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2008 QUARTER 4 REPORT (OCTOBER 1 - DECEMBER 31)

KORPORATA ENERGJETIKE E KOSOVES (KEK) NETWORK
AND SUPPLY PROJECT
CONTRACT NUMBER EPP-I-04-03-00008-00

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USAID

Mr. Arben Nagavci
Cognizant Technical Officer
USAID/Kosovo
Pristina, Kosovo

PA Government Services Inc.

Masoud Keyan
PA Government Services, Inc.
4601 North Fairfax Drive, Suite 600
Arlington, VA 22203
Tel: +1 571 227-9000
www.paconsulting.com

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I. Introduction

This report's format meets the requirements of Section A.6 (Reports), Paragraph B (Quarterly Report) of Task Order 4 under Contract EPP-1-00-03-00008-00. The objectives and tasks described in this quarterly report are based on the 2008-2009 Work Plan. Appendix A shows activities completed, benchmarks achieved, and achievements under the Work Plan. Appendix B describes the results of the project's performance-based management system.

The updated project objectives set forth in the Scope of Work for 2008-2009 are:

- Objective 1: Support to the Managing Director of KEK
- Objective 2: Increase Collections through Support to the Network and Supply Divisions to Accelerate Potential Future Private Sector Participation
- Objective 3: Improve the Institutional Policy and Legal Environment
- Objective 4: Preparation of KEK Distribution Functions for Privatization
- Objective 5: Support to KEK Commercialization
- Objective 6: Anti-Corruption Efforts – The Reduction and Prosecution of Fraud, Waste, and Abuse
- Objective 7: Legal and Regulatory Support
- Objective 8: Normalization of Service to Enclave Communities.

The PA team's approach to achieving these objectives is based on eleven tasks, each of which is associated with one or more of the project's objectives, as shown in the table below.

No	Task	Objective							
		1	2	3	4	5	6	7	8
1	Support Management and Operation to Preserve Assets	•				•	•		
2	Amend Distribution Structure and Organization			•	•	•	•		
3	Improve Energy Accounting		•		•	•			
4	Increase Collections		•	•	•	•			
5	Assist KEK in Taking Over and Cleaning Up CCP				•	•	•		
6	Assist KEK in Taking Over CAS and Un-bundling Accounting				•	•			
7	Support Tariff Applications and Improve Regulatory Compliance			•		•		•	•
8	Improve Internal Controls and Strengthen Internal Audit				•		•		
9	Provide Legal Support for Unbundling and Privatization			•	•	•	•	•	•
10	Assist Privatization Transaction Advisor				•	•	•	•	•
11	Support Normalization of Service to Enclaves		•		•	•			•

II. Progress Since the Last Report

This quarter's accomplishments are presented for each task supporting the major objectives of the task order.

Task 1: Support Management and Operation to Preserve Assets

KEK's fourth quarter financial performance improved significantly due to the implementation of the pilot project and its replication in five additional districts. The Pilot provided a new District structure that was implemented on 1 September, together with the introduction of the new "Regulations for Operations in KEK Districts." KEK appointed the District Managers that PA recommended, and all personnel (network, supply, some core services) report to the new District Manager. Under the previous structure the network, supply, and all core services departments reported directly to Headquarters in Prishtina. As a consequence of these changes:

- One Manager is responsible and accountable for the performance of each District.
- Meter readings are now completed in a 5-day cycle, rather than the earlier 21-day cycle.
- Bills are now distributed within 3 days, rather than 21 days.
- Non-performing employees are terminated after two warning.

In addition, the Acting Managing Director's cooperation was exceptional during this period and results demonstrate the level of cooperation that PA received from him.

However, the sustainability of results and progress in other areas are at risk due to stakeholders' political interference in the company's management decisions and an incompetent Board of Directors. Several decisions taken by KEK's Board of Directors (BOD) resulted in setbacks and barriers to further improving KEK's performance during this quarter.

General

- PA's recommendation on appointing a new Audit Committee was, accepted by the Government but they named a wrong Committee member as the Chairman of the Committee; as a result, the KEK Board continued to be ineffective and a functioning Audit Committee is still lacking. The terms of all BOD members expired on December 15th, and the appointment of a new KEK Board is pending.
- The PA team assisted the acting Managing Director (MD) on several issues related to the company's management and operations. PA received his full cooperation on almost all recommendations related to operation, procurement, mining, staffing, and financial activities of the company.
- After 8 months, the MD signed the contract for the additional boiler work on Unit A5 per PA's recommendation. The A5 became operational in November, just in time for the winter season.
- Several meetings were held with the GOK – the Prime Minister's (PM) advisor, Ministry of Economy and Finance (MEF), and Ministry of Energy and Mines (MEM) – to inform them about KEK's need for their assistance. Some of the issues discussed during Quarter 4 had been brought to their attention as long as 8 months ago. Unfortunately, none of

the issues was advanced for various reasons, highlighting key counterparts' lack of accountability in making any significant decision.

- The PA team assisted the MD and Executive Director of Mining to focus on high-priority issues and to ensure coal production from the new SSW mine in 2010.
- KEK's 5-month effort (July- November) to procure a used transformer for unit A4 failed, resulting in the loss of operation of a 120 MW unit during the winter months. PA provided assistance for procurement and drafted a contract for a used transformer, which was signed in late November. It is anticipated that the transformer will be delivered in late February 2009.
- The PA team supervised the preparation of the Performance to Plan Report for Q3. The report details the performance of each of the four core divisions (Mines, Generation, Network and Supply) against the approved Key Performance Indicators (Coal Production, Overburden Removal and Coal Stock Pile for the Mines, Availability, Gross Generation, Auxiliary Consumption, Net Generation and Capital Investment for Generation, Commercial Losses, Meter Reading, Meter Installation, Meter Inspection and Calibration for Network and Billing Rate, Bill Delivery and Collection Rate for Supply). PA then assisted with the preparation of action plans for performance improvement based on the report's findings.
- PA assisted with the 9-month revision of KEK's operation and maintenance and capital budgets to reflect the company's performance during the first 9 months of the year and to ensure that KEK's budgeted expenses do not exceed its budgeted revenue for the year. The budget of Mines was increased to the initially approved amount (before the half-year revision) because KEK's revenue in the period increased and was projected to be on target at the end of the year.
- PA assisted with the preparation of KEK's 2009 revenue forecasts based on the approved energy balance under three scenarios that reflected different billing and collection rates and different tariff assumptions. The scenarios were labeled "Survival," "Good Year" and "Great Year."
- PA assisted with the preparation of KEK's 2009 expenditure budget. The company used zero-based budgeting, i.e., all division managers justified their budget requests in detail, regardless of their previous year expenditures. PA and the Budget Department organized budget hearings with all company divisions to rank all operation and maintenance (OPEX) and capital (CAPEX) expenses. Based on their rankings, all expenditures included in the consolidated 2009 budget were grouped under "Survival," "Good Year" or "Great Year" budget categories to match the revenue forecasts. The final expenditure budget was submitted to the Board of Directors. The Board approved the "Survival" budget category.
- PA facilitated the reallocation of KCB grants to various completed projects or for advance payment on contracts such that no unspent funds had to be returned to KCB at the end of 2008.
- With PA's assistance, KEK developed a cash flow forecast for 2009.

- PA supervised the execution of KEK's long-term investment plan, which included all high-priority projects for mines, generation, and network for the period 2009 to 2011. It also developed procedures for the timely and efficient utilization of the KCB grants to fund the plan.
- KEK, with PA's assistance, revised the KCB funding needs for 2009-2011. The document was re-submitted to MEF and was subsequently agreed to by all stakeholders.

Mines

- The preliminary update of the Complementary Mining Plan (CMP) developed in 2005 revealed several shortcomings, including the boundaries and depth of coal in several areas. New drillings revealed that original CMP assessments were not accurate in certain areas, requiring changes in the dimensions of the mine, the mining plan, and coal production. The mining plan has been modified and the SSW mine opening activities will proceed based on the revised technical plan.
- PA assisted with the procurement of two new coal excavators. In September, three qualified operators submitted bids and a successful tender was announced. However, a disappointed bidder subsequently made an unsubstantiated complaint, which undermined the process and ultimately – due to improper interference by the PRB (Procurement Review Board) – led to the cancellation of the procurement in October.
- Once again, the Procurement Law was a barrier to obtaining the best-value equipment for KEK. The bidder who has been the cause of the failure of two tenders has inferior-quality equipment, but at a lower price. Since product quality is not a criterion, the tender for compact excavator has become the hostage of this vendor. Given that coal excavator procurement is one year behind schedule, PA has devised plans B and C for coal production to ensure coal production by mid-2010.
- PA assisted with decision making for all overburden equipment, which resulted in all overburden equipment contracts being signed in 2008.
- PA assisted with drafting the contract terms for the rehabilitation of spreaders and conveyor belts, which are part of the overburden removal systems.
- The Sitnica Mine began production in late September as scheduled and full production capacity was reached in Q4. The mine produced 400,000 tons of coal in 2008.
- The mines removed 14.3 million cubic meters of overburden and 7.9 million tons of coal in 2008.

Thermal Generation

- PA's report assessing A1 & A2 and the feasibility of reactivation was completed and presented to KEK's COO and generation management. The report was well received and KEK is considering the implementation of its recommendations.
- PA assisted KEK with the specifications for upgrading the B units' water treatment plan, which must be implemented by mid-2010, before the new LP rotors arrive. PA was not an observer during the evaluation process, and the evaluation was botched; it is likely that

the tender must be canceled and started over again.

- PA assisted KEK in concluding a contract for the purchase of a used transformer for Unit A4. It is expected that the transformer will be delivered in late February 2009, thus allowing A4 to be operational in March.
- PA assisted KEK with negotiating the purchase of and drafting a contract for a new generator rotor for the B Units.
- In November, the rehabilitated Unit A5 was successfully commissioned and has been operating since then. PA had presented the financial/business case for the rehabilitation of the Unit during the second quarter of 2007 and provided significant assistance to KEK in concluding the requisite contracts during Q3 and Q4 of 2007.
- PA arranged meetings with Alstom France, MEF, and KEK management to address the Alstom tax liabilities, which impacts the B units' operation (digital control system and new generator rotor). Per MEF's intervention the Tax Authority provided a 3-month suspension of claims against Alstom that allowed the signing of the contracts, payment of pending invoices, and submission of documents and records by Alstom to the Tax Authority indicating that they do not owe any taxes on their B units for 2002-2004.
- PA facilitated a discussion to explore the unconventional repair of the spare LP rotor to meet emergency needs in the upcoming winter. The tests of the rotor blades were conducted and Alstom Germany submitted a recommendation for repair along with cost estimates. Unfortunately, despite repeated warnings about the lack of a spare rotor, KEK's generation management has not taken any action to repair it.

Hydro Generation

- PA assisted with the pre-qualification of the bids submitted for rehabilitating the three small hydropower projects owned by KEK. Following the pre-qualification of bids, PA assisted KEK with finalizing the contents of the tender dossier, which was circulated to bidders in December. The final bids will be submitted in March 2009.

Capacity Management, Power Purchases, and Energy Trading

- With the PA team's assistance, after several months of game playing by the head of KEK procurement (the PM's nephew) and after MFE assured KEK that funding was available, a tender was launched for October 2008 through March 2009. The prices were 20% higher than the earlier tenders. Despite PA's repeated warnings that KEK should not purchase power at these high prices in order to provide 24-hour service (no load shedding) to B and C category customers, per MEM/GOK instructions, KEK contracted for €41 million in firm purchase power for the period. In November, due to warmer weather, KEK had surplus supply, even after providing 24-hour supply to all consumers. Given the circumstances, KEK had to back down its own generating units while being forced to import power due its take-or-pay power import contracts.

