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2009 QUARTER 4 REPORT (1 OCTOBER – 31 DECEMBER)

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

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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 other 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 fourth quarter of 2009 was a productive and largely successful 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.

It should be noted that PA's advice to KEK is based on best international practice.

Major Milestones in Q4 2009

Monitoring of Agreements with Minority Communities and Regularizing Supply to all Monasteries

After considerable effort by PA's advisors, a number of Orthodox religious facilities, which comprised the last pocket of resistance to regularizing electricity supply, agreed to become KEK customers on 30 December 2009.

With all of the minority communities south of the Ibar River now regularized, the project has begun monitoring their compliance with the agreements. During the fourth quarter, 3,200 customers in the areas covered by agreements were identified as having made no payments. As specified in the agreements, KEK's Managing Director ordered those customers to be disconnected.

Approval of the New Structure and Organization of KEK's Field Enforcement Department

PA's recommended structure and organization for the Field Enforcement Department, which is perceived as a powerful tool for improving discipline and operational efficiency in targeted business areas, was approved. The Department will be under the direct supervision of the Managing Director. PA developed job descriptions and supervised the selection and appointment of new staff for the Department.

Other Notable Events and Accomplishments

Sibovc South West (SSW) Mine

PA continued to provide business management advice the Managing Director in his review of the Action Plans for the mining operations and opening of the SSW mine. In particular, the 4th quarter saw the inauguration of the newly refurbished first Overburden Removal Line, which was jointly funded by the Government of Kosovo/KEK and European Union. Also, the contract for truck and shovel removal of overburden from the SSW mine was successfully completed in quarter 4, and the first bench of coal of the new mine is now visible.

Reactivation of the Kosovo A4 Unit

In October, PA's adviser to KEK's Managing Director (MD) accompanied the MD on a trip to the manufacturer's site in Zagreb to inspect a recently purchased transformer. The new transformer was delivered on schedule and was successfully commissioned in November. As a result, KEK now has five working units at its disposal for the critical winter period.

Cooperation with the Transaction Advisor for the Privatization of the Distribution Company

The International Finance Corporation (IFC) was appointed in November 2009 as the Transaction Advisor to the Government of Kosovo for the sale of KEK's Distribution and Supply Business. Subsequently, PA advisors held several meetings with IFC representatives and provided information on KEK in preparation for the sale process. This close cooperation is expected to continue and intensify in 2010.

Budget Review

Under PA's supervision, the Finance Division reversed most of the changes made to the annual budget during the mid-year budget review. This reversal was a result of unforeseen delays in the Vaganicë and Palaj Substation projects. The Board approved the revised budget.

Resolution of the Non-Registered Customer Problem

As noted in previous reports, 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 unable to disconnect them. These consumers have never paid for electricity, resulting in significant commercial losses for KEK. To correct this problem, PA developed a detailed Action Plan, which the Managing Director adopted and initiated in the 3rd quarter. As at the end of the 4th quarter, approximately 5,500 new customers had been registered. More than 12 million kWh of consumption, valued at more than €1 million, have been identified and a revenue recovery process has been initiated.

Billing and Collections

Q4 2009 vs. Q4 2008 - Collections were higher (€5.7 million or 14%) in the fourth quarter than during the same period in 2008, due to the increased amount of energy billed and to an increase in the collection rate.

During the 4th quarter the billing rate was 76% and the collection rate was 77%. Thus, overall performance (collection of delivered energy) was 59%. For the same period in 2008, the billing rate was 74%, the collection rate 76%, and overall performance was 56%.

The three percentage point performance improvement reflects a slight improvement in reducing commercial losses and an intensive effort to enforce payment discipline through timely disconnections, especially on very poorly performing feeders. 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 their job requirements.

Full Year 2009 vs. Full Year 2008 - Collections were 19% (€25.5 million) higher in 2009 than in 2008. This improvement resulted from an increase in the amount of energy supplied to customers coupled with an increase in the collection rate. The billing rate was approximately the same in both years, showing that the reduction of commercial losses continues 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 carry out 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 is comparing the results of the calculation of depreciation in the new and old Modules for the period 2003-2008 and analyzing 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. As at the end of the 4th quarter this process was around 80% completed. The rest of the work will be completed in January 2010. It is expected that in the 1st quarter of 2010, the new module will replace the old one.

