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2009 QUARTER 3 REPORT (1 JULY – 30 SEPTEMBER)

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

This quarterly report on the Korporata Energjetike e Kosoves (KEK) Network and Supply Project covers the period 01 July through 30 September 2009. It was prepared by PA Government Services Inc., under Task Order 4 of Contract EPP-1-00-03-00008-00. The authors gratefully acknowledge the United States Agency for International Development/Kosovo Mission's (USAID/Kosovo) support of this project.

This report was made possible through the support of the American people through USAID/Kosovo. Its contents are the sole responsibility of PA Government Services Inc. and do not necessarily reflect the views of USAID or the United States Government.

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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 third quarter of 2009 was a productive one for USAID's KEK Network and Supply Project. This Executive Summary highlights the project's major accomplishments during the quarter. These and many lesser, but still significant, activities and results are detailed in the body of this report.

Major Milestones in Q3 2009

Resumption of Payments by Minority Communities

Significant progress was made in regularizing electricity supply to minority communities. Most notably, KEK concluded agreements to regularize supply to the two largest minority communities south of the Ibar/Ibër River: Gračanica/Gračanica and Štrpce/Shtërpçë. Only small pockets of resistance remain in these communities, namely certain Orthodox religious facilities, which have refused to sign any agreements with KEK to regularize their electricity supply. However, the tipping point has been reached and PA expects these remaining consumers to sign agreements and begin paying in exchange for a resumption of electricity service.

The only remaining minority area of significance that has not been regularized lies north of the Ibar/Ibër.

Approval of the new structure and organization of KEK's Internal Audit Office

PA's recommended new structure and organization of the Internal Audit Office has been approved. The Office will be organized along operational, compliance and financial audit lines. Owing to the lack of finance and accounting expertise in the Office, PA developed job descriptions for principal and senior financial auditors, and supervised the selection and appointment of new staff to these positions.

The Internal Audit Office's work is instrumental to instilling management discipline, improving operational efficiency and rooting out corruption. After a year of struggle over this issue, the approval is a notable and satisfying achievement. PA will continue working with the Audit Committee and will intensify its support for improving the management effectiveness and operational efficiency of the reconstituted Internal Audit Department.

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. In particular, the contract for truck and shovel removal of overburden from the SSW mine, which was signed during the second quarter, has been implemented successfully. Consequently, KEK will be able to produce coal from the new mine during the second quarter of 2010, ahead of schedule.

Mid-Year Budget Review

Under PA's supervision the Finance Division completed the mid-year budget review and submitted the revised budget to the Board of Directors. Although the changes in the budgeted revenues and expenses for the year were not significant, the overall structure of the expenses was changed substantially to reflect the results of the second quarter variance report and to recognize the need to complete several critical Network Division projects, including the Vaganicë and Palaj Substations, and removing bottlenecks to connecting new customers. The Board approved the revised budget.

Registration of the New Distribution Company

With significant assistance from PA, the Ministry of Economy and Finance finally completed the registration of the new Kosovo Electricity Distribution and Supply Company (KEDS). PA was instrumental in drafting the corporate documents for the Ministry and also recommended that the existing KEK Board of Directors be appointed as a temporary KEDS Board in order to register the company. KEDS will remain dormant pending KEK's transfer of its distribution business assets and liabilities.

Resolution of Non-Registered Customer Problem

As noted in the second quarter report, thousands of consumers 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 consumers, KEK was not able to disconnect them. These consumers have never paid for electricity, resulting in significant commercial losses for KEK. To eliminate this problem, PA developed a detailed Action Plan, which the Managing Director adopted and initiated by during the third quarter. To date, approximately 1,000 new customers have been registered.

Collections

Q3 2009 vs. Q3 2008 - Collections were slightly higher (€1 million or 3%) in the third quarter than during the same period in 2008, primarily due to the increased amount of energy available for sale.

During Q3, the billing rate was 86% and the collection rate was 91%. Thus, overall performance (collection of delivered energy) was 78%. For the same period in 2008, the billing rate was 86%, the collection rate 95%, and overall performance was 81%.

The three percentage point performance reduction reflects the lack of improvement in reducing commercial losses and the lack of an intensive effort to enforce payment discipline through timely disconnections. PA's experience indicates that KEK is not making an adequate effort to reduce these 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.

Another factor that affected performance during Q3 is that the energy delivered to the minority areas is now classified as "billable and collectible" and thus considered as energy available for sale (EAFS). It was previously excluded from EAFS. As expected, billing and collection for energy in these newly regularized areas is lower than in the rest of the country because the customers are new, meters have just recently been inspected and sealed, and the disconnection of non-paying consumers has just begun. Since the newly regularized areas only represent 4% of all energy consumed, however, this impact on the overall billing and collection performance is minimal.

Year to Date September 2009 vs. YTD September 2008 - Collections were 21% (€19.8 million) higher in the first nine months of 2009 than during the same period in 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 lower in the current 9-month period than the same period last year.

During the first nine months of 2009, the billing rate (amount of energy billed as a percent of EAFS) was 81%, the collection rate was 83%, and overall performance was 67%. For the first nine months of 2008, the billing rate was 82% and the collections rate 75%, for an overall performance (collection of delivered energy) of 62%.

The five percentage point improvement resulted from a much higher collection rate (8 percentage points), but was partially offset by a lower billing rate. 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.

Testing and Tuning of the New Fixed Asset Module of CAS

KEK's Information Services (IS) Division completed the testing and tuning of the new Fixed Asset Module under PA's supervision. The PA team compared the results of the calculation of depreciation in the new and old Modules for the period 2003-2008 and analyzed the differences. Based on the analysis, PA will recommend adjustments to the book values of all assets (to be recorded as post-closing adjustments at the end of 2008) to eliminate the depreciation calculation errors identified by KEK's auditors Deloitte & Touche. The IS Division started working on linking the new Module with the General Ledger and the rest of the CAS modules. After testing the links, the new module will be connected to the system and will run in parallel with the old one for three 3 months. During this period IS will perform final tests of the whole system and as of 1 January 2010, the new module replace the old one.

Upcoming Events and Activities

The following are important events and issues for the fourth quarter:

- Transaction Advisor – The delay in appointing a transaction advisor for the privatization of the new Distribution Company will need to be resolved.
- Legal Unbundling of KEK - Subject to progress on appointing a privatization transaction advisor, the legal unbundling of KEK's Network and Supply functions is expected during the fourth quarter or early 2010.
- No Load shedding – Barring any unforeseen outages, KEK plans to supply all customers with 24/7 electricity during a two-week period in October. The primary purpose will be to compare consumption when there is no load shedding versus a two-week period in October with load shedding.
- Minority Areas – Efforts are underway to regularize electricity service for North Mitrovica.
- Direct Debt Mechanism - This new mechanism was tested during the second quarter and proved operational. It was gradually expanded during the third quarter, and is expected to be made available to the remaining customers during the fourth quarter.
- The agreement between KEK and RTK, wherein KEK acts as collection agent for the RTK fee, expires in November 2009. PA has informed the international community that KEK will not enter into another agreement with RTK unless forced to do so by the government or international community. PA will continue to support KEK in this decision.
- Vaganice substation - It is expected that the contract for the design and construction of the new 110/35/(20) 10 kV substation will be signed in the fourth quarter.
- Bids for the B Units' Water Treatment System - It is expected that the contract for the water treatment rehabilitation and upgrade will be signed in the fourth quarter.
- Main Transformers for Kosovo A and B - The new main step-up transformers for Kosovo A4 and B1 are scheduled to be delivered in late 2009, per the signed contracts between KEK and Koncar.
- Rehabilitation of A2 - Subject to any contrary instruction from the Government of Kosovo, expressions of interest are due from bidders for the proposed reactivation of Kosova A2 on 16 October 2009. Discussions will be held with qualified bidders in November 2009.

- New External Auditor - KEK will start procurement for the selection of a new external auditor for the audit of KEK's financial statements for FY 2009.
- Emergency Power - KEK will initiate a new procurement for the supply of emergency power imports for the period November 2009 until December 2010.

III. Progress in Quarter 3

Task 1: Support Management and Operation to Preserve Assets

General

- Following a rather slow start, the new Audit Committee of the Board of Directors began addressing the risks KEK is facing, focusing on loss of revenue, excessive costs and fraud and embezzlement. The Internal Audit Officer began regularly presenting the results of the Internal Audit Office's activities and making recommendations on disciplinary measures and procedural changes to improve the efficiency and effectiveness of KEK's activities.
- PA oversaw the selection process begun by the Board of Directors, for the positions of Managing Director and Chief Financial Officer. PA participated in interviews with short-listed candidates and ultimately agreed with the recommendations of the Board's selection committee. Consequently, and despite several attempts from external actors to manipulate the process, the Board appointed the "acting" Managing Director and Chief Financial officer to permanent roles.
- The PA team prepared job descriptions for the principal and senior financial auditors, and monitored the selection process. As a result, the Audit Committee selected and appointed new, better qualified internal auditors. PA also observed all meetings of the Audit Committee and helped introduce best practices in its work.
- PA continued to assist the Managing Director on a variety of issues related to the company's management and operations. As in the previous quarter, PA received his full cooperation on almost all of PA's recommendations on the company's operation, procurement, mining, staffing, and financial activities.
- On 11 September, PA presented an overview of the energy sector and KEK's financial support needs to the IMF and USAID. We informed the IMF that KEK had postponed the €120 million equipment procurement for opening the SSW mine in 2009 in anticipation of the final selection of the "New Kosovo" investor in 2010. However, if the tendering process for New Kosovo does not move by the end of 2009, KEK would need the loan in 2010 to procure equipment for Coal Systems II and III. PA also presented its proposal structuring a deal for selling KEK's mining and generation assets and potential new generation. The proposal would package all existing mining and generation assets, including the SSW mine, and offer them to potential investors with two requirements: 1) they have to meet EU's environmental standards if they decide to operate the A and B units, and 2) they must provide the full supply/energy requirements of the Disco and offer a fixed price, with appropriate escalators for the long term. The proposal provides for the investor to decide which units should run, whether to rehabilitate or extend the life of the existing units, when it is economically feasible for them to install new generation and at what capacity, and/or import power to meet the Disco's needs.
- A milestone was reached during the third quarter with the normalization of electricity service to the remaining minority areas (Gračanica/Graçanica and Štrpce/Shtërpçë) south of the Ibar/Ibër River. This accomplishment paved the way for eliminating unpaid electric service to minority areas, a practice that had continued since the war ended 10 years ago. (See Task 11, Support of Normalizing Service to Enclaves, for more details on this initiative.)