Network Division (Not Covered in Other Tasks)

- PA facilitated the:

- Meeting between the Network Division and the architectural / engineering consultants from Washington for the construction of the new US Embassy. (Reference “ND2008Q4006 346 11 Dec 1008 Questions for Local Electricity Provider d Eng.pdf” for English version, and “ND2008Q4007 346 11 Dec 08 Pyetsori per KEK-un - Ambasada e SHBA_alb.pdf” for Albanian version).
 - Creation of topographic maps for the US Army at Camp Bondsteel that show the location of the 10 kV and 6 kV feeders.
 - Management issues related to the relocation of KEK management from offices in the Toscana Building to new offices in the Electro Kosovo Building.
- PA assisted the KEK Maintenance Department for the central heating utility (ThermoKos) to repair KEK valves, pumps, and pipes in the Electro Kosova Building.
 - PA advised KEK’s Network Division and top management on various matters related to KOSTT:
 - a. Rehabilitation of 220 kV lines from Kosovo A SS to Macedonia.
 - b. Limitations on KEK’s ability to distribute power to customers in light of the failure of KOSTT’s 220 / 110 kV 100 MVA power transformer at the Kosovo A Substation.
 - c. Resolution of about two dozen issues, including the KEK’s payment of monthly fees to KOSTT, and freeing up of office space to KOSTT that KEK was occupying.
 - d. Comments provided on the obligatory KEK-KOSTT connection agreement.
 - e. Participation in a presentation (November 25, 2008) by KOSTT (the transmission licensee) on cross-border power trading: Kosovo’s and KEK’s participation in the regional power market.
 - PA advanced the work of the Network Division and Electro Engineering Inc. (KEK’s outsourced engineering, design and construction firm) on several key projects:
 - f. Palaj Substation and the line that is a single point of failure in the electricity supply needed for mining and transporting coal to the Kosovo A and B power plants, and water pumping out of the mines. Two recent incidents of losses on this line and the loss of the substation resulted in a halt in coal production and coal transport, and dewatering of the mines. The following designs were completed, and contracting is planned for Q1 2009.
 - i. A new second 110 kV line from the Kosovo A Substation to the Palaj 110 kV Substation, constructed by looping the existing 110 kV line from Kosovo A to Vallaq (Vaganicë) in and out of the Palaj Substation.
 - ii. Expansion of the 110 kV bays at Palaj for the two new 110 kV lines, and a reserve bay for the future 110 kV line from the future Drenas 220 / 110 kV Substation (5+ years away).
 - iii. Expansion of the 35 kV switchgear to handle the future double-circuited 35 kV lines to Bivolac (see Item h, below).
 - iv. Installation of a third 40 MVA 110 / 35 kV power transformer.
 - v. Expansion of the 35 kV switchgear to handle the future New Kosovo (formerly Kosovo C) power plant construction.
 - g. A new 10 kV distribution line from the Kishnica 35/10 kV Substation to Iber Lepence Pumping Station 1, which is being rehabilitated to provide additional drinking water to the City of Pristina by way of Lake Badovc.
 - h. Development of a new double-circuit 35 kV feed from Palaj Substation to the Bivolac water pumping station used by Ferro Niklei. Water is critical to the operation of the Ferro Niklei plant in Drenas, and water is pumped 17 km from Bivolac (near the Kosovo B plant) to the Ferro Niklei plant.

Task 2: Amend Distribution Structure and Organization

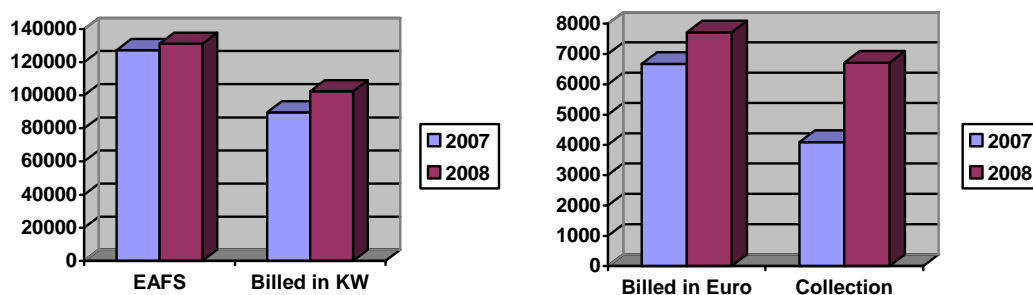
Results of implementing the pilot project's new structure and procedures in Gjlani, Gjakova, Peja, Mitrovica and Prizreni districts. A new distribution structure and organization was implemented in Ferizaj District in September and good results were achieved. Not long after the pilot began, other districts began competing to become part of the pilot project. It was thus decided to extend the new structure and procedures via the new "Regulations for Operations in KEK Districts" in Gjlani and Gjakova districts in November and in Peja, Prizreni and Mitrovica districts in December. KEK appointed district managers in all districts with PA's consent.

As a consequence of these changes, the following have been achieved in all of the above-mentioned districts:

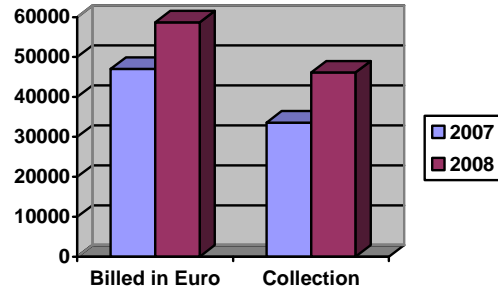
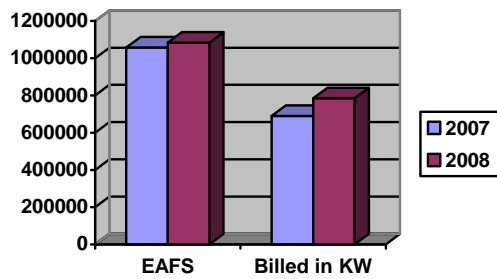
- Meter readings are now completed in a 5-day cycle, rather than the previous 21-day cycle.
- Bills are now distributed within 3 days, rather than 21 days.
- District employees who are performing well are receiving bonuses and non-performers are reprimanded or dismissed.

To determine the impact of the pilot project on the KEK's performance, PA conducted a comparative analysis of the Ferizaj District and all of KEK for September to December 2008 and the same period in 2007.

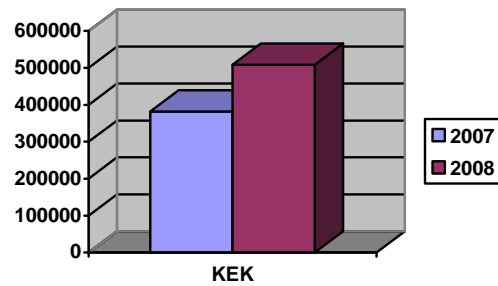
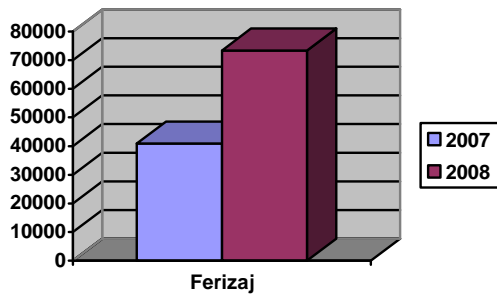
Ferizaj District. During the pilot project period, the district's billing increased by 8% and collections by 26% (an additional €2.622 million was collected). Therefore, the district's overall performance increased by 25% in 2008 as compared to 2007.



Impact of Pilot on other Districts. During the pilot project period, KEK increased billing by 7% and collections by 8% (an additional €12,510 million was collected). Thus, its overall performance increased by 10% in 2008 over the comparable period in 2007.



The significant increase in collections in Ferizaj District can largely be attributed to a more aggressive and targeted disconnection policy and a new customer relations management policy that encourages customers to pay every month. As a result of the disconnections in Ferizaj during the pilot project period, 79% more payments were made in 2008 and 33% more in all of KEK.



New Review. PA conducted a review of the accounting structure, organization, and accounting policies and procedures in Ferizaj, Gjilani, Gjakova, Peja, Mitrovica, Prizreni Districts, and developed recommendations for improvement.

Training: District managers, supply and network managers, and sub-district coordinators from Ferizaj, Gjilani, Gjakova, Peja, Mitrovica, and Prizreni Districts were trained in the field on the following topics:

1. Properly organizing the meter reading routes
2. Preparing disconnection lists and organizing disconnection plan
3. Conducting analyses and preparing reports
4. How to manage under the new structure.

KPIs for District Substation Personnel: Key Performance Indicators (KPIs) were developed for district personnel working in substations so they could become part of the bonus pool under the new district structure (Reference “ND2008Q4005 KPI for Substation Personnel Eng MONTH 2008 v04.pdf”).

Task 3: Improve Energy Accounting

Load Flow Program: By the end of Q4, with PA's assistance, the data conversion from the previous program (GRAEDOS) to the new program (DIGSILENT) was completed. This new load flow program will contribute to the sketching, mapping, and analysis of the 0.4 kV low-voltage network that is part of the CCP clean up discussed elsewhere in this report.

Meter Installations:

Ferro Niklei and Trepca Metering: PA advanced work to install new electronic meters with load profile data recording and remote reading capability at the Ferro Niklei plant and Trepca mining complex. Benefits include (a) the existing KOSTT metering is backed up by these check meters; (b) the existing KEK metering is backed up by these additional check meters; and (c) KEK in Pristina can read the meters remotely using GSM / GPRS telephone links and thus monitor the Ferro Niklei load without having to bother the substation operators to read the six meters and phone the readings back to Pristina. The metering work at Ferro Niklei was completed in early October 2008, and the metering work at Trepca was completed at the end of December 2008.

Ferizaji Transformer Points: PA assisted KEK in installing 600 half-indirect electronic meters (CT rated, direct connect on voltage) at 600 transformer points in Ferizaji District. Although the meters arrived in the summer of 2007, KEK had not committed to install them until encouraged by PA in Q4 2008. KEK is currently purchasing the miscellaneous equipment (current transformers, boxes, and wiring), some of which has begun to arrive, and installation is planned for Q1 2009. PA facilitated the involvement other districts to contribute metering personnel to Ferizaji District so that the installation can proceed rapidly once the material arrives.

KEK Self-Consumption and Tariff Customers at the Land of Mines and Generation (LOMAG): The PA team advanced the metering of KEK self-consumption at the LOMAG by facilitating meetings among the Network Division, Supply Division, and Information Services Department. By the end of December 2008 KEK's IS Department had created an 8th file serve on which a version of the CCP program was installed, excluding installation of the financial parts of CCP. This enables KEK to record and archive the meter readings from LOMAG. This extensive metering project initially started to track KEK self-consumption at the LOMAG (which it does), and how the project supports the privatization of both KEK Distribution and KEK Mining and Generation by identifying, metering, and recording loads and bills of tariff customers located on the LOMAG.

KEK Procedures to Improve Energy Accounting: The PA team contributed to the development of three KEK procedures:

- a. Calculation of reclaimed losses (energy and revenue).
- b. Closing of accounts, especially with regard to eliminating passive customers.
- c. Customer contracts.

ABC Feeder Ranking for Dispatching under Constrained Conditions: The release of the ABC ranking of feeders, to show required load shedding schedule, was delayed in November 2008 due to problems with the data; the PA team facilitated the resolution of the data problems and the subsequent release of the ABC listing in December. (Reference "ND2008Q4015 ABC Categorization, December 2007 WC.pdf".)

Monthly Energy Accounting Reports to the Board of Directors: The PA team supported the preparation and submission of the monthly energy accounting report to the Board of Directors. Responsibility for preparing this monthly report was transferred to KEK in Q3, but the PA team supports KEK in the preparation and the resolution of data problems.

Tenders and Proposals:

Meters for Residential Customers Applications: PA led the team that prepared the tender documents for KEK's next purchase of electronic meters for *residential* customer usage. This involved a total of 42,250 meters (9,750 in 2008 and 32,500 in 2009). Bids are due to the KEK Procurement Department on 9 January 2009. Three other supporting documents were prepared for the tendering (Reference "ND2008Q4002 Budget Requisition Form for Residential Meters_2008-09.pdf"; "ND2008Q4003 Request for Purchase Direct Meters 2008.pdf; and, "ND2008Q4004 Request for Purchase Direct Meters 2009.pdf"). If all options are taken, the estimated value of purchases is €4.2 million.

Meters for Commercial Customer Applications: PA led the team that prepared the tender documents for KEK's next purchase of half-indirect (that is, current transformer rated, but directly connected on voltage) electronic meters for *commercial* customer usage. This involved a total of 1500 meters to be delivered in 2009; the estimated value is €375,000. A request for bids went out from KEK Procurement in Q4; and bids are due in Q1 2009. (Reference "ND2008Q4022 B06 Tender Dossie - HI Meters 22 Dec 08 TC Accepted b.pdf".)

Meters for Ferizaji District Project: PA drove the effort to purchase 100 meters for Ferizaji District. It prepared the tender document. The contract was awarded by KEK Procurement in Q4 2008 and delivery is scheduled for Q1 2009.

Task 4: Increase Collections

Billing and Collections: KEK's metering, billing and collections performance has improved. The numbers below are from the monthly report to the BOD.

	2006	2007	Change	Q4 2008
Ratio of energy billed vs. energy available for sale	69.1	69.9	+0.8	74.0
Percent of money collected vs. billed	74.2	76.6	+2.4	76.2
Percent collected vs. energy available for sale	51.3	53.5	+2.2	56.4
Collected revenue (millions of Euros)	96.0	110.8	14.8	40.4

Billing and collection performance improved significantly in the fourth quarter due to increased controls on meter readings, field verification of abnormal meter reading data, intensified disconnections for non-payment, and the implementation of the Ferizaj Pilot, which created a healthy competition among districts.

KOS-Giro Payment Mechanism: The payment volumes and amounts are shown below.