Preliminary Tariff Application Filed

On 18 December 2009, KEK filed its Preliminary Tariff Application with the Energy Regulatory Office (ERO). Under the schedule issued by ERO, the filing was not due until 5 January 2010;

however, PA helped KEK to make the initial filing earlier since the Transaction Advisors for the distribution privatization are expected to follow this tariff process very closely. The filing included the results of the 2010 energy balance, the billing determinants for each tariff category based on the forecasted sales, and the determination of “allowed revenues” (actually, revenue requirements based on costs). The Application indicates the need for a €20.7 million increase in 2010, a 13% increase in tariffs overall. The allocation of the costs to customer classes and the tariff design will be addressed in the Final Application, which is due on 8 February 2010.

Ferronikeli Contract

During the 4th quarter there was considerable focus on KEK’s supply contract with Ferronikeli (FN). On 28 September Minister of Energy Pula sent a letter to the Chairman of KEK’s Board of Directors requesting that he inform her of the contract’s negative financial effects and steps the Board is taking to eliminate them. On 24 November Minister Pula wrote to ERO, KEK, KOSTT (the transmission, system, and market operator), and various government officials informing them that the Ministry of Mining and Energy (MEM) will not approve the 2010 Energy Balance until KEK provides various studies and analyses showing FN’s impact on imported power costs and other customers. KEK has made it clear that the FN contract has confidentiality requirements and that KEK is not required to undertake such studies.

On 12 November the Economic Crimes Unit of the Kosovo Police sent a highly irregular and questionable request to KEK, asking that it prepare a legal opinion on the FN contract and to conduct studies of the FN price vs. the price for other customers. PA assisted KEK with drafting an appropriate response, which requested that the Unit meet with KEK’s Internal Audit Officer in order to better understand the basis of their request.

ERO sent a letter to KEK on 7 December requesting copies of all invoices to FN since the inception of the contract as well as the assumptions and analyses KEK performed prior to signing the contract. KEK replied and provided copies of the invoices to FN, reminding ERO that they are to keep them confidential. The letter also stated that ERO, not KEK, prepared the analysis for the contract. A copy of the ERO analysis report was attached to the response.

Ferronikeli wrote to the Minister of Energy on 5 November requesting a decrease in the current contract price and a renewal of the contract for another five years. KEK’s response stated that 1) the Minister of Energy is not a party to the commercial contract and all communication should be directly with KEK, 2) the price will not be reduced, and 3) KEK will fulfill its obligation to enter into good faith negotiations in the fourth year of the Contract (2010) to explore the possibility of extending the term of the contract for a further five years. KEK proposed a meeting of senior management from both parties in late January 2010 at KEK’s corporate headquarters.

New Kosovo Transaction/Kosovo B+

Because it was perceived that the initial transaction was unraveling, the GoK agreed to a reconfiguration of the transaction, which will include the Sibovc coal field, the existing Kosovo B power plant, and a new 500 MW unit on the same site, with the option of building another 500 MW unit at a later date. Aside from the exclusion of the Kosovo A plant, the configuration of the new transaction is almost identical to the one PA has been advocating for the past three years. Expressions of interest are due by the end of January 2010, with an investors conference scheduled for 20/21 January 2010.

Upcoming Events and Activities

The following important events and issues to be addressed are anticipated for the 1st quarter of 2010:

- *Transaction Advisor* – PA will work closely with the IFC in the coming months as it initiates the privatization process for the new distribution company.

- *Legal Unbundling of KEK* – Subject to the recommendations and input of IFC, PA will assist KEK with preparations for the legal unbundling of KEK’s Network and Supply.
- *Minority Areas* – Efforts are underway to regularize electricity service for North Mitrovica. A plan for the commercial aspects of this initiative is in place. This is expected to be a major activity in the 1st quarter of 2010.
- *Direct Debt Mechanism* – Direct debit will start in January 2010 and will be available to all customers.
- *Radio Television Kosovo Fee* – On 16 October 2009 the Constitutional Court declared the collection of the RTK fee through electricity bills as unconstitutional and KEK immediately ceased billing customers for the fee. Meanwhile, the agreement between KEK and RTK, wherein KEK acted as collection agent for the RTK fee, expired in November 2009. As of year end 2009, KEK was awaiting the final ruling of the Court to determine the status of amounts collected since 16 October.
- *Vaganicë substation* – The final bids by pre-qualified bidders were submitted at the end of December 2009 and will be evaluated in the 1st quarter of 2010.
- *New External Auditor* – In the 4th quarter KEK initiated procurement for the selection of a new external auditor for the audit of KEK’s financial statements for FY 2009. The evaluation and selection of the winning bidder are expected early in the 1st quarter of 2010.
- *Small Hydros* – The inauguration of the refurbished small hydro power plants (Dikanc and Radave) is expected in the 1st quarter of 2010.
- *Ferronikeli* – As reported above, KEK will be holding discussions with Ferronikeli Management in January 2010 in connection with its electricity supply post April 2011, at which time its existing electricity supply contract with KEK expires.
- *New Kosovo Transaction/Kosovo B+* – Expressions of interest are due by the end of January 2010, with an investors conference scheduled for the 20/21 January 2010.