- PA continued to maintain open lines of communication, cooperation, and coordination with the Serbian Government (GoS) representatives and Electric Power of Serbia (EPS). We produced a draft contract between KEK and the ESCO for the provision of electricity in North Mitrovica. Subsequently, on 25 September a meeting was held in North Mitrovica between PA and GoS representatives to discuss the draft contract (see Task 11 for more detail on this initiative).
- Under PA's supervision the Finance Division completed the mid-year budget review and submitted the revised budget to the Board of Directors. Although the changes in the budgeted revenues and expenses for the year were not significant, the overall structure of the expenses was changed substantially to reflect the results of the Q2 variance report and to recognize the need to complete several critical Network Division projects (e.g., the Vaganicë and Palaj Substations, removing bottlenecks to the connections of new customers). The Board approved the revised budget.
- PA assisted KEK management in presenting its *Performance to Plan Report* for the second quarter to the Board of Directors. The report was accepted by the Board and the Managing Director was instructed to submit the report to the shareholder, the POE in MEF.
- After the revised budget was approved, PA helped the Finance Division revise the 2009 cash flow forecasts to reflect the changes in the structure of budgeted expenditures and the MEF request for a ceiling of €100 million on the 2009 loan payments.
- PA assisted KEK's Chief Financial Officer in his negotiations with Raiffeisen Bank Kosovo (RBKO) for a new package of banking services, which includes an overdraft facility, and trade financing, Kos-Giro, direct debit and payroll services. The final terms and conditions are expected to be approved by the KEK Board in the fourth quarter.
- 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.

Mines

- PA continued to assist the Managing Director in reviewing the status of the Action Plans for mining operations and the opening of the SSW mine. 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.
- PA monitored the implementation of the contract for removing 5.5 million cubic meters of overburden by a contractor using trucks and shovels. At the end of Q3, the contractor was performing well and on schedule.
- Following the GoK's long-delayed decision (May 2009) to proceed with the expropriation of land near Hade village, PA closely monitored the position to ensure that the process is implemented in a timely fashion and in accordance with the new Law on Expropriation.

Thermal Generation

- PA provided legal and technical comments to KEK on the failure of Turbocare's generator step-up transformer (GSU) at Kosovo A Plant Unit 4. The comments involved

aspects of both the failure itself and the events before and after the failure. The Legal Advisor will continue to lead and report on this process to KEK.

- 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 supported the decision of KEK's Management and Board of Directors to publish a request for expressions of interest to rehabilitate Unit A2. We helped KEK prepare the tender dossier documentation and oversaw the site visits at Kosova A.
- PA monitored the implementation of the contract for the delivery of a new transformer for Kosovo A, which should be delivered in late October 2009.

Hydro Generation

- PA assisted KEK in negotiating and finalizing contract documents for the rehabilitation of two small HPPs owned by KEK (Dikanc and Radavc). They will be leased to investors for 20 years, and the electricity they generate sold back to KEK. The contracts for these two HPPs were signed in September 2009, leaving only the rehabilitation of Burim HPP, which is being delayed owing to a land ownership dispute.

Capacity Management, Power Purchases, and Energy Trading

- PA assisted with the conclusion of KEK's energy import contracts during July and August, and also for the period September 2009 to March 2010. We also estimated its need to purchase power from KCB for the remainder of 2009 through June 2010. KEK received €20 million in additional funding from KCB for 2009 purchase power and €40 million is included in the 2010 KCB for purchased power.

Network Division (Not Covered in Other Tasks)

- PA facilitated the absorption into KEK of the design, construction, and maintenance functions, and personnel associated with Electro Engineering, Inc. These functions and related personnel had been inappropriately outsourced in 2006.
- PA observed the procurement process for the new Vaganicë 110/35/20(10) kV Substation. In early September KEK and PA reviewed Letters of Request and associated documents from ten potential bidders; six were deemed qualified to proceed to the next round of procurement. Between 23 and 29 September, KEK and PA met with these bidders. The technical specifications will be updated in light of their questions. If the contract is signed by the end of November 2009, as planned, the substation should be complete, commissioned, and operational by 30 November 2010.
- PA facilitated the routing and the design of the medium-voltage (35 kV and 20 kV) cables and overhead lines from the new Vaganicë Substation that extend into south Mitrovica. This is a companion project to the Vaganicë Substation Project mentioned above. This line also expands the KEK distribution system and eliminates the need for KEK to use the power system network owned and operated by Trepca Mining, Ltd. This work will be done by KEK itself, now that the engineering functions have been reinstated within KEK.
- When the Palaj 110/35 kV substation has a failure or when the 110 kV line to the substation fails, all coal mining and coal transport to both Kosovo A and B, and water pumping from the KEK mines stop. PA facilitated a major effort to rehabilitate and expand this substation. Four sub-projects are now underway: one is wholly KEK's (new

T3 and 35 kV switchgear), one is for Ferro Niklei (double 35 kV lines and new Bivolak 35/6 kV substation), and two are for KOSTT (new double circuited 110 kV line from the 110 kV line Number 163, and rehabilitated 110 kV switchgear at Palaj). Although funding has been allocated, KEK is not moving fast enough. The absorption of Electro Engineering into KEK has delayed these sub-projects.

- Work started this quarter on the complete replacement of leaky windows in the Electro Kosova Building. PA advanced this project because the regular water leaks were damaging equipment and flooring in the cashier's offices and the new file server room. The work will be completed in the fourth quarter 2009.
- The PA team facilitated the development of daily KEK Network Operations Center updates and their distribution. The updates include 1) a plan for the next day, 2) SMS messages on the conditions of generation, transmission and distribution, 3) hourly deviation of actual load from scheduled load, and 4) audited and corrected results of the previous day's actual versus planned loads. These electronic products are distributed throughout the day to various individuals (district managers, network and supply managers in the districts, KEK Public Relations Department, KEK and PA top management, and stakeholders).
- PA provided comments on the new Network Division structure, which is being set up for the newly registered Kosovo Electricity Distribution Services Company (KEDS).
- In the third quarter the PA team advanced several activities between KEK and KOSTT (the transmission system operator):
 - Relocation of KEK Network Operations Center (NOC)
The NOC occupies office space in the KOSTT building. For the past 2½ years KEK has failed to move out of the space. A contractor to KOSTT needs to rebuild the space to accommodate the new KOSTT control room equipment, which has been shipped and will arrive soon. PA helped KEK find new office space for the NOC at the Pristina III 110 kV substations. The NOC will be out of the KOSTT office space by the end of October 2009. The pressing item is the delivery of special IT equipment needed to forward electronic signals (LAN, video, telephone, etc.) from the Electro Kosova Building to the Pristina substation.
 - Testing For Unconstrained Demand
KOSTT has purchased a new economic dispatch – SCADA system from Areva of France; a demand forecasting model is included. This model needs as input data on the forecasts of unconstrained demand on each of the substations of the KEK distribution system. PA helped the consultants to KOSTT get in touch with the KEK Capacity Management Team and the KEK NOC. KEK has its own unconstrained demand forecast, but KOSTT wants to develop its own data, especially on a substation-by-substation basis.
 - Rehabilitation of Kosova A 220/110 kV Substation
PA facilitated discussions among KEK Capacity Management, KEK Generation, KOSTT, and KOSTT's subcontractor Siemens for scheduling substation and generating unit outages when Siemens rehabilitates the Kosova A 220/110 kV substation for KOSTT.

- *Ancillary Services Agreement*
PA facilitated the review and revisions to a draft agreement on ancillary services (frequency regulation, voltage regulation, response time, etc.) between KOSTT (the transmission licensee for Kosovo) and KEK Generation (a generation licensee in Kosovo). KOSTT pays KEK Generation for ancillary services.
 - *Connection Agreement*
PA facilitated the review and revisions to a draft agreement on the connection points between KOSTT and KEK. This included the substations at which KOSTT supplies KEK distribution, and the substations at which KOSTT receives energy from KEK Generation.
- The PA team has identified the need to develop the third generation of the ABC load shedding program, dubbed “ABC v3.0.” The present second generation program is an improvement over the initial version, but additional needs have come to light. The most significant advance will be the automatic transfer of hour-by-hour energy data from the meters on the feeder to the new ABC v3.0 module. This will both eliminate the manual handling of feeder meter readings and enable ABC v3.0 to “window” the hourly feeder meter readings to exactly and correctly align with the route meter reading data from CCP. To facilitate this, the PA team initiated coordination of the IS Data Warehouse team with the KEK Automatic Meter Reading Team.
 - PA identified two suppliers (Arnett H. J. Industries of Portland, Oregon and Universal Protection Corporation of Roswell, Georgia) of tap detectors that are used by revenue protection personnel to find unauthorized taps on the electric utility lines ahead of the meter. The contact details were sent to the Revenue Protection Department for their follow up.
 - The Data Warehouse team (which handles asset registration) was introduced to the group in the Network Division that handles the sketching and mapping feeders and low-voltage networks, and operates the companion load flow and technical loss program (Digsilent). Both groups (asset registration, and mapping and load flow) work from the harmonized (synchronized) data bases.

Human Resources Division

As part of the ongoing development of this division, PA undertook the following:

- Prepared a report entitled “Assessment of KEK Human Resources Management and Recommended Organizational Changes”
- Attended several meetings with KEK’s Managing Director to discuss human resources issues and made recommendations on such topics as recruitment, job descriptions, and performance evaluations
- Provided supervision of, and assistance to, the Human Resources Department on drafting job announcements, job descriptions, interviewing, implementing disciplinary sanctions, and preparation of payroll and salary deductions.
- In preparation for KEK’s legal unbundling, worked on finalizing the new organizational structures of the Distribution Company, and highlighted steps that must be taken from a human resource perspective prior to unbundling.

- Attended several meetings with the following KEK Departments in order to support the reform and/or implementation of new human resources policies:
 - KEK's Information Solutions Department (IS) to discuss existing problems and possibilities for further development of the company's human resources software. PA also highlighted problems with, and proposed solutions to, KEK's time attendance control system.
 - KEK's Executive Director of Corporate Services to discuss human resources issues, and outlining the present situation and proposed reforms.
 - KEK's Head of Legal to discuss issues related to the termination of employment contracts and pending court cases.
 - KEK's Head of Archives, to review their responsibilities and propose structural changes in anticipation of legal unbundling.
 - KEK Environment Department representatives, to review their responsibilities and propose structural changes in anticipation of legal unbundling.
 - KEK public relations representatives, to review their responsibilities and propose structural changes in anticipation of legal unbundling.
 - KEK Supply Division to discuss the implementation of district regulations and communication problems; a more constructive approach to implement district regulations was also agreed.

- Pursuant to the terms of the Revised District Regulations, PA supervised the implementation of disciplinary sanctions in the districts against non-performing employees.

- Other discrete tasks included:
 - Preparing job descriptions for the transportation and facilities managers.
 - Interviewing and selecting candidates for "Mercy Corps" Support for Kosovo's Young Leaders project, to include coordinating the implementation of the cooperative agreement between KEK and Mercy Corps.
 - Preparing uniform templates for job descriptions.
 - Preparing job descriptions for all Human Resources employees.
 - Evaluating potential early retirement schemes for KEK employees ages 55 and over.
 - Reviewing KEK's Coal Production Division employees' annual, sick or other type of leave in coordination with an ongoing internal audit inquiry.
 - Developing and implementing improved processes for recruiting Serbian employees.

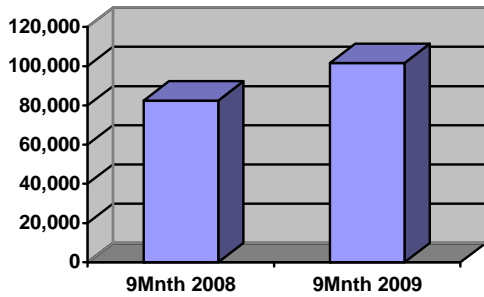
Task 2: Amend Distribution Structure and Regulations

In the third quarter, KEK districts collected €400,000 more than in the same period of 2008. However, their overall work performance in terms of collecting for energy available for sale was less effective than in the first and second quarters of 2009.