Use of the KOS-Giro Payment System		
2008 Quarter	Number of Payments	Amount (€ 000)
First	3,490	1,822
Second	5,258	2,158
Third	5,339	2,286
Fourth	7,086	3,093
Year 2008	21,173	9,359
Source: KEK Supply Division		

As expected, household and small commercial customers' participation is low compared to larger customers. Efforts in the fourth quarter focused on the continued promotion of the KOS-Giro system, especially as far as the smaller customers are concerned. PA developed a flyer that is provided to each customer with the bill and when making a payment at a cash office. These promotional efforts have resulted in a 30% increase in the number of payments and amounts received from the Kos Giro System during the fourth quarter.

Direct Debit System: PA facilitated progress on the Central Bank of Kosovo (CBK) initiative to establish a direct debit mechanism in Kosovo. This would be beneficial to KEK since it provides another opportunity to use the banking system to increase cash flow. During the fourth quarter the PA advisor developed a discussion document (included as Attachment Q408TS1) and held meetings with KEK personnel from Supply, IS, and Finance to formulate KEK's approach to implementing this new system and with CBK to learn more about the system and procedures they are developing. Since KEK processes all of its customer payments through Raiffeisen Bank (as a condition of its line of credit), a meeting was held with commercial and IS personnel from the Bank in November to discuss how we can move forward together to implement direct debits.

Raiffeisen IS personnel estimate that the system will not go live before the middle of the first quarter of 2009.

Radio-Television Kosovo: The contract with RTK expired in November 2008. However, under pressure from the Government, KEK decided to continue to collect the RTK fee for an additional year. In December PA prepared a draft RTK agreement to minimize some of the onerous provisions of the previous contract and recommended that KEK management propose this to RTK. In late December, RTK informed KEK that it would not agree to the new terms.

Expected Change in the Value-Added Tax (VAT) Rate. It is anticipated that the VAT rate will be increased from 15% to 16% effective 1 January 2009. Advisors to the Ministry of Finance indicated that special phase-in rules will be used for industries with cycle billing (electricity, water, heat). It is expected that as long as the bills to customers for December consumption are delivered in the first half of January, they will carry the 15% VAT rate. Bills for January consumption (delivered in February) would contain the 16% rate. Billing for other services (connections, meter testing, etc.) will be coordinated to send bills for outstanding items by 31 December to carry the 15% rate and then all bills issued in 2009 would carry the 16% rate.

Efficiency of Disconnections: The PA team developed and implemented an on-line reporting system that presents the amount of revenue collected by KEK at various stages in the disconnection process (warning, notice, actual disconnection, reconnection, etc.). The system also bounds the data by dates (start and stop). The system became operational at the end of Q4, and training and implementation will occur in Q1 2009. (Reference "NDandIT2008Q4017 364 29 Dec 2008 Efficiency of Disconnections(2-nd version).pdf".)

Task 5: Assist KEK to Take Over and Clean Up CCP

Assignment of Responsibilities: In accordance with the document "Responsibility of Users and Administrators in the Process of Operation and Maintenance of the CCP and ABC Modules," approved by the Managing Director, KEK's Supply Division established an Application Software Contact Group to help users resolve problems with procedures, system commands, data entry requirements, etc. The Executive Director of Supply assigned four

employees to the group and allocated office space and equipment. The group is operational and functioning as planned.

Prioritizing System Work for CCP: PA organized a working session for KEK Supply and IS personnel to prioritize the 23 outstanding IS requests related to CCP. This was especially important since it is necessary to keep the changes that KOMTEL must make to a minimum. As a result of the session, it was determined that:

- 10 requests require KOMTEL involvement
- 6 requests can be completed by KEK IT
- 5 requests are nearing completion
- 1 is no longer needed
- 1 is on hold pending a management decision.

Launch of CCP Cleanup Initiative. PA developed the approach and work plan to undertake the extensive effort needed to improve the integrity of CCP customer information. The approach and work plan were presented individually to the Network and Supply Divisions, and their input and comments were incorporated into a presentation made to the Managing Director. His comments were incorporated into the final plan (included as Attachment Q408TS2). The initiatives included in the plan are:

1. Identify and flag those Serb customers who are currently in CCP. That will allow KEK to analyze the impact of those customers who rarely pay (or have never paid) and who KEK must deal with carefully. This identification will also be helpful in quantifying and disclosing information to potential investors.
2. Implement a self-Identification Amnesty Plan for those households and entities consuming electricity, but not registered as customers in CCP. PA developed a Public Notice to be given wide circulation in local media and through KEK sources. (See attachment Q408TS3 for the notice.)
3. Develop reports to be used by field personnel to identify questionable accounts.
4. Conduct field inspections to locate unregistered consumers and identify nonexistent “customers.”
5. Identify all customer connections. Network personnel are to sketch all connections from every 10/0.4 KV transformer to each connection point.

With all management approvals received, an overview of the project was discussed with all district managers on 19 December. The Executive Director of the Supply Division appointed the KEK Project Manager on 22 December, and on 26 December the PA Advisor and the KEK Project Manager presented the project to the Ferizaj District management team.

Network Division Subtasks Related to CCP Cleanup Project

Identification Numbering Objects of LVN / “Electrical Location”: The PA team contributed to the new CCP Cleanup Project by facilitating the Network Division’s development of procedures for the identification numbering of devices (poles, junction / splice boxes, customer connection boxes, and meter boxes) on the 0.4 kV low-voltage network (LVN). (Reference “ND2008Q4014 364 Procedure Pole Junction Box Meter Box Numbering 29 Dec 2008 Alb Eng LD MH AV TC Accepted v06.pdf”.)

Sketching of 0.4 kV Low Voltage Network: The PA team facilitated the Network Division’s development of written procedures for the sketching the 0.4 kV low-voltage networks. This is a first step in a multi-step program:

- a. Sketch the LVN. (Reference “ND2008Q4010 364 29 Dec 2008 Sketching Template v02 A3 Lndscp_alb _2_.pdf”; “ND2008Q4011 Sketching Template v02 A3 Lndscp.pdf”; and “ND2008Q4012 357 22 Dec 2008 Task Descriptions LVN Sketches Eng v05.pdf”.)
- b. Assign identification numbers to the LVN objects (poles, boxes, etc.).
- c. Label (mark) the LVN objects with tags or signs.
- d. Develop topographic maps of the LVN, using the mapping and topographic functions of the recently purchased three-phase load flow program.

Information Services Support of CCP:

The PA team facilitated the transfer of KEK employees from the Supply Division to the IS Department to support the work on CCP.

It also contributed to the KEK work to identify and list the work needed to be done to CAS and CCP before KEK takes responsibility for maintaining and servicing these programs.

The PA team provided consultations and advice to KEK’s IS Department on several issues:

- Integrity of data bases
- Web services for new systems
- Data warehousing
- Job descriptions for new employees
- Questionnaires to be used during interviews of KEK IS candidates
- Presentation on the “Status of KEK’s Servers and Communication Infrastructure”
- “IS upgrading needs” issues
- Defining necessary changes in the CCP and CAS database related with new VAT value.

The PA team also participated in the introductory seminars on the CCP Cleanup Project for the Network and Supply Divisions and in Ferizaj District. The project will be implemented in the six other districts in early January 2009.

PA designed and developed several new tools/utility reports for KEK use (reports); they extract data/reports from the KEK CCP databases:

- “Grouping Consumers by Bill Amount (with negative bill, 0-6 Euro, 6-10 Euro, 10-25 Euro, 25-50 Euro, 50 Euro and more)” on a monthly basis. The report can be produced for a given time period and category of consumers (more than 60 categories). There is also an option to show the details of bills. (Reference “DGh200804 001- Consumers by bills.zip”)
- “Grouping Payments by 10 kV and 0.4 kV feeders” on a daily basis.” This report can be generated for any time period including bank or cash (or both) payments. There is an option to show the details of payments. (Reference “DGh200804 002 - payments by feeders.zip”)
- “Consumers with more than 3 months of repeat billings.” This report can be produced for any bill amount interval and category of consumers (more than 60 categories). There are options to show the details of consumers and bills. (Reference “DGh200804 003 - Consumers with more than 3 months repeating bills.zip”)
- “Consumers bills by category of consumers (for example, KEK consumers with negative bills)” Reports can be generated for any interval of bill amount, period of time

and category of consumers. There is an option to show the details of bills. (Reference DGh200804 004 - Consumers bills by Category of consumers.zip”)

- “Consumer debts by category of consumer (example: KEK Employee Debts)” The report can be produced for any interval of debt amount and category of consumer. There is an option to show the details of debts. (Reference “DGh200804 005 - Consumers debts by Category of consumers .zip”)
- “Customers with 000 coding for the 10/0.4 Transformer Station.” There is an option to show details about consumers. (Reference “DGh200804 006 - Customers with 000coding for the 10-04 Transformer Station.zip”)
- “Efficacy of Disconnections” grouped by list of disconnections or by payment days. Reports can be generated for the list of disconnections created in a selected time interval. There is an option to show the details of payments. (Reference DGh200804 007 - Efficacy of Disconnections.zip “)

Task 6: Assist KEK to Take Over CAS and Un-bundle Accounting

The team continued to advise KEK on finance and accounting issues during the forth quarter, mostly related to the takeover of CAS, improving the quality of financial and regulatory reporting, and completing the unbundling of accounting to secure the preparation of financial statements for each of the company’s core divisions.

The PA team completed the following activities:

- Developed a methodology for tracking Mining, Generation, Network and Supply revenues and expenses, and allocating headquarters revenues and expenses. Generated unbundled Income Statements for FY 2007 and 6, and 9 months of FY 2008 for Mining, Generation, Network and Supply using transfer pricing based on full cost.
- Developed a methodology for tracking Mining, Generation, Network and Supply assets and liabilities, and allocating headquarters assets and liabilities. Generated unbundled Balance Sheets for FY 2007 and 6, and 9 months of FY 2008 for Mining, Generation, Network and Supply based on the assumption that KEK net equity is allocated with the difference between the function assets and liabilities.
- Reviewed the revised versions of the audited draft financial statements for FY 2006 and FY 2007, and provided recommendations for making adjustments to the Cash Flow Statements. Recommended that KEK revise the VAT and RTK liabilities reported in the statements. as there were indications that those liabilities had been greatly overstated.
- Developed Terms of Reference and a tender dossier for selecting external auditors.
- Supervised the implementation of the recommendations provided in the Management Letters for FY 2006 and FY 2007.
- Started work on cleaning the information in the Fixed Asset module of CAS. Developed procedures for reversing the impairment of KEK’s assets as a result of the significant improvements in billing and collection rates.
- Assisted KEK in reviewing the VAT liabilities, initiated a new tax audit and helped reconcile KEK’s books with the records in the tax system of Kosovo Tax

Administration. As a result, KEK's VAT liabilities were decreased by more than €20 million.

- Assisted KEK in reviewing the RTK liabilities and reconciled them with the liabilities reflected in RTK books. As a result, KEK's VAT liabilities were decreased by more than €25 million.
- Recommended changes to the HR/payroll system to meet the requirements of the Ferizaj Pilot Project and supervised their practical implementation.
- Developed procedures for archiving the accounts of "passive customers" with outstanding debt to KEK.
- Prepared KEK's treasury and accounting for the introduction of customer payments through "direct debit."
- Continued to supervise the development of all accounting manuals:
 - Account Balances Conversion Manual (complete)
 - Transaction Manual (85% complete)
 - Disclosure Manual (60% complete).
- Developed recommendations for the implementation of the methodology for the reassessment of impairment of assets in accordance with IAS 36.
- Continued to assist in implementing the recommendations contained in the Auditor General's report issued in 2006.
- Reviewed the manuals received by KEK from Komtel for the Treasury (TR) and the Accounts Payable (AP) modules of CAS. The work with KEK staff on the manuals will conclude in Q1 2009.

Task 7: Support Tariff Applications and Improve Regulatory Compliance

Proposals on the Rule on Disconnection and Reconnection. With assistance from the project's advisors, KEK submitted proposals to the Energy Regulatory Office (ERO) for modifications to the Rule on Disconnections and Reconnections. With PA's guidance, KEK had first proposed that the Rule be divided into two separate rules: one for those customers who are delinquent in payments and one for those who are stealing electricity. KEK also proposed that the Rule be adopted for KEK and not include all energy enterprises. The first submittal was made in April 2008. Following a meeting with the ERO, in which the ERO rejected both KEK proposals, KEK submitted its revised proposal in June. After further discussions with the ERO staff, KEK held internal meetings with its working group, with advice from PA staff, and submitted a third proposed revision in September. The ERO then requested that KEK modify its procedures for estimating the amount of "un-authorized use" in order to bill those customers. KEK formed a working group to draft the modifications. PA provided support to the working group in evaluating options. The modifications were submitted to the ERO on 15 December 2008 and it is expected that the ERO will approve the new proposed rule in early 2009.