III. Progress in Quarter 4

Task 1: Support Management and Operation to Preserve Assets

General

- The Board of Director's Audit Committee continued to address all major risks KEK is facing, focusing on loss of revenue, excessive costs and fraud and embezzlement. The Internal Audit Officer continued to make regular presentations on the results of the Internal Audit Office's activities and recommendations on disciplinary measures and procedural changes to improve the efficiency and effectiveness of KEK's activities. The Audit Committee approved a set of Standard Operating Policies for its work, which PA had developed. PA also observed all meetings of the Audit Committee and helped introduce best practices in its work.
- The newly appointed financial auditors developed a Financial Audit Plan 2010 and submitted it for PA's review and comments. The Internal Audit Officer subsequently approved the plan.
- 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, dealings with minority customers, procurement, staffing, and financial activities.
- PA continued to maintain open lines of communication, cooperation, and coordination with the Serbian Government (GoS) representatives and Electric Power of Serbia (EPS). PA advisors met with GoS representatives in mid-October 2009 to discuss the proposed draft contract between KEK and the ESCO for the provision of electricity in North Mitrovica. Subsequently, on 16 December, PA and KEK management met with representatives of EPS stationed in Northern Kosovo to discuss the ESCO agreement and recent developments in the North (see Task 11 for more detail).
- PA assisted KEK management in presenting its *Performance to Plan Report* for the 3rd 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.
- PA assisted KEK management with the preparation of the Budget and Business Plan for 2010. The Board of Directors approved both documents in December 2009.
- The final terms and conditions for a new package of banking services by Raiffeisen Bank Kosovo (RBKO) were approved by the KEK Board in the 4th quarter.
- PA continued to provide business management oversight in 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 provide business management advice to the Managing Director in reviewing the status of the Action Plans for mining operations and the opening of the SSW mine. PA and KEK's Managing Director held regular 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. The contract was successfully completed during the 4th quarter, and the first coal bench of the new SSW mine is now visible.
- 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. PA has noted, with concern, that the process is not progressing at the required pace. Therefore, it is likely that KEK will need to give greater attention to this area in the 1st quarter of 2010.
- PA assisted KEK in securing a €70 million loan in 2010 from the KCB for the procurement and refurbishment of the equipment for the new SSW mine. The loan was included in the Kosovo budget that was submitted to the Parliament and approved in late December.

Thermal Generation

- PA continued to provide legal and management support to KEK in connection with its ongoing dispute with Turbocare, which followed the failure of its generator step-up transformer (GSU) at Kosovo A Plant Unit 4. PA attended, without prejudice, settlement discussions between KEK and Turbocare in the 4th quarter and is now advising KEK on a proposal for the settlement of the dispute through expert determination.
- PA continued to assist KEK with the tendering process and contracting for upgrading the B units' water treatment system. This process culminated in the execution of the contract with the winning bidder in the 4th quarter.
- PA monitored the implementation of the contract for the delivery of a new transformer for Kosovo A, which was successfully delivered and commissioned in November 2009. As a consequence, KEK has five working units at its disposal for the critical winter period: Kosovo A3, A4, and A5, and Kosovo B1 and B2.
- PA monitored the implementation of the contract for the delivery of a new transformer for Kosovo B, which was successfully delivered in November 2009 and will be commissioned in April 2010 during the units' scheduled outage.

Hydro Generation

- PA assisted KEK in filing a claim to the Special Chamber of the Supreme Court seeking a declaration as to the ownership of land underlying Burim HPP. A favorable outcome will allow KEK to proceed with concluding a contract for the rehabilitation of the hydro plant, as it has done for two other small HPPs that it owns (Dikanc and Radavc).

Capacity Management, Power Purchases, and Energy Trading

- PA provided advice and assisted with the drafting of KEK's contracts for importing energy on both an emergency and day-ahead basis for all of 2010. PA also helped KEK prepare its request to the Ministry of Economy and Finance (MEF) for funding imports in 2010. As a consequence, KEK will receive €40 million in funding from KCB for 2010 purchased power, with a further €10 million of KCB funds that were not used in 2009 also being made available to KEK.

