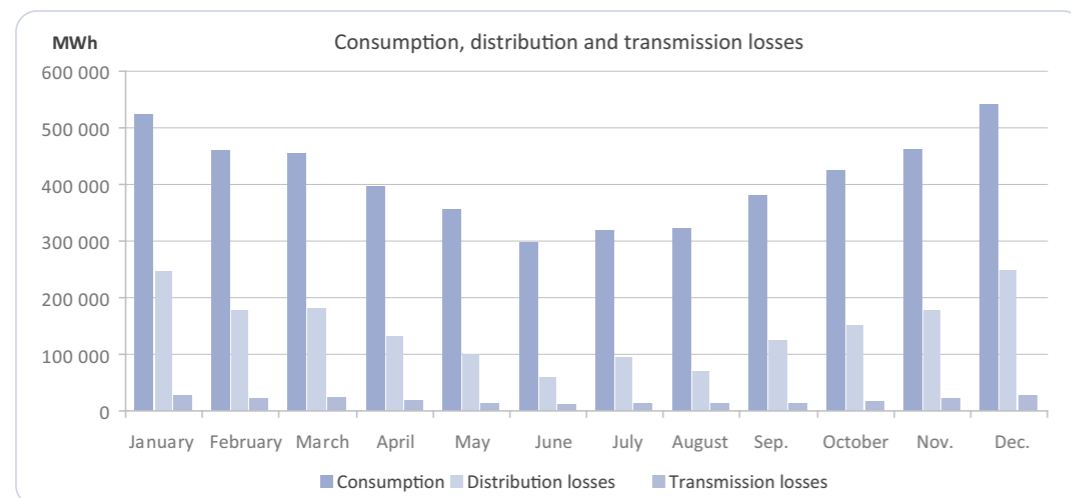
While the distribution and direct customers consumption is 4706 GWh, the transmission losses were 215 GWh and comprise about 4:56% which is considered as quite high.

Tab.3.13 Consumption, transmission and distribution losses 2008

Months	Consumption	Transmission losses	Distribution losses
January	524 528	26 455	247 238
February	460 336	21 631	177 414
March	453 632	23 603	181 240
April	398 507	17 682	132 295
May	358 027	12 453	101 233
June	297 270	9 757	59 737
July	320 038	13 097	93 945
August	321 721	12 256	70 011
September	380 162	13 011	125 632
October	425 244	16 927	151 999
November	462 440	21 782	178 776
December	541 809	26 159	249 982
Total	4 943 714	214 813	1 769 502

From Table 3.10 and Figure 3.13 it is concluded that losses follow consumption and during winter season they are higher than during the summer season; the same applies for the consumption as well. The growth in consumption in the winter is a result of electricity being used for heating.

Fig.3.10 Gross consumption and losses in transmission and distribution 2008



The electricity distribution system in Kosovo is characterized by high losses, both technical and commercial, which are the highest in the region. Large technical losses are as a result of no investment and inadequate maintenance of distribution network.

Commercial losses are as a result of illegal use of electricity and mismanagement of the company. The increase in commercial losses has been influenced by the unbilled electricity in the enclaves (northern part of Mitrovica, Shtërpçë, Gracanica and Serbian villages in the municipality of Gjilan and Dardana).

Special attention should be paid to reducing commercial losses, which is dependant on increased efficiency and better management by KEK.

Tab.3.14 Total losses and increase of consumption in distribution for the years 2000-2008

Years	Charge MWh	Realization MWh	Losses		Increase of consumption compared to previous year	
			MWh	%		%
2000	2,590,594	1,391,482	1,199,112	46.29		
2001	2,936,950	1,500,737	1,436,212	48.90	2001/2000	13.37
2002	3,085,929	1,895,400	1,190,530	38.58	2002/2001	5.07
2003	3,359,823	1,962,519	1,397,304	41.59	2003/2002	8.88
2004	3,665,742	1,956,097	1,709,645	46.64	2004/2003	9.11
2005	3,883,000	2,010,117	1,872,883	48.23	2005/2004	5.93
2006	3,895,585	1,974,202	1,921,382	49.32	2006/2005	0.32
2007	4,031,297	2,092,057	1,939,241	48.10	2007/2006	3.48
2008	4,132,846	2,363,281	1,769,564	42.82	2008/2007	2.52
Total	31,581,765	17,145,891	14,435,874	45.71	2008/2000	59.53

Table 3:14 shows that total losses from 2000 until 2008 are 45.71%. If the total technical losses in the distribution network (ESTAPI-I) are estimated to be 18%, then total commercial losses are 27.5%.

As shown in Table 3:11, changes over years are small and even 9 years on technical and commercial losses are too high.

Another problem is the increase in consumption from year to year. The growth in consumption requires construction of new distribution capacities and replacement of old lines with new ones so that they can meet standards for a quality supply of electricity.

In 2000 distribution (charge) consumption was 2591 GWh, while in 2008 it was 4.133GWh. This increase in consumption results in increase of charge in distribution sites of the distribution network and decrease of voltage in final sites in the distribution network.

The total (technical and commercial) losses in distribution during 2008 were 42.82% and compared to the year 2007 lower by 5%. Technical (estimated) losses were 17.05%, while commercial losses were 25.77%.

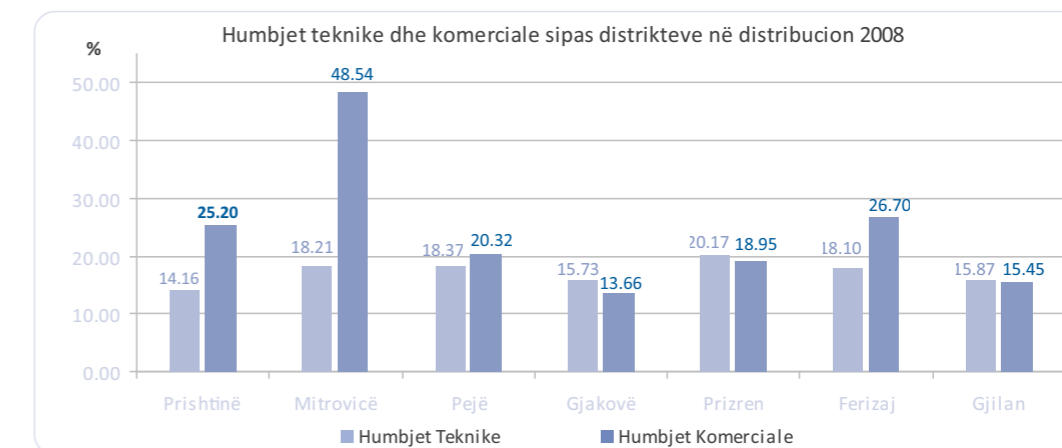
Tab.3.15 Distribution losses as per districts 2008

Districts	Charge MWh	Realization MWh	Collection Euro	Technical losses		Commercial losses		Total losses	
				MWh	%	MWh	%	MWh	%
Prishtina	1,216,825	737,927	52,392,374	172,291	14.16	306,607	25.20	478,898	39.36
Mitrovica	611,782	203,411	14,319,803	111,417	18.21	296,954	48.54	408,371	66.75
Peja	483,080	296,165	20,966,072	88,731	18.37	98,184	20.32	186,915	38.69
Gjakova	198,259	139,993	9,251,952	31,183	15.73	27,084	13.66	58,267	29.39
Prizren	740,157	450,559	31,072,255	149,305	20.17	140,293	18.95	289,598	39.13
Ferizaj	527,051	290,925	20,741,237	95,409	18.10	140,717	26.70	236,126	44.80
Gjilan	355,691	244,302	16,607,410	56,434	15.87	54,956	15.45	111,389	31.32
Total dist.	4,132,846	2,363,281	165,351,104	704,769	17.05	1,064,795	25.76	1,769,564	42.82

It is interesting to see charge (consumption) and losses into districts. Table 3:12 shows technical and commercial losses vary from one district to the other. Overall losses are higher in the district of Mitrovica 66.75% and Ferizaj 44.80%, while lower in Gjakova 29.39% and Gjilan 31.44%.

