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KORPORATA ENERGJETIKE E KOSOVES (KEK) NETWORK
AND SUPPLY PROJECT
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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 KEK Network and Supply Project’s 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. Executive Summary

Introduction

The second quarter of 2009 was an eventful period for USAID's KEK Network and Supply Project. This Executive Summary presents the highlights of certain major accomplishments. These and many lesser, but still significant, activities and results are detailed further in the body of this report.

Major Milestones in Q2 2009

Resumption of Payments by Minority Communities

The second quarter of 2009 was witness to several project milestones. Perhaps the most notable was the signing of customer agreements by most minority communities – representing virtually all the minority areas in Kosovo excluding Gračanica, Strpce, and North Mitrovica – and the resumption of billing and collections. After ten years during which Serbian communities refused to pay for electricity, this is an historic achievement.

This event also demonstrates one of the immutable laws of the electricity business: once a company demonstrates the ability (and willingness) to disconnect service for non-payment, most customers will pay.

There are still some pockets of resistance, but the tipping point has been reached and PA expects the remaining holdouts to sign agreements and begin paying in exchange for a resumption of electricity service in those areas.

Appointment of a New Audit Committee

Another important event was the appointment of a new Audit Committee of the KEK Board of Directors. Effective corporate governance is critical to reform and an effective audit committee is critical to instilling management discipline, improving operational efficiency and rooting out corruption.

After the struggles over this issue during the past year, this is a notable and satisfying achievement. PA conducted an induction and training program for the new Audit Committee members and will continue working with the Committee as well as the reconstituted Internal Audit Department to improve management effectiveness and operational efficiency.

Other Notable Events and Accomplishments

SSW Mine

PA continued to support the Managing Director in his review of the Action Plans for the mining operation and opening of the Sibovc South West (SSW) mine. The plan is on track and Kosovo should have coal production from the new mine in mid-2010.

2009 Tariff Decision

On 15 April the ERO issued Decision No. 171, which increased all retail customer tariffs by 2.5%. However, since the transmission company's revenues are included as part of the KEK allowed revenues, and in view of the price increase for the transmission company (KOSTT), it appears that KEK will not receive any additional revenues and may actually experience a decrease in revenue.

IMF Meeting

PA met with the IMF and USAID to provide an overview of the energy sector and an update of KEK's financial needs. PA informed the IMF that €120 million in equipment procurement for

the SSW mine had been deferred as a result of the concerns they had expressed about government loans to KEK.

Funding for Purchased Power

PA advised KEK on the purchased power plans from May 2009 through March 2010, including an estimate of funding needs (from KCB) for the remainder of 2009 and through June 2010, when the Disco privatization is expected to be completed. The Minister of Finance agreed to fund the €40 million needed for purchased power and to include the requirement in the Mid Term Expenditure Framework (MTEF).

Mid-Year Budget Review

PA supported the Network Division in its mid-year budget review. The budget is being revised to recognize that collections are running below budget, while several critical projects (e.g., Vaganicë Substation, Palaj Substation, and removing bottlenecks to the connections of new customers) need to move forward, and that some metering expenditures will not occur in 2009 as planned.

Collections

Q2 2009 vs. Q2 2008 - In the second quarter, collections at the 10 kV level were 24% (€6.4 million) higher than during the same period in 2008.

During Q2, the billing rate was 76% and the collection rate was 81%. Thus, overall performance (collection of delivered energy) was 62%. For the same period in 2008, the billing rate was 80%, the collections rate 70%, and overall performance 56%.

The six percentage point performance improvement resulted from a much higher collection rate (11%) but without any reduction in commercial losses. PA's experience indicates that KEK is not making an adequate effort to reduce commercial losses. The principal impediment is management's failure to comply with district regulations requiring disciplinary action for employees who do not comply with job requirements.

First Half 2009 vs. First Half 2008 - Collections were 35% (€18.5 million) higher in the first six months of 2009 than during the first half of 2008. This improvement results from an increase in the amount of energy supplied to customers coupled with an increase in the collection rate. The billing rate was essentially unchanged.

During the first half of 2009, the billing rate (amount of Energy Billed as a percent of Energy Available for Sale) was 72%, the collection rate was 75%, and overall performance was 54%. For first half of 2008, the billing rate was 73% and the collections rate 61%, for an overall performance (collection of delivered energy) of 45%.

The nine percentage point improvement resulted from a much higher collection rate (14%) but without a reduction in commercial losses. Commercial losses continue to be one of the most difficult issues for KEK. The principal causes are an old metering system and a failure of management to discipline employees who do not meet their responsibilities.

Fixed Asset System Development

KEK completed the design of a new Asset Register database and a new and up-to-date Asset Management Module. The designs were submitted to KEK's IT Division, which completed the programming under PA's supervision. The PA team organized the migration of data from the old CAS Fixed Asset Module and data clean-up to transfer data into the new Asset Management

Module. After the clean-up, testing and tuning of the new module are completed, it will replace the old Fixed Assets Module of CAS.

Upcoming Events and Activities

The following are important events and issues for Q3, unless otherwise indicated:

- Transaction Advisor - The Government of Kosovo (GOK) plans to appoint a transaction advisor for the privatization of KEK's Distribution and Supply business.
- Minority Areas - An effort will be made in July to regularize electricity service for all consumers in Gracanica and Strpce.
- Direct Debt Mechanism - This new mechanism was tested on a limited basis in June and will be increased gradually each month beginning in July.
- Legal Unbundling of KEK - Subject to the GOK registering the new Disco, the legal unbundling of KEK's Network and Supply functions is planned.
- Bids for Meters - Contracts with the winning bidders for the commercial and industrial meters are expected to be finalized.
- Workshop for Debt Enforcement - USAID's implementing partner (NCSC) will run a workshop in September 2009 for the enforcement of debts by utilities.
- Bids for the B Units' Water Treatment System - The contract for the water treatment rehabilitation and upgrade is expected to be consummated.
- New Generator Step-Up (GSU) Transformer for Kosovo A4 Unit - The new GSU for Kosovo A4 is scheduled for delivery in late Q4 2009.

III. Progress since the Last Report

This quarter's accomplishments are detailed below for each task.

Task 1: Support Management and Operation to Preserve Assets

KEK's second-quarter collection performance improved 24% over collections in the same period in 2008, or by €6.4 million, an increase of 81% , or 236,174 more transactions. Comparing the first half of 2009 vs. first half of 2008, collections (excluding 110 kV customers) were about €18.5 million (35% higher than in the first half of 2008), while 384,350 more transactions occurred (68% more than in the first six months of 2008).

The two major impediments to better performance improvement are: a) lack of an effective audit capability, i.e., a functioning Audit Committee and Internal Audit function and b) poor implementation of district regulations, including a significant drop in disconnections and a lack of discipline in terminating non-performing feeder teams and district managers. However, if the Audit Committee continues with the PA's proposed implementation of the Audit function in KEK, the first factor will be addressed. The newly developed Executive Order on disconnections and enforcement of the district regulation should take care of the second factor, resulting in improved performance in Q3 and beyond.

The Acting Managing Director's cooperation continued to be very positive during this period. The results demonstrate the level of cooperation that PA received from him.

However, the sustainability of results and progress in all areas are still affected by stakeholders' interference in the company's management decisions and by the lack of a competent Board of Directors and Audit Committee.

General

- In April 2009, the GOK appointed a new member to the KEK Board of Directors. It was believed that the appointment was made to correct the error made by the GOK in appointing a KOSTT employee to KEK's Board. However, the date of the GOK order for the new appointment was identical to the appointment of the member that was a KOSTT employee (December 2008). Furthermore, GOK did not issue any order to remove the KOSTT employee from the Board. This created confusion for the Board and also paralyzed its Audit Committee. The issue was finally resolved through PA's mediation and in May the Board and Audit Committee became operational again.
- The Government of Kosovo finally appointed a new Audit Committee of the Board of Directors. As part of the induction program the members of the Audit Committee attended a training session discussing the major risks that KEK is facing (including business interruption, loss of revenue, loss/destruction of assets, excessive costs, fraud and embezzlement, erroneous record keeping, and mismanagement) and the roles and responsibilities of the Audit Committee in mitigating these risks. The PA team also presented the results of the activities of the Internal Audit Office and recommendations on streamlining the structure and organization of the Office and improving the efficiency and effectiveness of its activities.
- At the April KEK Board meeting, several Board members questioned the legality of KEK having an Acting Managing Director (MD) for the past 10 months, and attempted

to approve a resolution to post the job for the MD. PA strongly advised against such action, especially with the Disco divestiture from KEK on the horizon and KEK having had three managing directors in the prior 24 months. Furthermore, the Board was reminded that their action could result in a significant reduction in collections since KEK employees will take Board's action as a vote of no confidence for the Acting MD and that might render his orders ineffective. PA advised the Board that there was nothing in the POE law or KEK's by-laws preventing them from continuing with the current Acting MD, especially considering KEK's extraordinary circumstances, until such time that either his performance becomes unacceptable or the Disco is divested. The Chairman asked PA to provide its legal opinion and a written recommendation to the Board.

- PA provided its legal analysis and recommendation in writing to the Board in May, with copies to the Prime Minister, Minister of Finance, Minister of Energy, ICO, and USAID.
- In its 25 June Board meeting, two Board members with incorrect logic, we believe, and expressing fear of reprisal by authorities for not doing their job, were able to influence the other Board members to vote unanimously to go forward with the posting of the MD's position. When the Prime Minister learned of the Board's decision, he expressed his dissatisfaction, especially in view of PA's written recommendation and the fact that the ICO had not expressed any objection to PA's recommendation. The Prime Minister then instructed that the posting be canceled. At a meeting with the Minister of Finance on 30 June, PA advised the government to let the posting stand and if the Board tried to manipulate the selection process, PA would inform the Government and the process could be stopped. Furthermore, the Minister was informed that if PA's recommendation regarding the registration of the New Disco and its Board (the existing KEK Board becoming the Disco Board) is implemented, then the selection process would be halted; since the existing KEK Board would not have the authority to select the KEK MD because it would no longer have authority over KEK. The Minister agreed on both issues: letting the posting go forward and moving KEK's Board to the New Disco.
- The PA team prepared a job description for the position of Internal Audit Officer and monitored the selection process. As a result, the Audit Committee selected and appointed a new Internal Audit Officer who was better qualified to lead the office. PA also observed all meetings of the Audit Committee and helped introduce best practices in its work.
- The PA team continued to assist the acting Managing Director (MD) on a variety of issues related to the company's management and operations. As in the previous quarter, we received his full cooperation on almost all of our recommendations related to the operation, procurement, mining, staffing, and financial activities of the company.
- Several meetings were held with the GOK's MEF and US Treasury to finalize the €70 million loan agreement for the SSW mine. The loan agreement was signed in the second quarter.
- As a follow-up to the discussions held in Washington on the New Kosovo project, a World Bank delegation traveled to Kosovo for further discussion. PA met with the delegation, responded to their questions, and clarified a misunderstanding related to the proposed deal structure. The USAID Mission Director and Senior Energy Policy Adviser were also present at this meeting.

- Much progress was made during the second quarter to normalize electricity service to minority areas throughout Kosovo. This was accomplished utilizing the “Agreement between Community Leaders and KEK to Regularize Electricity Service,” which was shared with stakeholders in Kosovo and the Serbian Minister for Kosovo during Q1. The Agreement addressed the critical issue of “old debt,” which has been the greatest impediment to normalizing service in the past. However, since none of the communities came forward to sign the agreement, service to more than 70 communities was discontinued during late April to early June. Once the communities realized that KEK would no longer provide free electricity, and their complaints to Serbia and the international community did not have any effect on KEK’s actions, about 50 villages came forward and signed the agreement before they were disconnected. All the disconnected communities signed the agreement by mid-June. In addition, 123 community leaders signed agreements and individual customers paid the required €26 and signed individual contracts. This represented virtually all the minority areas in Kosovo excluding Gračanica, Strpce, and North Mitrovica. This accomplishment paved the way for eliminating unpaid electric service to minority areas, a practice that had continued since the end of the war (10 years ago).
- A plan was developed to address problems encountered while attempting to regularize service to the larger minority areas of Gračanica and Strpce. Leaders in those communities refused to sign agreements, stating that they did not have a mandate from the residents to do so. In June, PA developed a notice to be delivered to all households and businesses in those communities outlining the advantages of becoming a regular customer and urging them to convince their leaders to sign the agreement. The notices were distributed in Gračanica and Strpce. When no response was received, Gračanica was put on an extended load shedding program and was given power only from midnight to seven in the morning. When that did not achieve the desired result, service was completely discontinued on 30 June Strpce was then put on an extended load shedding program on June 30. It is expected that the customers in both communities will come forward and begin paying for service (see Task 11, Support of Normalizing Service to Enclaves, for more details on this initiative).
- PA continued to maintain an open line of communication, cooperation, and coordination with the Serbian Government representatives and Electric Power of Serbia (EPS). A meeting was held in Serbia on 7 May with Deputy Minister for Kosovo, EPS’s Deputy Managing Director, and several other EPS Directors along with their international adviser. During the meeting PA shared with the representatives the potential opportunity for community metering in some areas and the potential for EPS involvement in Kosovo. A second meeting was held on 26 June with the Serbian State Secretary/the Deputy Minister of Energy & Mines, Serbian Deputy Minister for Kosovo, and EPS officials in North Mitrovica.
- The PA team supervised the preparation of KEK’s *Performance to Plan Report* for Q1. 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 Stockpile 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 in the preparation of action plans for performance improvement based on the report's findings.