Renewables. At the insistence of the Ministry of Energy and Mining (MEM), the ERO requested that KEK develop a "Connection Charging Tariff Methodology" for renewable resources, and particularly for hydroelectric plants. With PA's assistance, KEK formed a working group to draft the proposed policy. The group drafted procedures and tariffs for connections of small generators and submitted it to the ERO for approval. In conjunction,

KEK also drafted new procedures and tariffs for the connection of new customers. It includes not only the processes for customers submitting their requests for connections but also the costs that they would be required to pay KEK for the connection. The proposed procedures and tariffs were submitted to the ERO for approval in early December. Subsequently, the ERO requested that KEK provide a presentation on the treatment of “shallow” and “deep” connections, and the charges that should be applicable for each. With support from the PA advisors, a working group of KEK Network and Supply personnel met to discuss the issue. The PA advisor drafted the presentation and received input from the KEK personnel; the presentation was made to the ERO and representatives from KOSTT and the MEM.

Also, in conjunction with the MEM’s request for policies and procedures for renewable resources, the ERO issued a Consultation Paper on Feed-in Tariffs and requested responses from interested parties. PA drafted a response, which was reviewed and revised by KEK regulatory staff. The response included a report by the PA hydropower expert concerning the potential for new small hydropower facilities. The KEK response to ERO’s Consultation Paper (proposal) was submitted in September, then revised and submitted again in October. The ERO issued its decision approving the Feed-in Tariffs for hydro-electric generators on 21 November 2008. In late November, the ERO issued its “consultation paper” on feed-in tariffs for wind generators. KEK, with PA assistance, will prepare its proposal in early January.

2009 Tariff Filing. PA continued providing guidance to the KEK Regulatory Affairs Department on the initial preparations for the 2009 tariff filing. PA had prepared a tariff filing strategy paper and circulated it to the KEK Regulatory staff for input before agreement was reached. On 1 December 2008, the ERO issued two documents concerning the tariff filing; one was a letter outlining the ERO’s principles and a timetable, the other was a document titled, “Revenue and Tariffs Model (RTM) User Guide.” KEK’s regulatory staff and the PA advisor met with the ERO to discuss these documents and to clarify the schedule. The PA advisor listed numerous questions concerning the RTM and it was decided to meet with the ERO’s advisor in January to discuss the questions. Several other meetings were held with the ERO to discuss the upcoming KEK filing. During these meetings, which were attended by a PA advisor and KEK Regulatory Affairs Director and Managers, the following subjects were discussed:

- Tariff design, including time-of-day, block tariffs, un-metered (flat rate) tariffs, and possible new tariffs (the ERO letter indicated that they will likely not approve changes in tariff structures or customer categories).
- Unbundling of functions. A discussion on the future separation of KEK into two companies was discussed; however, the ERO believes that the current procedures for the tariff filing will continue until the separation occurs.
- Approved depreciation schedules.

Tariff Schedules. As stated in the previous quarterly report, KEK and the ERO have no written documentation on the requirements for assigning customers to a particular tariff class, nor is there any documentation of many of the aspects of the tariffs. PA’s regulatory advisor drafted tariff schedules that define each tariff category (e.g., voltage level, type of customer) and provided an Albanian version to the KEK Regulatory Affairs staff for review. These draft tariff schedules were discussed by the PA team and KEK Supply Division staff. Discussions with the ERO staff and Board members also took place, and received a very favorable response. It is anticipated that KEK will submit the final draft to the ERO for approval in early 2009.

Conditions of Electricity Supply/Service. Earlier in 2008, PA drafted a document entitled “Conditions of Electricity Supply/Service,” which is meant to provide more details and clarity

to the General Conditions of Supply/Service to consumers (these were approved by the ERO in 2006). A KEK working group was formed and met numerous times during Quarter 3 to discuss and complete the draft document. Some of the more detailed policies and procedures include collections, connection procedures, and line extension policies and procedures. The Regulatory Affairs Department, supported by the PA team, met with the ERO to present the draft document and explain its purposes. Additional meetings with the ERO were expected, but the work load of the ERO staff did not allow time for the meeting. It is expected that meetings will continue with the ERO in early 2009 and that a final set of Conditions of Electricity Supply/Service will be completed and then approved by the ERO.

Training. PA conducted additional training, focusing on tariff development, data requirements for tariff design, and regulatory reporting requirements. The PA advisor also provided much daily on-the-job training for the regulatory staff.

Customer Supply Contracts. As previously reported, PA assisted KEK in drafting new customer service supply contracts for residential and non-residential customers. These were originally filed with the ERO in March 2008. During the third and fourth quarters, meetings were held with the ERO to discuss the proposed contracts. PA helped KEK in revising the proposed contracts and adding information that the ERO desired. The final revised proposed contracts were submitted to the ERO in September and approval was expected in late 2008; however, the ERO subsequently suggested additional changes. The ERO staff believes that it is necessary for KEK to include a section whereby KEK would compensate customers for “unserved energy.” KEK, with advice from PA, is resisting such compensation, particularly given the current energy situation in Kosovo. Additional discussions with the ERO are planned for January 2009 to resolve the situation.

KFOR. PA formed a working group to study the KFOR bases and to determine if they represented a special group of customers that is unique and deserves a new type of tariff. Most of the bases have generators and it is unknown whether these are providing a portion of their electricity requirements, whether they are simply serving as backup when the power is out, or whether they may be able to provide electricity into the distribution system. KEK Regulatory Supply and Network employees are studying this matter. It is unclear, given the ERO’s statement concerning their plan to have no changes in tariff categories, whether to pursue this study. However, in the course of conducting the study, the KEK regulatory personnel received important on-the-job training on how to perform such a study, the data requirements and analyses techniques.

Compliance with EU Directives. The MEM is charged with reporting to the European Commission Secretariat on Kosovo’s progress in complying with EU Directives. KEK’s Regulatory Affairs Director and staff have been participating in quarterly meetings at MEM, which include a representative from the EC in Vienna. PA has been providing needed support to KEK and attended the meetings in response to requests from the MEM and EC Secretariat. During the fourth quarter, the MEM requested more specific plans from KEK to meet the EU Directives, primarily in unbundling and customer service procedures. PA advisors supported KEK in responding and meeting with the MEM representative.

License Requirements. During the fourth quarter, KEK received an extension for its Supply/Trade License from the ERO. PA provided support to the KEK Regulatory staff in applying for the extension, which was done in mid-summer. PA also assisted Regulatory Affairs staff in preparing several requests to ERO for derogation of some license requirements. Most of

these requests dealt with service quality requirements that are, under current conditions, impossible for KEK to meet.

Power and Service Standards. Earlier in the year, the ERO held a workshop on Power and Service Quality Standards; PA and KEK personnel participated in the workshop. The ERO formed a working group to investigate the standards it will impose and monitor on the network and supply functions of KEK. Several members of the PA team participated in the first meeting of the working group to provide advice and assistance in the development of the standards, and the monitoring activities that must follow. The network and supply licenses have provisions for minimum power and service quality standards; however, due to the current situation, KEK has requested, and the ERO has granted, derogation of these articles in the licenses. PA advisors supported the KEK efforts. The ERO intends to include some minimum standards as part of the network and supply licenses.

Customer Metering. In 2006, Kosovo laws and regulations stated that billing meters must be owned and maintained by KEK and that customer-owned meters should be acquired, or new meters should be installed by KEK within one year. Obviously, that schedule was not met. PA began assisting KEK in developing an action plan for the acquisition of customer-owned meters, or installing new meters where this was not possible. A working group was formed and a meeting with the ERO was held in Q4 to discuss the procedures that KEK will follow to meet the legal and regulatory requirements. The legality and the objective of the transfer are accepted by KEK and ERO; the issue now is how to compensate the customer for the transfer of metering equipment from customer ownership to KEK ownership.

Unmetered Customers. In addition to the project discussed above, KEK has been evaluating various options for dealing with unmetered customers. Currently, a tariff category exists whereby these customers pay a flat monthly rate; over 10,000 customers are in this tariff category. Concurrent with the KEK Supply Division's efforts to clean up the CCP, a plan for eliminating this tariff category is being developed by the regulatory staff with advice from PA. Meetings with the ERO have been held to discuss the issue and the ERO's letter of 1 December concerning the tariff filing states that the tariff category should be gradually eliminated. An action plan will be developed and implemented during the next year. PA will support both the Supply Division and the Regulatory Affairs Department in this effort.

Access to Property Rules. ERO requested that KEK and KOSTT develop and submit for approval rules on "Access to Property." Although access to property is found in the Law on Energy and the General Conditions of Supply, the ERO believes these rules are needed to provide additional details for customers. PA provided assistance to KEK in drafting these rules, which are in the final stages of internal review and are expected to be submitted to ERO by early 2009.

NARUC/USAID/ERO Partnership. The PA advisor provided support to the partnership program with the Illinois Commerce Commission and the ERO. A presentation about KEK was prepared by the PA advisor and was presented to the workshop by the Director of Regulatory Affairs of KEK. Additionally, the PA advisor made suggestions for the workshop agenda.

New Connection Procedures. The PA team contributed to the development of KEK's presentation to the ERO on KEK's New Connection Procedures. This included discussions of "deep versus shallow connections," how they are handled by KEK Distribution, and how "deep

versus shallow connections” are different for distribution companies and transmission companies (particularly, KOSTT).

Task 8: Improve Internal Controls and Strengthen Internal Audit

Audit, Anti-Corruption and Revenue Protection. The Internal Audit (IA) Unit continuously faced serious obstacles during the fourth quarter. The third quarter report contained detailed information about the problems related to the illegal decisions of BOD. The main issues were the reorganization of the IA Office, which violated legal requirements and KEK procedures and interests; the restoration of old Internal Audit staff in management positions, who had been dismissed due to inability, negligence and lack of appropriate skills and qualifications; and salary level determinations that were against the law and the reality of HR market.

These thoughtless decisions caused the paralysis of the entire control function during the fourth quarter, resulting in one qualified employee (identified through competitive selection procedures) leaving KEK and the de-motivation of the rest of the staff.

PA undertook all possible steps (meetings with all shareholders) in order to undo the damages caused by the BOD and Audit Committee. Unfortunately, PA’s recommendations for the appointment of a new Audit Committee were botched by the Government and as a result, no actions were taken by the Government-appointed Audit Committee in the fourth quarter.

Despite the difficulties, with PA’s leadership and assistance in activities, KEK managed to retain the remaining staff members and lead them to function as a team, and continued to institute improvements towards the establishment of a comprehensive and efficient control function.

- Given the illegally created IA Office, the Financial Auditing part of the organization is not capable of performing IA tasks. Hence, PA has focused its efforts on the Revenue Protection (RP) function. The main aims of this Unit are loss reduction, improvement of Network and Supply operations efficiency, analysis of activities, weakness detection, and prevention.
- During the fourth quarter, PA continued with the establishment of processes for the RP function. KEK has several organizational entities performing control functions, with the largest group being the Control Group, which is under the Network Division. This contradicts all principles of a control function. PA’s persistence, with support from the MD, resulted in KEK dismantling and eliminating Control Department Groups in six districts. The staffing of Revenue Protection Units for covering all districts has already commenced. The Revenue Protection Unit has increased its staff by six employees and continues to add staff through external and internal vacancy announcements and interviewing processes. The RP staffing is anticipated to be complete by the end of February 2009.
- **Audits and Investigations.** Under PA’s leadership, during the fourth Quarter, 40 investigations and audits were performed related to various types of illegal activities by customers and KEK employees, including violations and non-compliance with written policies and procedures.
- **Disciplinary Actions.** As a result of investigations performed by the RP Unit, several KEK employees who were stealing electricity were identified. The MD approved

recommendations regarding dismissing 12 KEK employees, and disciplinary actions were taken against another 12.

- **Law Enforcement.** PA's leadership resulted in KEK submitting 12 cases to law enforcement bodies for follow-up actions. More than 40 investigations are ongoing.
- **Network and Supply Operations Analyses, Problem Identification.** Under PA's leadership, the RP continued with the analyses of Network and Supply operations inefficiency and problem identification. Two extensive investigations were conducted and analyses were performed in energy accounting, meter reading, bill delivery, disconnection and payment control. Reasons for under-performance were identified, and disciplinary measures and ways for improving performance were proposed and implemented.
- **Training on Revenue Protection.** In order to build up the new revenue protection function, PA continued to conduct internal training during the fourth quarter. As of 31 December PA provided 10 hours of training to the 8 members of KEK's Revenue Protection Unit on field operations and the efficient use of the revenue protection function to improve the company's revenue collection results. External trainings on metering operation and the detection of tampering are under consideration.
- **District Inspections.** The revenue protection function continued extensive inspections in districts in order to disclose electricity theft, detect illegal consumption, and examine the efficiency of disconnections, correctness of billing, performance of technical and supply staffs, etc. Both comprehensive inspections and spot checks were carried out, and the team began to spend up to 80% of its time in the field, focusing on detection and the elimination of the locations that contribute to commercial losses.
- **Performance Evaluations.** PA initiated a performance evaluation of IA Office activities for the year 2008. Revenue protection activities were highly appreciated and appraised by the KEK Managing Director. The RP staff received a special bonus as an award for their achievements in 2008.