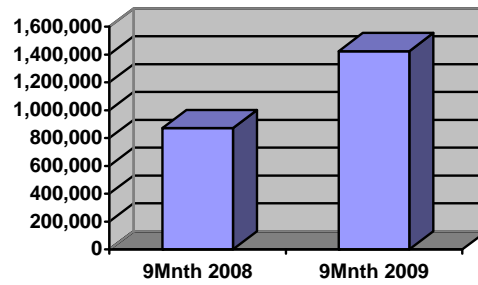
To illustrate KEK's performance, PA conducted a comparative analysis of the first 9 months of 2009 and 2008, and the third quarters of 2009 and 2008.

9 Months 2009 vs. 9 Months 2008 - Excluding 110 kV customers, collections (more than €19 million) were 23% higher in the first nine months of 2009 than in the corresponding period of the prior year, while the number of transactions (552,313) increased by 63% compared to the first nine months of 2008.

Collections (000€)



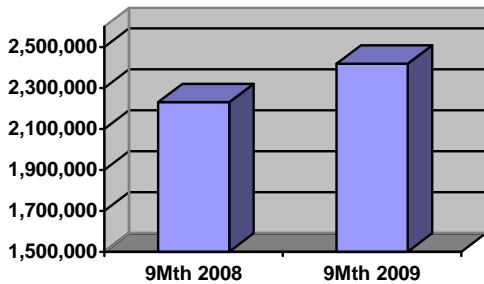
Number of Payments



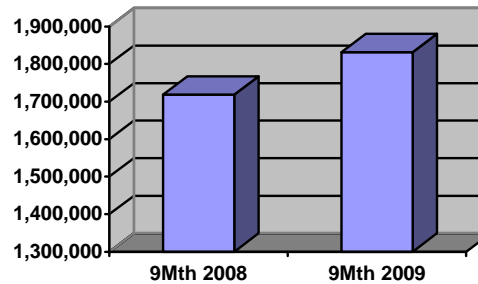
As in the first and second quarters of 2009, KEK's progress compared to year 2008 is due to an increase in the amount of energy supplied to customers and an increase in the collection rate. In the first nine months of 2008, the billing rate (amount of energy billed as a percent of energy available for sale) was 77% and the collections rate was 71%, producing an overall performance (collection of delivered energy) of 54%.

For the comparable period in 2009, the billing rate was 75%, the collection rate 79%, and overall performance 59%. Commercial losses are still one of the most problematic issues for KEK.

Energy Available for Sale (MWH)

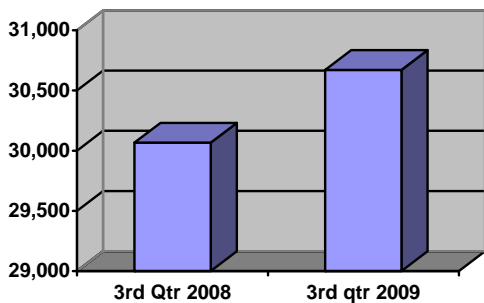


Energy Billed (MWH)

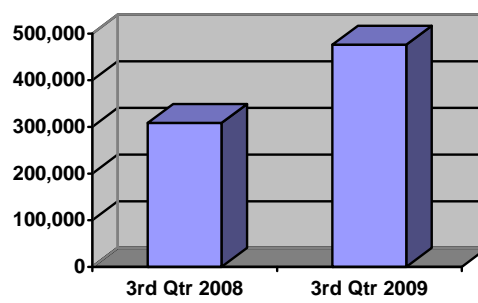


Third Quarter of 2009 vs. Third Quarter of 2008. In the third quarter of 2009, at the distribution level in the districts, collections were €600,000 more than the 2008 period, while 167,723 more transactions occurred (54% higher).

Collections (000€)

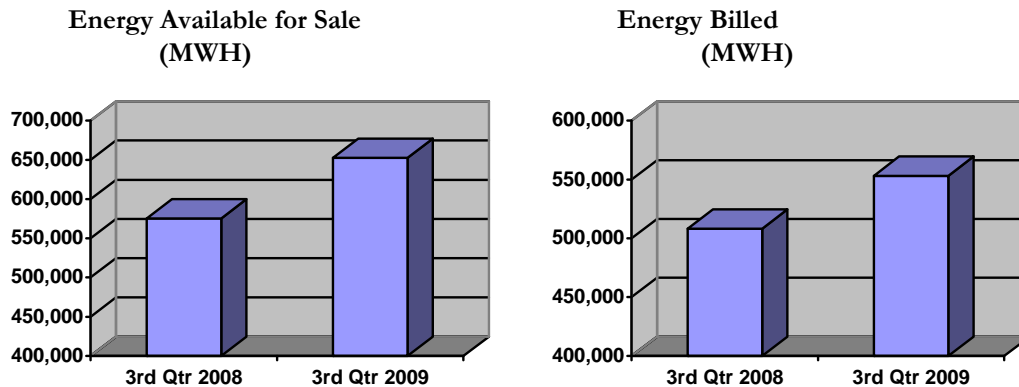


Number of Payments



In third quarter of 2008, the billing rate for the districts was 88%, the collection rate was 96%, and overall performance (collection of delivered energy) was 85%. For the same period in 2009, the billing rate was 85%, the collection rate 91%, and overall performance 77%. For the first nine months, KEK performed better, but for the third quarter, performance was worse. The

better performance Q3 2008 can be explained with the start of the Pilot Project in 2008. The performance in 2009 is considered unacceptable.



One of the main problems identified as a cause of unsatisfactory performance is KEK management's lack of desire to discipline district managers and other managerial employees. PA developed "District Regulations" and proposed that KEK management issue four district managers written warnings and deduct 20% from their salary for non-performance, but KEK took this action with only two district managers.

To give KEK management the tools they need to determine non-performance and related disciplinary action, PA developed a new executive order on the disconnection of customers, which was adopted by the Managing Director. PA also established and is monitoring the new disconnection policy. District managers and regional directors were trained on how to implement the policy. With PA's help, KEK management obtained declarations from all district managers where they stated and signed that they understand all their responsibilities.

With PA instructions, the new feeder team assignment and policy were implemented on 1 September. Training was held for district managers and regional coordinators on how to assign feeder teams and evaluate their performance.

With PA's assistance, KEK moved approximately 17,000 customers in three areas (Malishevo, Rahovec and Xerxe) of Prizren District to Gjakove District. For many years this initiative was on hold for different reasons, but with PA's help, the transfer was completed. The reason for transfer was that these areas are fed from the same 110 KV substation, Gjakove 1. Proximity and electrical system layout also contributed to the justification. Also, Gjakove is a very small district serving only 24,000 customers, while Prizren covers a vast area in comparison. With this change Prizren District will get some relief and Gjakove District became the same size as the other districts.

PA started a project to connect customers in Mitrovica District to a new 0.4 kV network. This network was constructed years ago, but customers still were served by the old feeder. PA will monitor the process of connection in the fourth quarter.

PA conducted interviews for the position of district manager. From 81 applicants, 15 were short-listed and 3 were chosen. PA trained the candidates for two days and a decision was made to assign these individuals, during the three-month probation period, to the district for two months and the internal audit (revenue protection) function for one month.

Task 3: Improve Energy Accounting

Two projects to improve energy accounting moved forward this quarter. First, a contractor completed the installation and commissioning of data concentrators for remotely reading 256 meters on 10 kV feeders. Second, an additional 256 fully indirect meters were ordered from Landis & Gyr so that the 256 electro mechanical meters on the other 10 kV feeders can be replaced with electronic meters that are compatible with, and read by, the data concentrators. These two projects supply data to the ABC v3.0 program.

A shipment of 1,500 ‘half indirect’ meters for commercial customers was received during Q3. The meters are now being tested and sealed in the KEK meter lab. The meters will then be distributed to the districts. The meters will help improve an important key performance indicator (KPI) for the project: “the percentage of energy accounted for.” Increases in this KPI will lead to increased billings and increased revenue.

Two shipments of 2,500 meters each for use on residential services were received, tested and sealed at the KEK Meter Laboratory, and sent to the field this quarter. These meters will support the regularization of service in the minority areas; the KEK agreements with these areas call for KEK to inspect and seal the metering, and to repair or replace non-conforming metering.

Additional metering at LOMAG came on line this quarter. The one-line diagram for the power system network, showing the location of the meters for energy accounting, was updated. KEK’s procedure for monthly reporting to the Board of Directors on KEK’s energy accounting was updated, taking into account the additional metering and the updated one-line diagram.

Meters with remote reading capability were installed in Ferizaj District starting in Q1 2009, and were expected to be operational by the end of Q3 2009. However, at the end Q3, only about 50% of these meters had been installed due to the lack of an available and qualified workforce and other higher-priority work. The meters are installed on the secondary (0.4 kV) side of the 10/0.4 kV distribution transformers. They will enable the ABC program in Ferizaj to be moved from the 10 kV level down to the 0.4 kV level at about two-thirds of the distribution transformers in the District.

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	Q3 2008	Q3 2009	Change
Ratio of energy billed vs. energy available for sale	79.8	86.1	85.9	(0.2)
Percent of money collected vs. billed	75.6	94.5	91.0	(3.5)
Percent collected vs. energy available for sale	60.3	81.4	78.2	(3.2)
Collected revenue (millions of Euros)	134.7	34.3	35.3	1.0

Collections in terms of Euros improved slightly in third quarter 2009 vs. third quarter 2008 due primarily to the increased amount of energy available for sale. The unaccounted-for energy during the third quarter (as measured by the ratio of energy billed vs. energy available for sale) was higher than for the same period last year. KEK’s Managing Director told the districts that performance on this measure must improve notably and feeder teams must devote more effort to reducing unaccounted-for energy (commercial losses). (See Task 2 discussion.)

The percent of money collected vs. billed was also lower than the same period last year. This was affected by the lower than required number of disconnections being performed by the districts as discussed in Task 2.

Source of Collections

The table below displays the sources of collections for the first nine months of 2009 in terms of both the number of payments and Euros collected.

Total Jan-Sep 2009	# of Payments	%	Euro (000)	%
Customer offices	1,184,222	89	74,011	66
KOS-Giro	28,256	2	12,360	11
Bank transfers	47,305	4	13,886	12
Payroll deductions	65,081	5	1,589	1
Direct debit	63	-	1,465	-
Total districts (CCP)	1,324,927	100	101,847	89
Direct (110 kV) customers	18	-	12,341	11
Total collections	1,324,945	100	114,188	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
Q3 2009	11,298	3,868
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.

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 third 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 to implement direct debit.

During the second quarter the Direct Debit IT systems of KEK and the commercial banks were tested and proved operational. The number of customers is gradually being 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. During the fourth quarter, the customers classified as A+ began being added to the direct debit system.

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

CCP Cleanup Initiative

The cleanup initiative to improve the integrity of CCP customer information moved forward during the third 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 completed by the end of the third quarter using the Field Verification Form, selection criteria, and software package developed by PA. This involved visiting over 185,000 locations and reporting the status of the customer.

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 was approximately 20,000. That field work was also completed by the end of the third quarter.