- PA also supervised the preparation of the budget variance report for Q1. PA initiated the mid-year budget review and will assist KEK with preparation of the revised budget to KEK's Board in July.
- PA continued to supervise the execution of KEK's long-term investment plan, including all high-priority projects for mines, generation, and network for the period 2009 to 2011.
- On 12 May, PA arranged and led a tour of KEK's mines and generating plants for the Deputy Commanders of KFOR and their staff. They were impressed by the complexity of issues that KEK faces and the actions taken to date to stabilize electric service to consumers in Kosovo and regularize service to minority areas.

Mines

- The PA team continued to assist the Managing Director in reviewing the status of the Action Plans for the mining operation and opening of the SSW mine; in this regard, we held several meetings with the Executive Director of Mines, reviewed plans and advised on corrective actions. The plan is on track and Kosovo should have coal production from the new SSW mine in mid-2010.
- On June 19, PA met with the IMF and USAID and gave them an overview of the energy sector and KEK's financial support needs. PA informed IMF that due to their concerns about government loans to KEK, a €120 million equipment procurement for opening the SSW mine had been postponed, pending the final selection of the "New Kosovo" investor in 2010. However, if the tendering process for New Kosovo does not move by Q4 of 2009, KEK would need the loan in 2010 to procure the equipment for Coal Systems II and III.
- PA helped with contract negotiations for the supply of goods and services in connection with the refurbishment of excavator E-8M. The contract was signed on 18 June 2009. This concludes all contracting for refurbishment of the excavator for Coal System I.
- PA assisted with the procurement process for the removal of 5.5 million cubic meters of overburden by a contractor using trucks and shovels. The contract was signed with the successful contractor on 26 May 2009 and is now being implemented.
- PA supported KEK's efforts to obtain approval from the GOK to begin expropriating land in the Sibovc South West mine field, to include attending meetings with Deputy Prime Minister Kuci and the Minister for Environment and Spatial Planning.

Thermal Generation

- PA advised KEK in connection with its difficulties with the contractor, which supplied a refurbished transformer that failed after 16 hours of operation. In particular, PA assisted KEK with its communications with the contractor, together with its request for payment under the performance guarantee in light of the contractor's failure to perform the contract. The performance guarantee was received by KEK and pending no action by the contractor, PA will support KEK in recovering the approximately €700,000 of the amount the contractor as an advance.

- PA continued to assist KEK with the tendering process for upgrading the B units' water treatment system, which must be implemented by mid-2010 before the new LP rotors arrive. PA participated as an observer during the negotiations with the qualified bidders and is assisting with finalizing the tender dossier.
- PA advised KEK in connection with its negotiations with a contractor for the repair of the transformer, which was installed on unit A4, but failed in June 2008. A contract for performing initial findings on the transformer was signed in June 2009 and the contractor completed its assessment of the reparability of the transformer. The contractor's report indicates that the transformer can be repaired. PA also advised KEK on the warranty requirements before it goes forward with the repair.
- The PA team researched and recommended likely bidders for the replacement transformer for the Unit 4 at the Kosovo A power plant. Next, PA assisted KEK with its negotiations with four potential contractors for the purchase of a new transformer for Kosovo A and also provided support in drafting a contract, which was signed on 19 June 2009. The new transformer is expected to be delivered to Kosovo A by early November 2009.

Hydro Generation

- PA assisted KEK in connection with the evaluation of bids for rehabilitating the three small hydropower projects it owns. The winning bidders were announced in May 2009 and PA is now helping KEK with post-contract award steps.
- PA conducted an evaluation of the Zhur hydro power plant feasibility report funded by the World Bank. The report has significant shortcomings, including unrealistic financial assumptions and inadequate technical assessments. One area not covered in the report is the pump-back storage potential for the site. A pumped storage capability could have a significant impact on the feasibility of the project and its value for Kosovo's load dispatch. PA provided its evaluation and comments to USAID in June.

Capacity Management, Power Purchases, and Energy Trading

- PA advised KEK on the purchased power plans from May 2009 through March 2010. PA also provided its estimate of purchased power funding needs, from KCB, for the remainder of 2009 through June 2010, when the GOK is expected to complete the Disco privatization. The Minister of Finance agreed to fund the €40 million needed for purchased power and included the requirement in the Mid-Term Expenditure Framework (MTEF).

Network Division (Not Covered in Other Tasks)

- As part of the program to move the engineering, design, constructions, and maintenance functions back into KEK from Electro Engineering (EI), PA developed a list of projects that EI is working on for KEK and the individuals and assets it uses for these KEK projects. PA also advanced the move by developing job descriptions and position advertisements. Approximately 80 EI personnel and more than 220 others applied for these positions. Interviews were underway in late June 2009 and the functions are expected to be reestablished in KEK in the third quarter.
- PA prepared a recommendation for KEK to present to the Board of Director in June for the construction of the Palaj and Vaganicë substations. The Board approved both projects.

- The PA team prepared a monthly management report of the Network Division and presented it to the Board of Directors to show the actual expenditures on new connections compared to what was budgeted and approved, plus funds collected from customers for new connections.
- PA provided support to KEK for the rehabilitation of the Electro Kosova Building, which included: a) contracting to replace the leaking sloping windows of the building, b) addition of office space on the terrace level and above the parking garage, c) dedicated electric branch circuits to air conditioners and large photocopiers on all floors, d) solving a temperature problem near KEK IT file server room, e) servicing of air conditioners in the EK building, and f) new circuit breaker and distribution panels on all floors of the building.
- PA facilitated meetings of KEK, Sharrcem, and KOSTT to develop solutions to the unreliable supply to Sharrcem. Since the beginning of 2009, KOSTT has dropped Sharrcem twelve times, including seven service interruptions in the month of May alone.
- PA supported the Network Division in its mid-year budget review and adjustment. The budget is being revised to recognize that collections are running below budget, while several critical projects (e.g., Vaganicë Substation, Palaj Substation, and removing bottlenecks to the connections of new customers) need to move forward, and recognizing that some metering expenditures will not occur in 2009 as planned.
- PA, along with UNMIK Political Action Office and the Irish KFOR, acted as intermediaries between KEK and several customers (including the monastery) at Gracanica regarding the addition of a second 10 kV line in the Gracanica area.
- PA contributed to the development of the technical specifications of the time and attendance system proposed by KEK's IT Department to control employee traffic at the Mines and at the Electro Kosova Building. The proposal is a re-circulation of the technical specifications PA previously developed for KEK.
- PA staff were instrumental in getting KEK's Network Operations Center to begin distributing frequent announcements by SMS and email about significant events (outages, load shedding, etc.) on the power system, and the day-ahead plan for load shedding.
- PA liaised with KOSTT on controllable loads and controllable supply in Kosovo. This supports KOSTT's efforts to become an independent member of the European National Transmission System Operators (ENTSO) organization, and get Kosovo out from a subordinate position to EPS of Serbia. PA drafted an executive assignment of an inter-divisional team in KEK to identify and classify remotely controllable loads (for example, water pumping at the mines, along the Ibar Lepence canal, and Ferro Niklei) and supplies (for example, Kosovo B and Ujmani hydro plant).
- KEK Network, with PA's assistance, studied and reported on the bottlenecks in the transmission and the distribution systems of Kosovo. By the end of 2009, KOSTT will significantly increase its transfer capability with the completion of the Peja 3 400/110 kV 300 MVA substation. By the end of 2010, it will significantly increase its transfer capability with the completion of the Ferizaj 2 400/110 kV 300 MVA substation. After

2010, KEK's distribution network will be the limiting factor to deliver power to customers. KEK has several solutions that need to proceed in tandem:

- Vaganicë and Palaj Substations
 - More 10 kV feeders
 - Complete new connections to customers who have paid their fees
 - More 10/0.4 kV distribution transformers
 - Begin the conversion of 10 kV feeders to 20 kV feeders. This will double the feeder voltage and quadruple the power transfer capability
 - Dedicate 35 kV feeders to key loads (e.g., water pumping by Ferro Niklei at Bivolak, the water treatment plant at Mitrovice)
 - Restore the 35 kV lines that provided "n-1" redundancy for quality of service and to facilitate maintenance. These lines were destroyed during the war, but the towers and rights of way exist (the conductors were stolen)
 - Enlarge the present annual network rehabilitation contracted work from its present level (about €6 million per year) to a larger program (costing more).
- The PA team acted as an intermediary among KOSTT, KEK Generation, and Network on scheduling problems associated with the rehabilitation of the Kosovo A 220 kV and 110 kV substations. Key equipment needs to be kept operational for the sake of the generating units and KEK customers while Siemens, KOSTT's contractor, rebuilds the substation.
 - PA worked with the Mitrovice Division on the plans (designs, routes, material lists, etc.) for the medium-voltage (35, 20 and 10 kV) lines, new substations, and new distribution transformers that will be supplied from the new Vaganicë Substation and which will bypass the power system network of Trepca mining that is now used by KEK.

Human Resources Division

PA reviewed KEK's Human Resources Division to make recommendations for optimizing the way human resources are managed. Based on its findings, the review concluded that KEK does not have an effective human resource function. For example:

- The responsibilities of functional areas are unclear: Although limited formal documentation exists to define which structural units are responsible for specific tasks, when employees of a given unit are questioned about their key responsibilities, what they say is inconsistent with what is officially documented
- Consistency of daily practice is unclear: When the same questions about general practices (e.g., business processes, employee expectations, employee reward systems) were posed to groups of employees, the responses were rarely consistent. It is noteworthy that the responses of senior executives were frequently the opposite of those given by lower-ranking employees.

KEK shifted from a centralized to a more decentralized organization structure in 2008-2009 to enable more flexible business operations and clearer accountability and control. However, the

organizational structure needs substantial streamlining in order to achieve the company's objectives. For example:

- The hierarchies of functional units are not properly structured; there are similar functional units in different divisions and in certain cases there are units without descriptions of their roles or purpose. There are many parallel functions across structural units. No track is kept of vacant positions.
- Existing job descriptions contain very basic information, which is often not in line with what the work the employee in question actually does. Employees are unclear about their official duties, what they are accountable for, and who they report to. Daily work is performed in line with arbitrary directions made by senior staff.
- KEK has over 7,500 employees in mining, power generation, power distribution and support services. The actual number of employees is unclear and is complicated by the fact that certain outsourced service providers act as if they are dedicated staff.

The findings also show that:

- Job titles are often unclear or do not exist at all. Some individuals are appointed to non-existent positions and are defined as "NOT ASSIGNED." Even KEK's Human Resources Division employs one "NOT ASSIGNED" staff member. Overall, there are 1,287 job titles at KEK for work that is mostly the same.
- There are two types of employment agreements at KEK. One is the so-called "employment agreement" for managerial and special professional positions with defined terms. The other is the indefinite term "employment contract" for all other employees.
- Employment agreements do not include detailed terms and conditions of employment.
- A permanent employment contract is a one-page document that includes very basic terms of employment only. There are no provisions for regulating the contractual obligations between the employer and the employee.
- The employee pay scale is somewhat chaotic and not in line with a structured pay grade system. Although a form of grading exists, there is considerable scope for improvement.

Currently KEK employees are dealing with three different labor unions: SPEK, SPE and UPS. KEK's management has not held discussions with any of the labor unions to arrange for new collective agreements.

At present 35 employees are working in KEK's HR division. Most staff do not have qualifications for the positions they hold, they have never been trained, and they have limited capacity to implement required changes. HRD employees do not appear to be highly motivated and there is no visible effort invested in team building or the development of teamwork. The division also appears to be overstaffed.

Currently, KEK's HR Division is not empowered to initiate new improvement activities or implement changes. There is no official mandate for the HR Division to define its responsibilities. Mostly, HRD acts as a paperwork processing unit. Often HRD is blamed for poor performance, although the reality is that HRD's role is very limited and it cannot have much impact on KEK's human resource practices.

There is no proper archive system for KEK employees' database. There is not even a list of standard requirements for creating an employee file.