Task 9: Provide Legal Support for Unbundling and Privatization

The Unbundling/Privateization Process. During the fourth quarter, PA undertook the following steps in support of the unbundling/privateization process:

- Draft corporate documents were prepared for the New Distribution Company, to include the by-laws and charter.
- An analysis of the registration status of KEK-owned land in cadastral records is underway and will be completed early in the first quarter of 2009.
- The process of collating and recording all documents evidencing KEK title to land has been initiated. The initial collection of documents from all KEK districts will be done early in the first quarter of 2009.
- PA advisors and KEK representatives met with the Licensing Department of the Energy Regulatory Office (ERO) to discuss the prospective transfer of licenses from KEK to the

New Distribution Company. As a result of the discussions, PA will assist KEK with the preparation of a formal request to be sent to ERO in the first quarter of 2009 for an agreement in principle to the transfer of licenses.

- The process of identifying which licenses, contracts and assets will be transferred to the New Distribution Company is underway and will be completed in the first quarter of 2009.

Employment Regulations. PA assisted in finalizing the draft KEK Employment Regulations. The document was presented to the Acting Management Director, with the recommendation that the regulations be approved and duly implemented in the first quarter of 2009.

Monitoring Progress on New Laws/Draft Laws. In the fourth quarter, PA's legal advisor attended meetings of KEK's Board of Directors as an observer, and to provide for damage control. In this context, PA was frequently required to provide advice and recommendations to KEK's management and BOD on the requirements of the POE Law, particularly in relation to the proper delineation of responsibilities and duties between the BOD and management.

Debt Recovery. PA continued to work with KEK's debt recovery team to improve its processes. Specifically, PA initiated a new pilot project in conjunction with NCSC (a USAID implementing partner in the justice reform sector). The pilot project focuses on the enforcement of debt judgments in Gjiljan Municipal Court and the Economic District Court, Pristina. Initial meetings have been held with court staff and follow-up actions are planned for the first quarter of 2009.

During the fourth quarter the number of debt claims filed by KEK for non-payment of electricity increased to 3,307 compared with 2,222 claims in the third quarter. The increase in the number of claims filed can be attributed to interference from the Ministry of Energy & Mines, which has orally instructed KEK's legal office to issue more claims. PA has advised KEK that simply filing more claims at court, without a coherent strategy regarding the actual enforcement of debts, is not a sustainable business decision and should therefore be rethought.

As a consequence of the recent increase in cases filed, the percentage of debt claimed by KEK versus collected has decreased to 17.5%.

Other Advice to KEK on Discrete Legal Issues. PA assisted in drafting contracts for the following high-value capital mining and generation projects:

- The refurbishment of spreaders for overburden removal (Systems II and III) in the amount of €23 million.
- The refurbishment of conveyor belts for overburden removal (Systems II and III) in the amount of €50 million.
- The supply of parts and services for refurbishment of the excavator (System I) in the amount of €3 million.
- The supply of parts and services for refurbishment of the spreader (System I) in the amount of €2 million.
- The purchase of a used transformer for Kosova A power plant in the amount of \$3 million.

- The purchase of a new generator rotor for Kosova B power plant in the amount of €5 million.

PA also assisted with implementation of the contract for the rehabilitation of excavators for overburden removal (Systems II and III), to include advising on the terms and conditions of performance and advance payment guarantees.

PA continued to advise on the procurement process for the purchase of new bucket wheel excavators; the rehabilitation, operation and transfer of three small hydro plants owned by KEK; and the purchase of new direct and indirect electricity meters.

Task 10: Assist Privatization Transaction Advisor

The tender for hiring the privatization transaction advisor was launched in October, and it is expected that the winning bidder will be announced in January 2009. In anticipation of this advisor's appointment, PA has taken the following steps:

- Started collating all relevant information that may be included in the "data room."
- Prepared a tender dossier for the procurement and appointment of a new external auditor for KEK, to ensure that audited accounts for FY 2008 are available in a timely fashion for the privatization process. However, the launch of the procurement process has been delayed because of the failings of KEK's Internal Audit committee, which is required under the POE law to approve and initiate the procurement process.

PA also provided various support for activities related to privatization during the 4th Quarter:

- A statement was drafted for the Minister of Energy and Mining to dispel a myth that was circulating in the local press (see Attachment Q408TS4). The press stories implied that KEK customers don't have to pay debts to KEK since the new private investor will forgive the debt.
- PA prepared a brief statement on "Social Aspects of Energy Sector Restructuring" that was provided to the KEK Managing Director and Executive Director of Supply for their use in discussions with the Government and media (see Attachment Q408TS5).
- Talking points concerning KEK privatization were prepared and provided to the Executive Director of Supply for his use in discussions with the Government and media (see Attachment Q408TS6).
- Organization charts and estimates of the number of personnel related to the *Supply Division* within the new Distribution Company were prepared.
- Developed organization structure (charts, reporting structure, and staffing level) for the *Network Division* for the New Disco in preparation for legal unbundling and privatization in late 2009.
- Met with Bearing Point representatives in December to review the problems and ways forward with regard to land use, rights of way, and property rights in preparation for the privatization of KEK Distribution.
- Prepared an assessment of "assets at risk" for KEK privatization. This included the 110 kV power system, small hydro plants, rights of way and land property, enclaves / minority areas, and the region north of the Iber River.

Task 11: Support Normalization of Service to Enclaves

Estimating the Ethnic Composition of Kosovo. PA developed a report titled “Estimate of the Ethnic Composition of Kosovo by Region.” The purpose was to have a picture of the Albanian, Serbian, Ashkali, Roma, Gorani, Bosniak, Turk, Egyptian, and Croat populations of each of the 30 regions of Kosovo. The source of the information was the OSCE Municipal Profile reports. This information will be of use in formulating the approach toward these ethnic groups in relation to this task.

Joint Initiatives with US KFOR. US KFOR has been very supportive of KEK, especially in its dealings with the minority communities. During the 4th Quarter, PA cooperated with KEK personnel and US KFOR on the following items:

- US KFOR invited KEK to attend and make a presentation at the mayoral luncheon held at Camp Bondsteel for mayors in the US KFOR region. PA prepared and made a presentation (see Attachment Q408TS7) at the meeting covering:
 - Background on significant KEK issues
 - New pilot project in Ferizaj
 - KEK policy on the ABC Load Shedding Program
 - KEK’s Disconnection Policy
 - Approach toward minority customers.

The mayors from Serbian areas attended and raised concerns about the RTK fee being assessed in areas that do not receive the RTK signal and the apparent excessive load shedding in Serbian areas.

- PA coordinated the responses to a series of questions that KFOR had received from the general public and community leaders in its area of operations. The intent is to have a coordinated response KFOR can give to the public in its day-to-day dealings with them.
- An updated contact list of KEK personnel was provided to US KFOR so they have contact information on specific people to call as technical, safety, or commercial issues arise.

III. Status of Results Achieved under the Performance-based Management System

Please see Appendix B for a discussion of the progress made this quarter against the planned results under the Performance-based Management System.

Memorandum of Understanding. There is no MOU between USAID and GOK/KEK that formalizes PA's activities at KEK and commits stakeholders to certain actions. It has been 24 months since PA began working in KEK, and it still has no mandate. KEK's BOD and management are challenging PA's involvement in KEK's activities, and have asked on the record for PA's terms of reference for its work in KEK. USAID, with PA's input, has developed an MOU, which was planned to be signed in September 2008; however, as of the end of December there has been no clear indication as to when and if an MOU will be signed.

KEK Board of Directors. With only one notable exception, the Board members have neither the experience nor the knowledge to perform their duties, and no comprehension of their fiduciary responsibilities. However, they demanded furnished office in KEK with new laptops and are actively involved in micromanaging KEK on a daily basis. By the end of December, contrary to PA's advice, the KEK Board took four trips to the neighboring countries with their stated objective being "learn how the Boards operate in other countries." Some of their actions that have had a substantial adverse effect on KEK's performance include:

- Attempts to remove the acting MD at the November Board meeting.
- The Government-appointed Chairman of the Audit Committee has refused to convene a meeting of the Committee since October, stating that his term is short (expiring on 15 December) and that the new Audit Committee should deal with the outstanding issues.
- The tender for the external auditor has been postponed because the Audit Committee did not convene to approve the proposed tender to be issued.
- The Audit Committee did not meet to approve the auditor's report for 2006 and 2007, resulting in a lack of audited financial statements for KEK and an opening balance for the 2008 audit activity.
- In November the Board approved the KEK/PA-proposed strategy for outsourced companies, which was approved by the previous Board in August 2007. However, at the December Board meeting, with only three Board members present, the Board withdrew its decision to go forward and instructed the acting MD to obtain shareholders' consent before moving forward for competitive tender.
- The Board refused to approve the implementation of the new structure and processes for the four remaining districts, similar to the one that was implemented for Ferizaj, creating opportunities for corruption to continue.

Value Added Tax (VAT). KEK's payment of VAT has traditionally been governed by an MOU between the Ministry of Economy and Finance (MEF) and KTA. The MOU allowed KEK to remit VAT based on payments received from customers as opposed to the amounts billed to customers. Several other publicly owned enterprises are also subject to these conditions. This procedure recognizes that KEK has a significant amount of billings to customers that go

unpaid. The aforementioned MOU expired on 31 December 2007 and was only replaced in September 2008, with the signing of a new MOU, which re-instates the arrangements under the original MOU, but only until the end of 2008. Therefore, the approach for the 2009 VAT payment remains to be agreed.

Procurement. Kosovo's procurement regulations are still a problem. For orders greater than €10,000, open tendering is needed and a minimum of three valid bids is required unless the situation justifies the continuance of the procurement activity (as provided by law). Most of the time, KEK does not receive the minimum of three valid bids and must go out for re-bid or seek approval from the Procurement Agency to proceed. As a result, much-needed materials and services are not obtained on time, thus restricting KEK's ability to improve collections, enhance services, reduce losses, and adhere to Capex.

PA maintains its previously stated recommendation that the EU Procurement Regime for Utilities (2004/17/EC) should be applied in Kosovo. This issue will become more pressing with KEK's privatization, since the private investors for both New Kosovo and KEK Disco will be subject to Kosovo's current Public Procurement Law.

Employee Issues. The approach of Kosovo's courts continues to be a problem, specifically with respect to legal challenges on employment matters. Employees who are dismissed by KEK on disciplinary grounds frequently challenge KEK's decision, request re-instatement, and are granted re-instatement by the courts.

In addition, KEK is not aggressive enough in its disciplinary procedures. Committees are still being created to adjudicate disciplinary matters, and they often dilute the charges and disciplinary measures taken. The committees seem reluctant to take tough action against fellow employees within KEK. Often, the punishment is only a reduction in pay of a few tenths of percent for a few months. This is hardly effective because even if the person is suspended without pay, the magnitude of the bribe, extortion, fraud, theft, embezzlement, etc., is many times the lost salary.

PA has drafted new Employment Regulations for KEK, which includes a new disciplinary procedure that eliminates disciplinary committees and places the onus on senior management to take decisions on disciplinary matters. As mentioned above, the draft regulations have been presented to KEK's Acting Managing Director with the recommendation that it be approved and implemented in the first quarter of 2009. The draft KEK Employment Regulations will also compliment the Regulation for Operations in KEK Districts, which was devised by PA and contains more stringent disciplinary measures and procedures.

Stakeholder Interference. This was one of the barriers to KEK's progress identified in PA's earlier analysis. Stakeholder interference in KEK's operations and staffing, power purchases, the RTK fee, obtaining mining licenses, procurement for the repair of A5, disconnection of non-paying customers, the ABC program, the loan for the SSW mine opening, and many other areas have made the team's task much more difficult. Continued USAID support and leadership is appreciated and needed to ensure that stakeholder involvement and interest in KEK can be managed properly.

Outsourcing. PA continues to advise on the implementation of the Board of Directors' decision dated August 2007 in relation to the position of seven companies that currently perform services which were outsourced in 2006. Initially, this strategy was not being implemented because of external interference from the MEM. However, early in the third quarter, the implementation was hindered by the Board of Directors, who believe that it is a matter for them

to determine. At the end of the fourth quarter, the Board of Directors finally resolved that while, in principle it agreed with the previously approved strategy for the outsourced units, it believed that the shareholders should also bless this strategy. The Board of Directors therefore agreed to extend the existing contracts for the outsourced units until the end of March 2009.