Table 3.15 shows that Prishtina district is participating with about 29.43% of overall consumption in distribution, next is the district of Prizren with 17.91% of consumption, while Gjakova and Gjilan 4.80% and 8.62 % respectively had the lowest consumption.

Fig. 3.11 Percentage of distribution losses as per districts 2008

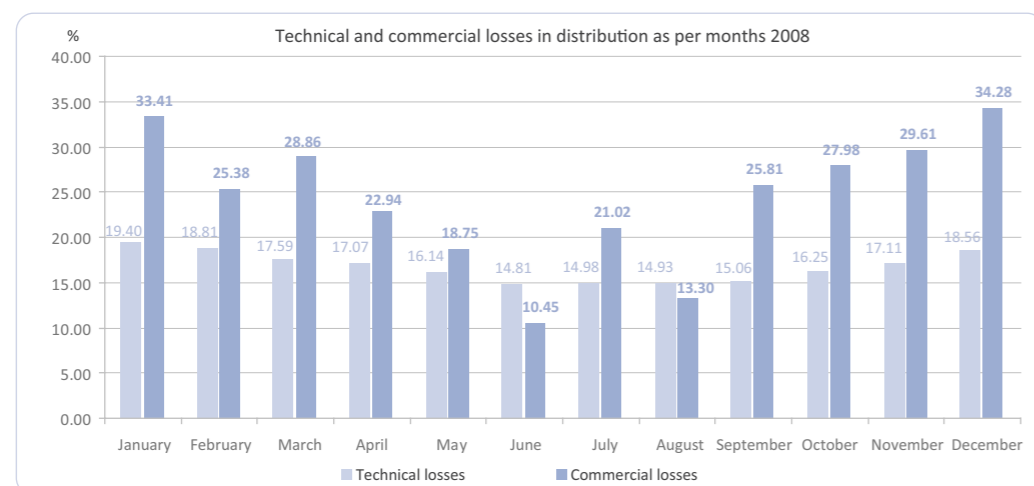


Tab. 3.16 Distribution losses as per months 2008

Muajt	NGARKIMI	REALIZIMI	INKASIMI	HUMBJET TEKNIKE		HUMBJET KOMERCIALE		HUMBJET TOTALE	
	MWh	MWh	Euro	MWh	%	MWh	%	MWh	%
Janar	468,213	220,975	16,859,397	90,816	19.40	156,423	33.41	247,238	52.80
Shkurt	401,500	224,086	17,062,326	75,516	18.81	101,898	25.38	177,414	44.19
Mars	390,164	208,924	16,015,532	68,635	17.59	112,605	28.86	181,240	46.45
Prill	330,710	198,415	11,628,146	56,440	17.07	75,854	22.94	132,295	40.00
Maj	290,132	188,899	11,277,709	46,820	16.14	54,413	18.75	101,233	34.89
Qershor	236,437	176,700	10,904,317	35,026	14.81	24,712	10.45	59,737	25.27
Korrik	260,949	167,004	10,396,278	39,084	14.98	54,861	21.02	93,945	36.00
Gusht	247,949	177,938	10,883,616	37,027	14.93	32,984	13.30	70,011	28.24
Shtator	307,376	181,744	11,141,970	46,292	15.06	79,340	25.81	125,632	40.87
Tetor	343,682	191,683	15,316,994	55,836	16.25	96,162	27.98	151,999	44.23
Nëntor	382,614	203,838	16,213,742	65,471	17.11	113,305	29.61	178,776	46.72
Dhjetor	473,058	223,076	17,651,078	87,807	18.56	162,175	34.28	249,982	52.84
Total	4,132,783	2,363,281	165,351,104	704,769	17.05	1,064,732	25.76	1,769,502	42.82

During the year 2008 the highest losses were recorded in January, February, March, October, November and December due to higher consumption (use of electricity for heating), while those lowest were in June, July and August.

Fig. 3.12 Technical and commercial losses in distribution as per months



3.6 ERO ACTIVITIES REGARDING CONSTRUCTION OF NEW GENERATION CAPACITIES

Main events in 2008 regarding new generation capacities continued being related to construction of the new power plant named by the Kosova Government as "New Kosova." As it is known, since 2006 and 2007, "Lignite Power Technical Assistance Project" (LPTAP) is financially supported by the World Bank and managed by the Steering Committee, which is headed by the Ministry of Energy and Mining. Project activities have continued with the preparation of the financial investment model and the tendering package, which are expected to be finalized within 2009. ERO has a representative in the Steering Committee and is an active participant in its work.

ZHURI HYDRO-POWER PLANT AND POTENTIAL CONSTRUCTION PROSPECTS

Given the "Energy Strategy of Kosova" and sectoral government policies, it is expected that new generation capacities that will be using water sources will be constructed in Kosova. World Bank as part of LPTAP project is supporting the study of the possibility for the development of Zhuri hydro-power plant project. With regard to this project feasibility studies have been conducted in the past as well, and the World Bank study is required to update those studies and carry out a preliminary study on the impact on environment and a social assessment as well.

ERO has participated actively in the process of selecting the company, which will conduct the study. The study is expected to take place in June 2009.

NEW GENERATING CAPACITIES FROM RENEWABLE SOURCES

Referring to long-term goals of the Kosova Strategy, government policies, i.e. the Decision No. 05/250 on "Measures for promoting generation of electricity from renewable sources and electricity from co-production in Kosova for the period 2007 - 2013", Decision 06/2007 on "Consumption of electricity from renewable sources", "Pre-feasibility study to identify water sources for small hydro-plants in Kosova", as well as obligations deriving from the South Eastern European Energy Treaty in the field of new generating capacities from renewable sources, ERO has begun to complete the secondary legislation on renewable energy sources. During 2008 ERO has adopted Rule of Authorization Procedure on the construction of new generating capacities, which determines the progress for providing an authorization for the construction of a new generating capacity. It has also developed and approved "feed-in tariff" for electricity generation from renewable sources (wind and water).

In 2008 ERO benefited a grant from the "World Bank", consultancy services for the project "Establishment of the Regulatory Framework of Renewable Energy Sources"; the project is expected to launch its activity early 2009

During the year 2008 many meetings with potential investors from Kosova and abroad have been held, whereby they expressed their interest for investment in building new generating capacities from renewable sources.

3.7 ELECTRICITY TARIFFS

Shqyrtimi i dytë i të Hyrave të Lejuara dhe Tarifave në Sektorin e Energjisë për periudhën rregullative qershor 2008 - mars 2009

In accordance with its legal mandate, ERO determines tariffs for end users based on economic criteria, taking into consideration the affordability of customers. Based on the methodology adopted, the allowed revenues are calculated separately for KEK JSC (Mining, Generation, Distribution and Supply) and KOSTT JSC.