PA developed a plan for HRD for actions to be taken that will result in visible and tangible results while improving the organization's overall effectiveness and efficiency. The following is a partial list of the items to be implemented:

- Rationalize the HRD organizational structure.
- Clarify mandates for each department to determine proper authority and responsibilities, and to set objectives and identify tasks and reporting relationships.
- Conduct an inventory of all existing personnel who are on the payroll, including interviews of all KEK employees to verify employees and confirm the actual headcount.
- Develop a manpower plan.
- Establish a uniform employment agreement for all KEK employees with a defined period of validity.
- Develop job descriptions in a uniform format for all positions.
- Rationalize salary ranges for all grades according to the revised structure to be developed.
- Develop a Human Resource Manual.
- Define performance evaluation guidelines and implement a performance appraisal process.
- Develop interviewing guidelines for the recruitment process.
- Conduct a training needs assessment and implement a training program.
- Implement a comprehensive filing system for KEK HR (personnel files, correspondence) based on sound records retention principles.
- Develop and implement a new, secure and easy-to-use archive system for HR records.

Undertaking a human resources optimization effort is a complex and sensitive change management program. It will require the buy-in of all stakeholders, as well as the empowerment of and support for change agents to act according to the plan, and effective communication and collaboration at all levels of the organization.

Task 2: Amend Distribution Structure and Regulations

As of February, a new distribution structure and regulations were implemented in all of KEK's districts to create uniform policies, procedures and practices throughout the company. The revised district regulations, effective 1 April 2009, call for three new Regional Directors to be established on 1 May 2009. Two of them are responsible for three districts each, while one is responsible for Prishtina only, since Prishtina serves one-third of KEK's customers. The Regional Directors are responsible for implementing general policies, checking discipline in KEK Districts, implementing the disconnection policy in each District, analyzing and monitoring the energy delivered to each District, and analyzing each District's performance on a monthly basis and taking corrective action where appropriate.

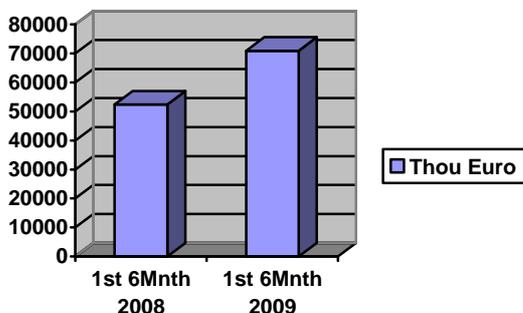
Furthermore, a performance evaluation form was prepared to facilitate the Regional Directors and other District personnel in evaluating the performance of each District. The form includes such data as sub-district, substation, feeder number, number of customers and their customer class (e.g., household, commercial), collection rate, the number of disconnections performed, and other factors that have a direct impact on the performance evaluation, including any recommendations for employees to be rewarded or punished.

Upon receiving this form, the Regional Directors explain them to the District employees across Kosovo, providing them with instructions and areas where improvement is needed. Next, they check the performance of all feeders in each District, determining the results for each individual 10 kV feeder. Based on the evaluation and recommendation given by the Regional Directors, final written warnings and incentives were issued to a number of KEK employees in May and June. In the Districts mentioned above, 92 employees received final written warnings, including 6 who received second final written warnings, which implies that their employment contract will be terminated.

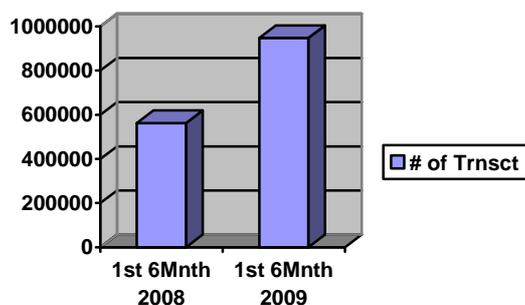
To determine the impact of the new structure and regulations on KEK's performance, PA conducted a comparative analysis of the first 6 months of 2009 and 2008, and the second quarter of 2009 and second quarter of 2008.

First Half 2009 vs. First Half 2008 - Excluding 110 kV customers, collections (€18.5 million) were 35% higher in the first six months of 2009 than in the first six months of the prior year, while the number of transactions increased by 68% or 384,350 transactions compared to the first half of 2008.

Collections (000€)



Number of Payments

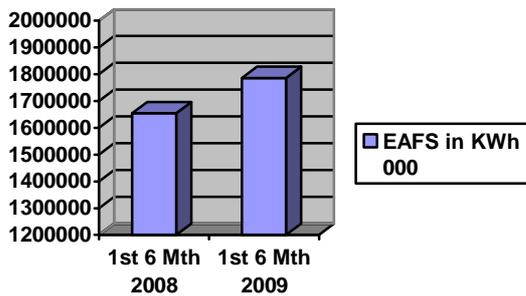


KEK's progress compared to the first six months of 2008 is due to an increase in the amount of energy supplied to customers and an increase in the collection rate (since the billing rate is almost

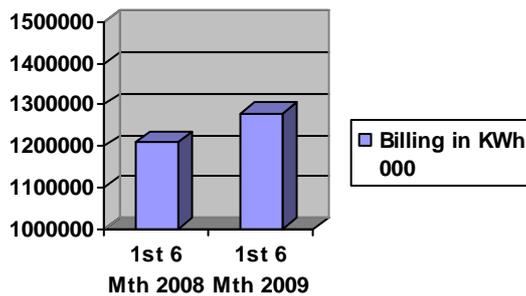
the same). In the first half of 2008, the billing rate (amount of Energy Billed as a percent of Energy Available for Sale) was 73% and the collections rate was 61%, producing an overall performance (collection of delivered energy) of 45%.

For the comparable period in 2009, the billing rate was 72%, the collection rate 75%, and overall performance 54%. The nine percentage point improvement results from a much higher collection rate (14%) rather than any reduction in commercial losses. Commercial losses are one of the most problematic issues for KEK. The principal causes are an old metering system and the failure to discipline employees who do not perform their responsibilities.

Energy Available for Sale

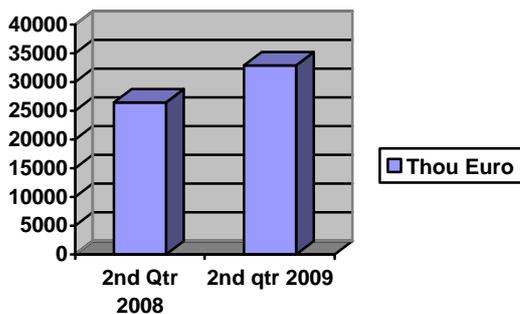


Energy Billed

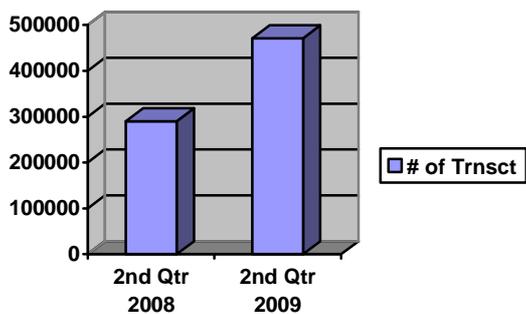


Quarter 2 of 2009 vs. Quarter 2 of 2008. In the second quarter of 2009, at the 10 kV level in the districts, collections were about €6.4 million (24% higher than in the same period of 2008), while 181,320 more transactions occurred (62% more).

Collections (000€)

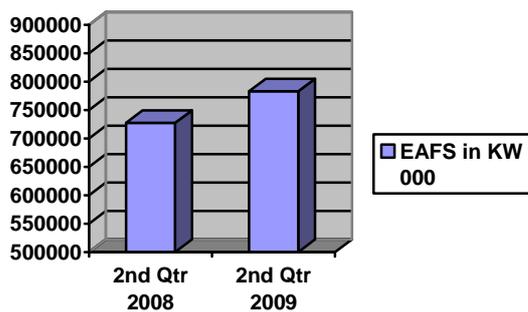


Number of Payments

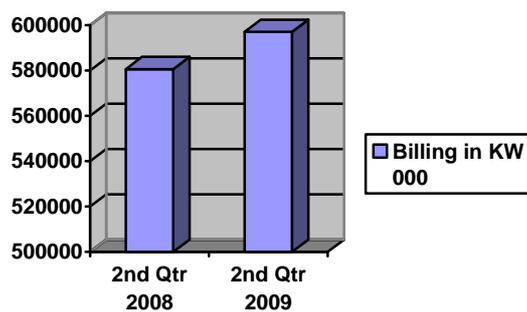


In Q2 of 2008, the billing rate for the districts was 80%, the collections rate was 70%, and overall performance (collection of delivered energy) was 56%. For the same period in 2009, the billing rate was 76%, the collection rate 81% and overall performance 62%. The six percentage point improvement is the result of a much better collection rate (11%) rather than a reduction in commercial losses. As noted above, KEK is not fighting to reduce commercial losses due to non-compliance with district regulations regarding disciplinary action for non-performance.

Energy Available for Sale



Energy Billed



During the second quarter of 2009, PA conducted training sessions for regional directors on how to evaluate districts, especially regarding disconnections of customers for non payment.

Task 3: Improve Energy Accounting

Automatic Meter Reading

- KEK received SIM cards and GSM accounts for remote metering .These were installed in new electronic meters at Sharrcem, Ferro Niklei, and in the Districts. The KEK Automatic Meter Reading (AMR) center, on the -2 Level of the ElectroKosova building, can now remotely read, control, and re-program these meters.

KEK Procedures to Improve Energy Accounting

- The monthly Feeder Energy Balance Reports were suspended at the end of Q4 2008 due to the departure of a key person from KEK. In Q2 these reports were restarted after a replacement person was assigned and PA trained him. This action also addresses the metering problems reported on medium-voltage lines' 10 kV feeders, 10 kV incoming supply at substations, and 35 kV network.
- PA continued to oversee the monthly energy accounting reports to the Board of Directors that are prepared by KEK's Corporate Planning and Information Reporting Department. PA also edited the updated KEK written procedures for energy accounting.

Tenders and Proposals

Meters for Residential Customer Applications: A shipment of 2,500 electricity meters for residential customers was received in Q2 2009; they are being processed by KEK's Meter Lab prior to being sealed by the Ministry of Trade and Industry. The meters will then be issued to the Districts, with an emphasis on installing meters on those customers who did not have a meter in the past (the "flat rate tariff" customers), and where needed in the minority areas for those customers who have regularized their service.

Meters for Commercial Customer Applications: Bids for commercial and industrial meters were received in Q2 2009 and were being evaluated as of the end of June 2009. A contract award is planned for Q3 2009 with delivery to be completed by the end of 2009.

Task 4: Increase Collections

Billing and Collections: The table below summarizes KEK's metering, billing and collections performance. The values are from the monthly report to the BOD and include all customers.

	Year 2008	Q2 2008	Q2 2009	Change
Ratio of energy billed vs. energy available for sale	79.8	88.3	87.9	-0.4
Percent of money collected vs. billed	75.6	85.6	93.1	+7.5
Percent collected vs. energy available for sale	60.3	75.6	81.8	+6.2
Collected revenue (millions of Euros)	134.7	31.9	37.2	+5.3

Collections improved in Q2 2009 vs. Q2 2008 due to strengthened controls over meter readings, field verification of abnormal meter readings, intensified efforts to disconnect for non-payment, and implementation of the new distribution organization and regulations (see Task 2 discussion).

Energy billed as a percent of energy available for sale decreased slightly in Q2 2009 vs. Q2 2008. KEK's Managing Director told the districts that performance on this measure must improve notably and feeder teams must devote greater effort to reducing unaccounted-for energy (commercial losses).

Source of Collections

The table below displays the sources of collections for the first quarter in terms of both the number of payments and Euros collected.

Total First Half	# of Payments	%	Euro	%
Customer offices	761,108	90	51,106,422	66
Kos Giro	16,958	2	8,491,671	11
Bank transfers	21,278	3	9,394,619	12
Payroll deductions	49,112	6	1,150,393	1
Direct debit	13	0	301	0
Total districts (CCP)	848,469	100	70,143,406	90
Direct (110 kV) customers	12	0	7,787,347	10
Total collections	848,481	100	77,930,753	100

The information above is being compiled each month and can be used to measure the impact of the newer payment mechanisms such as KOS-Giro and Direct Debit.

KOS-Giro Payment Mechanism

The payment volumes and amounts processed through KOS-Giro since this mechanism was implemented are shown in the following table.

Use of the KOS-Giro Payment System		
Quarter	Number of Payments	Amount (€ 000)
Q1 2008	3,490	1,822
Q2 2008	5,258	2,158
Q3 2008	5,339	2,286
Q4 2008	7,086	3,093
Q1 2009	7,929	4,320
Q2 2009	9,029	4,171

Use of the KOS-Giro Payment System		
Quarter	Number of Payments	Amount (€ 000)
Source: KEK Supply Division		

As expected, household and small commercial customers' participation is low compared to larger customers. KOS-Giro is proving beneficial for processing payments for customers with multiple locations such as IPKO and PTK. That will continue until the more appropriate direct debit system is fully functional. Later in 2009, a promotional campaign will be developed to increase participation on the part of household and small business customers.