Following the field work, Customer Service personnel in each district coded each of the customers using the field verification data. This coding provided a categorization of each of the situations found to enable the database to be updated. This aspect of the project has been progressing at a slower than expected pace due to the significant workload placed on Customer Service personnel to establish customer records for the newly regularized customers in minority areas. This also involved extensive work to properly code each consumer to the proper feeder since feeder data for most of the minority areas were missing or inaccurate due to lack of access by KEK personnel to these areas for many years. A team of 10 people from headquarters was assigned to assist the districts in this effort.

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 field verification and classification indicated the following anomalies:

- 2,158 facilities destroyed by municipalities
- 5,458 other facilities that do not exist
- 4,447 customers with double accounts
- 12,863 facilities that are vacant most of the time (customers live abroad, etc.)

Approximately 20,000 of the customers flagged for field inspection were classified as being in minority areas, primarily due to the fact that there were few or no payments made on these accounts. Since this project started, KEK has normalized service to those areas and those accounts are being separately handled as part of the minority feeder monitoring.

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

In support of the cleanup of the CCP database, the sketching program of the Network Division continues to investigate and document the 0.4 kV low-voltage secondary network (LVN). There are about 24,000 of these LVNs in KEK (that is, 4 LVN in each of the 6,000 10/0.4 kV distribution transformers); the actual number of LVNs could be higher. Weekly reports are issued by the Network Division, and PA suggested this quarter that in addition to the weekly statistics reported, that the Network Division report the cumulative numbers (that is, results from start of project to present date). The implementation of this change is underway. The following table shows the results through 24 September 2009.

District	Total TS 10/04kV	As of 24 Sept 2009	
		Completed (count)	Completed (%)
Gjilan	676	153	22.6
Gjakove	374	47	12.6
Peje	952	236	24.8
Mitrovica	606	94	15.5
Prishtine	1335	0	-
Prizren	1116	18	1.6
Ferizaj	987	135	13.7
Total	6046	683	11.3

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.

- PA designed a new database structure for centralized repository (data warehouse), which includes historical and operational information related to the Network and Supply divisions of KEK (in progress).
- PA designed and developed a software package TETKo (Tools of Electrical Tree for Kosovo) for analyzing, comparing and representing information about consumption, billings, collections and disconnections on different levels of Network's electrical tree using the databases of CCP and ABC. The software includes the following functionalities:
 - Automated Producing Performance Evaluation form of 10 kV Feeders, developed by PA
 - Producing Financial Balance Reports of 0.4 kV Transformers
 - Producing Energy Balances of 10 kV Feeders with comparison information in the databases of CCP and ABC
 - Representing the Information of CCP and ABC Databases in tree view and tabular forms.
- Preparing the field verification form developed by PA to clean up the CCP Database.

- PA installed and tested the TETKo software package in Pristina, Prizren and Ferizaj districts.
- PA prepared an operational manual and provided trainings for the users of the TETKo software package.

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

The PA team continued to advise KEK on finance and accounting issues during the third 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 preparing the company for privatization. Despite the lack of cooperation from Komtel, which failed to deliver updated versions of the CAS Manuals, the CAS takeover is nearly completed. KEK now has complete control of the system and has been running it without outside support during the last two quarters. During the takeover process, it was discovered that some of the modules of CAS have inadequate functionality and in some cases do not meet the requirements of International Financial Reporting Standards. The most obvious case was the Fixed Assets Module, which (despite the numerous fixes performed earlier by Komtel) could not handle the capitalization of assets resulting in the extension of the asset's life, impairment and reversal of impairment, depreciation of assets funded through both donations and own funds, post-closing adjustments, and other important transactions. (The module's limitations were among the reasons for the qualification on assets in the auditor's report for FY 2008.) Thus, in Q2 PA recommended that the module be replaced by a new one designed by the PA team and programmed by KEK's IS Division.

Another module, which will need a major revamp or will have to be replaced is the Inventory Module. This module has a major deficiency – it does not recognize Bills of Materials and automatically “expenses” all materials taken out of the warehouse. The Inventory Module also fails to present a consolidated report of the company inventory because it functions in a decentralized mode in the different divisions.

The lack of adequate information exchange between the CAS modules also creates problems as the staff working with one of the modules does not have access to the source documents entered in a different module. Thus, the source document has to be entered twice (which is not consistent with best practices and can be a source of errors) or the transaction has to be recorded without analyzing the source document (which results in erroneous recording and reporting of business transactions).

The PA team is addressing all of these issues and adequate solutions are being implemented to eliminate the problems in the short or medium term before the privatization is completed.

During the third quarter the PA team undertook the following activities:

- Supervised the testing and tuning of the new Fixed Asset Module performed by KEK's IS Division with the participation of the Finance Division.
- Introduced improvements to the original design to expand the functionality of the Fixed Asset Module and assisted KEK's IS Division in the software development phase. The improvements addressed:
 - Transformation and partial commissioning of registered assets
 - Automated correction (adjustment) advisor

- Tracing of donated and revaluated amounts
 - Preparing and posting Journals into the GL Module
 - Importing of documents from other modules of CAS into the FA Module
 - Organizing centralized input and creating an integrated repository of financial documents for AP, IM and FA modules (in progress).
- Compared the results of the calculation of depreciation in the new and the old CAS Fixed Asset Modules for the period 2003-2008 and analyzed the differences. Based on the analysis PA will recommend adjustments to the book values of all assets (to be recorded as post-closing adjustments at the end of 2008) to eliminate the errors in the calculation of depreciation identified by KEK's auditors Deloitte & Touche.
 - Supervised the linking the new Fixed Assets Module with the General Ledger and the rest of the modules of CAS. After testing the links the new module will be connected to the system and will run in parallel with the old one for three months. During this period IS will perform final tests of the whole system and as of 1 January 2010 the new module will replace the old Fixed Assets Module of CAS.
 - Worked on the design of 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.
 - Participated in all meetings between KEK and the external auditors from Deloitte & Touche, discussing the work progress and the results of the audit of KEK's consolidated financial statements for FY 2008. Assisted the parties in resolving the following issues:
 - Helped to complete the reassessment of the environmental liabilities of KEK by preparing a detailed summary of the recommendations of all environmental studies funded by EAR, and developing a consolidated budget for all projects aimed at addressing these liabilities. As a result the auditor agreed to remove the proposed qualification of this item in the draft report.
 - Helped to complete the reassessment of the impairment of the assets by preparing a study of the economic and management factors taken into account in the process of establishing the amount of the impairment. As a result the auditor agreed to remove the proposed qualification of this item in the draft report.
 - Identified a major error in both KEK's financial statements and the draft auditors' report, which resulted in a material misrepresentation of KEK's financial position at the end of 2008. In both the statements and the auditor's report, an amount of more than €40 million was wrongly classified as a liability instead of deferred income from government grants. As a result the reported current liabilities greatly exceeded the company's current assets and the auditors questioned KEK as a going concern. As result KEK restated their statements and the auditors changed their opinion of the going concern.
 - Introduced changes to the 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)) to reflect late payments of amounts declared as "bad debt." PA supervised the programming of the changes in the new CCP module. As a result the new module will not only print bad debt invoices, but will also print "VAT Credit Notes."

- Participated in all meetings of the Audit Committee.
- Attended meetings with the World Bank's PIU, discussed the CLRP Project funded by IDA and KfW, and the revision of the estimate of KEK's environmental liabilities.
- Audited the exclusion of RTK from payments made from social subsidies.
- Participated in the negotiations with Raiffeisen Bank of the terms and conditions for providing banking services to KEK and helped to extend the current overdraft agreement pending the completion of the negotiations.
- Continued to supervise the implementation of the recommendations provided in the Auditor's Management Letters for FY 2006 and FY 2007.
- Initiated an audit of the implementation status 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.
- Recommended changes to the current regulations on business trips and entertainment expenses to curb excessive costs.

Task 7: Support Tariff Applications and Improve Regulatory Compliance

Proposals on the Rule on Disconnection and Reconnection

With PA's assistance, 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 held 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 (ERO Decision No. 193). During this quarter, KEK finalized the last additional procedure and submitted it to the ERO for approval. This procedure is on the method for calculating the reclaimed losses from those who are using electricity in an "unauthorized" manner. KEK submitted this in late July 2009.

Renewables and Connection Tariffs

Last year, and 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 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 in Q3. 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.

The final proposal was completed and submitted to the ERO in July. Later, the ERO, KEK and PA met to discuss the proposals. At this meeting, the ERO indicated that they would like to have a single proposal for new connections to small generators and for new customers (note: PA originally had proposed this and it was submitted to the ERO and rejected with the ERO saying that they wanted two separate documents). At the end of this quarter, with PA's guidance, the last draft was being completed by KEK's regulatory staff. It is expected that the "new" connection tariff methodology will be submitted for approval in October 2009.

2010 Tariff Filing

With assistance from PA, KEK's regulatory staff has begun gathering data for the next annual tariff filing. PA drafted a tariff filing plan that describes all of the tasks needed to complete the filing in early 2010. Last year, 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 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 PA, ERO Board members stated that the ERO would not be using the spreadsheets and that they had not read the manual.

The next tariff filing by KEK will, again, use the spreadsheets developed by PA. It is not clear whether the ERO will continue to use their own spreadsheets, which were developed by an EU advisor.

Tariff Schedules

As stated in other 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 late 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 yet agreed to meet. It is hoped that the meetings with the ERO can continue in late 2009 and a final set of Conditions of Electricity Supply/Service should be completed and then approved by the ERO.

Training

PA continued with on-the-job training for KEK's Regulatory Affairs Department. This training involved meeting on a daily basis with the KEK staff to review current activities and teach them the techniques used in the regulatory process. In addition, PA conducted three formal training sessions, each with handouts for KEK staff. The subjects of these presentations included service quality standards, DSM concepts, and overall energy regulation concepts and principles.

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 has attended the meetings in response to requests from the MEM and EC Secretariat. Previously, the MEM requested more specific plans from KEK to meet the EU Directives, primarily in unbundling and customer service procedures. PA continued to support KEK in responding and meeting with the MEM representative.

License Requirements

PA assisted 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.

An additional license requirement for KEK's Network Division is the preparation and submittal to the ERO of the three-year network development plan. According to the provisions of the network license, this plan must be submitted "for approval" every two years. During this quarter, PA provided support to KEK in preparing the plan and followed it with participation in the meetings with the ERO to discuss and explain some of the reasons for the tasks (and costs) contained in the plan. It is expected that this will continue into the next quarter until the ERO approves the plan.

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 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's COTR, PA drafted the TOR for the ERO's tender for a consultant. It was expected that this new advisor would 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. However, at the end Q3 the advisor has not yet been selected by the ERO.

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. 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 2008 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 Q3, 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; PA will support both the Supply Division and the Regulatory Affairs Department in this effort.

Task 8: Improve Internal Controls and Strengthen Internal Audit

Audit, Anti-Corruption, and Revenue Protection

As reported in the second quarter, after PA's insistence, the shareholder appointed all three members of the 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 Board of Directors, and made recommendations on how to mitigate the damage. The most significant elements of PA's recommendations were taken into account by IAC. Consequently, the non-professional person managing the Internal Audit Unit was demoted, and the most suitable available candidate was selected and appointed as KEK's Internal Audit (IA) Officer.