Network Division (Not Covered in Other Tasks)

- PA observed the procurement process for the new Vaganicë 110/35/20(10) kV substation. The technical specifications were updated in light of earlier discussions with pre-qualified bidders and the final tender dossier circulated. Final bids from the pre-qualified bidders were submitted at the end of December 2009 and will be evaluated in the 1st quarter of 2010.
- 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. Although funding has been allocated, KEK is not moving fast enough. The tender for this work will be issued in the 1st quarter of 2010.
- Work started in the 3rd quarter on the complete replacement of leaky windows in the Electro Kosovo 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 was completed in the 4th quarter of 2009.
- The PA team facilitated the design and construction of a reserve electricity supply for the KEK headquarters building. Previously the building had one source of electricity supply. Given the low reliability of that source and limited capacity of UPS batteries serving KEK's main IT servers, PA recommended a two-stage project to increase the reliability of power supply, employees' safety and data security. The first stage of this project – the construction of a new independent reserve line and substation – was accomplished by the end of the 4th quarter. The next stage, which includes the procurement and installation of a stand-by generator, is planned to be completed early in the 1st quarter of 2010.
- The PA team initiated the development of a Medium and Low Voltage Network Maintenance Procedures Manual. The first draft was developed by the PA team and submitted it to for comments and feedback.
- Existing single-line diagrams of the Distribution Network and Substations have not been revised for several years. Moreover, given their poor accuracy, most of them did not reflect the actual situation and the number of outgoing feeders, which makes it impossible to correct electrical engineering, planning, asset management and load balancing. The PA team initiated a program for preparing as-built single line diagrams of distribution substations and prepared a draft procedure for their annual revision. The initial set of diagrams, revised by KEK districts, was prepared and submitted to the KEK Network headquarters. The PA team continues to provide support on preparing standardized CAD drawings that will be approved annually.
- The PA team facilitated the organization of training on using the power system and network analysis software DigSILENT. This powerful state-of-art engineering software was provided to KEK a few years ago by donors. However, appropriate training was never provided to KEK's responsible engineering personnel. The training will take place in January 2010.
- KEK continues to have a number of non-metered customers. The PA team facilitated a program for installing meters on all customers, which KEK adopted. KEK began implementing the program at the end of the 4th quarter, and is expected to complete this task in the 1st quarter of 2010.
- According to local technical standards, most of Kosovo's end-use customers are being supplied with 3 phase-4 wire supply. The loading between the 3 phases has never been closely monitored by network personnel, which resulted in extremely asymmetrical loading. An initial study by PA indicated that eliminating/minimizing the level of asymmetrical loading might have a significant impact on the reduction of technical losses. The PA team organized a special

workshop with KEK network management, engineering departments and district network managers to address the issue. It was agreed that a special program and procedures will be developed by the end of January 2010 and adopted for implementation in 2010.

- 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 4th quarter the PA team advanced several activities between KEK and KOSTT (the transmission system operator):
 - ***Relocation of KEK Network Operations Center (NOC)***
For the past 2½ years NOC had occupied office space in the KOSTT building. PA helped KEK find new office space for the NOC at the Pristina III 110 kV substation. The NOC's move was completed at the end of October 2009. To ensure fast emergency mobilization of a "reserve dispatch center," all dispatch communication and data interface terminals from the previous NOC office space in the KOSTT building were collected in one of the KEK's IT rooms.
 - ***Ancillary Services Agreement***
PA provided further input on the 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 provided further input on the 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 a new load shedding program, dubbed LOSACC (Load Shedding to Address Capacity Constraints). The present second-generation ABC program used as a basis for load shedding is an improvement over the initial version, but additional needs have come to light. In the near future load shedding will be used only in periods when KEK is operating under capacity constraints. The most significant advance in the new load shedding program will be the automatic transfer of hour-by-hour energy data from the meters on the feeder to the program. This will both eliminate the manual handling of feeder meter readings and enable LOSACC 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.

Human Resources (HR) Division

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

- Discussed and agreed on a new HR organizational structure with the executive director of corporate services and director of the HR Division.
- Finalized the micro-organizational structure of the new distribution company (Kosovo Electricity Distribution and Supply Company (KEDS)).
- Supervised and made recommendations to KEK management for job postings, interviews and the recruitment process for various KEK positions.