Since the meeting with the Central Bank of Kosovo and Raiffeisen Bank in the first quarter, the number of errors in the payment data transmitted has been reduced. Raiffeisen Bank's IS and Commercial Departments took responsibility for improving the quality of information and KEK has received good service since that time.

Direct Debit System

PA continues to facilitate progress on the 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 second quarter, PA advisors held meetings with KEK personnel (Supply, IS, and Finance), the Central Bank, and Raiffeisen Bank to discuss how we can move forward together to implement direct debit.

During June 2009, Raiffeisen Bank completed its IT system for Direct Debit (as well as the other commercial banks) and the system was tested on a small sample of household customers. Those customers had accounts at five of the seven commercial banks in Kosovo and the transactions were processed without a problem. This testing will continue during July and the number of customers will be gradually expanded each month. KEK is the first entity in Kosovo to become involved with Direct Debit and we are proceeding cautiously to gain experience and prove the system's credibility to customers.

Social Cases Subsidy

PA worked with KEK's Supply, IT, and Finance Divisions to determine the amount of the subsidy to apply to Social Cases accounts for year 2008. After considering several alternative approaches, a methodology was developed that utilized almost the entire €4.5 million subsidy included in the Kosovo Consolidated Budget. PA prepared an addendum to the MOU signed by the Ministry of Labor and Social Welfare, Ministry of Finance, and KEK in order to utilize the entire subsidy. In March, representatives of all three parties executed the document, allowing work to continue to post the subsidy to customer accounts. All funds were received from the Government during the second quarter and posted to individual customer accounts.

Task 5: Assist KEK to Take Over and Clean Up the Customer Care Package (CCP)

CCP Cleanup Initiative

A cleanup initiative to improve the integrity of CCP customer information moved forward during the second quarter with a focus on field work and using the approach and work plan PA developed.

Field inspections to locate unregistered consumers and identify nonexistent "customers" were initiated late in the first quarter and by 30 June, 88% had been completed using the Field

Verification Form, selection criteria, and software package developed by PA. Information by district is shown in the following table.

District	To be Verified	% of Total Customers	Completed First Half	% of Completion
Prishtina	48,000	47	39,405	82
Prizren	32,200	43	29,396	91
Peja	22,000	46	22,049	100
Ferizaj	30,100	55	23,988	80
Gjilan	18,200	44	14,644	80
Mitrovica	26,000	69	24,797	95
Gjakove	8,528	35	8,269	97
Total	185,028	41	162,548	88

At the request of the project manager, Internal Audit conducted a review of a sample of completed Field Verification Forms. The review consisted of checking the forms for complete data (all required fields filled out) and performing a field inspection of forms for accuracy.

The review indicated problems with the accuracy of data in certain districts. Of particular concern are those cases where internal auditors found a customer, even though the verification forms indicated a facility or customer did not exist. Since accuracy is a prime concern of the CCP cleanup initiative, it was decided that any facilities/customers marked as not existing in the initial field verification would be rechecked by another team. Also, a more detailed report, including evidence (e.g., pictures) will be required before making changes in the CCP. The number of “second round” inspections is estimated at 20,000. Field work is expected to be completed by 20 July.

Based on the results of the field verification, Customer Service personnel in each district are now coding each of the customers using the field verification data. This coding will be used to categorize each of the situations found prior to any change being made to the database.

Official addresses and names of villages have been received from municipalities. These data will be used to update the customer addresses, another aspect of the database cleanup.

The identification of all customer connections in the field is the other important aspect of the CCP cleanup. Network personnel began to sketch connections from every 10/0.4 kV transformer to each connection point. This initiative is discussed in detail in the next section.

Network Division Subtasks Related to CCP Cleanup Project

CCP cleanup is underway, with support from the Network Division, through a process of sketching, pole numbering, and customer identification on 0.4 kV low-voltage secondary networks in the remaining Districts. KEK acquired scanners for A3 size paper so every District could scan the sketches and distribute them electronically. Hardbound sketchbooks with standardized formats were purchased and distributed to the Districts. By sketching the feeders, the District staff (with help from the Feeder Teams) will identify un-registered customers so that the Feeder Teams can register those customer and increase billings and collections.

The process began in Gjilan and Gjakove Districts during May. In June, the initiative was launched in Peja and Mitrovica districts. By the end of Q2, the percent completion of the sketching initiative was:

Gjilan	24%
Gjakove	4%
Peja	12%
Mitrovica	1%.

Information Services Support of CCP

At the behest of the Supply Division, PA added more functions and improvements to the CUCCP software for analyzing the CCP database and supporting the CCP Cleanup Project.

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 second quarter, primarily on issues related to the takeover of all modules of CAS, improving the quality of financial reporting, (including the preparation of unbundled financial statements for each of the company's core divisions) and preparation of the company for privatization.

The PA team undertook the following activities:

- Completed the designs of a new Asset Register Database and a new multifunctional up-to-date Asset Management Module. The designs were submitted to KEK's IT Division which completed the programming under PA's supervision. The PA team then organized the migration of data from the old CAS Fixed Asset Module into the new Asset Management Module and initiated a data clean-up process. When the clean-up, testing and tuning of the new module are completed, it will replace the old Fixed Assets Module of CAS.
- Reviewed and made recommendations to implement a new sub-module of the Inventory Module of CAS for providing information related to the Bills of Materials and redirecting issued inventory from the warehouse into the new Fixed Assets Module for capitalization or to the General Ledger to record expenses.
- Trained key personnel and monitored the implementation of the new cost control system, which was formally introduced in all divisions of KEK with an Executive Order prepared by the PA team and signed by the Managing Director.
- Supervised the practical implementation of the new Rules for the Use of CAS. The new set of rules will enhance the security of KEK's financial information and support the implementation of the new cost control system.
- Finalized the Second Loan Agreement between KEK and the Government of Kosovo for funding the top-priority capital projects in KEK Mines. The Loan Agreement was signed by the Minister of Economy and Finance.
- Took part in all meetings between KEK and the external auditors from Deloitte & Touche, who are completing the audit of KEK's consolidated financial statements for FY 2008. The team helped with the review of the documents submitted by KEK's Finance Division and helped prepare answers to the auditors' questions.
- Supported the Audit Committee in the review and approval of the results of the annual inventory of KEK's fixed assets and materials and supplies. The Annual

Inventory Team report was initially found to be incomplete. It was returned with recommendations to provide additional information on assets not registered in CAS and to conduct additional tests for obsolescence and certain slow-movement materials and supplies items. After a major re-work, the report was approved and submitted to Finance for data entry.

- Developed a methodology for calculating Bad Debt for VAT purposes in accordance with the requirements of the new Administrative Ruling on VAT of the Kosovo Tax Administration (KTA). PA supervised the development and programming a new CCP module providing information on VAT based on the new methodology. The new module will also print bad debt invoices, electronic copies of which will be delivered to KTA on a monthly basis. PA also helped KEK's Tax Department prepare to file and pay VAT based on "billing" (accruals) less defined provisions for "bad debt" as of July 2009.
- Met with the World Bank's PIU, discussed the CLRP Project funded by IDA and KfW, and initiated a revision of the estimate of KEK's environmental liabilities.
- Supported the development of a methodology for estimating the provisions for obsolete and slow-moving inventory.
- Supported the audit of KEK's communication expenses and recommended measures to curb excessive costs.
- Initiated the semiannual review of the 2009 budget.
- Audited the posting of the social subsidies for electricity and provided recommendations for the exclusion of RTK from payments made from social subsidies.
- Supported negotiations of a new overdraft agreement with Raifeissen Bank to finance working capital.
- Continued to supervise the implementation of the recommendations provided in the Auditor's Management Letters for FY 2006 and FY 2007.
- Assisted KEK in reviewing the updated versions of the CAS manuals submitted by Komtel, including Accounts Payable and Treasury. PA recommended that KEK ask Komtel to revise the manuals in order to render them complete and improve their understandability.

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. The first submittal was made in April 2008. From then until April 2009, KEK had several meetings with the ERO staff and submitted numerous revisions to address the ERO's concerns. On 27 May, the ERO approved a revised Rule on Disconnection and Reconnection (see ERO Decision No. 193). However, KEK is finalizing one additional procedure to submit for approval. It is the

method for calculating the reclaimed losses from those who are using electricity in an “unauthorized” manner. KEK expects to submit its final proposal in July 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, especially hydroelectric plants. With PA’s assistance, KEK formed a working group that drafted procedures and tariffs for the connection of small generators. The proposed procedures and tariffs were submitted to the ERO for approval in September and again in December 2008, but the ERO would not accept the proposals until several modifications were made. During Q2 2009, PA provided additional support to the KEK Regulatory Affairs Department and a working group consisting of representatives from KEK’s Network and Supply divisions. The final revised proposal is nearly completed and it is anticipated that KEK will submit it to the ERO in July.

2009 Tariff Filing

With assistance from PA, KEK submitted its formal tariff application in mid-February. The tariff submittal complied with the Energy Regulatory Office’s tariff application guidelines and the basic data were submitted in the ERO spreadsheet formats. In addition, PA constructed a new set of spreadsheets that did several things. First, they unbundled each of KEK’s divisions and calculated the revenue requirements (“Allowed Revenues” to the ERO) for each. Second, the spreadsheets classified the costs and then allocated them to each of the tariff categories using a traditional cost-of-service approach. Third, they used the results from the cost allocation spreadsheets to calculate the prices for each tariff element in each tariff category. The cost-of-service spreadsheets showed that the households continue to be subsidized by the larger customers and KEK’s tariff application proposed a movement towards the cost-reflective tariffs. PA also drafted a manual for the spreadsheets that describes: 1) the tariff process, 2) the contents of each of the spreadsheets, 3) the data inputs required (costs, billing and operational data), and 4) the reasoning for the proposed prices for each tariff category.

KEK submitted the manual to the ERO. However, during a meeting with the ERO, KEK and the PA advisors, the ERO Board members stated that the ERO would not be using the spreadsheets and that they had not read the manual.

The ERO issued its decision on 15 April 2009 (Decision No. 171), which increased all retail customer tariffs by 2.5%. However, since the transmission company’s revenues are included as part of the KEK allowed revenues, and with the amount of price increase for the transmission company (KOSTT), it appears that KEK will not receive any additional revenues and may actually experience a decrease in revenues.

Tariff Schedules

As stated in prior quarterly reports, 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 were also conducted with the ERO staff and Board members, and received a very favorable response. It is anticipated that KEK will submit the final draft to the ERO for approval in mid-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 the past year to discuss and complete the draft document. Some of the more detailed policies and/or procedures concerned collections, connections, and line extensions. 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 ERO staff has not agreed to meet yet. Meetings with the ERO are expected to continue in mid-2009 and a final set of Conditions of Electricity Supply/Service should be completed and then approved by the ERO

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 revise the proposed contracts and add information 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 were held with the ERO during quarter 2 and KEK provided the rationale for its disagreement with the ERO staff. On 27 May the ERO issued its decision on the revised Customer Supply Contracts for both residential and non-residential customers.

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. In Q2, PA advisors continued to support KEK in responding and meeting with the MEM representative.

License Requirements

During this quarter, PA assisted the Regulatory Affairs staff in preparing several additional requests to the 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. Also, PA supported KEK’s staff in completing and submitting the required quarterly reports to the ERO. These reports are part of the license requirements for all divisions of KEK.

Power and Service Standards

Last 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 KEK’s efforts. During this quarter, the ERO hired a consultant to provide expertise to the working group. With the

approval of the USAID CTO, PA's regulatory advisor drafted the TOR for the ERO's tender for a consultant. It is expected that this new advisor will be in place during the third quarter of 2009 and that new service quality standards will be developed and implemented by the end of the year.

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. During the latter half of 2009, the working group did not meet due to the tariff application and the ERO review process.

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 to eliminate 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 2008 concerning the tariff filing, which states that the tariff category should be gradually eliminated. An action plan is to be developed and implemented during 2009 and 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 and Premises." Although provisions for access to property are found in the Law on Energy and in the General Conditions of Energy Supply, the ERO believes these new rules are needed to provide additional details for customers and to clarify KEK's responsibilities. PA provided assistance to KEK in drafting these rules, which were submitted to ERO in March 2009 and were approved in late June.

Code of Ethics

One of the ERO's requirements contained in KEK's Network License is that KEK must submit its Code of Ethics, or Code of Conduct, to the ERO for approval. KEK had never fulfilled this requirement and in late 2008 the ERO requested that KEK do so. PA assisted KEK regulatory staff and the document was submitted to the ERO in mid-second quarter 2009. The ERO approved the Code of Ethics in late June 2009.

New Connection Procedures

The PA team contributed to the development of KEK's presentation to the ERO on KEK's New Connection Procedures for customers. The procedure was modified at the insistence of the ERO and was resubmitted during this quarter. The ERO insisted that the document was a "connection tariff methodology" not a "procedure." Hence, KEK, with PA's support, modified the documents for submittal.