In October 2007, ERO initiated the second review of the regulated retail electricity tariffs charged to regulated customers, as well as charges for usage of transmission system (UTS) and usage of distribution system (UDS)

During this process applications received from companies have been analyzed in detail, and verification has been conducted on technical and financial data, which include also capital and operating costs of energy companies.

3.7.1 REGULATED TRANSMISSION AND DISTRIBUTION CHARGES

Costs of the transmission and distribution system operator are covered by charges for usage of system (US), charges for new connections, charges for generators, charges for customers, as well as revenues for network expansion.

CHARGES FOR USAGE OF TRANSMISSION SYSTEM (UTS)

The charge for the usage of Transmission System (UTS) includes capacity (infrastructure) costs that cover the operation, maintenance and investment in the transmission network, system operator's costs, purchases of supporting services, losses and market operator's costs.

DISTRIBUTION NETWORK CHARGE (UDS)

The charge for usage of Distribution System (UDS) includes the costs of distribution network services, purchase of losses, and provision of services necessary for the effective functioning of the distribution network. These charges are not presented separately, because they are transactions conducted within the KEK JSC divisions until KEK divisions are legally unbundled.

REGULATED TARIFFS FOR RETAIL CUSTOMERS

Regulated tariffs for retail customers include the amount of costs in purchasing power from generators, import, regulated costs of transmission and distribution, as well as fixed supply costs. Direct subsidies from the KCB, revenues from exports, revenues from the sale of electricity to eligible customers and costs for unregulated activities are deducted from allowed revenues that the public supplier may recover from the regulated tariffs.

According to the Pricing Rule for the category of domestic customers three tariff blocks have been established as per consumption scale, according to which domestic customers are rewarded with a lower fee if they consume within the levels specified in the tariff blocks. The purpose of the block-tariff is to serve as a mechanism that encourages customers to economize electricity consumption.

Since the local generation has not been sufficient to cover demand during 2008 electricity valued at 51.5 million euros has been imported. KEK JSC has received subsidies worth 42.8 million euros, which are deducted from KEK's allowed revenues, but their absence would have resulted in an average tariff increase of 18%

The Energy Regulatory Office (ERO) has completed review of the proposed tariffs (1 April 2008 - 31 March 2009) in April 2008. However, the decision on regulated tariffs was taken on 27 June 2008, when the ERO Board became operational after the amendment to Law 2004/9.

During the tariff review process, a special importance has been given to public consultation and review of comments received from stakeholders. Documents that have played a key role in making decisions, comments from public meetings and direct discussions with stakeholders, including licensees, representatives of the Government and Assembly, as well as customers have been published in the ERO's web page.

Tariffs applicable from 1 June 2008 are shown in the following table:

Tab.3.17 Retail tariff approved by ERO

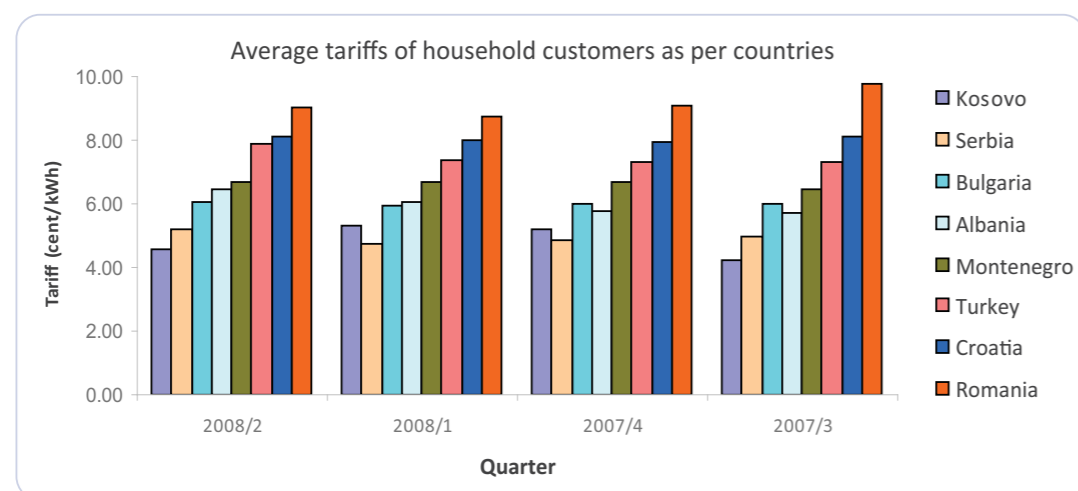
Tariff Group	Supplying Voltage level	Tariff elements	Unit	Day-time (a)	Approved 2008	
					High season	Low season
					1 October- 31 March	1 April - 30 September
0	110kV	Fixed customer's tariff	€/customer/year		981.00	
		Engaged power	€/kW		545.00	545.00
		Active energy (P), of which:	€/kWh	High tariff	6.33	1.87
			€/kWh	Low tariff	2.63	1.54
		Reactive Energy (Q); b)	€/kVAh		0.00	0.00
1	35kV	Fixed customer's tariff	€/customer/year		130.00	
		Engaged power	€/kW		567.00	567.00
		Active Energy (P), of which:	€/kWh	High tariff	6.62	2.87
			€/kWh	Low tariff	3.50	2.59
		Reactive Energy (Q); b)	€/kVAh		0.64	0.64
2	10kV	Fixed customer's tariff	€/customer/year		54.00	
		Engaged power	€/kW		489.00	489.00
		Active energy (P), of which:	€/kWh	High tariff	7.42	3.31
			€/kWh	Low tariff	4.00	3.01
		Reactive Energy (Q); b)	€/kVAh		0.64	0.64
3	0.4kV Household	Fixed customer's tariff	€/customer/year		30.00	
		Engaged power	€/kW		284.00	284.00
		Active energy (P), of which:	€/kWh	High tariff	8.24	4.58
			€/kWh	Low tariff	5.20	4.32
		Reactive Energy (Q); b)	€/kVAh		0.64	0.64
4	0.4kV Category II	Fixed customer's tariff	€/customer/year		34.00	
		Engaged power	€/kW		0.00	0.00
		Active Energy (P)	€/kWh	Single tariff	10.16	6.57
		Active Energy (P), of which:	€/kWh	High tariff	12.22	8.01
			€/kWh	Low tariff	6.11	4.00
5	0.4kV Household 2	Fixed customer's tariff	€/customer/year		24.00	
		Active Energy (P), for consumption:				
		<200kWh/month (1st Block)	€/kWh	High tariff	4.53	3.25
			€/kWh	Low tariff	2.27	1.62
		200-600 kWh/month (2nd Block)	€/kWh	High tariff	6.27	4.49
			€/kWh	Low tariff	3.14	2.25
		>600 kWh/month (3rd Block)	€/kWh	High tariff	9.10	6.52
	€/kWh	Low tariff	4.55	3.27		
6	Single Tariff meter	Fixed customer's tariff	€/customer/year		24.00	
		Active Energy (P), for consumption:				
		<200kWh/month (1st Block)	€/kWh	Single tariff	4.04	2.89
		200-600 kWh/month (2nd Block)	€/kWh	Single tariff	5.59	4.00
		>600 kWh/month (3rd Block)	€/kWh	Single tariff	8.11	5.81
7	0.4kV (un-metered)	Consumption evaluated <200kWh/month	€/customer/month		21.00	
		Consumption evaluated 200-600kWh/m.	€/customer/month		38.00	
		Consumption evaluated >600kWh/month	€/customer/month		64.00	
8	Public lighting	Fixed customer's tariff	€/customer/year		34.00	
		Active Energy (P), for consumption:	€/kWh	Single tariff	8.21	8.21

a) High tariff is applied from 07:00 - 22:00 during the high season and from 08:00-23:00 during the low season

b) The customer is charged with reactive energy above the allowed limit, $\cos \phi = 0.95$