- Produced an assessment for outsourcing cleaning and maintenance services for KEK.
- Assisted the director of the HR Division on a recruitment process for the positions of executive directors of the supply and customer services, network, and corporate services divisions.
- Worked on job descriptions for the energy balance and trading divisions.
- Coordinated the signing of the agreement and MoU between Mercy Corps and KEK, which launched the Support for Kosovo's Young Leaders Project. The project includes an internship program within KEK, and the first seven interns started in the 4th quarter.
- Provided proposals to the commission tasked with reviewing the Coal Production Division's organizational structure.
- Produced an assessment with the HR Division of all district organizational structure and payroll mismatches, including an analysis and recommendations for improving identified gaps.
- Provided recommendations for the "Regulations No. 3 for operations in KEK districts" in connection with organizational structures, job positions and payroll issues.
- Held several meetings with newly appointed executive directors of the supply and customer services, network, and corporate services divisions, and discussed new organizational structures.
- Drafted a "General Schedule Manual" for all KEK individual positions, which outlines their duties, responsibilities, and qualification requirements, grouped and identified by salary class and pay grades.
- Reviewed all disciplinary sanctions taken by KEK in 2009.
- Drafted a smoking prohibition policy for KEK.
- Prepared detailed micro-organizational structures for the Supply and Customer Services, Network, and Corporate Services divisions.
- Identified redundant employees for these divisions and KEK Corporate Headquarters

Training and Development (Not Covered in Other Tasks)

PA developed four training courses this quarter, and delivered two:

- ***Fundamentals of Customer Service.*** This course introduced the basics of good customer service, and the techniques, tools and attitudes necessary for quality customer service. It also identified areas in which KEK could improve its customer service. Five training workshops were delivered on this subject; they were attended by 87 staff from all of KEK's regional and headquarters Customer Care Departments, and sub-district coordinators from KEK's training center. Thirty-seven of the attendees were women.
- ***Internal Customer Service and Communications.*** This course focused on changing attitudes towards providing service to internal customers, understanding different working styles, learning how to speak assertively and positively, learning active listening techniques, and

constructive approaches to conflict and team building skills. Eleven staff of the Corporate Services Division (four of whom were women) attended.

- ***Critical Thinking and Effective Communication.*** This course will introduce the notion of top-down thinking, which allows one to form a structure for any message by building from the bottom up, refine it from the top downwards, form strong conclusions with clear logic, and create compelling introductions. It will be delivered to a group of mid-top level management in January 2010.
- ***Leadership and Management.*** This course focuses on what it takes to be a leader, the difference between leadership and management, delegation, motivating employees, setting goals, team development, and employee discipline. It will be delivered to a group of mid-level management in January 2010.

Task 2: Amend Distribution Structure and Regulations

The end of the 4th quarter witnessed the best results of the year.

Several changes were implemented in the Supply Division during the 4th quarter:

- Two additional consultants joined the PA team; they are focusing on performance in the districts.
- A new supply director was appointed. With PA support and advice, he took the decisive action of disciplining poorly performing managers in the district offices; no similar actions had been taken in the past 12 months.
- The Pristina district manager was changed twice.
- Of the seven district supply managers, four were replaced.
- The third revision to the District Regulations was introduced in December 2009. Changes from the previous version included the abolition of cash collections by non-authorized personnel and the curtailment of “zero” meter readings.

These changes led to a new phase of activities across KEK districts.

Among other accomplishments during this period, the PA team provided KEK with new reporting forms to assist them in implementing district regulations, and assisted KEK Supply Division management in identifying non-performing employees for disciplinary action and employees who performed well for incentive payments.

The PA team had a key role in identifying and implementing the disconnection of 0.4 kV-level transformer points and 0.4 kV directions, as well as the disconnection of commercial and industrial customers. Disconnection of the most problematic customers, which the district employees had failed to accomplish in the past, was performed under the supervision and attendance of PA team members.

As previously reported, one of the contributing factors to high commercial losses was KEK employees' failure to properly read customer meters or even read them at all. With additional resources in the districts, the team was able to cross check “zero” or “negative” readings of customer

meters and commercial customers with monthly consumption of less than €10 with the actual position in the field.