Task 8: Improve Internal Controls and Strengthen Internal Audit

Audit, Anti-Corruption and Revenue Protection

KEK's Internal Audit Unit remained dysfunctional for the same reasons described in Q3 and Q4 of 2008, and in the Q1 report of 2009. However, by the end of Q1 2009 after PA's continuing efforts, the shareholder appointed an Internal Audit Committee (IAC) of the Board of Directors. PA presented a comprehensive analysis of all violations of legislation made by the prior IAC and BOD, and presented recommendations on how to mitigate the damage done.

PA recommended that the Committee conduct an evaluation of the interim (prior) IA Office compared to the results accomplished by the Anticorruption and Revenue Protection Departments, which had been moved out of the dysfunctional Internal Audit group and reported directly to the Managing Director. This would enable the Committee to gain insight into the impact of the unprofessional behavior of the prior IAC.

This quarter, PA helped the reconstituted IAC to interview the three Heads of the Internal Audit Office and the Anticorruption and Revenue Protection Departments. The comparative presentations of the results of the IAC, on the one hand, and the Anticorruption and Revenue Protection units, on the other, revealed a sharp contrast. The presentations of the Anticorruption and Revenue Protection units were very well received and praised by the Committee. On the other hand, the amount of work performed and the quality of results achieved under the interim IA Department were unacceptable by professional standards. They also did not suit the needs of KEK's operating environment. This comparative analysis demonstrated the need to implement fundamental changes in KEK's control function.

In accordance with PA's recommendation, the IAC decided to hire a new Internal Audit Officer. PA drafted a job description and the qualifications and requirements of the position in accordance with the POE Law and best practices. Interviews were conducted with PA's participation. Although none of the applicants had the desired level of knowledge and experience, the urgent need for change led to hiring the most qualified person, taking into account the individual's ability to learn, honesty and motivation.

By the end of June, under PA's guidance, an organization chart for the Internal Audit Office was developed. The organization includes the same Financial Audit, Revenue Protection and Technical Supervision and Support functions that existed prior to changes made by the previous IAC. The Anticorruption Unit's name was changed to Legal Compliance Unit, thereby maintaining the same anticorruption functions, but adding more emphasis on legal compliance inspection within the company's units. The final approval of the structure is expected in July.

Under PA leadership, the Revenue Protection (RP) Unit continued to hire new employees. After long formal procedures and interviewing process, two more engineers have been added to the RP staff. A lack of qualified individuals has made it difficult to fully staff the IA Department.

Training

PA provided 8 days of training to four recently employed Revenue Protection Specialists in technical safety, loss calculation and site identification, and planning and conducting night inspections.

Under PA's leadership, the Revenue Protection and Anticorruption Units remain in synch with the implementation of the Annual Audit Plan (AAP) and have completed Network and Supply

system analyses and audit for Ferizaj, Prishtina, and Gjilan districts. They have also performed random and spot audits and sample studies for all districts and in all functions.

During the Q2, under PA's guidance, RP continuously conducted night inspections for identifying electricity theft and illegal consumption. This type of inspection allowed dozens of cases of theft to be detected while preventing many more, letting customers know that there is no convenient time for stealing electricity.

In May as a result of the joint efforts of USAID, USEA and PA, four Revenue Protection Unit employees were sent to Bulgaria for training. Energy Distribution Company MVV, which operates in a large part of Bulgaria, provided training to the individuals in accordance with the plan designed by PA. This training allowed RP employees to acquire knowledge about the analysis and identification of sites of commercial losses, detection and usage of specific equipment, best international practices and specifics of theft prevention, and generally about operations in similar environments. The MVV experience was especially useful for RP because this company has managed to drastically decrease commercial losses and make the company not only sustainable, but profitable. Upon their return to Kosovo, the RP employees immediately put their newly acquired knowledge to use. They began to use new methods to calculate commercial losses and site identification, and to use their knowledge of new measurement techniques.

Pending New Customer Connections

Under PA's guidance, the RP Unit continued to focus on loss reduction activities and on finding ways and solutions to eliminate the unauthorized use of electricity. Thousands of customers have built new houses and apartment buildings without obtaining technical specifications from KEK, or have violated the specifications, thus making it impossible for KEK to register them as customers. However, because of the large number of such customers, KEK was not able to disconnect them. These consumers never paid for electricity, causing serious losses to KEK.

To address this problem, RP employees were assigned to Prishtina to analyze the situation. During three days of inspections they identified 777 non-registered meters with 1.8 million kWh of consumption, in most cases without seals. This is disturbing considering the fact that some of the meters were identified before this inspection and some were replaced by consumers so there is no way to determine their actual consumption.

The lack of seals provides an opportunity for stealing 100% of the usage and leaves the door wide open for corruption. The PA team detailed procedural and investment approaches to solve this problem. As a result of these investigations and activities, the Network Division will include in their revised year 2009 budget a targeted project to complete the network upgrades that are KEK's responsibility in order to get these customer regularized and connected. The RP Department has also made specific recommendations to address this problem.

Communication Expenses

Under PA's guidance, KEK's RP and Anticorruption Units conducted an audit of communications expenses. Serious violations and underperformances were identified, causing considerable financial damage and decreasing the efficiency of phone usage. It was found that in last quarter of 2008 — without any reasonable justification — Division Managers increased the number of mobile phone users by a factor of four, from around 800 to more than 3,000.

This increase by itself would not have resulted in significant adverse financial impact if the control procedures had been followed. However, due to the HR Department's failure to ensure proper implementation of the relevant Executive Order, for seven months HR didn't calculate

the amounts owed by employees for personal phone calls. During this time, KEK paid an average of €30,000 per month for personal telephone expenses.

After the RP and AC Units disclosed the aforementioned results, they proposed appropriate recommendations and KEK began to deduct personal phone calls from employees' salaries. In parallel with this, the Heads of Divisions revised the list/ number of employees who need a phone for legitimate business purposes. The RP and AC Units are closely monitoring the implementation of these recommendations.

Misuse of ID Cards

Under PA's guidance, the RP Unit performed an audit to determine the accuracy of hours worked by employees. Specifically, they monitored KEK employees' use of ID Card swipes for working hour registration into the HR module. The inspection disclosed that seven employees had obtained multiple ID cards and they had registered into the system using all of them at different times. This demonstrated a system weakness in that employees were able to obtain multiple cards without the system invalidating the previously recorded card. It raises a question about how lost and stolen cards are handled.

Worse, these same individuals also used the ID cards of other employees to register them into the system so they could claim they were at work. In reality, though, those employees hadn't reported for work at all. Hence, employees were getting paid without showing up for work.

The Revenue Protection unit proposed disciplinary actions against the violators. A recommendation was made that management purchase a new system to protect the company from such abuses. The PA team had earlier recommended such a system and provided relevant specifications for it, but KEK's management didn't implement the recommendation.

Performance evaluations

Under PA's guidance, the Revenue Protection Department did an audit of the implementation of District Regulations in order to discipline underperformers and encourage employees with satisfactory achievements. The audit results showed that the performance evaluations done by the MD's Coordinators determined that the penalties for up to 50 employees would be a 20% pay cut. However, this was not in compliance with the District Regulations. Given the severity of the infractions, each of these employees should also have received a Final Written Warning, not just a reduction in pay. A Final Written Warning means that a future infraction would result in termination.

The RP also revealed that HR failed to identify five employees who had received Final Written Warnings previously and should have been terminated due to repeated poor performance. The HR Department then took appropriate disciplinary actions against these employees.

Audits and Investigations

Under PA's leadership, during the second quarter, the Revenue Protection and Anticorruption Units conducted many inspections to identify sites of commercial losses; to detect, eliminate and prevent theft; and to reimburse KEK for losses. In parallel with daytime audits, the Unit began performing night inspections of KEK customers at least twice a week. These efforts resulted in significant success in the fight against commercial losses.

Fifty six investigations and audits involving electricity theft were conducted, as were another six concerning illegal activities by customers and KEK employees, including violations and non-compliance with written policies and procedures.

- **Investigations.** Currently 34 investigations are ongoing; they are expected to be completed in the third quarter.
- **Disciplinary Actions.** As a result of the investigations performed by the Revenue Protection and Anticorruption Units, 22 KEK employees were proposed for dismissal or disciplinary measures; final written warnings were given to 41 employees.
- **Law Enforcement.** With assistance from PA, KEK was able to submit four cases to law enforcement officials for follow-up action.
- **Customers Inspected.** During Q2, the Revenue Protection unit inspected about 900 customers' electric use and metering.
- **Network and Supply Operations Analyses and Problem Identification.** The RP continued to analyze Network and Supply operating inefficiencies under PA's leadership. In accordance with the annual audit plan, the Unit conducted audits in the Gjilan and Mitrovica districts. Four extensive system analyses and inquiries were performed in each of the following areas: energy accounting, commercial losses, meter reading, bill delivery, disconnection and payment control. The audit findings indicated some serious management failures as well as many lesser mistakes, violations and cases of negligence. The findings were incorporated into two comprehensive conclusions and presented to respective managers involved in the operation processes.
- **District Inspections.** In accordance with the Annual Audit Plan, the RP team continued extensive inspections in the districts in order to determine electricity theft, other forms of commercial losses, the efficiency of disconnections, correctness of billing, and the performance of technical and supply staff. Comprehensive inspections were performed not only in Gjilan and Mitrovica districts, but also in Ferizaj, Gjakova and Prishtina districts, and sample studies and spot audits were performed in all districts.

Task 9: Provide Legal Support for Unbundling and Privatization

The Unbundling/Privatization Process

During the second quarter, PA undertook the following steps in support of the unbundling / privatization process:

- Follow-up meetings were held with the head of the POE Unit at the MEF on incorporating the new distribution company.
- PA provided its recommendation to MEF on the appointment of a temporary Board of Directors to expedite the registration of the new Distribution Company. PA also proposed that KEK's incumbent Board of Directors become the permanent Board of the new Distribution Company.
- PA's analysis of the registration status of KEK-owned land in cadastral records continues. Further, the documentation collected from the districts will be filtered to ensure that any residual property rights disclosed in these documents will now be reflected in cadastral records.

- The process of collecting documents from Pristina District relating to the use of land was concluded in the second quarter of 2009. Accordingly, the requisite documents have now been collected from all KEK Districts. The process of indexing all collected documents is continuing and should be completed in the third quarter.

Debt Recovery

PA assisted KEK in developing a new internal pilot project focused on the enforcement of debt judgments in selected Municipal Courts. The project will be led by KEK's Legal Department, and supported by the Network and Supply Divisions. A final draft of the project document has been produced and should be signed by the participating Divisions or Departments in Q3.

PA also worked with NCSC (a USAID implementing partner) on the production of a TV episode addressing the problem of electricity theft and its treatment by Kosovo courts. The episode, which was entitled "The Short Circuit," aired on 24 June 2009.

Other Advice to KEK on Discrete Legal Issues

PA provided legal assistance on the following discrete issues during the second quarter:

- Drafting a sale and purchase contract for a new transformer for Kosova A TPP in the amount of 2 million Euros,
- Drafting a contract for the supply of goods and services in connection with the refurbishment of excavator E-8M in the amount of €8 million.
- Implementing the \$3.3 million purchase contract for a used transformer for the Kosova A power plant, to include successfully requesting payment under the performance guarantee in light of the contractor's performance failure.
- Drafting a contract for the removal of 5.5 million cubic meters of overburden material by truck and shovel operations from the Sibovc South West Mine.
- Assisting with the procurement process for the refurbishment of the water treatment facility for the Kosova A power plant, to include attending negotiations with qualified bidders.
- Assisting with post-contract award steps for the refurbishment and operation of three small hydro plants owned by KEK.
- Finalizing the Revised Regulations for Operations in KEK's districts.
- Continuing implementation of the Board-approved strategy for the treatment of those services outsourced by KEK in 2006.
- Finalizing the second loan agreement between KEK and the MEF for funding the investment required to open and operate the Sibovc South West mine.
- Finalizing the contract for the use of KEK's network infrastructure by a local cabling company.
- Providing legal assistance to KEK's efforts to regularize electric service to minority communities, to include drafting various customer contracts.
- Advising KEK on the implementation of the new Law on Expropriation, which was promulgated in the second quarter.
- Assisting KEK with contract negotiations for repairing the faulty transformer of unit A4.
- Drafting a lease agreement between KEK and the Ministry of Public Services and MEM for the use of the Toscana building.
- Drafting a contract for the sale of KEK's scrap metal.

Task 10: Assist Privatization Transaction Advisor

The tender for hiring the privatization transaction advisor was launched in October 2008. However, the first procurement activity ended unsuccessfully, and was re-tendered in March 2009. The second procurement activity has concluded with a contract award, but the award is currently the subject of a complaint.