Regulated retail tariffs for household, industrial and commercial customers increased by 5% compared to 2007, with the exception of the first block with consumption below 200 kWh, whose tariff increased only by 2.5%. Kosovo however continues to remain one of the countries with lower electricity tariffs in the region, as seen in the chart below:

FIG. 3.14 Average tariffs for household customers as per countries



3.7.2 FEED-IN TARIFF FOR THE GENERATION OF ELECTRICITY FROM RENEWABLE SOURCES

Based on primary legislation, ERO has determined feed-in tariff for the purchase of electricity produced from renewable sources. As a signatory party to the Energy Community Treaty, Kosovo is obliged to fulfill the requirements of Directive 2001/77/EC, on which is based also the Administrative Instruction 06/2007 "On the Consumption of Electricity Generated From Renewable Sources" of the Ministry of Energy and Mining. This instruction defines targets of the amount of electricity that should be used from renewable sources.

Tab.3.18 Indicative targets for consumption of energy generated from renewable sources

Energy source	Indicative targets for consumption of energy generated from renewable sources (GWh)									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Hydro	125.84	134.56	145.03	156.31	167.01	178.40	190.50	203.18	216.67	230.39
Wind	0.00	0.00	0.00	32.56	68.73	108.51	151.89	199.80	252.14	309.94
Solar	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Biomeasure	0.00	0.00	0.00	0.00	11.63	17.45	19.77	23.26	29.08	29.08
Total	125.84	134.56	145.03	188.87	247.37	304.36	362.16	426.24	497.89	569.41

The goal of feed-in tariff is to promote investment in new generating capacities from renewable sources to enable that indicative targets set in the table above are met. "Feed-in" tariffs for the purchase of energy generated from small hydropower plants and wind generators have been determined taking into consideration the modern economic principles and criteria. They are presented in the following tables:

Tab.3.19 Tariff of electricity generated from small hydropower plants

SHPP Capacity	Price (cent/kWh)
Hydro Power Plants up to 2MW	6.70
Hydro Power Plants from 2 MW to 5 MW	5.90
Hydro Power Plants from 5 MW to 10 MW	5.60

Tab.3.20 Tariff of energy generated from wind

Tarifa nxitëse (Feed-in)	Çmimi (euro/MWh)
Të gjithë gjeneratorët me teknologji të re	84.00

4. DISTRICT HEATING SECTOR

4.1 SUMMARY OF DEVELOPMENTS IN THE DISTRICT HEATING SECTOR

In 2008, the district heating sector has not shown any significant expansion compared to the previous years. District heating sector still remains quite small compared to the anticipated demand for heating in Kosova, covering approximately 5% of the total heating needs.

District heating sector is limited to four district heating companies/enterprises, which cover the municipalities of Prishtina, Gjakova, Mitrovica and Zvecan.

An important development in the district heating sector in Kosova in completing legal and regulatory basis of the district heating sector in Kosova is the adoption of the Law No. 03/L-116 on District Heating by the Assembly of the Republic of Kosova on 20 November 2008. The Law on District Heating defines the conditions and standards for conducting any activity for producing, distributing and supplying heating, conditions for operating with the facilities and other district heating capabilities, market organization and access to distribution network, as well as rights and obligations of entities that operate under this law.

Also, the Law on Public Enterprises, adopted in June 2008, has brought changes in terms of ownership, corporate governance and oversight. Actually, this law classifies the district heating companies as local public companies thus being subsequently transferred to the ownership and supervision of respective municipalities. Always according to this law, these companies are organized as shareholding companies, with share entitlements being exercised by the Municipal Shareholders Committee, while the activities of companies are supervised by the Board of Directors, which is elected by the Municipal Shareholders Committee.

DH "Termokos" and DH "Gjakova" function as corporations and are still in the process of implementing corporate governance in accordance with internationally recognized practices, as well as achieving objectives for a successful functioning on commercial grounds. Despite positive developments in this area, these companies are not yet functioning as self-sustainable and profitable businesses. As a result they remain dependent on the Kosova Consolidated Budget subsidies.

It should be emphasized that "Termomit" heating plant in Mitrovica and Heating plant in Zvecan are organized as working units of integrated municipal companies of Mitrovica and Zvecan respectively. Due to known circumstances, these heating plants do not respond to the requests for regulation and monitoring by ERO thus making it impossible to secure any relevant and updated information.

4.2 PERFORMANCE OF THE DISTRICT HEATING COMPANIES

Fuel consumption and heating generation

Heat is generated in district heating plants equipped with furnaces that mainly use heavy oil (mazut) and small amounts of petrol (diesel) which are imported at market prices plus a "premium" for coverage of supplier's expenses. That is why, the price of mazut is influenced a lot by price shifts in international markets; such shifts in the 2007/2008 heating season were huge, thus indicating a huge increase, which has resulted in increased fuel costs and consequently in increased cost of district heating generation.

The price of crude oil at the start of the 2007/2008 season was approximately \$80/barrel in mid October 2007 to reach approximately \$110/barrel by the end of this season, which has also influenced the increase of mazut price, which was about 230 cents/gallon in mid October 2007 and reached a value of up to 330 cents/gallon in mid April 2008.

The table below presents the consumed quantity of fuel and their average purchase prices during the heating period 2007/2008 according to data reported by district heating companies.

Tab. 4.1: Fuel consumption and average purchase price for the season 2007/2008

Company-DH System	Mazut		Oil (Diesel)	
	Consumption (ton)	Average Purchase Price (€/ton)	Consumption (ton)	Average Purchase Price (€/ton)
TERMOKOS - Prishtina	9,336.00	358.92	43.64	864.69
DH GJAKOVA	1,757	355	NA	NA
Total of DH Sector	11,093.45	356.74	43.64	864.69

NA – Non applicable (or not in disposal)

Capacity of heating generation plants and data on production and supply are presented in Table 4.2.

HEATING DISTRIBUTION

A common trait of all central 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 the secondary network which is extended from supply points in substations to the final user.

The primary heating distribution network of CHC Termokos is 29 km long with a capacity of 300MW implying that compared to generation capacity of CHC Termokos 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 255 substations which are boundary points between the primary and secondary network.

Primary distribution network of the CHC Gjakova is stretched 20 kilometers, four (4) km of which make a network of new pipes constructed in 2001. During 2007/2008 the network was extended with approximately 4 km. Constructed parts of this network include about 180 substations which are boundary points between the primary and secondary network. Heating Consumption meters are installed at 42 substations.