IV. Proposed Solutions to New or Existing Problems

Various problems are confronting the project team. Below, we discuss one problem that has not yet been mentioned in this report and provide an update on a possible solution being pursued by the PA team.

Up-to-Date Manuals for CAS and CCP

Problem: Komtel has failed to deliver to KEK all of the up-to-date manuals that Komtel has already developed for CCP and CAS. Only the updated TR and AP modules have been delivered. Manuals were delivered by Komtel to KEK in earlier years, but these older manuals do not reflect the recent changes to CCP and CAS. The absence of these updated manuals prevents KEK from taking over the maintenance and servicing of the CCP and CAS systems.

Solution: The solution is being developed at this time.

V. Documentation of Best Practices that Can be Taken to Scale

New Structure and Organization in Ferizaj. The new structure was rolled out to the Gjakove and Gjilan districts in November and to Mitrovica, Prizren, and Peja in December. Pristina District will be on the new structure in early 2009.

New Employment Regulations for KEK: PA has presented the new regulations to KEK's Acting Managing Director, with the recommendation that they be implemented during the first quarter of 2009.

Technical Specifications for Meters: KEK and PA developed a series of technical specifications for meters (for residential, commercial and industrial applications) that can be used elsewhere. In earlier technical specifications, KEK personnel included features that were avant-garde, but severely limited the number of bidders that could comply. Under the Public Procurement Law of Kosovo, at least three valid bidders must remain at the end of the evaluation so that a contract can be awarded. KEK's "glitzy" requirements excluded many bidders, especially when a special feature is patented and competitors could not offer that special feature. The new technical specifications focus on the basic metering functions needed, and are compared to the published specifications of all meter manufactures to be sure that at least three, and preferably more, bidders could comply with the technical requirements.

VI. Coordination with Other USAID Implementing Partners and Other Donors

The team engaged in considerable coordination-related activities with other USAID partners, especially Bearing Point and other donors. The following activities were undertaken during Quarter 4:

- PA continued to coordinate with Bearing Point advisors on issues regarding the privatization of KEK and regulatory issues. Draft documents were shared with Bearing Point for comment before their submission as final.
- The team continues to maintain regular contact with the USAID Justice Reform Team (NSCS) and met with them on several occasions to discuss its efforts to improve judicial processes for the execution of debt cases.
- PA continued to liaise with Bearing Point advisors at the Tax Administration to clarify certain questions pertaining to the VAT payable by KEK and/or its contractors (Alstom France).
- PA cooperated with Bearing Point advisors at the Ministry of Economy & Finance on the 2009-2011 budget and potential GOK assistance for the procurement of mining equipment, implementation of the Credit Facility Agreements between the Ministry and KEK, reallocation of 2008 KCB grants, and release of funds for purchased power.
- The team liaised with OSCE and US KFOR on the issue of minority area policies.
- PA continues to maintain regular contact with the WB, IMF, KfW, EU, UNMIK, EULEX and other stakeholders, and has been responsive to their requests.

VII. Upcoming Events with Dates

New Board of Directors: In the next quarter, The Kosovo Government plans to appoint new KEK BOD members and new Audit Committee members pursuant to the requirements of the POE Law.

New Transaction Advisor. The Kosovo Government plans to appoint a transaction advisor for the privatization of KEK's Distribution and Supply business in the next quarter.

Minority Areas. It now appears that no resolution to make meaningful changes in the policies related to Minority Areas will be forthcoming before the middle of 2009. PA has developed practical approaches to dealing with minority communities and is prepared to move forward once permission is received from the US Embassy.

Direct Debt Mechanism. This new mechanism is now expected to be rolled out to large entities by the Central Bank of Kosovo in the first quarter of 2009. PA continues to work closely with the Finance, Supply, and IT Divisions of KEK to modify internal processes and procedures to implement the new system. PA is also working closely with CBK to encourage them to have the system available as soon as possible and with Raiffeisen Bank to coordinate all of KEK's direct debit transactions.

District Organization Structure. The new structure is expected to be rolled out to Pristina District in early 2009.

Legal Unbundling of KEK: Pursuant to the decision of the Government of Kosovo, the legal unbundling of KEK's existing Network and Supply functions will occur by the end of the next quarter. This will be undertaken in conjunction with the creation of a new distribution company, the Kosovo Electricity Distribution and Supply Company.

Bids for Meters: Bids to KEK Procurements are due in early January 2009 for meters for residential applications, and in early February 2009 for meters for commercial applications.

VIII. Appendix A. List of Activities/Deliverables

Nr.	Task 1: Support Management and Operation to Preserve Assets Specific Objectives / Accomplishments	Completion Date (End-of-month)	Major Activities Completed/ Status of Deliverables
1.1	Business Plan and Action Plans for 2009	November 2008	Completed.
1.2	Achievement of the Business Plan targets for 2008 – 2009	Ongoing	Some of the KEK's targets may not be met due to MEM and BOD interference, change in the MD, and other stakeholders' interference.
1.3	Visible leadership by the MD with clear performance expectations from all levels of management	Ongoing	Will not be achieved due to continued change and lack of support from the Board, and lack of MOU for PA's work at KEK.
1.4	Board-approved 2008 and 2009 Capital and Operation and Maintenance budgets	December 2008	Completed. The 2008 budget was updated to balance expenditures with projected revenue collection. The former BOD refused to consider approval of the budget. The 2009 Budget will be presented to the new Board for approval.
1.5	A more effective budgeting process for the development of the remainder of year 2008 and all of year 2009 budgets (budgets to be based on the ERO-approved tariff)	December 2008	Completed. The 2008 budget process was enhanced for the 2009 budget cycle, which is under development.
1.6	Apply new cost control procedures.	November 2008	Pending the appointment of the Board and a permanent MD.

Nr.	Task 1: Support Management and Operation to Preserve Assets Specific Objectives / Accomplishments	Completion Date (End-of-month)	Major Activities Completed/ Status of Deliverables
1.7	Ensure that KEK management does not enter into a new agreement with RTK for the collection of public television fees.	December 2008	Contrary to PA's recommendation, in December the KEK BOD approved the extension of the RTK service agreement for an additional 12 months until the end of November 2009.
1.8	Preempt any new encumbrances, liens, or liabilities.	October 2009	Lack of an MOU for PA's work in KEK is adversely affecting PA's ability to preempt actions.
1.9	Monitor compliance with the Credit Line Agreement with Raiffeisen Bank.	Ongoing	Cash follow reports are generated and reviewed for compliance monitoring.
1.10	Monitor compliance with the Credit Facility Agreements concluded with the Government in connection with the rehabilitation of A5 and opening of the Sibovc SW mine.	Ongoing	The majority of the A5 loan has already been exhausted, while the first drawdown on the Sibovc SW loan is expected in the first quarter of 2009.
1.11	Monitor the newly created pledge register at the Ministry of Trade & Industry to ensure no new liens are registered against KEK.	Ongoing	This is being checked on a monthly basis.

Nr.	Task 2: Amend Distribution Structure and Organization Specific Objectives / Accomplishments	Completion Date (End-of-month)	Major Activities Completed/ Status of Deliverables
2.1	Implement the new organization structure that provides for clear accountability in Ferizaj	September 2008	Completed.
2.2	Secure appropriate staffing of the organization with skilled individuals in Ferizaj.	September 2008	Completed.
2.3	Implement the pilot project in Ferizaj beginning 1 September 2008 and have the district fully operational using new procedures by 31 December 2008	December 2008	Completed.
2.4	New district targets being met by conclusion of pilot	December 2008	Future.
2.5	Assist with implementation of the principles and successful processes and procedures of the pilot project in 3 districts beginning 1 December 2008 and have those districts fully operational using new processes and procedures by 28 February 2009	December 2008	Future
2.6	Assist with the implementation of the principles and successful processes and procedures of the pilot project in the 3 remaining districts beginning 1 March 2009 and have those districts fully operational using new processes and procedures by 30 April 2009	March 2009	Future
2.7	New district targets being met by individual districts as they each implement the new processes and procedures	May 2009	Future

Nr.	Task 3: Improve Energy Accounting Specific Objectives / Accomplishments	Completion Date (End-of-month)	Major Activities Completed/ Status of Deliverables
3.1	Accuracy and timely meter reading between KEK and KOSTT exchange points that provide for system energy balance	December 2009	On the first day of each month the meters are read, the bills computed, and the data forwarded to the monthly Energy Accounting Report submitted to the Board of Directors.
3.2	Bill customers appropriately for energy they consume. All metered energy to be billed through the Customer Care Package (CCP).	December 2009	<ul style="list-style-type: none"> • Energy billed compared to energy available for sale is part of the monthly Energy Accounting Report to the BOD. • Customers at the land of mines and generation are now metered, and the bill processing is being incorporated into CCP. A new, eighth CCP software package (but without the financial portion) become operational by KEK IS at the end of Q4. The Supply Division has assigned the responsible person for this 8th CCP. Training and initial configuration will start in Q1 2009. • The three large customers, whose metering is special, still have hand-calculated bills. The Network Division is working with the Supply Division to have the results of the hand calculations included in CCP.
3.3	Bill customers accurately for sundry items such as meter testing, disconnection, reconnection, new customer connection, etc.	December 2009	<ul style="list-style-type: none"> • The new Chart of Accounts will enable this capability. • The Supply Division is re-structuring the bill format to include this information. • Changes in CCP and CAS are being designed to implement this change.
3.4	Meter purchases to be electronic, with emphasis on anti-tampering features and load profile data recording for large customers and substations.	December 2009	In Q4 2008 KEK, with PA's assistance, has gone out for bids for both residential and commercial meters. The bids for residential meters are due in early January 2009, and the bids for commercial meters are due in early February 2009.

Nr.	Task 3: Improve Energy Accounting Specific Objectives / Accomplishments	Completion Date (End-of-month)	Major Activities Completed/ Status of Deliverables
3.5	Meters, disconnectors, and remote read and control equipment installed on all transformer points serving enclaves.	See Task 11.4, below, for completion dates.	See Task 11.4, below, for the status and comments.

Nr.	Task 4: Increase Collections from Customers Specific Objectives / Accomplishments	Completion Date (End-of-month)	Major Activities Completed/ Status of Deliverables
4.1	Improve collections, over the baseline, per PBMS targets for 2008 and 2009	Ongoing	Collections in the fourth quarter were very good. See PBMS status in Appendix C.
4.2	Speed up customer payments by reviewing and enhancing the billing process, payment terms, and other issues	Ongoing	Payments have been increasing due to aggressive disconnections
4.3	Feeder teams to aggressively perform disconnections of customers for non-payment and unauthorized use.	Ongoing	Payments increased significantly in Ferizaj due to aggressive disconnections performed by feeder teams. Similar results are being experienced in Gjilan and Gjakove, where the new work procedures and structure were implemented.
4.4	Feeder teams to have specific collection targets for feeders they are responsible for. Those targets will be rolled up to the district level.	Ongoing	Feeder teams in place in Ferizaj. Performance being measured based on targets. Five additional districts (other than Pristina) adopted the new structure during the 4 th quarter.
4.5	Advance the use of the KOS-Giro payment system.	Ongoing	New promotion implemented aimed at customers who bring their bill with them to pay at KEK offices. Promotion materials also distributed in Q4 with bills.
4.6	Implement direct debit system in coordination with the Central Bank of Kosovo (CBAK) and roll out of this new capability in Kosovo.	January 2009	PA facilitated progress by direct contact with CBK and Raiffeisen Bank (see discussion of Task 3 in Section II). CBK and the banks do not expect the system to be operational until sometime later in the 1 st Quarter of 2009.
4.7	Advise KEK and the Government to improve the effectiveness of the Social Cases Subsidy by broadening the base of recipients	December 2008	Alternative mechanisms have been developed. This task will continue to be worked on in the first quarter of 2009.

Nr.	Task 5: Assist KEK to Take Over and Clean Up CCP Specific Objectives / Accomplishments	Completion Date (End-of-month)	Major Activities Completed/ Status of Deliverables
5.1	Rules defining responsibility of KEK IT, Network, Supply and Finance Divisions for the maintenance and operation of the CCP system are developed and adopted (an executive order is signed)	September 2008	Completed
5.2	Rules defining responsibilities of KEK IT and of the appropriate persons in the Divisions, for the maintenance and operation of the ABC module are approved.	October 2008	Completed
5.3	Komtel contract ends for all work except system changes. Komtel has delivered final versions of “user” manuals and “system administrator” manuals and concluded training.	November 2008	Underway
5.4	KEK IT person responsible for system administration responsibility is assigned.	October 2008	Completed
5.5	KEK Divisional persons responsible for use and operations are assigned.	October 2008	Completed. The Supply Application Software Contact Group to help users resolve problems with procedures, system commands, and data entry requirements is in place and functioning.
5.6	The tests (“scripts”) that are to be performed on the database in order to perform the analysis are defined.	November 2008	The work plan for CCP cleanup was developed and approved. The Analysis Team will be developing the flag reports to be used by field teams.