In anticipation of this advisor's appointment, PA has taken the following steps:

- In the first quarter, a data room was established in KEK's Distribution Building. In the second quarter, KEK continued collecting relevant documents, which are then deposited in the data room.
- During the second quarter the new external auditor began auditing KEK's consolidated financial statements for FY 2008.
- PA arranged for the Network Division to provide two engineers to index over 600 folders of project documentation.
- PA began assisting with the asset registration project of the KEK Finance Department.
- PA began updating the proposal for the 110 kV lines and substations to be transferred from KOSTT to KEK.

Task 11: Support Normalization of Service to Enclaves

Significant progress was made during the second quarter on normalizing service in minority areas.

Agreement to Regularize Service

PA developed the "Agreement between Community Leaders and KEK to Regularize Electric Service" to have minority area consumers who have not paid for 10 years become regular KEK customers. The Agreement focuses on having consumers pay from this point forward and addresses the issue of old debt, which has been a major impediment in the past. Once the community leader signs the agreement and residents register and pay each of their next 12 bills going forward, they will not be disconnected for old debt.

After much discussion by the international community, KEK was authorized to move forward with the new policy. An Executive Order was written for the Managing Director and PA attended a meeting with him and District Managers to explain the process of executing the agreement with community leaders.

MLSW Support

PA held a meeting with Nenad Rasic, Minister of Labor and Social Welfare (MLSW), to discuss the issue of the high level of poverty in the minority areas that KEK is now signing up as customers. We discussed the fact that many minorities have not yet registered as social cases and that efforts will be required on the part of KEK and MLSW to assist these households in the process. The Minister expressed his full support for processing and considering all applications for assistance.

Agreements Reached with 123 Communities

During the second quarter, PA Advisors spent over 30 days in the field to execute the Agreement to Regularize Service with 123 communities. PA worked along with the KEK District Managers and met with minority community leaders throughout Kosovo. PA/KEK explained to them the background of the minority situation, the specifics of the agreement, and the advantages to consumers, and responded to a host of concerns raised during the meetings. Over 50 communities signed the agreement prior to being disconnected while over 70 communities were disconnected and were without service for various periods of time prior to signing an agreement and getting reconnected. The Agreement required at least 70% of consumers on each 10/0.4 kV transformer to register as KEK customers and pay €26 prior to the transformer being reconnected.

As of 30 June, all areas in Kosovo previously categorized as Unbillable / Uncollectible Minority Areas had signed the agreement and regularized their status as KEK customers with the exception of Gracanica, Strpce, and North Mitrovica.

Gracanica Initiative

Several meetings were held with community leaders in Gracanica about regularizing service. There are two 10 kV feeders serving the area and the intention was to have the leaders sign the agreement on behalf of the consumers on those feeders. The leaders refused to sign the agreement, stating that they did not have a mandate (or permission) to act on behalf of the residents.

PA concluded that it was necessary to appeal directly to the consumers in the community. A Notice to Consumers was developed that could be distributed to each of the approximately 1,200 consumers in the area. On 20 May a meeting was chaired by PA with stakeholders to inform them of the plans for Gracanica and to request their assistance to deliver the notice within the communities since it was assumed that it would be too dangerous for KEK personnel to do so. Four of the stakeholders (KFOR, OSCE, AED, and Ministry of Interior) were asked if they could deliver the notice and they all responded that they could not. The primary reason was that their superiors wanted them to remain neutral on the issue.

PA worked with the Prishtina District Manager of KEK and put together a plan to have KEK personnel deliver the notice. Kosovo Police (KP) indicated that they would watch over the employees to ensure their safety. Irish KFOR also watched over the employees from a security point of view. On 10 June KEK employees distributed the notices to all consumers without incident.

On 18 June another meeting was chaired by PA with all stakeholders to inform them of plans going forward. They were informed that beginning 19 June Gracanica would receive power only from 24:00 until 07:00 each day until further notice. Gracanica was provided power from 26-29 June for the Vidovdan celebration (a Serb remembrance event), but on 30 June the two 10 kV feeders to Gracanica were disconnected. It is expected that the consumers will reconsider and agree to pay soon.

Strpce Initiative

Significant resistance was encountered from all leaders in Strpce. US KFOR requested that the Mayor of Strpce meet with PA to discuss regularizing service; they provided a copy of the agreement to him, but he refused to meet. AED personnel working on community issues in Strpce contacted 15 leaders from the Strpce area and arranged for a meeting on 12 June in Strpce, at which time PA and KEK would present the agreement and discuss it with them.

Although the leaders indicated that they would attend, when PA arrived for the meeting, no one showed up.

As was the case in Gracanica PA determined it was necessary to appeal directly to consumers. PA worked with the Ferizaj District Manager of KEK and put together a plan to have KEK personnel deliver the notices. KPS and US KFOR indicated they would watch over the employees to ensure their safety. On 19 June KEK employees began distributing notices to all consumers and the process was completed in five days. Since it was important that all leaders had a copy of the agreement, US KFOR volunteered to provide the agreement to them so they could respond to questions raised by citizens.

As of 30 June extended load shedding began in Strpce and the 35 kV feeder serving the region was only be turned on between 24:00 and 07:00 each day.

Discussions with the Government of Serbia and EPS

On 7 May PA advisors met with EPS officials and their international advisor in Belgrade. Dragan Petkovic, Deputy Minister, Ministry for Kosovo and Metohija, also attended the meeting. Topics discussed included:

- The current situation with signing up individual villages using the Agreement to Regularize Service.
- The issue of utilizing community metering in selected areas. EPS was told that the community metering option may be a viable one for the larger communities of Gracanica, Strpce, and North Mitrovica. However, it is not appropriate for smaller areas.
- The issue of EPS being a licensed trader in Kosovo through its affiliate of RUDNAP was raised. EPS discussed using that license to sell electricity to “eligible customers” in Kosovo. PA informed EPS that RUDNAP’s license allows it to sell to final consumers only, not for resale.
- The possibility of RUDNAP providing services in the larger areas was discussed. They were informed that they cannot operate as a Distribution Licensee or as a Supply Licensee, however, since KEK is the only licensed entity in Kosovo for those functions.
- RUDNAP could perform services as a contractor to KEK, however. Services that would be candidates are line maintenance, meter reading, billing, bill delivery, collection, and customer service.
- In order to perform any business activity in Kosovo, however, RUDNAP would first be required to obtain a business registration. PA’s advisors indicated that they would assist RUDNAP to apply for business registration. There is a 2-page application to be completed and submitted. The approval process takes 2-3 weeks. The company would register as an energy service company (ESCO).
- PA’s advisors asked EPS officials to notify KEK by 13 May as to their proposal to move forward. EPS did not respond with a proposal, however.

On 26 June 2009, PA’s advisors met with the Serbian State Secretary/the Deputy Minister of Ministry of Energy and Mines, Deputy Minister for Kosovo, and EPS officials in North Mitrovica. The discussion topics included:

- Proposed registration of an energy services company in Kosovo and the scope of its operations PA pointed out that KEK is the only licensed public supplier and distribution system operator within Kosovo. Accordingly, the ESCO would have to work within the current Kosovo legal framework. Therefore, the ESCO would only act as KEK’s agent/

contractor, with responsibilities in defined areas, such as meter reading, bill delivery, bill collection, connection, and disconnection. Furthermore, the ESCO would only operate in three potential geographic areas in Kosovo: Štrpce, Gračanica, and those communities north of the river Ibar.

- Providing energy to the minority communities through RUDNAP: PA stressed that all electricity consumers in Kosovo were legally customers of KEK, as the sole public supplier of electricity. Accordingly, an ESCO would need to follow all KEK billing and collection procedures, which were mostly prescribed by the Kosovo Energy Regulatory Office. With respect to energy supplied by RUDNAP, if Serbia wished to provide subsidies to vulnerable customers in Kosovo, this should not pose a problem. PA mentioned the example of the subsidy provided by the Kosovo Ministry for Labor and Social Welfare for electricity consumed by vulnerable customers. Similarly, if Serbia wished to provide “humanitarian” energy to poor customers in certain communities in lieu of a monetary payment, this should not pose a problem.
- Eligible customers: PA explained that at present all “final:” customers in Kosovo supplied at 10 kV or higher voltage could, in principle, be eligible customers, subject to satisfying the requirements set by ERO. Eventually, all final customers would be entitled to select their supplier, but not until 2015, when full market opening is planned.
- Potential for ESCO contract with customers: PA indicated that, legally, customers will only sign a contract with KEK. However, in view of the inherent sensitivities, the contract could simply refer to the “Licensed Public Supplier” and omit any logos, etc. The contract would also be presented to the customer by an ESCO representative. These measures would hopefully address any political sensitivity. Only the customer is required to legally sign the contract, while the ESCO representative simply witnesses the customer’s signature.

During the meeting, PA stressed that they were not participating in these discussions as “negotiators,” but were simply advising the Serbian representatives on the applicable legal framework, within which any solution would need to work. In order to make progress and move the matters forward, PA agreed to produce a Head of Terms for the potential contract between KEK and the ESCO, and also the contract between the final customers in Serb communities and KEK. PA agreed to provide the documents by close of business on 3 July 2009.

Joint Initiatives with KFOR, EULEX, ICO, OSCE, and UNMIK

- US KFOR has been very supportive of KEK, especially in its dealings with the minority communities. Irish KFOR also provided valuable assistance in the communities of Lipian and Gračanica.
- PA met with Brigadier General (BG) Jones, Commander of the US forces at Bond Steel, and his staff, and briefed them on the status of activities related to the Serb communities and discussions with Government of Serbia representatives. BG Jones agreed to convey to Štrpce’s mayor, at his meeting on 10 July, that the community will be disconnected on 11 July.
- Six coordination meetings were held during Q2 with representatives of KFOR, EULEX, ICO, OSCE, and UNMIK; PA chaired the meetings. Participants were updated on the status of electric service to Serb areas, progress made, and disconnection plans for various areas. PA responded to all questions and provided participants with information requested. Although most organizations expressed support for PA’s efforts, the US

KFOR, Irish KFOR, and KFOR Command were the most supportive and provided assistance for implementing KEK's plans.

IV. 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.

Below is a list of barriers that are hampering the achievement of better project results.

Memorandum of Understanding

There is no MOU between USAID and the GOK/KEK that formalizes PA's activities at KEK and commits stakeholders to certain actions. It has been 30 months since PA began working in KEK, and it still has no mandate. Even though KEK's management has not recently challenged PA's involvement in KEK's activities, it is advisable to have a simple MOU in place to meet the needs of all involved parties. Furthermore, given the planned divestiture of KEK Disco, PA will have to provide support to two different companies with two different Boards and executive management teams without a mandate. If the Boards and their respective managements do not perform according to mandate and PA challenges them to do their jobs, the Boards/team may act like the previous Board and ask for PA's terms of reference in KEK. A draft MOU has been prepared to be used when needed.

KEK Board of Directors

Most of the KEK Board members lack what is required to be a Board member. Therefore, they are easily manipulated by internal and external parties as well as the other Board members. Also, PA acquiesced to the Board members' desires to get laptops, but made it clear that providing them with office space was unacceptable.

Procurement

As reported in previous quarters, Kosovo's procurement regulations remain a significant problem. In recent procurements, an additional difficulty has been encountered, namely, the ease with which disappointed bidders can file "ungrounded" complaints to the Procurement Review Body, thereby placing the entire procurement on hold for weeks. This development is particularly problematic because the complaints are typically referred to so-called procurement "experts" who render opinions that often lack any logical, practical or legal basis.

In these circumstances, PA maintains its previously stated recommendation that the EU Procurement Regime for Utilities (2004/17/EC) 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. PA has sought to combat this issue with the introduction of the new Regulations for Operations in the Districts, which provide clear benchmarks for assessing poor or unsatisfactory performance by employees and introduce a zero-tolerance approach to serious disciplinary offences. The Regulations also dispense with disciplinary "commissions" and vest responsibility firmly in the District Manager, who is also accountable for the performance of his district. While some progress has been made,

with employees being dismissed and warnings given, further improvements are needed. Furthermore, PA recently assigned a full-time team member to assist KEK with HR issues.

Stakeholder Interference

This was one of the barriers to KEK's progress identified in PA's earlier analysis. Stakeholder interference in KEK's operations, coal production strategy, loan for the SSW mine opening, procurement of the new excavators, and many other areas have made the team's task much more difficult. Specifically, interference by the Minister of Energy and Mines in KEK's activities has been the most troublesome of all. Continued USAID support and leadership is appreciated and needed to ensure that stakeholder involvement and interest in KEK can be managed properly.

V. Proposed Solutions to New or Existing Problems

In this section, we discuss certain problems that have not yet been mentioned in this report and provide an update on possible solutions being pursued by the PA team.