The IA Office structure, which had been destroyed by the previous IAC's ill-considered and ill-advised decisions, needed urgent revamping. All audit functions should be accumulated in the IA Office again. Under PA's guidance, an organization chart for the Internal Audit Office was developed. This structure included the same financial audit and revenue protection functions that existed prior to changes made by the previous IAC. The Anticorruption Unit's name was changed to Legal Compliance Unit, maintaining the same anticorruption functions, but adding more emphasis on legal compliance inspection. A technical support function was proposed for specific professional assistance, but after long discussions the IAC considered it better to outsource this function needed. PA did not agree with this decision, because it means constant outsourcing of recourses, which is very problematic from an organizational point of view, a time when KEK is facing a manpower deficit, and trustful is an issue as well. But in July, the Committee approved the new structure without this function.

After the new office was established, the Financial Audit Function was still dysfunctional because it lacked leadership and professional staff. In July-August with PA's leadership, the vacancy announcement and selection process took place. The three best applicants were selected for the Principal and Senior Financial Auditor positions. PA provided training to the new hires and starting September, full functionality of Financial Audit and implementation their audit plan has commenced.

Training

PA provided 7 days of training to the Principal Auditors of the IA Office. Training involved the organization of office work and definition of priorities, planning, and the deployment of the audit methodology during inspections.

Under PA's leadership, the operations and compliance audit functions remain in synch with the implementation of the Annual Audit Plan (AAP). Network and Supply system analyses and audits have been completed for Ferizaj, Pristina, Gjilan and Prizren districts. They have also performed random and spot audits and sample studies for all districts and all functions.

During the third quarter, under PA's guidance, operations audit function employees continuously conducted night inspections to identify electricity theft and illegal consumption. At the same time ordinary audits were performed during regular working hours. These audits played an important role in identifying commercial loss sites and problems related to loss reduction. Data analyses made clear that district personal and mostly feeder team specialist are neglecting their job requirements. They do not perform even very simple activities for loss reduction.

In all cases the IA Office presented evidence on violations and misuse. Based on the Managing Director's request, auditors made three presentations to district and division managers on the most frequently detected violations and underperformances by KEK employees.

Non-Registered Customer Problem Resolution

The IA Office continued to focus on loss reduction activities and on finding ways to eliminate the unauthorized use of electricity. As reported in Q2, 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 have never paid for electricity, resulting in serious losses for KEK.

To solve these problems, PA organized a number of meetings for the Network and Supply Divisions and district managers. After detailed discussions of the problem and its resolution, PA developed an Action Plan for the "Non Registered Customer Problem." This detailed plan defines responsible people and timeframes for each action. In parallel, PA drafted instructions on the steps to be taken for each case and scenario. The Managing Director issued an executive order to implement the Action Plan and a Special Implementation Commission was established. With PA's support, the commission held their first meetings with the districts and provided clarifications and training on the Plan and its requirements. If implemented properly, the Action Plan should help solve most of the problem by the end of 2009. KEK should receive significant direct income through debt collection from these customers and large sources of commercial losses will be eliminated.

Procurement Audits

Under PA's guidance, the IA Office performed several audits of specific procurements and evaluated the entire Department's activities. A number of irregularities were detected during the audits. Especially interesting was the inspection of the "CISCO" communication equipment procurement process. The tender was initiated based on a KEK IT Department request. This request did not state that €570,000 was budgeted for the entire IT project and the "CISCO" equipment was part of the project, which should not have exceeded €230,000. However, the Procurement Department representatives considered €570,000 to be the budget for the equipment only. This information was leaked, most likely by KEK employees, and bidders were informed about the dedicated sum. As a result, four companies submitted bids with almost the same prices as those in the KEK budget. Procurement officials did not stop the process or react when grave violations of the technical specification requirements were detected in two

companies' bid. Lacking three qualified bidders, the tender should have been cancelled, but an award was announced and contract preparation initiated. However, based on PA's recommendation, the Managing Director stopped the process. The IA Office then recommended that the tender be canceled, a new international tender announced, and that disciplinary measures be taken against Procurement and IS officials.

Serious violations were also detected during a hydro isolation service procurement process for Kosova Power Plants "A" and "B." As the audit clarified, the bid assessment violated legislative and KEK internal procedures. Accordingly, the IA Office recommended annulling the tender results and establishing a new evaluation commission. It also proposed taking disciplinary action against the responsible procurement officials.

Mining HR System Audit

During Q2, an inspection of employee attendance at KEK Headquarters and the Mining Division took place under PA's guidance. The audit detected cases when employee cards were used by other employees to register them as being at work, when they were not present.

The IA Office has since performed an extensive study of the Mining Division's human resources system and operations. The inspection encompassed HR data analyses for all structural entities, as well as field inspections at KEK's the five largest departments. It found that employees are not showing up at work and shift leaders and managers do not detect this. It also found that the Time Attendance System fails when employee are reassigned to different shifts, units, or departments. When workers are moved, they still report to their permanent managers. By the end of each month timesheets are signed by the permanent manager, who often does not know if the employee has reported to his assigned place of work.

Auditors also observed the performance level of employees. When workers learned of the IA Office inspections, teams operating with 65-66% of their staff significantly exceeded their performance targets, which were designated for a 100% staffing level.

With PA's support, a report was drafted with recommendations on how to resolve these problems and for disciplinary actions against employees absent from work without reason. Discussions on the recommendations, HR system and other changes are expected to take place in the fourth quarter with the mine's management.

Performance Evaluations

Under PA's guidance, the Operations Audit Function of the IA Office continued to supervise the implementation of District Regulations. As an audit disclosed, HR Division and districts have failed to implement approximately 70% of the disciplinary measures ordered by the Managing Director, and sometimes put them off for several months. In most cases, the districts and regional coordinators did not coordinate when conducting performance evaluations. Coordinators were evaluating based on CCP data and then informed district managers about persons who should be the subject of disciplinary action. However, the CCP data were often incorrect, and some employees wrongly received satisfactory performance evaluations.

The IA Office organized several meetings with all involved parties, took statements, and scrutinized each case. After two months, it was able to ensure the implementation of the majority of actions in the signed executive orders. These included several dozen final written warnings and a 20 % salary reduction, and 18 dismissals.

Audits and Investigations

During Q3, the IA Office conducted several 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 Office performed night inspections of KEK customers at least twice a week. These efforts resulted in significant success in the fight against commercial losses.

Thirty-eight investigations and audits involving electricity theft were conducted, as were another 4 concerning illegal activities by customers and KEK employees, including violations and non-compliance with written policies and procedures.

- *Investigations.* Currently 28 investigations are ongoing; they are expected to be completed in the fourth quarter.
- *Disciplinary Actions.* As a result of the investigations performed by the Revenue Protection and Anticorruption Units, 16 KEK employees were proposed for dismissal; final written warnings were given to 38 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 Q3, the Operations Audit Function inspected about 1,800 customers' electric use and metering.
- *Network and Supply Operations Analyses and Problem Identification.* The Operations Audit Function continued to analyze Network and Supply operating inefficiencies under PA's leadership. In accordance with the annual audit plan, the Unit conducted audits in Prizren District. Three 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 three comprehensive conclusions and presented to the district and division managers involved in the operation processes.
- *District Inspections.* In accordance with the Annual Audit Plan, the IA teams 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 Prizren District, but also sample studies and spot audits were performed in Pristina, Ferizaj, Peja, Gjilan and Mitrovica districts.

Task 9: Provide Legal Support for Unbundling and Privatization

The Unbundling/Privatization Process

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

- PA made a presentation to the Ministerial Committee for Publicly Owned Enterprises (POEs) outlining its recommendation on the appointment of the incumbent KEK Board as the temporary Board of Directors to expedite the registration of the new Distribution Company (KEDS).
- Several meetings were held with the head of the POE Unit at the Ministry of Economy and Finance on incorporating KEDS. Thereafter, PA provided significant assistance to the POE Unit in connection with the registration process, to include finalizing the

company corporate documents and the application form. KEDS was registered on 11 September 2009.

- PA finalized the terms of the interim electricity supply agreement between KEK and the new Distribution Company, which will be applied in the period between KEK's legal unbundling and the privatization of KEDS and/or the sale of KEK's mining or generation assets.
- Documents that were collected in prior months from KEK Districts relating to the use of land have now been indexed and filed.

Debt Recovery

PA helped KEK finalize a new internal pilot project focusing on the enforcement of debt judgments in selected Municipal Courts. The project was approved by the participating divisions (Network and Supply) in July 2009, but has not yet been implemented. In the same vein the percentage of debt claimed versus recovered remains unacceptably low (15.5%), which reflects the wider deterioration in debt enforcement within Kosovo's court system. In the absence of a significant improvement in the number of debt claims executed by the courts, there is little prospect of increasing the percentage of debt claimed versus recovered.

On a more positive note, PA will be participating in two training sessions for execution clerks on 20 and 22 October 2009, which is being organized by another USAID implementing partner (the National Centre for State Courts).

Other Advice to KEK on Discrete Legal Issues

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

- Advising KEK on its dispute with Turbocare in connection with the purchase of a used transformer for the Kosovo A Power Plant.
- Continued assistance with the procurement process for the refurbishment of the water treatment facility for the Kosova A Power Plant, to include finalizing the tender dossier and producing a draft contract.
- Finalizing the lease and Power Purchase Agreements for the rehabilitation and capacity increase of two small hydro plants owned by KEK: Dikanc HPP and Radavc HPP. The contract documents for both HPPs were executed in September 2009.
- Continued implementation of the Board-approved strategy for the treatment of those services outsourced by KEK in 2006.
- Providing legal assistance to KEK's efforts to regularize electric service to minority communities, to include drafting an agreement for the provision of electric utility services between KEK and a new Electricity Services Company for the northern part of Kosovo.
- Advising KEK on the terms and conditions offered by Raiffeisen Bank Kosovo for the provision of banking services.
- Assisting with the procurement process for the design and construction of a new 100/35/(20) 10 kV substation in the vicinity of Vaganice, to include finalizing the tender dossier and producing draft contract terms.

- Assisting with the procurement process for the rehabilitation of Unit A2 of Kosova A Power Plant, to include preparing the tender dossier and terms of reference.
- Drafting contracts for the supply of half indirect and full direct commercial meters.
- Advising KEK on its cooperation agreement with the Ministry of Trade and Industry and Glogovc Municipality in connection with the development of the Drenas Business Park.
- Developing new corporate documents for KEK and presenting them to the Board of Directors.
- Advising KEK in connection with implementing the new EFET General Agreement and customized election sheet for electricity imports.
- Developed a new set of procedural rules for the sale of KEK's movable assets.
- Developed a draft agreement for construction of new 10 kV feeder to the Dečani Monastery.

Task 10: Assist Privatization Transaction Advisor

The tender for hiring the privatization transaction advisor was launched in October 2008, but the first procurement activity ended unsuccessfully, and was re-tendered in March 2009. It now looks likely that second procurement activity will also be cancelled. Therefore, as matters currently stand, there is no definitive timeframe for the appointment of a transaction advisor.