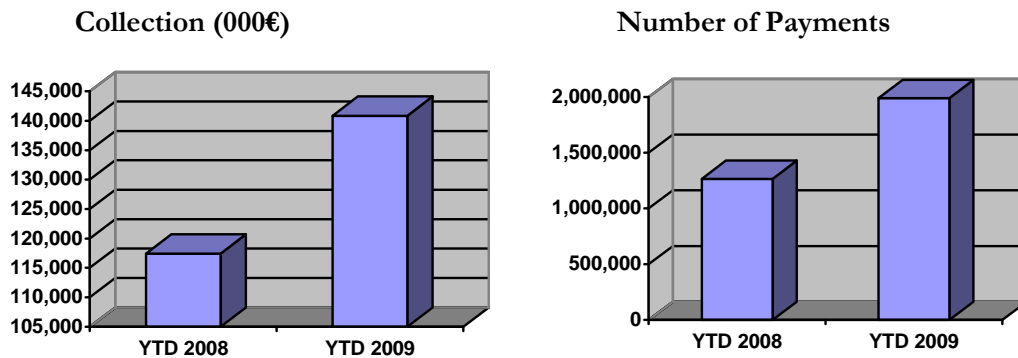
In addition, specialized training was provided to district and supply managers, sub-district coordinators, and analysts. Thirty-five employees were trained, three of whom were female. PA also continued to provide assistance for the training of three new recruits. By the end of the 4th quarter, two of these candidates had successfully completed the training course and will be recommended for KEK management positions in the beginning of 2010.

KEK districts received additional vehicles and necessary tools for field operations during the 4th quarter, thereby eliminating one of their longstanding excuses for poor performance.

The proper strategic planning and execution of management decisions resulted in a gradual improvement in KEK's performance during the 4th quarter in comparison with the same period in previous years. The total amount of money collected by KEK districts in this period, excluding 110 kV customers, was €4.25 million more than in the same period of 2008. In this respect, it is worth noting that KEK's performance during the final quarter of 2008 was also good, as it coincided with the implementation of PA's pilot projects in the districts.

To better illustrate KEK's performance, PA conducted a comparative analysis of the YTD data of 2009 and 2008 and the 4th quarters of 2009 and 2008 (see below).

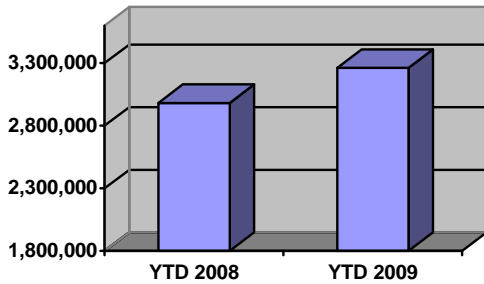
YTD 2009 vs. YTD 2008 – Excluding 110 kV customers, cash collection was 20% higher (more than €23.4 million) in 2009 than in 2008, while the number of transactions increased by 57% (724,033) compared to 2008.



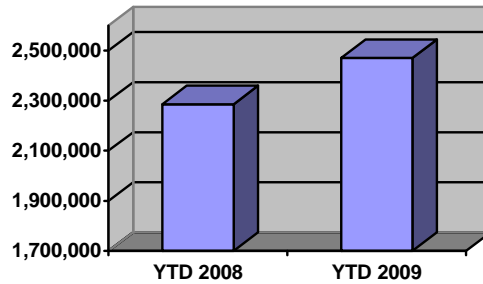
In 2008, the billing rate (amount of energy billed as a percent of energy available for sale) was 77% and the collections rate was 74%, producing an overall performance (collection of delivered energy) of 57%.

For 2009, the billing rate was 76%, the collection rate 81%, and overall performance 61%.

**Energy Available for Sale
(MWH)**

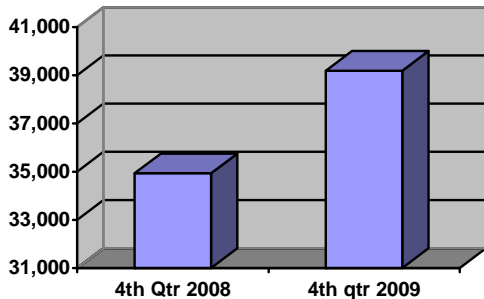


**Energy Billed
(MWH)**

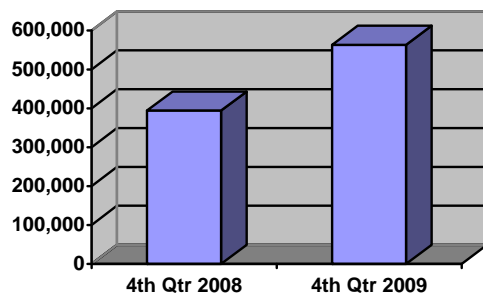


Fourth Quarter 2009 vs. Fourth Quarter 2008. In the fourth quarter of 2009, at the distribution level in the districts, collections were €4.25 million more than the 2008 period, while 169,166 more transactions occurred (43% higher).