Nr.	Task 5: Assist KEK to Take Over and Clean Up CCP Specific Objectives / Accomplishments	Completion Date (End-of-month)	Major Activities Completed/ Status of Deliverables
5.7	Automatic and manual corrections to the customer database made in response to detected and identified anomalies are defined.	December 2008	The work plan for CCP cleanup was developed and approved. The Analysis Team will be developing the flag reports to be used by field teams.
5.8	Procedures that were created and approved to clean up the CCP data base are implemented.	March 2009	The work plan for CCP cleanup was developed and approved. The Analysis Team will be developing the flag reports to be used by field teams.
5.9	CCP data base is cleaned up and the accuracy of all information is verified.	May 2009	Future
5.10	All non-existing facilities (customers) are deleted	May 2009	Future
5.11	“Passive customers” are eliminated.	May 2009	Future

Nr.	Task 6: Assist KEK to Take Over CAS and Unbundle Accounting Specific Objectives / Accomplishments	Completion Date (End-of-month)	Major Activities Completed/ Status of Deliverables
6.1	Rules defining responsibility of all divisions of KEK for the maintenance and operation of the CAS (HR and Payroll) are developed and adopted (an executive order is signed)	September 2008	Completed.
6.2	Komtel contacts end (and are not renewed). Komtel has delivered final versions of “user” manuals and “system administrator” manuals, and concluded training.	October 2008	Delayed; Komtel still has not submitted the manuals.
6.3	The KEK IT person responsible for system administration is assigned. KEK Divisional persons responsible for use and operations are assigned.	October 2008	Completed.
6.4	CAS database is cleaned up and the accuracy of all information is verified.	December 2008	Underway.
6.5	New Chart of Accounts is implemented	January 2009	Underway. KEK manuals on the use of the new Chart of Accounts are being written now. TORs for contract have been submitted to Komtel; waiting for Komtel to sign the contract.
6.6	Assets and liabilities of KEK divided among the new corporations.	March 2009	Underway.
6.7	Balance sheets, income statements, cash flow statements for the mining, generation, network and supply functions are generated.	July 2009	2006 and 2007 have been produced and submitted to USAID.

Nr.	Task 7: Support Tariff Applications and Improve Regulatory Compliance Specific Objectives / Accomplishments	Completion Date (End-of-month)	Major Activities Completed/ Status of Deliverables
7.1	Complete the KEK tariff filing for 2009	December 2008	The tariff filing plan is progressing; additional meetings with the ERO were held during the 4th quarter. PA will be advising KEK to meet the ERO's schedule for the tariff process, including the continued use of the ERO's tariff model and an expected decision on the tariffs in late March.
7.2	Complete and obtain ERO approval of the "Connection and Charging Procedures for Embedded Generators and New Customers"	October 2008	Connection charging procedures for small generators were submitted to the ERO for approval on 15 September 2008. Similar procedures for new customers were submitted to the ERO in early December.
7.3	Complete and obtain ERO approval of the disconnection rules	October 2008	Proposed disconnection rules were submitted to ERO for approval. The ERO requested changes to KEK's procedures for estimating the amount of "un-authorized use." which were submitted on 15 December 2008.
7.4	Complete and obtain ERO approval of the "Conditions of Electricity Supply"	March 2009	Draft document is being reviewed internally by KEK
7.5	Develop a tariff for sales of electricity to small communities (minority areas)	November 2008	Initial data for tariff design are being obtained. Internal discussions have delayed this; a different approach may be designed and implemented.
7.6	Assistance to the Regulatory Affairs Department in its support of the privatization of KEK	Ongoing	Continued training and miscellaneous support are being provided

Nr.	Task 8: Improve Internal Controls and Strengthen Internal Audit Specific Objectives / Accomplishments	Completion Date (End-of-month)	Major Activities Completed/ Status of Deliverables
8.1	Ensure that KEK has a well staffed and equipped Internal Audit Department.	November 2009	Due to the obstacles described above, only the Revenue Protection Unit has made a considerable contribution towards improvement. By the end of February 2009 this Unit is anticipated to be completely staffed. As for the rest of IA Units, progress will solely depend on the new Audit Committee of the KEK Board.
8.2	Assist with the development of audit plans and procedures, and monitor the performance of regular audits of all internal controls, checks and balances.	Ongoing	Plans for 2008 audits (both monthly and quarterly) were developed. Daily monitoring of audits and of all internal controls checks and balances were performed this quarter (see the note above).
8.3	Provide strategic and tactical guidance in conducting audits and investigations.	Ongoing	Daily guidance during investigations and audits was provided.
8.4	Advise Internal Audit on methods and techniques to protect KEK's revenue, including the use of special equipment, the use of software for the calculation of technical losses, technical design standards, process redesign methods, etc.	Ongoing	The KEK Internal Audit and Anti-Corruption Unit received advice and recommendations from PA during each audit and investigation process. PA provided regular training on using best international practices for calculating technical and commercial losses.
8.5	Press for conclusion of a Memorandum of Understanding between KEK, the Police Service (KPS) and the Ministry of Interior, that will increase the level of support provided to KEK by the KPS and improve coordination between KEK and KPS's Economic Crimes Unit on fraud cases.	November 2008	PR produced a draft and presented it to relevant ministries and the Chairman of KEK's Board. However, no action has been taken to date.
8.6	Assist with the introduction of procedural refinements to KEK procurement procedures to create safeguards against corruption	December 2008	In process.

Nr.	Task 8: Improve Internal Controls and Strengthen Internal Audit Specific Objectives / Accomplishments	Completion Date (End-of-month)	Major Activities Completed/ Status of Deliverables
8.7	Assist with the enforcement of the new cost control procedures.	December 2008	In process.

Nr.	Task 9: Provide Legal Support for Unbundling and Privatization Specific Objectives / Accomplishments	Completion Date (End-of-month)	Major Activities Completed/ Status of Deliverables
9.1	New corporation(s) established and registered, together with relevant corporate documentation (e.g., bylaws, charter)	November 2008	New corporate documentation completed in draft. The application for registration of the new company has also been prepared; however, the identity of its Board of Directors must be determined before the application is filed.
9.2	Applicable Licenses (ERO, ICMM, etc.) are transferred to new corporation(s).	December 2008 to February 2008	An initial meeting with ERO has been held. KEK will send a formal request to ERO in the next quarter, for an agreement in principle to the transfer of the licenses to the new company.
9.3	Conclusion of applicable documentation transferring assets and liabilities to any new corporation(s).	January 2008	Compilation of the requisite lists and collection of the underlying documentation is underway.
9.4	Conclusion of any contractual arrangements post-unbundling between the corporations (e.g., use of shared services and electricity off-take agreement).	December 2008	Underway.

Nr.	Task 9: Provide Legal Support for Unbundling and Privatization Specific Objectives / Accomplishments	Completion Date (End-of-month)	Major Activities Completed/ Status of Deliverables
9.5	Finalize new Employment Regulations for KEK employees that are in line with international best practices and include a new disciplinary procedure and ethics code. Assist with the implementation of the approved Regulations through in-house training and seminars.	October 2008	The draft Employment Regulations have been finalized and presented to KEK's Acting Managing Director for his approval.
9.6	Continue to work with the Government and other stakeholders on the proposed amendments to the Provisional Criminal Code that would expressly state that electricity theft is a criminal act.	Ongoing	PA continues to lobby for this amendment; however, no action has been taken by the competent bodies to date.
9.7	Monitor the progress and contents of all draft and pending laws that may impact on KEK, particularly: the Labor Law, Law on Contested Procedure, Law on Obligations, Energy laws, Law on Mines & Minerals, and the Law on the Treatment of Illegal Construction. This may include lobbying the Government and other stakeholders for certain amendments that will be beneficial to KEK's operations and its future privatization. .	Ongoing	PA has been discussing with the USAID Justice Rreform Program possible training sessions for KEK legal staff on the new Laws on Contested Procedure and Execution of Judgments.
9.8	Advise KEK on the implementation of new laws, to include the Law on Publicly Owned Enterprises, and Law on Business Organizations.	Ongoing	The primary focus in the fourth quarter has been the implementation of the POE law, particularly with respect to the delineation of the duties and responsibilities of the Board of Directors.

Nr.	Task 9: Provide Legal Support for Unbundling and Privatization Specific Objectives / Accomplishments	Completion Date (End-of-month)	Major Activities Completed/ Status of Deliverables
9.9	Propose further amendments to the Law on Public Procurement, to incorporate elements of EU Directive 2004/1, which provides rules for procurement activities in the utilities sector.	October 2008	PA has indicated to USAID that the need for reforming the Procurement Law will become more pressing with privatization. In the absence of any reform, the new private investors for KEK Distribution and New Kosovo are likely to be subject to the current restrictions imposed by the Public Procurement Law.

Nr.	Task 10: Assist Privatization Transaction Advisor Specific Objectives / Accomplishments	Completion Date (End-of-month)	Major Activities Completed/ Status of Deliverables
10.1	Assist with defining the structure of the privatization deal and the drafting of the share purchase agreement	TBD	Future work.
10.2	Advise on the development of a distribution privatization law	TBD	Future work.
10.3	Assist with the refinement of the market structure to support the privatization transaction.	TBD	Future work.
10.4	Assist with the development of a new licenses for the newly registered distribution company	TBD	Future work.
10.5	Support the transfer and registration of the assets of the new POE(s).	TBD	Future work.
10.6	Assist with the preparation of the Information Memorandum.	TBD	Future work.
10.7	Assist with the creation of a “data room.”	TBD	PA has started to collate the relevant material.
10.8	Review the draft Information Memorandum and provide comments, as necessary.	TBD	Future work.

Nr.	Task 11: Support Normalization of Services to Minority Areas (Enclaves) Specific Objectives / Accomplishments	Completion Date (End-of-month)	Major Activities Completed/ Status of Deliverables
11.1	Develop KEK's internal position on community metering and prepare a white paper and recommendations.	September 2008	Completed and submitted to USAID and MEM.
11.2	Participate in meetings with the stakeholders and the ERO on the issue of community metering.	October 2008	Primary meeting being arranged. Meetings were held with US KFOR and the mayors in their communities during Q4
11.3	Submit written proposal on community metering to the ERO and obtain approval.	Within one week of the meeting in Task 11.2.	Underway.
11.4	Develop a community metering project, to include procurement and installation of all the necessary equipment	Within 3 months of approval to work in the enclaves, and receipt of all metering materials.	Underway.
11.5	Oversee the installation and start-up program for community metering.	December 2009	Ongoing as sub-tasks of Task 11.4 are completed.

IX. Appendix B. Performance-Based Management System Results

1. Key Indicators (Reported Quarterly)

No.	Objectives Supporting These Results	Task Reference Supporting These Results	Definition of Indicator and Unit of Measure	2006 Actual/Calculation ¹	2007 Actual	2008 Target	2008 Actual	2009 Target	Status
1	1, 2, 3, 5, 6, 7, 8,	1 through 6, and 8	Reduce commercial losses as compared with previous year (ratio of commercial losses vs. energy available for sale)	31%	30%	25%	20%	10%	26.0% for Q4 2008 20.2% for full year 2008
2 ²	1, 2, 3, 5, 6, 7, 8	1	Reduce technical losses (ratio of technical losses vs. energy delivered to distribution)	18.2% ³	17.4%	17%	16.6%	16.5%	16.9% for Q4 2008 16.6% for full year 2008
3	1, 2, 5, 6, 8	1 through 6, and 8	Ratio of energy billed vs. energy available for sale	69.1% ⁴	69.9%	75%	79.8%	90.0%	74.0% for Q4 2008 79.8% for full year 2008
4		1 through 6, and 8	Ratio of revenue collected versus billed	74.2%	76.6%	80.0%	75.6%	89.0%	76.2% for Q4 2008 75.6 % for full year 2008
5	1, 2, 3, 5, 6, 7, 8	1 through 6, and 8	Revenue collected as a percentage of value of energy available for sale [ratio of revenue collected vs. billed] x [ratio of energy billed vs. energy available for sale]	51.3%	53.5%	60%	60.3%	80.0%	56.4% for Q4 2008 60.3% for full year 2008
6		1 and 4	Ratio of debt collected vs. claimed ⁵	not available	23.48 %	30%	17.5%	35%	As of 31 December 2008 the recovery rate was approximately 17.5% of the debt claimed.
7	1, 2, 3, 5, 6, 7, 8	1 through 8, and 11	Collected revenue in Euros	€96mm	€110.8 mm	€116m m	€135 mm	€140 mm	€40.4 million for Q4 2008 €134.7 million for full year 2008

¹ Due to KEK's quality of information and calculation methodology, upon further review, the 2006 data used as Key Indicators 1 and 2 had to be revised. The updated numbers are shown in the status section for the two items in Bold.