Up-to-Date Manuals for CAS and CCP

During Q2 Komtel developed and delivered three more updated CAS manuals. They promised to complete the development of the rest of the updated manuals and deliver them to KEK in the third quarter. The updated manuals are being checked by KEK accounting staff. Comments will be forwarded to Komtel. Meanwhile KEK has been withholding the last payment on Komtel's 2008 contract until all of the updated manuals are delivered.

The delay of the delivery of the updated CAS manuals has created problems in the process of taking over the maintenance and servicing of CAS. However, KEK's Information Services Division has been able to resolve most of the problems and CAS has been functioning at an acceptable level.

Value Added Tax (VAT)

Problem: The new Administrative Ruling on VAT of the Kosovo Tax Administration (KTA) required KEK to file VAT (as of the beginning of Q3) based on "billing" (i.e., accruals) less a defined provision for "bad debt." CCP, which was previously used to file VAT based on "collection" (cash), did not support the new methodology for calculating and filing VAT.

Solution: PA helped KEK's IT Division develop and implement a new CCP module that calculates "bad debt" for VAT based on the methodology approved by KTA. The new module will also print bad debt invoices, electronic copies of which will be delivered on a monthly basis to KTA. PA also assisted KEK's Tax Department in preparing to file and pay VAT based on "billing" (accruals) less defined provisions for "bad debt" as of July 2009.

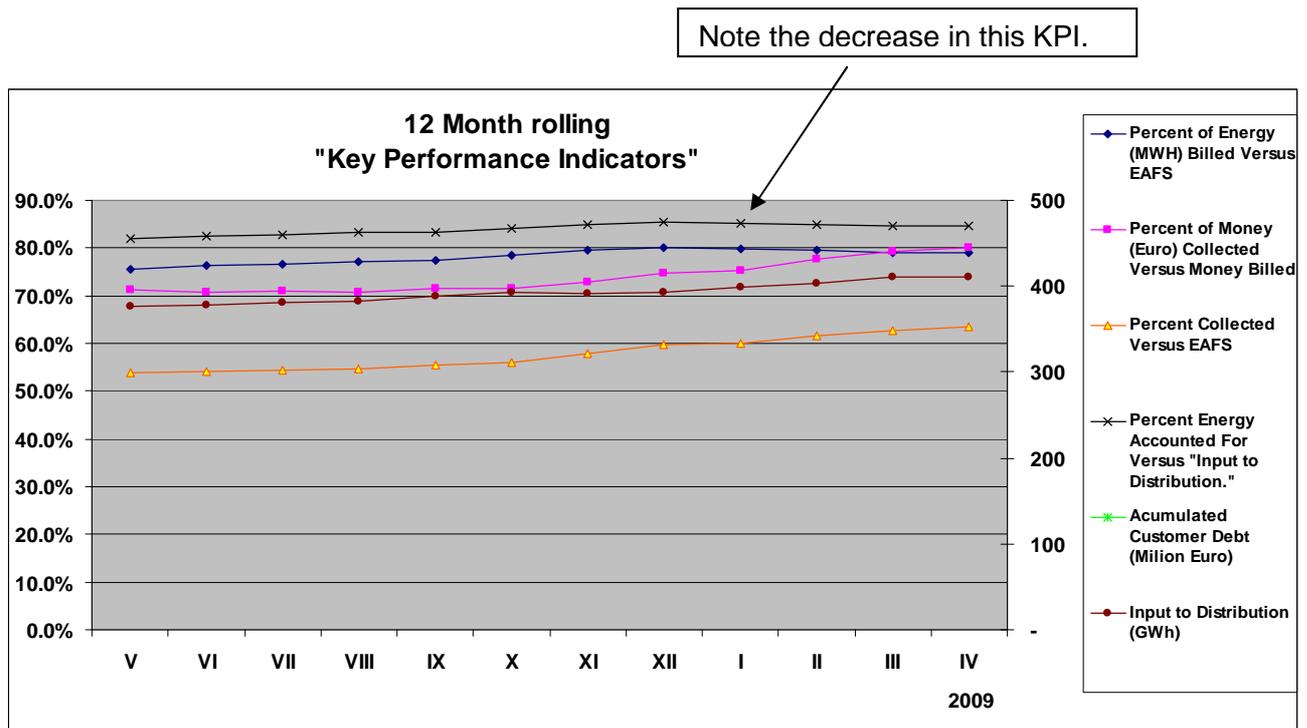
Resolving Issues of Electricity Provided to Minority Areas

Problem: Minority areas use over 10% of the energy entering the distribution system, but do not pay for it (this group accounts for less than 5% of the population). This situation has remained unresolved for ten years.

Solution: See the extensive discussion in Section 2, Task 11 for more information as to the approach used to solve this problem and the results achieved. As of the end of the second quarter, 123 communities have signed agreements and regularized service. Gracanica, Strpce, and North of Ibar River are the only exceptions. The plan is to first take effective action to regularize Gracanica and Strpce. Once these two areas are stabilized, initiatives to regularize customers north of the Ibar River will be launched.

Energy Billed versus Input to Distribution

Problem: The efforts of the Network Division, which is responsible for metering, to increase the "energy billed versus input to distribution" key performance indicator (KPI) have not been successful in the past few months. The 12-month rolling average through the end of May 2009 shows no improvement in this KPI in the recent months. The 12-month rolling average is considered meaningful since it removes "seasonality" from the statistics. The statistic of interest is the top line of the graph (the graph with the black X in the middle of the black line).



Source: Board's Energy Accounting Report

Solutions: KEK needs to take action on several fronts at the same time.

- Enforce the "Regulation No. 2, for Operations in KEK Districts," which will:
 - Financially reward employees who are performing very well
 - Discipline or terminate non-performing employees.
- Discipline or terminate employees who violate company policies and procedures on metering, meter seals, meter reading, and general employment regulations (fraud, corruption, collusion, etc.).
- District personnel must start using the monthly feeder energy account reports from the new two-part ABC module. This monthly report identifies and ranks for the District personnel on all of feeders by the "amount of unaccounted for energy." Thus, each month District personnel receive a ranked list of the feeders that, when fixed by the District personnel, can produce the greatest increase in billings (kWh).
- Proceed with the CCP cleanup program described in this report:
 - District personnel to continue to use the sketching of the 0.4 kV low-voltage network to find and to regularize un-registered customers.
- Finish with ERO the work that was started to enable KEK to compensate customers for the transfer of meter ownership from customers to KEK.

As mentioned previously, a major campaign to re-meter the company would not be fruitful if the violating and non-performing employees are not disciplined or terminated.

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

SMS and E-mail Messages from System Dispatch about Network Conditions and Load Shedding

During Q2 2009, the KEK Network Operations Center has begun to regularly distribute to key personnel SMS and email messages about transmission and 35 kV network conditions (failures, maintenance, damage, etc.) and load shedding (caused by loss of generating unit). These communications have been well received. The program is being expanded to the District level, where the Districts will distribute reports on 10 kV, distribution transformer, and fuse outages. This District-level messaging is critical with the new regularized service to minority areas: customers want to know if there is no power because of network failures or because of scheduled load shedding.

VII. Coordination with Other USAID Implementing Partners and Other Donors

The PA team engaged in considerable coordination-related activities with other USAID partners, especially Bearing Point and other donors. The following activities were undertaken during Quarter 2:

- PA continued to coordinate with Bearing Point (now Deloitte) advisors on issues regarding the privatization of KEK and the New Kosovo Project. Draft documents were shared with Bearing Point for comment before their submission as final.
- The team continued to maintain regular contact with the USAID Justice Reform Team (NSCS) to discuss efforts to improve judicial processes for the execution of debt cases.
- PA continued to liaise with Bearing Point advisors at the Tax Administration on various issues, including the new Ruling on VAT and a declaration on the tax implications of KEK's legal unbundling.
- PA cooperated with Bearing Point advisors at the MEF on the 2009-2011 budget and potential GOK assistance for the procurement of mining equipment, and the implementation of the Credit Facility Agreements between the Ministry and KEK.
- The team liaised with OSCE, EULEX, UNMIK, Irish KFOR, and US KFOR on the issue of minority area policies.
- The team also had informal discussions with EULEX's financial investigations unit.
- The team liaised with AED advisors on the issue of dealing with Strpce leaders to regularize service in that community.
- PA spent a considerable amount of time informing and educating the New KFOR commanders and their staff on energy sector issues, since almost all the staff's tour of duty is only six months. We have established a good relationship that provides for jointly addressing energy security concerns in Kosovo.
- PA continues to maintain regular contact with the WB, IMF, KfW, EU, UNMIK, EULEX and other stakeholders, and has been responsive to their requests.
- The PA team continues to liaise with Mr. Les Clarke, Project Team Leader, TERNA & IPA Consortium Technical Assistance Project within KOSTT. This project focuses on KOSTT becoming a full member of the Balkan power pools, and moving it from its subordinate position to Electro Privreda Serbia (EPS).
- The PA team continues to facilitate cooperation between KEK and KOSTT. Recent work involved reducing transmission system outages to KEK's two largest paying customers: Ferro Niklei and Sharrcem.
- PA arranged and led a tour of KEK's mines and generation for USAID's Environmental Assessment team on 17 June. The team was informed about the complexities of operation, environmental issues, and potential water reservoir for the new generation. PA gave the team a report on the ash disposal project and plans for the cleanup of the coal gasification plant.
- PA made a presentation to all USAID partners on 29 June regarding the status of electric service in Kosovo, pending risks, and activities related to opening the SSW mine, stabilizing the generating plants and SSW, and the generation projects' financing issues.

VIII. Upcoming Events with Dates

New Transaction Advisor

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

Minority Areas

As discussed in Section 2, Task 11, significant progress was made in the second quarter on resolving issues in minority areas. During July, extensive efforts will be made to regularize electricity service for all consumers in Gracanica and Strpce. .

PA continues to work with the Government of Serbia on the issue of a Serb company, registered in Kosovo, becoming a contractor to KEK in the communities of Gracanica, Strpce, and North of the Ibar River. As of the end of the second quarter, we are awaiting a response from Serbia on a draft agreement that was sent to them.

Direct Debt Mechanism

This new mechanism was tested on a very limited basis during June. The system worked well and the number of participants will be gradually increased each month during the third quarter.

Legal Unbundling of KEK

Subject to the Government of Kosovo registering the new Distribution Company, the legal unbundling of KEK's Network and Supply functions is expected during the third 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

Contracts between KEK and the winning bidders for the commercial and industrial meters are expected to be finalized in Q3 2009.

Workshop for Debt Enforcement

USAID's implementing partner (NCSC) will be running a workshop in September 2009 for the enforcement of debts, specifically for utility companies.

Bids for the B Units' Water Treatment System

It is expected that the contract for the water treatment rehabilitation and upgrade would be consummated in the third quarter.

New Generator Step Up (GSU) Transformer for Kosovo A4 Unit

The new GSU for Kosovo A4 is scheduled to be delivered in late Q4 2009, per the recently signed contract between KEK and Koncar.

IX. 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 KEK's targets may not be met due to MEM and BOD interference, changes 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 an MOU for PA's work at KEK.
1.4	Board-approved 2008 and 2009 Capital and Operation and Maintenance Budgets	December 2008	Completed.
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	Completed.
1.7	Ensure that KEK management does not enter into a new agreement with RTK for the collection of 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 flow reports are generated and reviewed for compliance monitoring.

Nr.	Task 1: Support Management and Operation to Preserve Assets Specific Objectives / Accomplishments	Completion Date (End-of-month)	Major Activities Completed/ Status of Deliverables
1.10	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 A5 loan was depleted, while the drawdown on the Sibovc SW loan is going forward according to the plan. The second Sibovc SW loan has also been signed.
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 in 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	The last district organization was changed in February. Targets were established for 2009, and they became effective starting April 2009.
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	Completed
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	Completed ahead of schedule in February 2009.
2.7	New district targets being met by individual districts as each of them implements the new processes and procedures	May 2009	The new processes and targets have been implemented in all Districts. Results are monitored monthly.

Nr.	Task 3: Improve Energy Accounting Specific Objectives / Accomplishments	Completion Date (End-of-month)	Major Activities Completed/ Status of Deliverables
3.1	Accurate and timely meter reading between KEK and KOSTT exchange points that provide for system energy balance	December 2009	Ongoing: On the first day of each month the meters are read, the bills computed, and the data included in 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	<p>Ongoing:</p> <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 co-located on the property of mines and generating plants are now metered, and bill processing is being incorporated into CCP. A new, eighth CCP software package (but without the financial portion) became operational by KEK IS at the end of Q4. The Supply Division has assigned the responsible person for this eighth CCP. • The three large transmission voltage 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	<p>Ongoing:</p> <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.