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

Tab.4.2: Technical characteristics of the district heating systems

Company (Town)	Installed Capacity [MW]	Operational capacity [MW]	Distribution Network		Heating generation, season 2007/08 [MWh/year]	Heating supply customers substation, season 2007/08 [MWh/year]
			Network length [km]	Subst. no.		
TERMOKOS - (Prishtinë)	2 x 58 = 116	2 x 58 = 116	29	255	93,423	73,161
	1 x 29 = 29	2 x 7 = 14				
	2 x 7 = 14	1 x 4 = 4				
	1 x 4 = 4					
Sub-total	163	134	29	255	93,423	73,161
DH GJAKOVA	1 x 20 = 20	1 x 20 = 20	20	180	14,894	11,031
	1 x 18.6 = 18.6					
Sub-total	38.60	20	20	180	14,894	11,032
Total	201.6	172.5	49.00	435	108,317	84,193

4.3 CUSTOMER RELATED ISSUES

SUPPLY SERVICE

In the season 2007/2008 the total scope of the heating supply service covered by Termokos for both customer groups was around 1,024,496m² which represents quite a small increase of 15,554m² compared to the last season. In general Termokos supplies approximately 12,100 customers: 11,540 household and 560 commercial/institutional customers.

The total area of the DH Gjakova heating supply service in the season 2007/2008 was around 131,700 m², which is a small increase of 4,000 m² compared to the last season. Household customers make 69,443 m² while commercial/institutional customers make 61,861 m², a ratio of 52.89% - 47.11.

BILLING AND COLLECTING

Progress towards implementing efficient billing and increased collection presents a serious problem. 2008 showed no noticeable improvement from the previous year.

Billing is still carried out according to the pre-evaluated heating area of each customer (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 customer database.

The average rate of the payments collection for the district heating sector is evaluated to still be low, around 38 % for the season 2007/2008 which shows a decrease of 1.5% compared to season 2006/2007.

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 customers.

The table below presents data pertaining to heating areas, tariffs, billing and collecting of respective district heating companies for the season 2007/2008.

Table 4.3 Collection rate of the DH companies in Kosovo for the season 2007/'08

Heating season 2007/2008	Heating area [m ²]	Tariff [€/m ²]	Invoicing (VAT incl.) [€]	Collection [€]	Collection rate [%]
DH "Termokos" Prishtina					
Household	632,602	0.79	2,046,509	264,279	12.91
Commercial and institutional	391,867	0.95	1,762,141	1,126,011	63.90
Total	1,024,469		3,808,650	1,390,290	36.50
DH "Gjakova"					
Household	69,443	0.85	261,478	62,413	23.87
Commercial and institutional	61,861	1.23	388,271	193,917	49.94
Total	131,304		649,749	256,330	39.45

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

LEGAL AND REGULATORY FRAMEWORK FOR REVIEW OF DISTRICT HEATING PRICES

As defined by the Chapter 9 of the Law on Energy Regulator, ERO is competent and responsible for developing a tariff methodology and approving tariffs in the regulated energy sector.

The district heating sector in Kosovo 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 its legal obligations and competences, ERO in June 10th 2008 announced initiation of the district heating price review for the heating season 2008/2009 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_06_2008 on the Regulatory Reporting of the District Heating Companies
- Provisional Instruction I_07_2008 on Tariff and Pricing Calculation Principles in the District Heating Sector in Kosovo for the Heating Season 2008/2009.

TARIFF METHODOLOGY

In order to formulate/calculate tariffs and prices ERO applied a Rate of Return Methodology (RoR), or the so-called "cost-plus".

The RoR Methodology defines the allowed cost, which should be returned and the reasonable profit, which should be earned by DHC. That profit has been calculated pursuant to Allowed Return Rate (RoR) on Asset Regulated Base (RAB).

PRICE REVIEW PROCESS

ERO has started price review, 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 by the district heating companies.

Price review process for the season 2008/2009 has covered these main phases:

- Synchronizing the allowed incomes based on the difference between the projected incomes for the previous heating season (2007/2008) and those actually completed in this season;
- Determining the allowed incomes for the heating season 2008/2009 based on the information and projected data handed with the tariff application examined and considered as reasonable by ERO;
- Tariff calculation based on the allowed incomes and tariff proposal which were subject to final approval by 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 and DHC Gjakova (V_132_2008 dhe V_133_2008), which are attached to the all-encompassing detailed regulatory report in the format of an addendum to the decision on the allowed incomes.

Tab. 4.4 Summary of tariffs for district heating companies – heating season 2008/2009

A. Heating tariffs for un-metered customers

DH COMPANIES	Tariff components	Household customers [€ / m ² per month]	Commercial and institutional customers [€ / per month]
DH TERMOKOS JSC	Contracted heating capacity (fixed comp.)	0.06	0.08
	Supplied heating (variable comp.)	0.78	0.92
DH GJAKOVA JSC	Contracted heating capacity (fixed comp.)	0.13	0.17
	Supplied heating (variable comp.)	0.77	1.11

B. Heating tariffs for metered customers

DH COMPANIES	Tariff components	Metering unit	Price
DH TERMOKOS JSC	Contracted heating capacity (fixed comp.)	€ / kW per month	0.59
	Supplied heating (variable comp.)	€ / MWh	45.50
DH GJAKOVA JSC	Contracted heating capacity (fixed comp.)	€ / kW per month	1.33
	Supplied heating (variable comp.)	€ / MWh	47.62

Follow-up on tariff implementation for the season 2008/2009

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

ERO constantly 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 customers to conserve heat and use it in accordance with their needs, and fair billing so that, the customer is billed only for the energy he has consumed, which in turn may increase the collection rate. Furthermore, the implementation of the "consumed energy tariff" is a legal requirement emerging from the District Heating Law.

5. CUSTOMER PROTECTION

5.1 INTRODUCTION – LEGAL GROUNDS

The Energy Regulatory Office has been granted the legal mandate to address customer protection and dispute settlement issues in the energy sector in Kosovo (Article 15.2 of the Law on Energy Regulator).

The ERO Customer Protection Department is responsible for ensuring the application of customer protection legislation in the energy sector in Kosovo.

During 2008 through the Customer Protection Department (CPD) ERO has processed many customer complaints, and one complaint of a licensee against another licensee. Most customer complaints appealed the decisions/responses issued by KEK objecting the bills that the customers were charged for illegal consumption of electricity.

KEK as a vertically integrated company has not yet managed to establish a stable and efficient system for resolving customer disputes. Processes and decisions/responses prepared by the staff of KEK show many deficiencies, contradictions, noncompliance with procedures and ignorance of rules and laws in force, as well as a lack of analysis for each specific case. As a result of these shortcomings there are a lot of customers who object to actions taken by KEK in the CPD ERO.

A problem that should be particularly emphasized for the current reporting year is the enormous number of processes that KEK teams have prepared regarding the illegal electricity consumption, particularly processes related to abuse of meters.

Most customers who are charged by KEK with the bill for illegal consumption electricity and who received KEK's response after submitting their complaint to KEK have filed complaints in the DMK ERO.

5.2 COMPLAINTS AND ACTIVITIES OVER DISPUTE SETTLEMENT

During 2008, the Customer Protection Department (CPD) in the Energy Regulatory Office recorded 572 customers' complaints in the complaints registry. Table 5.1 presents the customer complaints recorded and resolved by ERO.

Table 5.1. The amount of the complaints registered and resolved by ERO CPD

Total complaints	
Registered	Resolved
572	107

The greatest number of customer complaints recorded in the CPD registry has occurred mainly during summer months, when KEK undertook a big activity to disconnect customers due to electricity debts. KEK action taken during the summer to disconnect customers from electricity network occurred after the approval of the Kosova Government Direction on Disconnection with Decision number 06/29 dated 31.07.2008. This Direction approved by the Kosova Government suspended all provisions of the Rule on Disconnection and Reconnection of Customers in the energy sector issued by the ERO on 24 February 2006, which are contrary to this Direction. ERO did not agree with this Direction, because it has caused many problems in ERO's work related to customer complaints.