² Given the updated information, the target for Key Indicator 2 needed to be revised to 1% below 2006 actual/ calculated for 2007 (17.2%) and for 2008 it should be 1% below the 2007 number (16.2%).

³ The "First Year Work Plan" presented 2006 actual as 15%. The higher figure of 18.2% above is the result of restating 2006 results with the same methodology used in years 2007 and 2008.

⁴ The "First Year Work Plan" presented 2006 actual as 61.78%. The higher figure of 69.1% above is the result of restating 2006 results with the same methodology used in years 2007 and 2008.

⁵ Under Kosovo law, executing judgments for debt is the sole responsibility of the courts. Accordingly, this target will ultimately depend on the cooperation of the courts and their willingness to work with and support KEK.

2. Milestone Indicators

Task	Performance or Impact	Indicators Definition and Unit of Measure	Reporting Frequency	2008 Target	2009 Target	Status
Task 1	Performance Indicators	PA will have issued all required reports during the first six months that will have recommended improved planning, capital and operating budgeting, and accounting and financial systems in KEK, and will have designated baseline and targets to measure PA's progress on accomplishment of the task objectives, including training.	Quarterly	Support KEK management	Improve KEK management capabilities	Reports, recommendations and targets were developed and are under implementation
	Impact Indicators	The MD will have implemented the enhanced organization structure with skilled individuals along the lines PA recommended. KEK operations will have become noticeably smoother due to increased management capability of the MD and her team. This will be indicated by the ability to formulate improved business processes at KEK. Private sector participation strategy in Network and Supply is communicated to stakeholders and potential investors, while basic requirements for investment attraction have been instituted.	Quarterly	Improve KEK management	Limit future distribution- and generation-related demands on the KCB to higher-than-anticipated supply costs, unplanned CAPEX, emergency situations or payments for customers that are not permitted to be disconnected	KEK's performance has improved in all areas: mines, generation, and collections. And the MD has communicated the results to stakeholders and public.
Task 2	Performance Indicators	PA will have implemented the pilot project in Ferizaj	Quarterly	Complete Ferizaj pilot project	Roll out Ferizaj pilot project to all districts	Ferizaj pilot was implemented on September 1.
	Impact Indicators	KEK will have implemented the enhanced organization structure and organization in the pilot district and billing and collection rates will have improved substantially	Quarterly	Improve Ferizaj financial performance	Improve KEK financial performance	Significant improvement in collection was achieved in September - December.

Task	Performance or Impact	Indicators Definition and Unit of Measure	Reporting Frequency	2008 Target	2009 Target	Status
Task 3	Performance Indicators	The PA team will have completed its activities for improvement in energy accounting including: recommendations on the functional interface between Network/Supply and Transmission/Market Operator and resolving disputes between KEK and KOSTT; including the agreements reached in KEK-KOSTT contract and monitored their implementation; created the KEK metering projects and assisted KEK in moving forward with implementing this program.	Quarterly	Improve energy accounting	Recommendations submitted to KEK in line with the deliverables timeline.	Underway, as reported in Appendix B.
	Impact Indicators	KEK will have implemented the recommendations made by PA within one month of PA presenting the recommendations; KEK will meet the targets of the Network action plan and the loss reduction targets approved by the Board of Directors; and Network and Supply will be working towards common goals.	Quarterly	Recommendations submitted to KEK in line with the deliverables timeline.	Reduce unaccounted for electricity to 10%	Underway, as reported in Appendix B.
Task 4	Performance Indicators	PA will have completed its activities in this task to improve the operation of KEK Supply with a view to improving its managerial and financial performance in billings, collections, and customer service. PA will have developed an action plan for Supply to implement the recommendations; success will be measured based on PBMS indicators, and PA will have monitored KEK Supply in implementing the plan.	Quarterly	Achieve reduction of the average use of electricity by households by 10% due to demand response at end-user level to the enforcement of collection and disconnection policies	Improve the financial performance of KEK by striving to achieve a collection ratio of 80%	Billing and collection results are good based on PBMS measures shown in Appendix B
	Impact Indicators	KEK Supply will have implemented the recommendations made in this task and will have created a schedule for increasing collections over the next three years. KEK will achieve the collections target as shown in Appendix C	Quarterly	Debt recovery rate is 30% of the debt claimed	Debt recovery rate is 35% of the debt claimed	Billing and collection results are good based on PBMS measures shown in Appendix B

Task	Performance or Impact	Indicators Definition and Unit of Measure	Reporting Frequency	2008 Target	2009 Target	Status
Task 5	Performance Indicators	PA will have completed its activities in this task, developed an action plan for KEK to implement the recommendations; success will be measured based on the efficiency and effectiveness of operation of CCP.	Quarterly	Take over CCP		Tasks 5.1, 5.2, and 5.5 completed. Rules developed and CCP team in place. Work plan to perform cleanup developed and is being rolled out to districts
	Impact Indicators	KEK will have adopted the rules and regulations for the operation and maintenance of CCP by the Network, Supply, Finance and IT divisions, and will have taken over the operation and maintenance of CCP and cleaned up the CCP database.	Quarterly		Clean up CCP database	Tasks 5.1, 5.2, and 5.5 completed. Rules developed and CCP team in place. Work plan to perform cleanup developed and is being rolled out to districts
Task 6	Performance Indicators	PA will have completed its activities in this task, developed an action plan for KEK to implement the recommendations; success will be measured based on the efficiency and effectiveness of operation of CAS (including HR and Payroll).	Quarterly	Prepare a pilot project to test the new chart of accounts	Implement the new chart of accounts including Balance Sheets, Income Statements, etc.	Underway.

Task	Performance or Impact	Indicators Definition and Unit of Measure	Reporting Frequency	2008 Target	2009 Target	Status
	Impact Indicators	KEK will have adopted the rules and regulations for the operation and maintenance of CAS by all KEK divisions and the IT Division, and will have taken over the operation and maintenance of CAS and cleaned up the CAS database. The new Chart of Accounts will have been implemented and financial statements of all KEK functions generated.	Quarterly	Un-bundle KEK financial accounting	Improved Regulatory Reports	KEK IT has taken over the KEK IT support with limited support from outside contractor.
Task 7	Performance Indicators	PA will have completed its activities on this task, developed an action plan for KEK to implement the recommendations; success will be measured based on the approval of the tariffs and proposed regulations.	Quarterly	File for new tariffs	File for new tariffs	Tariff plan has been developed and preparation for tariff filing is underway.
	Impact Indicators	KEK will have filed for new tariffs and rules, and ERO will have approved them.	Quarterly	Obtain ERO approval	Obtain ERO approval	Several filings regarding various rules are pending ERO approvals.
Task 8	Performance Indicators	PA will have assisted KEK's Internal Audit Department, to address all forms of loss or theft, excessive costs, fraud and embezzlement. Indicators will measure the results of this effort.	Quarterly	Establish a fully operational Internal Audit function in KEK	Support the continued strengthening of Internal Audit	Structural formation, staffing processes are on going. Daily tuition and training are on going. Dozens of investigations are completed and 40 of them are underway.

Task	Performance or Impact	Indicators Definition and Unit of Measure	Reporting Frequency	2008 Target	2009 Target	Status
	Impact Indicators	KEK will have achieved significant results in fighting losses, fraud and embezzlement. Measurable results in adherence to procedures will be shown within KEK, which will begin to improve the image of KEK to its customers and to the community.	Quarterly	Improve internal controls	Substantially reduce fraud and embezzlement	12 employees have been terminated Facts of electricity theft, corruption, bribery identified. and many cases have been filed with the prosecutor.
Task 9	Performance Indicators	PA will have drafted documents required for the agreed unbundling strategy, to include incorporation documents for new corporation(s), documentation transferring assets and liabilities to any new corporation(s) and contractual arrangements post-unbundling between the corporations. Other indicators include: a) presenting to the KEK Board of Directors, new Employment Regulations for KEK employees; and b) focusing on successfully enforcing debt judgments for non-payment of electricity against a select number of defendants.	July, October, January	Documents submitted to KEK in line with the deliverables timeline.	Documents submitted to KEK in line with the deliverables timeline.	Employment Regulations completed. Pilot project with NSCS for judgment debts is underway in Gjiljan and the Economic Court. Draft Corporate documentation for the New Company completed.

Task	Performance or Impact	Indicators Definition and Unit of Measure	Reporting Frequency	2008 Target	2009 Target	Status
	Impact Indicators	New unbundled corporation(s) have been created and all relevant contractual and corporate documents have been concluded. New Employment Regulations have been adopted and are being implemented. Prioritized civil cases are being processed more effectively by the courts and debt judgments for non-payment of electricity are actually being enforced by the courts.	July, October, January	All documents and recommendations have been accepted and adopted by KEK in accordance with the deliverables timetable. Debt recovery rate is 30% of the debt claimed	All documents and recommendations have been accepted and adopted by KEK in accordance with the deliverables timetable. Debt recovery rate is 35% of the debt claimed	Debt recovery rate is 17.5% of the debt claimed
Task 10	Performance Indicators	PA will have assisted the privatization Transaction Advisor with defining the structure of the privatization transaction and the preparation of an Information Memorandum.	Quarterly	Support of the privatization of KEK distribution network and supply to a competent strategic investor	Support of the privatization of KEK distribution network and supply to a competent strategic investor	Plans have been prepared to assist the transaction adviser once he is on board.
	Impact Indicators	Information Memorandum Issued, privatization deal structure identified	Quarterly	Privatization is underway	Information Memorandum is issued	TBD
Task 11	Performance Indicators	PA will have implemented the communal metering project.	Quarterly	Recommendations submitted to KEK in line with the deliverables timeline.	Recommendations submitted to KEK in line with the deliverables timeline.	Underway, as reported in Appendix B.

Task	Performance or Impact	Indicators Definition and Unit of Measure	Reporting Frequency	2008 Target	2009 Target	Status
	Impact Indicators	Electric services to enclaves will be provided and billed based on communal metering.	Quarterly	Recommendations submitted to KEK in line with the deliverables timeline.	Recommendations submitted to KEK in line with the deliverables timeline.	Underway, as reported in Appendix B.

3. Training Indicators - Performance (Reported Quarterly)

No.	Task Order Objective Reference	Definition of Indicator & Unit of Measure	2006 Actual/ Calculation	2007 Actual	2008 Target Actual	2009 Target	Status
1.	1,2 &3	Number of people who received training in technical energy field	0	231	Target 60 (M=42 and W=18) Actual 54 (M=54 and W=0)	60 (M=48 and W=12)	Q4: PA conducted training for 5 (M) Rev. Prot. & Anti- Corruption. Staff on specifics of commercial losses, and 28 (M) in 5 districts that changed their structure. For all of year 2008 54 men were trained and no women were trained, for a total of 54 persons.
2.	1,2 &3	Number of people who received training in energy-related business management field	0	149	Target 100 (M= 70 and W=30) Actual 69 (M=61 and W=8)	60 (M=30 and W=30)	Q4: PA conducted training sessions for 16 (M) district personnel on cleaning up CCP, and 6 (M) KEK Legal staff on the legal unbundling process. For all of year 2008 61 men were trained, 8 women were trained, for a total of 69 persons.

4. Contextual Indicators - Impact (Reported Quarterly)

No.	Task Order Objective Reference	Definition of Indicator & Unit of Measure	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	Q4 2008 Actual	FY 2009 Target	FY 2010 Target	FY 2011 Target	FY 2012 Target	Status
1.	1&2	Percentage (%) of served demand (ratio of “un-served energy” to “supplied energy plus unserved energy”) based upon data provided by the KEK Capacity Management Department.	12.92 %	10.24 %	14.70 %	9.24 %	11.01 % +/- 2 %	10.72 % +/- 2 %	10.44 % +/- 2 %	10.19 % +/- 2 %	Due to increased imports and improved availability of Kosovo A and B Units, un-served energy is 9.24 % for Q4 of year 2008.

Note: The Fiscal Year (FY) runs 01 October of one year to 30 September of the following year; Q4 is the fourth quarter (October through December) of the calendar year.

X. Appendix C. PR Briefs

Below is a list of information developed in the 4th Quarter related to communicating information related to privatization:

- A statement was drafted for the Minister of Energy and Mining to dispel a myth that was circulating in the local press. The press stories implied that KEK customers don't have to pay debts to KEK since the new private investor will forgive the debt.
- PA prepared a brief statement on "Social Aspects of Energy Sector Restructuring" and provided it to the KEK Managing Director and Executive Director of Supply for their use in discussions with the Government and the media.
- Talking points concerning KEK's privatization were prepared by PA and provided to the Executive Director of Supply for his use in discussions with the Government and the media.