Collection (000€)

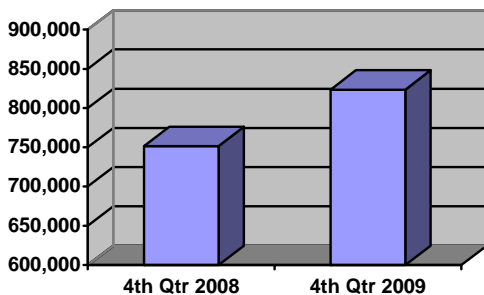


Number of Payments

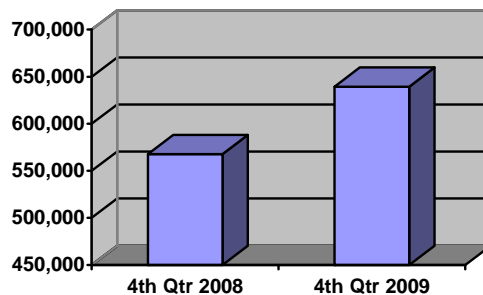


In fourth quarter of 2008, the billing rate for the districts was 76%, the collection rate was 84%, and overall performance (collection of delivered energy) was 64%. For the same period in 2009, the billing rate was 78%, the collection rate 86%, and overall performance 67%.

**Energy Available for Sale
(MWH)**



**Energy Billed
(MWH)**



Despite the improvements made, KEK still faces problems that need to be corrected. A few of these are: poor quality of meter readings and bill delivery, improper implementation of disconnections, high commercial losses, unqualified employees, reluctance to dismiss specific persons, and pressure from local authorities.

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 electromechanical meters on the other 10 kV feeders can be replaced with electronic meters that are compatible with, and read by, the data concentrators. The additional 256 meters were delivered by Landis & Gyr and are expected to be installed in the 1st quarter of 2010.

A shipment of 1,500 “half indirect” meters for commercial customers delivered during Q3 2009 were tested and sealed in the KEK Meter Lab during Q4 2009 and are being 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 revenue.

Two shipments of 2,500 meters each for use on residential services were received, tested and sealed at the KEK Meter Lab, 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. These meters are also being installed at KEK’s non-measured/flat tariff customers.

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 Q4, only about 60% 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 for all customers, including those served at 110 and 220 kV. The values are from the monthly report to the Board of Directors.

	Year 2008	Q4 2008	Q4 2009	Change
Ratio of energy billed vs. energy available for sale	79.8	74.0	76.1	2.1
Percent of money collected vs. billed	75.6	76.2	77.2	1.0
Percent collected vs. energy available for sale	60.3	56.4	58.7	2.3
Collected revenue (millions of Euros)	134.7	40.4	46.1	5.7

Collections, in terms of Euros, improved significantly in the 4th quarter of 2009 vs. the comparable period of 2008, primarily due to the increased amount of energy available for sale and the collection rate.

Source of Collections

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

Total 2009	# of Payments	%	Euro (000)	%
Customer offices	1,685,436	89	101,866	64
KOS-Giro	45,442	3	17,951	11
Bank transfers	76,021	4	19,695	12
Payroll deductions	81,166	4	2,051	1
Direct debit	890	-	31	-
Total districts (CCP)	1,888,955	100	141,594	88
Direct (110 kV) customers	24	-	18,683	12
Total collections	1,888,979	100	160,277	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
Q4 2009	17,186	5,592
Source: KEK Supply Division		

As expected, household and small commercial customers' participation is low compared to larger customers, but has been growing significantly in terms of both number of payments and amount collected. KOS-Giro is proving beneficial for processing payments for customers with multiple locations such as IPKO and PTK.

During the fourth quarter, the Western Union operator in Kosovo requested that KEK allow their offices throughout Kosovo to accept KOS-Giro payment of KEK bills. After investigating the financial situation of the operation and based on the Central Bank's approval of Western Union to participate in the KOS-Giro system, KEK decided to allow Western Union to be a KOS-Giro participant. The payments are being processed through the Interbank Transaction System by a commercial bank and all procedures are working properly. The addition of Western Union to the KOS-Giro system is expected to increase the volume of payments given the significant usage of the Western Union system in Kosovo.