It should be noted that the CPD in 2008 inherited 54 complaints pending in 2007.

The register of customer complaints in the CPD ERO recorded complaints of different natures: unauthorized usage, inaccurate recording of energy from the digital meters, un-metered billing ("afefe"), disconnection fines, pre-payment for RTK, transfer of debt etc.

Tab. 5.2 Customer complaints as per their nature

Unauthorized usage	Other
486	86

During the year 2008 out of all customer complaints recorded in the CPD ERO registry, 85% were for unauthorized use of electricity, while only 15% were of different natures.

As per customer groups, CPD recorded the following complaints:

- 461 complaints from household customers;
- 104 complaints from commercial customers;
- 7 complaints from industrial customers;

Tab.5.3. Customer complaints as per customer categories

Household	Commercial	Industrial
461	104	7

Tab. 5.3 clearly shows that the majority of customer complaints submitted in the ERO CPD were from household customers (81%), commercial customers (18%) and industrial customers (1%).

To reflect the growing number of complaints submitted in CPD in 2008, tab.5.4 shows the number of complaints for 2006, 2007 and 2008.

Tab.5.4 Customer complaints comparison - 2006, 2007 dhe 2008

Period	2006	2007	2008
Total	33	116	572

6. PROSPECTS OF NATURAL GAS SECTOR IN KOSOVA

Despite the fact that there is no natural gas in Kosova, energy legislation in Kosova defines natural gas as a constituent part of the energy sector in Kosova. Law on Energy defines the term "energy" as "any form of produced or obtained energy (electricity, heat or natural gas) intended for supply or sale", while according to Chapter 3, Article 17 of the Law on Energy Regulator, ERO powers extend to the natural gas sector as well.

In order to complete the legal framework, MEM has drafted the Draft Law on Natural Gas, which was submitted in the Assembly of the Republic of Kosova for adoption procedure in December 2008. Moreover, one of the strategic objectives of the "Kosova Energy Sector Strategy 2007 - 2013" is to have Kosova connected to the regional gas pipelines by the end of 2012. Likewise, the draft document "medium-term development policy in the energy sector" considers supply of gas in Kosova in the future as a realistic possibility, based on the study of gasification in the South East Europe, which has examined the economic possibility of natural gas entry into Kosova as part of the proposal "Energy Community Gas Ring" (Figure 6.1), which connects seven South East European countries, concluding that the supply of industrial and commercial consumption as well as the construction of a gas distribution network in Pristina and Mitrovica would be feasible. In this context, a series of measures are expected to clarify ownership of the old artificial gas network from lignite (TPP Kosova A - Pristina - Mitrovica - Skopje - Ferronikel - Lamkos - Amortizerët of an overall length of 254 km), and the right to use that axe (line).

Fig 6.1 The Energy Community Gas Ring concept" (Source: The study of gasification of the region of South East Europe)



Presence of natural gas concept in the basic documents on the energy sector in Kosova is mainly a result of the geostrategic position of our country, at the center of the South Eastern European region, a region through which gas pipelines are expected to pass and connect natural gas sources in the Caspian and Russian region with the developed Western European countries - as presented in the planned projects of priority axes for gas pipelines (Figure 6.2).

Fig. 6.2 Planned projects of priority axes for gas pipelines (Source: Study on the gasification of the South East European region)



Following its responsibilities in the area of development (preparation) of the legal framework and obligations toward the South East European Energy Treaty, during the year 2008 ERO has been active following regional developments regarding natural gas sector and the work of the Gas Working Group, part of the Energy Community Regulatory Board, which is a body of the Energy Community Treaty. Accordingly ERO inter alia contributed in the finalization of the documents "Report on the implementation of 'acquis' for electricity and natural gas of the Treaty on the Establishment of the Energy Community" and "Study on the Improvement of Interconnections, Inter-functioning, Transparency and Harmonization of Operational Rules in the Transport of Natural Gas in the Energy Community".

7. ERO COOPERATION WITH OTHER INSTITUTIONS AND INTERNATIONAL ACTIVITY

COOPERATION OF THE OFFICE WITH GOVERNMENT AND ASSEMBLY INSTITUTIONS

In 2008 the Office has had productive cooperation with state institutions, government, assembly and energy companies. At the invitation of the Committee of the Assembly of the Republic of Kosovo, namely the Budget and Finance Committee and Committee on Economy, Commerce, Industry, Energy, Transport and Telecommunications, the Office has reported on a range of issues such as tariffs for 2008, Review of Report of the Energy Regulatory Office for 2007, ERO Budget for the year 2009 etc..

The Office has also collaborated and discussed with relevant ministries about fees, affordability of payment by customers in need, government subsidies given to KEK for this group of customers etc.. The Office has organized several workshops in MEM on the following topics: "Developments over determination of Reflective Electricity Costs" and recent draft version - "Authorization Rule."

Representatives of the Office have regularly participated in meetings and workshops on the energy sector organized by the government. A special inter-institutional cooperation has been developed between MEM, ERO, KOSTT and KEK regarding fulfillment of obligations arising from the Energy Community Treaty, and submission of data requested by the ECT SEE bodies, section on Kosovo.

The Office has representatives in the following working groups: Working Group on European Integration operates in MEM in the context of a wider activity of the Working Group on Infrastructure and Agency for Coordinating Development and European Integration. The agency was established by a special decision of the Prime Minister of the Republic of Kosovo. The WG is obliged to implement and monitor the actions presented in the "European Partnership Action Plan." The Office has developed activities to fulfill its obligations in this area arising from the "European Partnership Action Plan" and "Progress Report 2008" on Kosovo published by the European Commission.

Working Group for Preparing the Social Affairs Action Plan operates in the **Ministry of Labor and Social Welfare**

Working Group for Preparing Supply and Service Quality Standards is comprised of the stakeholder representatives in the energy sector and is managed by ERO

The Office has taken an active part in business meetings at workshops, seminars organized by various parties within the Kosovo energy sector.

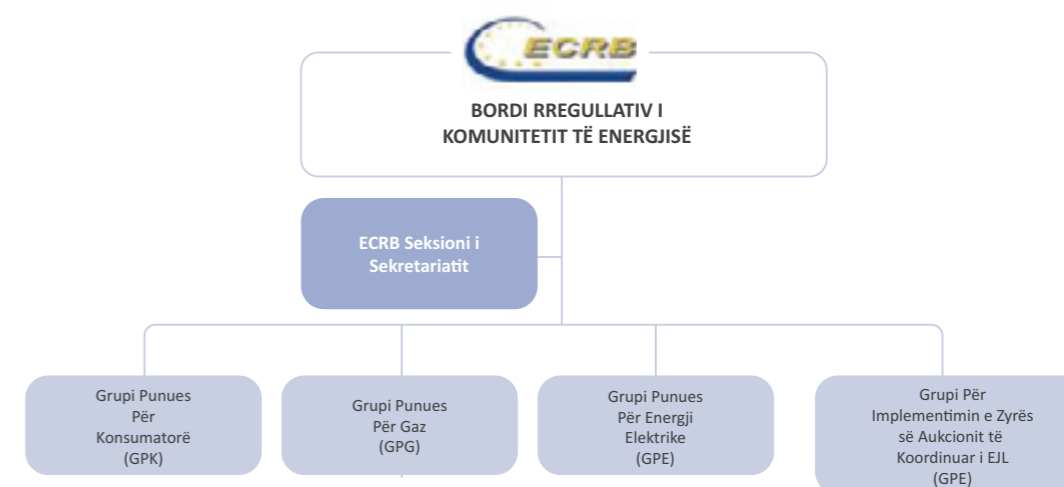
INTERNATIONAL ACTIVITY OF THE OFFICE

In 2008 the Office has conducted a series of international activities in the area of regulatory framework in the context of ECT and other regional and international associations.