Notwithstanding the above, PA continues to take preparatory steps in anticipation of the eventual appointment of a transaction advisor, to include:

- Continuing collect documents for the data room, which has been established in KEK's Distribution Building
- The external auditor is in the process of finalizing KEK's consolidated and unbundled financial statements for FY 2008, and will also be presenting the consolidated and unbundled financial statements for the first six months of FY 2009 during Q4.
- Continuing to assist with the asset registration project of the KEK Finance Department.
- Finalizing a new organizational chart for the Distribution Company, which will be implemented in the next quarter or early 2010.
- Developing a number of draft documents that will support the work of the transaction advisors as, and when they are appointed, such as regulatory licenses, a distribution privatization law, and a regulatory statement for future tariffs.

Task 11: Support Normalization of Service to Enclaves

Much progress was made during the third quarter on normalizing service in minority areas, which built on the foundations laid in the second quarter.

Agreements Reached with 125 Communities

During the Q2, PA developed the “Agreement between Community Leaders and KEK to Regularize Electric Service” so that minority area consumers who have not paid for 10 years will become regular KEK customers. PA Advisors spent over 30 days in the field to execute the Agreement to Regularize Service with 123 communities. During the third quarter, the two remaining minority areas in Kosovo South of the Ibar/Ibër River, Gračanica/Graçanica and Štrpce/Shtërpçë, were regularized as discussed below. PA developed a methodology to monitor KEK and customers’s performance on each agreement. The KEK IS Department wrote the CCP application specified in the methodology. PA trained the Minority Agreement Analyst assigned to this task as well as personnel in the districts. This system is being used to monitor each customer under each of the 125 agreements.

Gračanica/Graçanica Regularized

After holding several meetings with community leaders in Gračanica/Graçanica, it was obvious that they were unwilling to sign the standard Community Agreement to Regularize Service. PA developed a Notice to Consumers. Beginning on 19 June Gračanica/Graçanica received power only from 24:00 until 07:00 each day. Power was provided from 26-29 June for the Vidodan celebration (a Serb remembrance event), but on 30 June the two 10 kV feeders to Gračanica/Graçanica were disconnected.

PA developed a variation of the Agreement to Regularize Service that was signed by approximately 1,300 individual consumers in Gračanica/Graçanica. This process was completed in July and the feeders were reconnected providing power to the area on 3 July.

Štrpce/Shtërpçë Regularized

Significant resistance was encountered from all leaders in Štrpce/Shtërpçë. As was the case in Gračanica/Graçanica 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.

Since KEK had to have control of the 10 kV feeders serving the Štrpce/Shtërpçë area prior to being able to register customers, it was imperative that the EPS personnel operating the Štrpce/Shtërpçë (35/10 kV) Substation turn control over to KEK. Repeated requests to provide KEK the keys to the substation were rejected by EPS personnel. As of 30 June extended load shedding began in Štrpce/Shtërpçë and the 35 kV feeder serving the region was only turned on between 24:00 and 07:00 each day. After meeting with Štrpce/Shtërpçë officials again on 10 July, it was obvious that they would not sign agreements and they would not have the keys to the substation turned over to KEK. As a result, on 11 July the 35 kV line was disconnected, leaving the entire Štrpce area without power.

The stalemate ended on 30 July when the keys to the substation were turned over to KEK. After gaining control of the substation and with the ability to control the six 10 kV feeders, the 35 kV line was reenergized. KEK personnel were immediately mobilized to begin the registration process. Feeders to the small factories were turned on once they signed and on 3 August, the two feeders serving central Štrpce were reenergized once the required 70% of consumers registered and paid the required €26. The other feeders were subsequently reenergized once those customers were regularized.

The Socially Owned Enterprises (SOEs) involved in the tourism business (two large hotels and the ski area) were individually disconnected since they refused to acknowledge that their debt had to be paid (at least partially) to KEK either now or at the time of the entities' privatization. PA developed a specific agreement for the SOEs which provided for the recovery of the cost of electricity consumed during the prior 36 months. As of the end of the third quarter, the consumers refused to sign the agreements and remain disconnected.

Discussions with the Government of Serbia and EPS

Discussions continued with the Government of Serbia (GoS) and EPS concerning having a subsidiary of EPS (to be registered as a commercial business in Kosovo) act as a contractor (energy service company or ESCO) to provide network operation and maintenance, meter reading, billing, collection, and customer service in minority areas. In order to make progress and move the matters forward, PA produced 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, and provided them to GoS and EPS on 3 July.

On 25 September a meeting was held in North Mitrovica between PA and GoS representatives to discuss the draft contract. The GoS representatives basically agreed with the commercial provisions of the draft contract. However, their primary concern, from a political standpoint, is that the only area being offered to them is the area north of the Ibar/Ibër River since the communities of Gračanica/Graçanica and Štrpce/Shtërpçë have already been regularized. They have a political dilemma of treating the north differently than the south. Given Serbia's dilemma, it appears that KEK may have to regularize the north, following the same process as Štrpce.

Initiatives Related to IDP Collective Centers

Since KEK did not previously have access to minority areas, it did not have to deal with the Internally Displaced Persons (IDP) Collective Centers in those areas. PA met with a representative of the Republic of Serbia Commissariat for Refugees who identified 10 centers in Kosovo south of the Ibar/Ibër. Four are in the Štrpce area, two in Gračanica/Graçanica, two in Fushe Kosova (one recently closed), and two in Gjilan, housing approximately 535 people. PA visited eight centers and assessed their living conditions and electrical configuration. The two in Gračanica/Graçanica had no meters so KEK installed meters at the entrance to the facilities (not individual housing units). The other facilities have community meters. PA is working with the Ministry of Labor and Social Welfare to determine the social programs available to the residents. The Social Cases Subsidy for electricity may be able to cover part of the consumption of these facilities (subject to the residents applying and qualifying) and the remainder will need to be covered by donor(s). This initiative continues into the fourth quarter.

Initiatives Related to Orthodox Religious Facilities

In line with the directive of the international community not to deal with Serb consumers, KEK had not required Orthodox religious facilities to pay for 10 years. With the current plan to require all consumers to pay going forward or be disconnected, these facilities need to be addressed. Given the high level of sensitivity of these facilities, PA developed an orderly plan to deal with them. First, 80 facilities were identified, some of which were in KEK's customer system.

On 17 July, PA and the KEK Managing Director met with officials of the Dečani Monastery to discuss regularizing electricity service. The officials were interested to learn about KEK's efforts to regularize service to religious facilities and were provided with a copy of the Agreement to Regularize Service. They indicated that they would discuss the issue with church authorities and be in touch with KEK soon. Shortly thereafter, they contacted KEK and indicated they were willing to sign an agreement but had some questions on technical issues and tariffs. On 21 July, PA and KEK Network personnel met at the monastery and presented tariff information and the

monastery signed the agreement (see the discussion below concerning technical and metering efforts made for this new customer).

The KEK District Manager made several attempts to contact officials of Gračanica/Gračanica Monastery, but they refused to meet or accept any written communications. OSCE and Irish KFOR organized a meeting between PA and officials of the Gračanica/Gračanica Monastery on 10 August. PA explained the overall situation and told the officials that, since there is an agreement in place for Gračanica/Gračanica, all that the monastery needs to do is sign the individual attachment to the agreement as the other 1,300 consumers in the area had done. Monastery officials indicated they would review the situation with their superiors. No response was forthcoming, so a letter was sent to the monastery indicating they would be disconnected. On 2 September the monastery was disconnected. The situation received considerable press attention in Serbia and Kosovo, since the Bishop indicated he would not pay KEK (a Kosovo institution) for political reasons. In an attempt to address the sensitive political concerns, PA developed a proposal to have an “intermediary” sign the agreement and be responsible for receiving the monthly bill and paying it on behalf of the monastery. This proposal was provided to Serbian Government officials on 8 September; however, no action has been taken by them or the monastery, and the monastery remains disconnected.

PA prepared an Executive Order that was signed by the KEK Managing Director instructing the districts how to deal with Orthodox facilities. To initiate contact with the other Orthodox facilities, the Managing Director sent letters to the 80 facilities requesting they contact the KEK District Manager to regularize service or be disconnected. District Managers are required by the Executive Order only to deal with these institutions under the MD’s direction. During September, these letters were delivered to all facilities. Very few took action to regularize service, primarily due to the political issues raised by the Bishop associated with Gračanica/Gračanica Monastery. As a result, the situation at the end of Q3 is as follows:

- 10 facilities have regularized service.
- The other 70 facilities have been disconnected, of which a few are destroyed or no longer in use.

Outreach to Newly Regularized Areas

US KFOR has a weekly program on Radio HERC in Štrpce/Shtërpçë. The KFOR moderator of the program requested that the KEK Managing Director be interviewed live by him on the 18 August broadcast. Interview questions were provided in advance and PA developed the responses for the MD. Topics included the regularizing of service in minority areas, specifics of the agreements, the issue of past debt, the ABC load shedding program, and the public image of KEK. The interview went very well, according to the feedback.

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/Gračanica.
- Six coordination meetings were held during the third quarter with representatives of KFOR, EULEX, ICO, OSCE, UNMIK, and USAID; 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 in implementing KEK’s plans.

Checklist to Disconnect North of the River Ibar/Ibër

As part of the efforts to regularize the customers north of the Ibar/Ibër, the PA team led the development of a checklist document for the disconnection and reconnection of the whole distribution system north of the river. This is an extraordinary disconnection procedure since it includes disconnection of the power system at the 110 kV level. The north regularization plan addresses safety, operation, and security concerns related to regularizing the 15,000 to 20,000 customers in northern Kosovo.

Monitoring Compliance of Substations North of the Ibar/Ibër to ABC Load Shedding Instructions

The PA team facilitated the development of a report for monitoring, logging, and reporting of compliance of distribution personnel in substations north of the Ibar/Ibër to ABC load shedding instructions from the KEK Network Operations Center. It was documented that: 1) the distribution personnel in this area do not obey KEK NOC switching orders and 2) it is difficult, and impossible at times, to independently quantify (meter), verify and document the requested load reduction. The expected results are: 1) that KEK and KOSTT should be assigned operating responsibility for the transmission and distribution systems north of the river and 2) they should install remote reading meters at key locations north of the Ibar/Ibër.

New 10 kV Feeder to the Dečani Monastery

KEK has agreed to build a new 10 kV distribution line from the Isniqi 35/10 kV Substation to the Dečani Monastery as part of the regularization of supply. The PA team facilitated the technical planning for this new feeder, whose construction will be completed in Q4 of 2009.

Replacement Current Transformers for Dečani Monastery

Further to the regularization of supply to the Dečani Monastery, KEK installed new meters and new current transformers (CTs). The initial set of CTs was both incomplete and mismatched. PA was instrumental in getting KEK to buy a set of new, matching CTs and having them installed at the Monastery. The metering and the replacement CTs were installed in the third quarter.

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 33 months since PA began working in KEK, and it still has no mandate. Even though KEK's Board and management have not recently challenged PA's involvement in KEK's activities, in several occasions in Q3, MEM, MEF, and other Kosovo organizations have advised the Board and the MD to not listen to PA's advice. If the Boards and KEK managers do not perform according to their mandate and PA challenges them to do their jobs, the Board/management 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 as needed and it is advisable for USAID to have a simple MOU in place to meet the needs of all involved parties.

KEK Board of Directors

In contrast to the previous Board of Directors, the existing Board has shown a willingness to cooperate with PA and displayed greater awareness of corporate governance issues and the scope of its role and responsibilities. However, Board members remain vulnerable to manipulation by internal and external parties as well as the other Board members, as experienced during the selection of MD and the CFO.

