

Prishtina 27/01/2005

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To: Mr. Sean McGoldrick – Executive Director Commercial & Regulatory KEK/ESBI

**Copy: Mr. Ethem Çeku, Minister of Energy and Mining
Mr. Agron Dida, Deputy Minister of Energy and Mining
Mr. Andreas Wittkowsky, Head of Political and Legal Office, EU Pillar IV**

Subject: Consent on the Draft Annual Power Balance for 2005

The Energy Regulatory Office:

According to Article 6.1 of the Law no. 2004/8 “On Energy” the Ministry of Energy and Mining (“MEM”) shall adopt an Annual Power Balance based on a proposal by the Transmission System Operator after consultation with the Energy Regulatory Office (“ERO”).

ERO has initiated early November 2004, the procedures as set forth in Article 6.1 by requesting from KEK to submit its annual Power Balance for 2005 for consultation. KEK has submitted to ERO its draft Power Balance, Ref. no 7414-dated 24.11.2004, which after was reviewed by ERO resulted in KEK submitting an improved version on 25.01.2005.

The draft of Power Balance for 2005 includes criteria as set forth in Article 6.5 of the Law on Energy, including the additional criteria set in absence of Rule on Energy balance (Article 6.6 of the Law on Energy).

Following internal consultation and co-operation with KEK, ERO is giving consent on the Draft of Power Balance for 2005 as a whole, with the reservation on some issues as following:

- a) Generation unit Kosovo B1 is foreseen to have three months overhaul, without ensuring as yet that the necessary funds are approved in the 2005 budget.
- b) Power Balance relies on the extension of service of “Kosovo A”. There is concern whether foreseen output of “Kosovo A” can indeed be ensured. This is related to the ongoing or planned specific projects for the successful overhaul in “Kosovo A”. It still remains undefined what funds are part of approved budget for 2005.
- c) Funds, which should be allocated for the planned import of electricity for 2005, are also not ensured as a part of the approved budget for KEK 2005.

- d) Once the need for the overhaul of unit Kosovo B1 is established, obviously the decision on timing of the outage, will determine the import/export programme. According to indexes of average import contract prices from the past three years, October (when there is the lowest Reserve Margin) is one of the most expensive months, while May (when the power balance shows surpluses) import prices are lowest. However it has to be stressed out that the flexibility of KEK regarding timing of contractor implementation to be undertaken for the overhaul of unit Kosovo B1, is limited. A comprehensive analysis with reference to the optimization of the import programme, (vis-a-vis reducing the total cost of imports and maximizing the revenue from export sales), has not been received by KEK.

ERO is aware that both the Rule on Energy Balance and the procedures for the preparation of the Power Balance shall refer to the standards and guidelines of the UCTE's "Operation Handbook", and "Terms of Power Balance". Taking into account the actual conditions of the Power System in Kosovo, lack of funds as stipulated above and lack of legislation in reference to Article 6.6 of the Law on Energy, several elements of the guidelines were not taken into consideration.

In conclusion the Energy Regulatory Office comments to KEK to submit for approval, its Draft Annual Power Balance for 2005, to the Ministry of Energy and Mining.

On behalf of ERO

Dr. Nick F Frydas
Chairman of the Commission