Nr.	Task 3: Improve Energy Accounting Specific Objectives / Accomplishments	Completion Date (End-of-month)	Major Activities Completed/ Status of Deliverables
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	Ongoing: <ul style="list-style-type: none"> • The first of three shipments of residential meters has arrived and the meters are being processed through the Meter Lab. • Tenders for commercial and industrial meters are being reviewed now by the tender commissions; contracts for these meters are expected to be finalized in Q3 2009 with delivery before the end of year 2009. • Anti-tampering and load profile data recording capabilities are in the technical specifications.
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.	<ul style="list-style-type: none"> • See Task 11.4, below, for the status and comments related to enclaves. • Meters with remote reading were installed in Ferizaj District starting in Q1 2009, and should be operational by end of Q3 2009.

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 improved in the second quarter (17% higher than Q2 2008). See PBMS status in Appendix B.
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 improved accountability.

Nr.	Task 4: Increase Collections from Customers Specific Objectives / Accomplishments	Completion Date (End-of-month)	Major Activities Completed/ Status of Deliverables
4.3	Feeder teams to aggressively perform disconnections of customers for non-payment and unauthorized use.	Ongoing	Payments increased significantly in all districts due to implementing the new structure. Prishtina District was the last to implement the structure in February 2009, resulting in a significant improvement in collections.
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 now in place in all districts. New District Regulations were developed with specific targets for all levels.
4.5	Advance the use of the KOS-Giro payment system.	Ongoing	Amounts collected and number of payments from the KOS-Giro system continues to increase. KOS-Giro payments represent only 2% of total payments made, but 11% of money collected.
4.6	Implement direct debit system in coordination with the Central Bank of Kosovo (CBAK) and roll out this new capability in Kosovo.	January 2009	During June a test of the Direct Debit System was made by processing a limited number of payments using the newly developed system. All transactions processed correctly. The number of customers will be gradually increased each month beginning in July.
4.7	Advise KEK and the Government to improve the effectiveness of the Social Cases Subsidy by broadening the base of recipients.	December 2008	The 2008 subsidy was successfully posted to customer accounts during Q2. Alternative mechanisms have been developed. Work on this task will continue during 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 the responsibilities 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 the 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” and “system administrator” manuals, and concluded training.	November 2008	Ongoing. Komtel delivered 5 updated manuals and promised to deliver the rest in Q3.
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	Completed - The work plan for CCP cleanup was developed and approved. The Analysis Team developed the flag reports to be used by field teams.
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 developed the flag reports to be used by field teams. Field work commenced using these reports and is essentially complete as of the end of Q2.

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
5.8	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 developed the flag reports and field work commenced using these reports. Field work is essentially complete as of 30 June.
5.9	The CCP database is cleaned up and the accuracy of all information is verified.	May 2009	Ongoing- Completion rescheduled to the end of August.
5.10	All non-existing facilities (customers) are deleted	May 2009	Ongoing- Completion rescheduled to the end of August.
5.11	“Passive customers” are eliminated.	May 2009	Ongoing- Completion rescheduled to the end of August.

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 the responsibilities 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	Ongoing. Partially completed.
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.

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
6.4	CAS database is cleaned up and the accuracy of all information is verified.	December 2008	Underway. Fixed assets part completed.
6.5	New Chart of Accounts is implemented.	January 2009	Postponed in view of legal unbundling and ERO position on the use of a regulatory COA.
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. 2008 will be produced in Q3 upon the completion of the 2008 audit by Deloitte & Touche.

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	April 2009	KEK submitted the formal tariff application in mid-February, which was on the ERO's time schedule. Using the spreadsheets developed by PA's advisor, the tariff application proposed changes to move each tariff category towards more cost-reflective tariffs. ERO approved new tariffs on April 15, 2009.
7.2	Complete and obtain ERO approval of the "Connection and Charging Procedures for Embedded Generators and New Customers"	July 2009	Connection charging procedures for small generators were submitted to the ERO for approval on 15 September 2008. The ERO rejected the submittals and revised procedures are expected to be submitted in July for approval.

Nr.	Task 7: Support Tariff Applications and Improve Regulatory Compliance Specific Objectives / Accomplishments	Completion Date (End-of-month)	Major Activities Completed/ Status of Deliverables
7.3	Complete and obtain ERO approval of the disconnection rules	May 2009	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 and then rejected again by the ERO. The ERO approved the new rules on May 27, 2009.
7.4	Complete and obtain ERO approval of the "Conditions of Electricity Supply"	July 2009	The draft document is being reviewed internally by KEK
7.5	Develop a tariff for sales of electricity to small communities (minority areas)	July 2009 (on Hold)	The initial draft of the tariff is completed; however, due to changes in the strategies being implemented, it may not be necessary for this tariff to be submitted for approval and then 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	New Internal Audit Committee started reorganization process of IA Department. Through an open competition process, the new Internal Audit Officer was employed. Two more Revenue Protection employees were selected after interviews. The selection process is ongoing and a more clear understanding about completion will be available after reorganization process is finished.

Nr.	Task 8: Improve Internal Controls and Strengthen Internal Audit Specific Objectives / Accomplishments	Completion Date (End-of-month)	Major Activities Completed/ Status of Deliverables
8.2	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 2009 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. Through USAID, USEA and PA's joint efforts, 4 Revenue Protection employees received very useful training in Bulgaria.
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	PA 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.
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 and submitted to the Ministry of Finance in February 2009. The next step is for the Government to proceed with registration of the new company.
9.2	Applicable Licenses (ERO, ICMM, etc.) are transferred to new corporation(s).	December 2008 to February 2008	KEK has submitted a request for modification of three licenses to the ERO, and is awaiting a substantive decision.
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 are 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	The following documents have been prepared in draft form: 1. Regulated Power Sales agreement between KEK and the new Distribution Company 2. Deed transferring assets and liabilities from KEK to the new Distribution Company 3. Agreement governing the unbundling process.
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. Also, minor changes were made to the draft Employment Regulation in the first quarter of 2009 in order to address the issue of overseas business expenses.

Nr.	Task 9: Provide Legal Support for Unbundling and Privatization Specific Objectives / Accomplishments	Completion Date (End-of-month)	Major Activities Completed/ Status of Deliverables
9.6	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 continues to monitor any new laws that are passed for their impact on KEK.
9.8	Advise KEK on the implementation of new laws, to include the Law on Publicly Owned Enterprises, and Law on Business Organizations.	Ongoing	With the appointment of a new Board of Directors, new members were provided with an overview of the corporate governance structures of KEK, together with a delineation of the responsibilities and duties between the Board and KEK management.

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	Provided recommendation on the structure of the deal for new Kosovo.
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	A data room has been established and collection of relevant material is ongoing.

Nr.	Task 10: Assist Privatization Transaction Advisor Specific Objectives / Accomplishments	Completion Date (End-of-month)	Major Activities Completed/ Status of Deliverables
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 a plan for normalizing service to minority areas that would allow KEK the ability to meter and bill all individual customers in minority communities.	March 2009	Completed
11.2	Participate in meetings with the stakeholders, including Serbian representatives, regarding the minority communities concerns.	April 2009	Completed
11.3	Develop a written agreement for regularizing electricity service and payment in minority communities that creates accountability for individual customers.	April 2009	Completed
11.4	Share the agreement with stakeholders, including the Serbian Government representatives.	April 2009	Completed
11.5	Interface with minority area leaders to facilitate their understanding of the agreement and gain acceptance with the consumers.	July 2009	Ongoing

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
11.6	Oversee the implementation of the proposed plan in minority communities.	December 2009	Ongoing

X. Appendix B. Performance-Based Management System Results

1. Key Indicators (KI) (Reported Quarterly)

No.	Objectives Supporting These Results	Task Reference Supporting These KI	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%	20 % for First Half 2008 22 % for First Half 2009
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%	17.2 % for First Half 2008 17.5 % for First Half 2009
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%	80.4 % for First Half 2008 78.4 % for First Half 2009
4		1 through 6, and 8	Ratio of revenue collected versus billed	74.2%	76.6%	80.0%	75.6%	89.0%	67.5 % for First Half 2008 80.1 % for First Half 2009
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%	54.2 % for First Half 2008 62.8 % for First Half 2009
6		1 and 4	Ratio of debt collected vs. claimed ⁵	Not Av.	23.48 %	30%	17.5%	35%	23.7 % for First Half 2008 14.30% for First Half 2009
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	€60.0 million for First Half 2008 €78.9 million for First Half 2009

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 2008.
	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 2008.

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 the 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. The first half of 2009 performance is a significant improvement over the same period of 2008

Task	Performance or Impact	Indicators Definition and Unit of Measure	Reporting Frequency	2008 Target	2009 Target	Status
	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 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 implemented in each district. Field work primarily completed by the end of Q2 2009
	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 implemented in each district. Field work essentially completed as of 30 June.
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	Clean CAS database	Develop new asset register. Produce opening balance sheets for DISCO and GENCO.	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	2009 tariff filing was completed.
	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. 62 investigations were completed in Q2 and 34 investigations are underway.
	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	22 employees were terminated for misconduct in Q2 and 41 were subject to other disciplinary measures. Up to 900 customers were inspected and dozens of instances of electricity theft, corruption, and bribery were identified. 4 cases were filed with the prosecutor.

Task	Performance or Impact	Indicators Definition and Unit of Measure	Reporting Frequency	2008 Target	2009 Target	Status
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.	Draft Employment Regulations completed. Draft Regulated Power Sales Agreement has been produced. Internal KEK pilot project developed for judgment debts. Draft Corporate documentation for the New Company completed and submitted to the Ministry of Finance.
	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	Draft Employment Regulations are not implemented and are being opposed by KEK staff. . Incorporation of the new company pending with the Government. Debt recovery rate is 14.30% of the debt claimed for Q2 2009
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	Performance or Impact	Indicators Definition and Unit of Measure	Reporting Frequency	2008 Target	2009 Target	Status
Task 11	Performance Indicators	Energy provided to Minority Areas will no longer represent a (Political) loss to KEK, but rather contribute to Energy Available for Sale in the retail amount of approximately €9 million for areas south of the Ibar River and €13 million for North of Ibar River.	Quarterly		Complete the regularization of service in minority areas	As of 30 June, 123 communities signed Agreements to Regularize Service.
	Impact Indicators	Minority customers that pay for electricity will have earned better electric service (as long as they meet the requirements of the two part ABC program – minimal unbilled electricity and regular bill payment) based on the community/ individual agreement efforts.	Quarterly		Electric services in minority areas provided based on customer metering	District Network personnel are visiting each customer site in the newly registered areas, checking, sealing and obtaining an initial

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 Actual	Status																																																				
1.	1,2 &3	Number of people who received training in technical energy field	0	231	Target 60 (M=42 and W=18) <u>Actual 54</u> (M=54 and W=0)	60 (M=48 and W=12) <u>Actual 0</u> (M=0and W=0)	Q2 2009: PA conducted no technical energy training																																																				
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) <u>Actual 69</u> (M=61 and W=8)	Target 60 (M=30 and W=30) <u>Actual 56</u> (M = 52 and W =4)	Q2 2009: PA conducted training statistics <table border="1" data-bbox="1384 691 1995 1310"> <thead> <tr> <th>Dept.</th> <th>Men</th> <th>Women</th> <th>Total</th> </tr> </thead> <tbody> <tr> <td>Distr Oper</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Fin / Acct</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Hum Res</td> <td>2</td> <td>1</td> <td>3</td> </tr> <tr> <td>IT / IS</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Legal</td> <td>2</td> <td>0</td> <td>2</td> </tr> <tr> <td>Regulatory</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Rev Prot</td> <td>5</td> <td>0</td> <td>5</td> </tr> <tr> <td>Supply</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Board of Directors</td> <td>3</td> <td>0</td> <td>3</td> </tr> <tr> <td>Subtotal (Q2)</td> <td>12</td> <td>1</td> <td>13</td> </tr> <tr> <td>Q1 2009</td> <td>40</td> <td>3</td> <td>43</td> </tr> <tr> <td>Total (Q1+Q2)</td> <td>52</td> <td>4</td> <td>56</td> </tr> </tbody> </table>	Dept.	Men	Women	Total	Distr Oper				Fin / Acct				Hum Res	2	1	3	IT / IS				Legal	2	0	2	Regulatory				Rev Prot	5	0	5	Supply				Board of Directors	3	0	3	Subtotal (Q2)	12	1	13	Q1 2009	40	3	43	Total (Q1+Q2)	52	4	56
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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 Actual	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 %	Target 11.01 % +/- 2 % Q2 2009 7.22% Q1+Q2 8.18%	10.72 % +/- 2 %	10.44 % +/- 2 %	10.19 % +/- 2 %	Consumption increased in Q2 2009 over Q2 2008 by 1.7 % due to increased generation and imports; reductions reduced by 48.1 %. The net improvement is 7.22% for Q2 2009 versus 13.24 % for Q2 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. Reference file: NDQ12009004 12 05 09 Update Annual Reduction Factor for FY 2008 and 2009 Extended WC2.pdf.

XI. Appendix C. PR Briefs

This section contains a list of information developed in Quarter 2 for public communications/information:

- Notice to Consumers in Gracanica and Strpce. This was drafted by PA and delivered to all consumers in those communities.