ERO and the South East Europe Energy Treaty

In 2008 ERO was involved in activities in the framework of the Energy Community Treaty for South East Europe in different bodies and working groups

Fig.7.1 Working Groups within the Regulatory Board of the South East Europe Energy Treaty



Secretariat of the Energy Community Treaty is located in Vienna and provides administrative support to community institutions, such as: the Ministerial Council, the Permanent High Level Group and the Regulators Board.

Regulatory Board of the Energy Community (RBEC) has working groups in the electricity and gas sector, and in the customers group. ERO has its appointed members in each working group, in RBEC as well. The RBEC itself operates in Athens, while working groups hold meetings in the states that are signatories to the ECT SEE. According to the Work Program, the main activities of the RBEC in 2008 covered the following sectors:

- **Electricity:** Congestion Management and Capacity Allocation; Regional Balancing Mechanism; Compliance with Market Rules; Opening of Wholesale Market; Mutual Recognition of Licenses; Border Cooperation; Coordinated Auction Office etc.
- **Gas:** Cross-border gas trading; Interconnection and provision of gas pipelines for transit and transmission; Balancing, including also natural liquid gas terminals; border cooperation and transmission rates, etc
- **Customers:** Supply quality and commercial services; Standards and incentives; Tariff methodology and price transparency; Analysis of the implementation of best practices in protecting customers in need in the member states ECT SEE etc..

The RBEC continued advisory role for the ECT SEE Ministerial Council on monitoring issues and work approach in the electric-energy system and regional market. It also provided suggestions on the regular functioning of regional market, activities for a common market of electricity and gas, further opening of the market, mutual recognition of licenses in the region, taking a position with regard to regional balance, creating a Coordinated Auction Office for the South Eastern European region.

During the year 2008 the study "Report on the Developments in the Electricity Market" in the SEE region was launched. This study is conducted by the "USAID"- supported consultancy and it is expected to continue in 2009 as well. This report addresses on an unequal basis the Transmission Operator of Kosova, particularly in relation to the Transmission Operator of Serbia. The Energy Regulatory Office of the Republic of Kosova did not agree with such a treatment and firmly objected to its approval providing comments at all stages of drafting

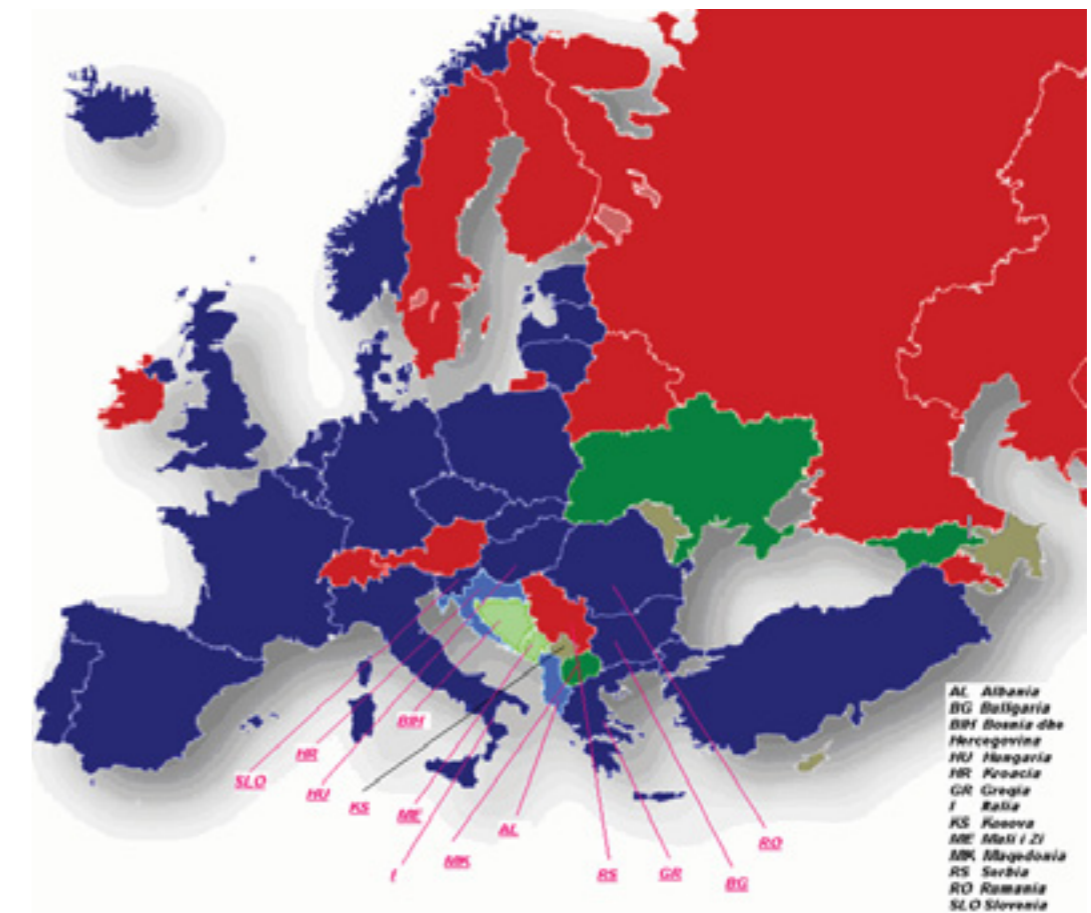
Even during 2008 problems over the area of transit, allocation of transmission capacities of interconnection lines remain unsolved between KOSTT and Transmission Operator of Serbia. In addition, KOSTT being not recognized in the agreement for the compensation mechanism between Regional Transmission Operators continues to be a problem as well.

In this regard it is worth mentioning that KOSTT has initiated procedure for resolving this dispute between the Transmission System Operator of Kosova and that of Serbia in the ECT SEE Secretariat based in Vienna and further proceedings are underway.

The main objective of the study for the report "Developments in the Electricity Market" is to monitor the energy market in South East Europe and to continuously monitor the wholesale electricity market in accordance with the conclusions of the 12th Forum in Athens. It is dedicated to monitoring the development of auction coordination mechanisms and implementation of the monitoring functions for the Coordinated Auction Office. This office will include the countries of the eighth region.

The eighth region is defined by the Ministerial Council of the ECT at Brussels meeting on 27 June 2008 in the format of the amendment to the Regulation Addendum (EC) no. 1228/2004 on Terms of Access to Cross-border Energy Exchange Network. Territories of the 8th region countries are: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Former Yugoslav Republic of Macedonia, Montenegro, Romania, Serbia, UNMIK (Kosova), Greece, Slovenia and Italy in accordance with the interconnection links with ECT SEE member parties. At this meeting it has been decided that aforementioned countries should no later than December 31st, 2009 apply the method of coordinated congestion management as well as procedures for allocation of capacities in the market, at least on annual, monthly and daily basis.