Procurement

Kosovo's procurement regulations remain a significant problem. 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. As reported in previous quarters, KEK has introduced new Regulations for Operations in KEK districts, which provide clear benchmarks for assessing poor or unsatisfactory performance by employees and introduce a zero-tolerance approach to serious disciplinary offences. However, KEK management is reluctant to fully implement its terms.

Stakeholder Interference

This was one of the barriers to KEK's progress identified in PA's earlier analyses. 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. Most recently, EU representatives have threatened to derail the ongoing procurement activity for the rehabilitation of Unit A2. 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

Problem: Komtel has failed to deliver up-to-date manuals for CAS and CCP. This has complicated KEK's takeover of the systems and their operation in the post take-over period. This problem has been compounded by the discovered defects in some of the modules of CAS and CCP and by their inadequate functionality, which becomes more of a problem with the aging of both systems (both CAS and CCP are becoming increasingly outdated).

Solution: PA is helping KEK's IS to either introduce improvements to the existing modules (which is very difficult due to the fact that KEK does not own the source code) or to develop and implement new modules (designed by PA), which meet all business requirements. PA is also designing an integrated data warehouse that will store and process all the information currently stored and processed by CCP and CAS.

Value Added Tax (VAT)

The Kosovo Tax Administration (KTA) and KEK agreed to change the algorithm for calculating "bad debt" for VAT purposes to reflect late payments of amount already declared "bad debt."

Problem: The module for calculating bad debt and printing bad debt invoices cannot calculate the new amounts of bad debt and cannot print the required credit notes to be delivered with the electricity invoices in cases of late (more than 6 months overdue) payments.

Solution: PA has helped KEK's IS Division to introduce changes to the new CCP module that calculates "bad debt" for VAT based on the new methodology approved by KTA. The module will not only print bad debt invoices, but will also print VAT credit notes, electronic copies of which will be delivered on a monthly basis to KTA. PA also assisted KEK's Tax Department in filing VAT based on the new algorithm.

Resolving Issues of Electricity Provided to Minority Areas

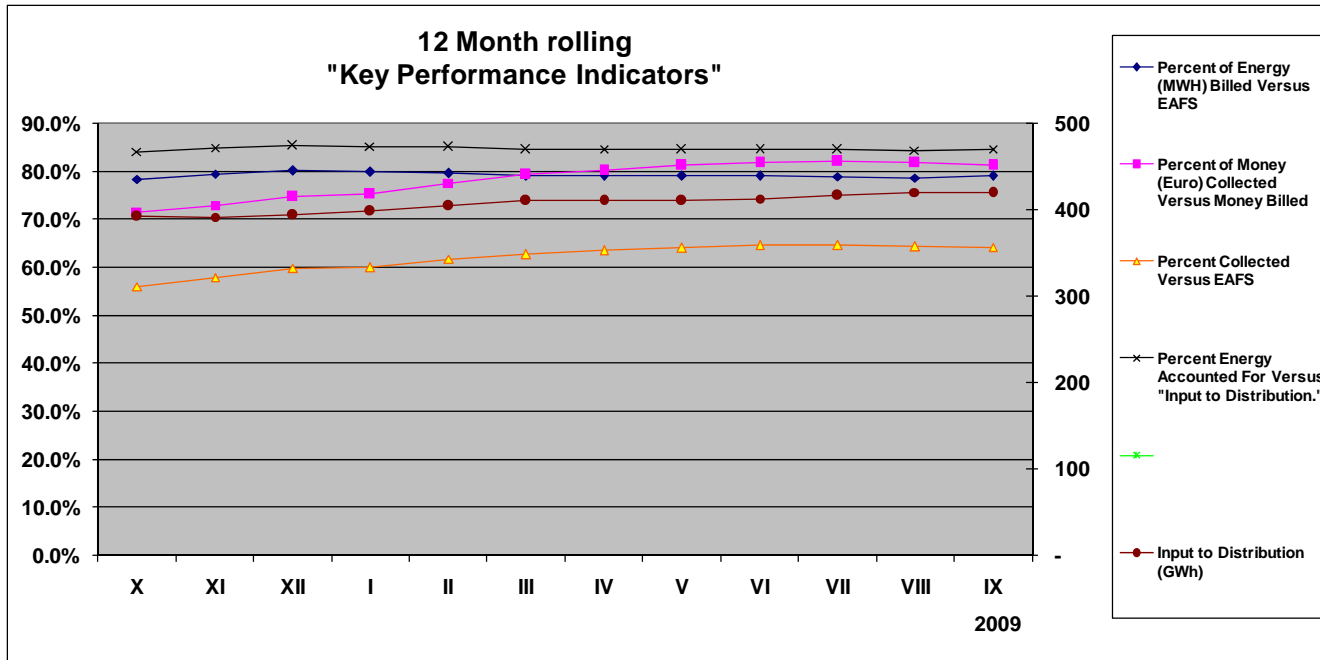
Problem: Minority areas use over 10% of the energy entering the distribution system, but do not pay for it (this group accounts for less than 5% of the population). This situation has remained unresolved for ten years.

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 third quarter, virtually all communities south of the Ibar/Ibër have signed agreements and regularized service. An exception is most of the Orthodox religious facilities, which have been disconnected. Initiatives to regularize customers north of the river are being launched and significant effort is being devoted to this area during the fourth quarter.

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 September 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

Note the decrease in this KPI.

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 feeders by the “amount of unaccounted for energy.” Thus, each month District personnel receive a ranked list of the feeders that, when fixed by District personnel, can produce the greatest increase in billings (kWh). Rather than using the energy balance reports as the guideposts on where to look for bad metering and unauthorized connections, KEK field personnel have tried to use the reports of unaccounted-for energy to blame management, the CCP system, the ABC system, or metering. KEK management appears to be succumbing to this “shift of the spotlight” away from field personnel (both the causes and the solutions to the problems) and onto a delaying tactic.

- Proceed with the CCP cleanup program described in this report, where district personnel continue to use the sketching of the 0.4 kV low-voltage network to find and 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

Regularizing Service to Consumers in Minority Areas

PA is utilizing the lessons learned in regularizing the consumers in Gračanica/Gračanica and Štrpce/Shtërpçë to develop the detailed strategy to regularize service in the north, a much larger area. For example, experience shows that:

- Community leaders and residents do not take KEK seriously on the issue of requiring them to register and pay going forward until KEK shows it is serious in its commitment to disconnect.
- Community leaders may not have the willingness or the mandate from residents to enter into agreements. Thus, KEK must provide the option of having individual consumers sign an alternative form of agreement in order to regularize service.
- Once leaders or individual consumers decide to register and pay, KEK must devote sufficient personnel to the registration task in order to be able to reenergize each feeder as soon as the required number of customers register and pay.
- The processes of visiting each customer to inspect, seal, and register their meter takes considerable time and personnel resources, especially considering that KEK is not familiar with the area. The option to bill the customers at an unmetered tariff (possibly for several months) until the field work is completed is necessary.

These lessons learned will be applied in developing the plan to regularize the North.

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 Deloitte advisors on issues regarding the privatization of KEK and the New Kosovo Project. Draft documents were shared with Deloitte 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 Deloitte advisors at the Tax Administration on various issues, including the new Ruling on VAT and KEK's corporate tax liability.
- PA cooperated with Deloitte 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.
- 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.
- The PA team identified and nominated four KEK employees to travel to Southern Cal Edison at the invitation of the Southern California Edison Company (SCE). The visit is facilitated by USEA and funded by the USAID.

VIII. Upcoming Events with Dates

Minority Areas

As discussed in Section 2, Task 11, significant progress was made in the second and third quarters on resolving issues in minority areas. During the fourth quarter, extensive efforts will be made to regularize electricity service for all consumers north of the Ibar/Ibër River.

PA will continue 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 north of the Ibar/Ibër and other minority related issues and concerns.

Direct Debt Mechanism

This new mechanism has been fully tested and is working well. The number of participants has been gradually increased each month and is expected to be made available to all consumers during the fourth quarter.

Legal Unbundling of KEK

Subject to progress on appointing a privatization transaction advisor, the legal unbundling of KEK's Network and Supply functions is expected during the fourth quarter, or early in 2010.

Training for Debt Enforcement

USAID's implementing partner (NCSC) will be running a workshop on 20 and 22 October 2009 for the enforcement of debts, specifically for utility companies.

Roundtable on Reform of Enforcement Law

The Ministry of Justice and the Balkans Enforcement Reform Project (funded by the Netherlands Government) is convening a roundtable to discuss reform of the enforcement law in Kosovo on 8 and 9 October 2009.

Vaganice Substation

It is expected that the contract for the design and construction of the new 110/35/(20) 10 kV substation will be concluded in the fourth quarter.

Bids for the B Units' Water Treatment System

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

Main Transformers for Kosovo A and B

The new GSU for Kosovo A4 and B1 are scheduled to be delivered in late Q4 2009, per the signed contracts between KEK and Koncar.

Contract with RTK

The agreement between KEK and RTK, wherein KEK acts as collection agent for the RTK fee, expires in November 2009. PA has informed the international community that KEK will not enter into another agreement with RTK unless forced to do so by the government or the international community. PA will continue to support KEK in this decision.

Rehabilitation of A2

Subject to any contrary instruction from the Government of Kosovo, expressions of interest are due from bidders for the proposed reactivation of Kosova A2 on the 16 October 2009. Discussions will be held with qualified bidders in November 2009.

New External Auditor

KEK will initiate a new procurement for the selection of a new external auditor for the audit of KEK's financial statements for FY 2009.

Emergency Power

KEK will initiate a new procurement for the supply of emergency power imports for the period November 2009 until December 2010.

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	Completed. Most targets for 2009 will be met.
1.3	Visible leadership by the MD with clear performance expectations from all levels of management	Ongoing	Partially completed. Progress has been achieved. Lack of MOU for PA's work in KEK has made the full achievement unlikely.
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.
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	Completed. KEK management has informed all parties of their intension.
1.8	Preempt any new encumbrances, liens, or liabilities.	October 2009	Completed. The situation is monitored regularly.
1.9	Monitor compliance with the Credit Line Agreement with Raiffeisen Bank.	Ongoing	Completed. 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	Completed. Compliance is monitored.
1.11	Monitor the newly created pledge register at the Ministry of Trade & Industry to ensure no new liens are registered against KEK.	Ongoing	Completed. 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	Completed.
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	Completed. 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 (End-of-month)	Date	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		Completed. 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		Completed. <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		Completed. <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 (End-of-month)	Date 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	<p>Completed.</p> <ul style="list-style-type: none"> • The first two of three shipments of residential meters have arrived and the meters are being processed through the Meter Lab. • A shipment of 1500 meters (half indirect) for commercial customers have arrived, and are being tested and sealed now at the KEK Meter Lab. They will then be distributed to the Districts. • The contract for 1500 meters (fully indirect) for industrial customers and substations has been signed. It was delayed during review hearings by the PPRB. • 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.	<p>Completed.</p> <ul style="list-style-type: none"> • All minority communities have meters and have been regularized, hence no need for remote meter reading. • Per PA's recommendation, USAID metering project was terminated.

