



Prishtina 20/09/2006
ERO Code: D_13_2006

The Energy Regulatory Office

Taking into account:

1. The legal mandate as per Articles 45 to 48 of the Law no. 2004/9 “On Energy Regulator”;
2. The Position Paper on the “Weighted Average Cost of Capital” published on ERO’s website on 28 July 2006;
3. The comments received on this Position Paper and the responses to these comments prepared by consultants to ERO, all published on ERO’s website;

Has decided to approve the Weighted Average Cost of Capital (WACC) to be applied under the First Price Review:

Chapter 1: Legal Basis

1. Based on the legal mandate of the Energy Regulatory Office (ERO) regarding Price Regulation as established in Articles 45 to 48 of the Law No. 2004 / 9 on the Energy Regulator, the Rule on Principles of Calculation of Tariffs in the Electricity Sector issued by ERO and the Tariff Methodology issued by ERO, ERO will determine a WACC to be used in the determination of allowed revenues recovered from regulated tariffs by licensees.
2. The ongoing First Price Review will determine allowed revenues for licensees and, subsequently, will lead to the approval of regulated tariffs to take effect from 1 January 2007.
3. As part of the First Price Review, ERO is, therefore, required to determine an appropriate value for WACC to be used in determining allowed revenues.
4. ERO published a position paper on the proposed value of WACC, prepared by consultants to ERO, on its website on 28 July 2006 for comment.
5. Extensive comments were submitted by KEK JSC, and were reviewed by ERO and its consultants. These comments and the responses provided by ERO’s consultants are published on ERO’s website.
6. ERO greatly appreciates the comments submitted by KEK JSC. However, ERO does not consider that these justify it deviating from the proposals contained in its original position paper. In particular, ERO notes that the comments did not propose alternative values for the WACC to be used in determining allowed revenues.

Chapter 2: Decision

ERO’s Decision is to approve the value for WACC for both KEK JSC and KOSTT at the mid-point of the range recommended by its consultants, of:

10.8% on a real pre-tax basis.

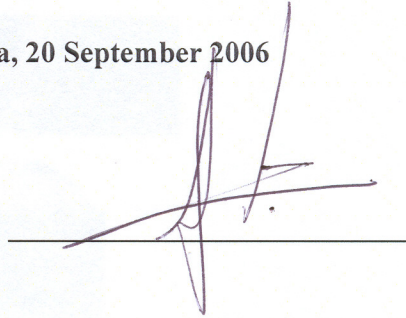
Chapter 3: Applicability

This Decision shall enter into force on the date of the approval by the board of ERO.

Approved by the Board of ERO: Prishtina, 20 September 2006

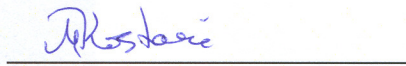
Chairman of the Board of ERO:

Dr. Nick Frydas

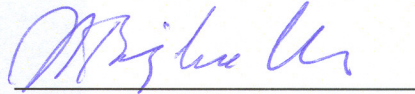


Members of the Board:

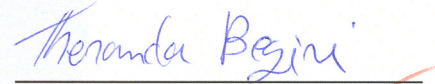
Mrs. Merita Kostari



Mr. Naim Bejtullahu



Mrs. Theranda Beqiri



Dr. Nysret Avdiu