Fig. 7.2 Eighth region member countries



A special activity within the Regulatory Board of the Energy Community, South East Europe Transmission Operators and Energy Working Group, as well as Implementation Group has been finalized with the preparation of the Memorandum of Understanding for the Regional Auction Office for the 8th Region member states. The Memorandum of Understanding was signed on 11 November 2008 in Tirana by the representatives of the Broadcasting System operators of the countries in the region. It decided that the headquarters of the Auction Office be Montenegro, i.e. Podgorica.

On November 28th 2008 contracts were entered separately with two consulting companies, which will study the circumstances regarding the establishment of the Coordinated Auction Office, and the finalization of the coordinated auction scheme for cross-border capacities. .

The Energy Regulatory Office has cooperated with the ECT Secretariat by filling in many questionnaires and contributed to updating the National Report for 2008, which is published by the Secretariat itself.

SEE IMPLEMENTATION GROUP FOR THE COORDINATED AUCTION OFFICE

This group has been established by the representatives of Regional Transmission Operators and representatives of regional regulators. During the year 2008 the group was mainly engaged in the activities and results from SETSO, implementation of the action plan, management of the overload in interconnection lines, memorandum of understanding MoU for CAO etc..

ATHENS FORUM OF IN THE CONTEXT OF ECT SEE

ERO has participated in the Athens Forum meetings: the 12nd held on 15-16 May 2008 and 13th held on 2-3 December 2008. Both meetings were held in Athens and some of the conclusions from these meetings may be summarized as follows:

- **The 12th meeting:** The forum was chaired by the current presidency of the Energy Community, the representatives of the Kosova government (UNMIK). The current status on the implementation of the European Union Directive 2003/54/EC on Electricity and Rule EC NO 1288/2003 amongst others was presented at this meeting. The forum encouraged the parties, signatory to ECT SEE to increase activities in order to face challenges arising from the implementation of the documents arising from SEE ECT.
- **The 13th meeting:** Vlen të përmendet se në këtë takim iu dha përkrahje e plotë proceseve dhe aktiviteteve rreth formimit të Zyrës së Koordinuar të Auksionit.

SEE ECT Social Forum: ERO participated actively in the social forum organized in Vienna in May, and the one in Tirana on 18-19 November 2008

ENERGY REGULATORS REGIONAL ASSOCIATION (ERRA)

Energy Regulators Regional Association unites independent national energy regulators of the Central and Eastern Europe and most of the Balkan countries. This association has a total of 22 regular members and four associate members. Kosova is an associate member. The US Association of National Regulators is an associate member of this association. Association (ERRA) has four working groups: on licensing, tariffs, regulatory law and European integration group. ERO is represented in all working groups of this association.

ERRA main objectives are the following: to improve national legislation in member states; promote development for an autonomous and authoritarian energy regulatory, and promote cooperation among regulators; enhance communication and exchange of information, and make possible access to them and exchange of experiences between different world regulators promote and facilitate training.

ERRA regularly organizes annual conference, which was organized in Hungary for the year 2008. ERO participated in this meeting attending the special sessions of the Tariff and Pricing Committee, at the session of the heads of the Association's member states regulatory.

ERO has participated actively in all meetings of the ERRA working groups, such as in the Tariff and Pricing Group, Licenses Group, Lega Group etc.

In November 2008, ERO participated in the training organized in Budapest by ERRA on the regulation of heat and gas. The purpose of this training was to present the current situation of gas supply and distribution that is assessed as one of the purest and most economical fuels.

ERO has continuously cooperated with ERRA responding to different questionnaires in energy sector.

PARTNERSHIP BETWEEN THE ENERGY REGULATORY OFFICE AND THE ILLINOIS COMMERCE COMMISSION, USA

On October 28 2008, ERO signed a Memorandum to enter a Partnership with the Illinois Regulatory Agency in the USA. The objective of the partnership between the two regulatory agencies will be to exchange experiences and information aiming at improving best practices on market grounds, by strengthening ties between the two agencies

This partnership will allow the ERO staff to access and understand regulatory practices in the USA and on the other hand, the ICC will be able to learn new techniques and methodologies in the regulatory area, and to understand better such practices in the South East Europe.

The Partnership is financially supported by USAID. Its activities are managed by NARUC and it will last from October 2008 to September 2010. The Partnership foresees exchanges, technical workshops/seminars, internships, trainings and institutional development for the ERO. The first visit by the ICC in Pristina took place in October 2008 and a Memorandum of Understanding between the two institutions was signed on this occasion.

Fig.6.4 A view from the signing ceremony of the Memorandum of Understanding.: Patricia Rader, Director of the USAID Mission in Kosova, PhD. Ali Hamiti, Chairman of the ERO Board and Charls Box, Chairman of the ICC Board of Commissioners.



The signing ceremony was greeted by Jakup Krasniqi, Speaker of the Assembly of Kosova, Justina Pula-Shiroka, Minister of Energy and Mining, Patricia Rader, Director of the USAID Mission for Kosova, as well as NARUC representatives.

During the first four-day visit of the ICC, experiences were exchanged and topics presented for discussion were the following: "Public participation in the Decision-making of Regulatory Agencies", "The U.S. and Kosova Practices over Customer Protection", "National and Regional Electricity Market", "Tariffs", "Quality of Supply", and "Restructuring of the Electricity Sector". Also, as part of the one-week partnership activity was a one-day workshop on the topic "The Energy Sector Situation in Kosova" with the presence of representatives from all parties involved in the energy sector in Kosova: the Assembly's Committee for Energy, Ministry of Energy and Mining, the Kosova Energy Corporation, the Transmission System Operator, KOSTT and media representatives. At the end of this visit the ICC delegation visited KEK's mines and thermal power plants.

OTHER ACTIVITIES

A three-day workshop on "Regulation of Utility Companies in Market Economies", co-organized by the National Association of Regulatory Utility Commissioners (NARUC) of the USA, Energy Regulators Regional Association (ERRA) and the Center for Energy and Natural Resources at the American University of Kosova (AUK), and with the support of USAID/Kosova, was held from 14-16 April 2008 at AUK, Prishtina. Participants present in the workshop were representatives from: the Government of Kosova, the Ministry of Energy and Mining, the Kosova Assembly Members, the Energy Regulatory Office, utilities industry (KEK and KOSTT-i), media community, customers' associations and civil society

Topics addressed in the workshop were: basic principles of economic and energy regulation; importance and approaches of ensuring fiscal and functional autonomy for regulatory agencies; definition of roles and responsibilities of the those in charge of the regulatory process; specific approaches for the energy sector, case studies, methodologies and ways of applying them. Lecturers in this workshop were renowned authorities in the regulatory field from Lithuania, Hungary, USA and Kosova.

Specific topics with reference to the energy sector in Kosovo were also presented and discussed at this workshop: Energy Sector Reform, Introduction to Regulation in the Utility Companies; Role of Regulation in Addressing Challenges of the Energy Sector in Kosovo; Fiscal Autonomy and Budget Oversight of Regulatory Agencies.

In September 2008 the Tariff and Pricing Department presented “Developments in determining cost-reflecting fees” in the sectoral and infrastructural meeting organized by the European Commission. ERO’s approach on determining fees and factors that have significant impact on that determination was introduced at this meeting. The meeting, besides the EC and ERO representatives, was attended by representatives of the Government and licensed companies.

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