Nr.	Task 4: Increase Collections from Customers Specific Objectives / Accomplishments	Completion (End-of-month)	Date	Major Activities Completed/ Status of Deliverables
4.1	Improve collections, over the baseline, per PBMS targets for 2008 and 2009	Ongoing		Collections improved slightly (3% higher) in the third quarter of 2009 compared to the same period in 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.
4.3	Feeder teams to aggressively perform disconnections of customers for non-payment and unauthorized use.	Ongoing		Payments increased significantly in the districts; however, the level of unaccounted-for energy (commercial losses / unauthorized use) is still at unacceptably highs. See discussion of Task 2 in Section III.
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		Completed. 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		Completed. 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		Completed. This new mechanism has been fully tested and is working well. The number of participants has been gradually increased each month and is expected to be made available to all consumers during the fourth quarter.

Nr.	Task 4: Increase Collections from Customers Specific Objectives / Accomplishments	Completion (End-of-month)	Date Major Activities Completed/ Status of Deliverables
4.7	Advise KEK and the Government to improve the effectiveness of the Social Cases Subsidy by broadening the base of recipients.	December 2008	<p>Completed.</p> <p>The 2008 subsidy was successfully posted to customer accounts during Q2.</p> <p>The Ministry of Labor and Social Welfare has established the criteria for the 2009 subsidy level to be <u>up to</u> 400 kWh per month to accommodate the increasing number of recipients (specifically in minority areas).</p>

Nr.	Task 5: Assist KEK to Take Over and Clean Up CCP Specific Objectives / Accomplishments	Completion (End-of-month)	Date 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	Completed. Komtel delivered 5 updated manuals but failed to deliver the rest in Q3. A new solution to the problem has been proposed which is based on a new integrated data warehouse currently under construction.
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.

Nr.	Task 5: Assist KEK to Take Over and Clean Up CCP Specific Objectives / Accomplishments	Completion (End-of-month)	Date Major Activities Completed/ Status of Deliverables
5.7	Automatic and manual corrections to the customer database made in response to detected and identified anomalies are defined.	December 2008	The work plan for CCP cleanup was developed and approved. The Analysis Team developed the flag reports to be used by field teams. Field work is complete and Customer Service personnel are working to reflect the results in CCP.
5.8	Procedures that were created and approved to clean up the CCP data base are implemented.	March 2009	Completed. The work plan for CCP cleanup was developed and approved. The Analysis Team developed the flag reports and field work commenced using these reports.
5.9	The CCP database is cleaned up and the accuracy of all information is verified.	May 2009	Ongoing. Results being analyzed prior to updating. Field work is complete and Customer Service personnel are working to reflect the results in CCP. Completion of this task impacted by Customer Service personnel needing to devote significant efforts to establishing and correcting data for new minority customers. .
5.10	All non-existing facilities (customers) are deleted.	May 2009	Completed. Results being analyzed prior to updating database.
5.11	“Passive customers” are eliminated.	May 2009	Completed. Results being analyzed prior to updating database.

Nr.	Task 6: Assist KEK to Take Over CAS and Unbundle Accounting Specific Objectives / Accomplishments	Completion (End-of-month)	Date	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		Completed. New solution of the problem has been proposed based on the replacement of some of the CAS modules by modules developed by KEK.
6.3	The KEK IT person responsible for system administration is assigned. KEK Divisional persons responsible for use and operations are assigned.	October 2008		Completed.
6.4	CAS database is cleaned up and the accuracy of all information is verified.	December 2008		Partially completed.
6.5	New Chart of Accounts is implemented.	January 2009		Completed. KEK’s COA was revised to reflect PA’s recommendations. However, ERO has indicated that there is no need for regulatory accounting.
6.6	Assets and liabilities of KEK divided among the new corporations.	March 2009		Activities are completed. Will be final once Disco is functionally activated.
6.7	Balance sheets, income statements, cash flow statements for the mining, generation, network and supply functions are generated.	July 2009		Completed.

Nr.	Task 7: Support Tariff Applications and Improve Regulatory Compliance Specific Objectives / Accomplishments	Completion (End-of-month)	Date	Major Activities Completed/ Status of Deliverables
7.1	Complete the KEK tariff filing for 2009	April 2009		Completed.
7.2	Complete and obtain ERO approval of the “Connection and Charging Procedures for Embedded Generators and New Customers”	November 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. A revised connection tariff is expected to be submitted in October 2009
7.3	Complete and obtain ERO approval of the disconnection rules	May 2009		Completed. 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. The final procedure for identification and prevention of un-authorized use (theft) was approved by the ERO on 24 July 2009
7.4	Complete and obtain ERO approval of the “Conditions of Electricity Supply”	December 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		Completed.
7.6	Assistance to the Regulatory Affairs Department in its support of the privatization of KEK	Ongoing		Completed.

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.	Staffing completed Equipping – on going	Internal Audit Office structure approved, Internal Audit Officer appointed. Almost 100% of staff is employed. Part of equipment is already available. Specifications are developed for the rest and procurement process should be completed in Q4.
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 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 Office received advice and recommendations from PA during work organization, methodology and all necessary processes during each audit and investigation. PA provided regular training on using best international practices for calculating technical and commercial losses.
8.5	Press for conclusion of a Memorandum of Understanding between KEK, the Police Service (KPS) and the Ministry of Interior, that will increase the level of support provided to KEK by the KPS and improve coordination between KEK and KPS's Economic Crimes Unit on fraud cases.	November 2008	Completed. 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. Several audits were completed and procedural improvements based on lessons learned and weaknesses detected proposed.

Nr.	Task 8: Improve Internal Controls and Strengthen Internal Audit Specific Objectives / Accomplishments	Completion Date (End-of-month)	Major Activities Completed/ Status of Deliverables
8.7	Assist with the enforcement of the new cost control procedures.	December 2009	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	Completed. Registration completed in September 2009.
9.2	Applicable Licenses (ERO, ICMM, etc.) are transferred to new corporation(s).	December 2008 to February 2008	Completed. 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	Completed. 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	Completed. 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	Completed. PA continues to advise the new Board of Directors on their responsibilities and duties based on the applicable law. In the third quarter, specific advice and guidance was provided on the adoption of new by-laws and corporate code, together with amendments to the company's charter.

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	Completed. 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 Disco and mining/generation assets.
10.2	Advise on the development of a distribution privatization law	TBD	A first draft has been produced for discussion.
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	First drafts have been produced for discussion.
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	Completed. For all areas South of the river Ibar/Ibër. Areas North of river Ibar/Ibër to be addressed in Q4 2009

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	Completed.

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%	18 % for First Nine Months 2008 19 % for First Nine Months 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%	16.5 % for First Nine Months 2008 16.8 % for First Nine Months 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%	82.1 % for First Nine Months 2008 80.7 % for First Nine Months 2009
4		1 through 6, and 8	Ratio of revenue collected versus billed	74.2%	76.6%	80.0%	75.6%	89.0%	75.3 % for First Nine Months 2008 83.2 % for First Nine Months 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%	61.9 % for First Nine Months 2008 67.1 % for First Nine Months 2009
6		1 and 4	Ratio of debt collected vs. claimed ⁵	Not Av.	23.48 %	30%	17.5%	35%	26.46% for First Nine months 2008 15.50% for First Nine months 2009
7	1, 2, 3, 5, 6, 7, 8	1 through 8, and 11	Collected revenue in Euros	€96mm	€110.8 mm	€116m	€135 mm	€140 mm	€94.4 million; First Nine Months 2008 €114.2 million; First Nine Months 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 Appendices A&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 Appendices A&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 Appendices A&B. The first nine months of 2009 performance is a significant improvement over the same period of 2008. Reduction of unaccounted for energy needs to occur at a faster pace, however.

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 Appendices A& B. Reduction of unaccounted for energy needs to occur at a faster pace, however.
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, 5.4, 5.5, 5.6, and 5.8 completed. Field work is complete and Customer Service personnel are working to reflect the results in CCP
	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, 5.4, 5.5, 5.6, and 5.8 completed. Field work is complete and Customer Service personnel are working to reflect the results in CCP
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.
	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	Performance or Impact	Indicators Definition and Unit of Measure	Reporting Frequency	2008 Target	2009 Target	Status
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 completed. Suitable equipment specifications are drafted and procurement is in process. Daily tuition and training are on going. 51 investigations were completed in Q3 and 28 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	18 employees were terminated for misconduct in Q2 and 38 were subject to other disciplinary measures. Up to 1800 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 has been completed. Debt recovery rate is 15.50% for First nine months 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	Completed regularization of areas South of the Iber River. Areas North of Iber River to be addressed in Q4.
	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	Monitoring of agreements for newly regularized areas being performed.

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 28</u> (M=25 and W=3)	Q3 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 95</u> (M = 77 and W =18)	Q3 2009: PA conducted training statistics <table border="1" data-bbox="1297 678 1879 1325"> <thead> <tr> <th>Dept.</th> <th>Men</th> <th>Women</th> <th>Total</th> </tr> </thead> <tbody> <tr><td>Distr Oper</td><td>0</td><td>0</td><td>0</td></tr> <tr><td>Fin / Acct</td><td>0</td><td>0</td><td>0</td></tr> <tr><td>Hum Res</td><td>3</td><td>0</td><td>3</td></tr> <tr><td>IT / IS (Tech)</td><td>17</td><td>3</td><td>20</td></tr> <tr><td>Legal</td><td>5</td><td>4</td><td>9</td></tr> <tr><td>Regulatory</td><td>4</td><td>2</td><td>6</td></tr> <tr><td>Internal Audit (Tech)</td><td>8</td><td>0</td><td>8</td></tr> <tr><td>Supply</td><td>13</td><td>8</td><td>21</td></tr> <tr><td>Network</td><td>0</td><td>0</td><td>0</td></tr> <tr><td>Board of Directors</td><td>0</td><td>0</td><td>0</td></tr> <tr><td>Subtotal (Q3)</td><td>50</td><td>17</td><td>67</td></tr> <tr><td>Q1 2009</td><td>40</td><td>3</td><td>43</td></tr> <tr><td>Q2 2009</td><td>12</td><td>1</td><td>13</td></tr> <tr><td>Q3 2009</td><td>50</td><td>17</td><td>67</td></tr> <tr><td>Total (Q1+Q2+Q3)</td><td>102</td><td>21</td><td>123</td></tr> </tbody> </table>	Dept.	Men	Women	Total	Distr Oper	0	0	0	Fin / Acct	0	0	0	Hum Res	3	0	3	IT / IS (Tech)	17	3	20	Legal	5	4	9	Regulatory	4	2	6	Internal Audit (Tech)	8	0	8	Supply	13	8	21	Network	0	0	0	Board of Directors	0	0	0	Subtotal (Q3)	50	17	67	Q1 2009	40	3	43	Q2 2009	12	1	13	Q3 2009	50	17	67	Total (Q1+Q2+Q3)	102	21	123
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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 % Q3 2009 8.51 % Q1 + Q2 + Q3 8.28 %	10.72 % +/- 2 %	10.44 % +/- 2 %	10.19 % +/- 2 %	Consumption increased in Q3 2009 over Q3 2008 by 5.3 % due to increased generation and imports; reductions reduced by 25.8 %. The net improvement is 8.51 % for Q3 2009 versus 11.66 % for Q3 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.

XI. Appendix C. PR Briefs

This section contains a list of information developed in Quarter 3 for public communications/
information:

None.

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