Zero errors with the KOS-Giro information were received from the banks during the 4th quarter. This is partially due to the improvements made by the Central Bank to the Interbank Clearing System during the 3rd quarter and partially due to increased diligence on the part of Raiffeisen Bank, KEK's host bank.

Direct Debit System

PA continues to facilitate progress on the Central Bank of Kosovo initiative to establish a direct debit mechanism. This is beneficial to KEK since it provides another opportunity to use the banking system to increase cash flow. During quarter 4 the number of customers was gradually expanded each month. KEK is the first entity in Kosovo to become involved with direct debit, and proceeded cautiously to gain experience and prove the system's credibility to customers. As of the end of 2009, 312 customers were included in the direct debit system, many of them with multiple locations and accounts. Since the entire system is working properly, it is being opened to all customers in January 2010.

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 4th quarter with a focus on utilizing the information collected during field work in prior quarters. Field inspections to locate unregistered consumers and identify nonexistent "customers" were completed by the end of the 3rd 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 customers.

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 also involved extensive work to properly code each consumer to the appropriate feeder.

The field verification and classification indicated the following anomalies:

- *8,016 facilities that were destroyed or do not exist.* The debt associated with these customers is €6.7 million. On 14 December the Managing Director approved archiving these customers and removing them from active customer status.
- *12,863 facilities that are vacant most of the time (customers live abroad, etc.).* €10 million of debt is associated with these accounts. Disconnection orders are being issued for these facilities.
- *Approximately 20,000 of the customers flagged for field inspection were classified as being in minority areas,* primarily because there were few or no payments made on these accounts. Since this project started, KEK has normalized service to those areas and their accounts are being handled separately as part of the minority feeder monitoring.

At the inception of this project in early 2009, an amnesty program was announced for facilities consuming electricity but not registered as KEK customers. Approximately 4,000 customers registered as a result of this program.

The municipalities have provided the official names and addresses of villages. These data are being used to update customer addresses, another aspect of the database cleanup.

Internal Audit has been actively involved throughout this project to monitor the validity of field work and the quality of documentation.

The identification of all customer connections in the field is the other important aspect of the CCP cleanup. Network personnel continued to sketch connections from every 10/0.4 kV transformer to each connection point during the fourth quarter. The information on each consumer connection point

to the system will be compared to the information in CCP to have another validation made of the customer database. This initiative is discussed in detail in the next section.

Network Division Subtasks Related to CCP Cleanup Project

As reported in previous quarters, 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 LVNs in each of the 6,000 10/0.4 kV distribution transformers); the actual number of LVNs could be higher.

The following table shows the results through the end of 2009.

Sketching Program Results as of 31 December 2009			
District	Total Customers as per CCP	Completed (count)	Completed (%)
Gjilan	46,703	37,064	79.4
Gjakove	40,919	13,266	32.4
Peje	50,580	41,512	82.1
Mitrovice	39,828	26,513	66.6
Pristina	107,844	10,779	10.0
Prizren	60,687	10,261	16.9
Ferizaj	57,300	34,066	59.5
Total	403,861	173,461	43.0
District	Total 10/0.4kV SS	Completed (count)	Completed (%)
Gjilan	721	447	62.0
Gjakove	374	87	23.3
Peje	1,018	707	69.2
Mitrovice	642	375	58.4
Pristina	1,335	55	4.1
Prizren	1,116	88	7.9
Ferizaj	987	579	58.7
Total	6,193	2,338	37.8
Source: KEK Supply Division			

Information Services Support of CCP

PA continued to provide advice and assistance to KEK in connection with the addition of more functions and improvements to the CUCCP software for analyzing the CCP database and supporting the CCP Cleanup Project.

- PA is assisting KEK with the design of a new database structure for a centralized repository (data warehouse), which includes historical and operational information related to KEK's Network and Supply divisions (in progress).
- PA modified the 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 CCP and ABC databases, to include the following forms:
 - Modified Performance Evaluation Forms for 10 kV feeders
 - Modified Financial Balance Forms for 10 kV feeders, 0.4 kV transformers, and 0.4 kV feeders from the transformers.

PA also made recommendations on how to present feeder teams in the CCP database and create relations with readers.

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 4th quarter, primarily related to the takeover/replacement of the 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. The takeover of CAS was completed. KEK has total control of the system and is running it without outside support. The new Fixed Assets Module developed by KEK's IS Division was successfully tested in the fourth quarter and a one-week of training was provided to all prospective users. PA also started work on a major revamp/replacement of the Inventory Module. This module's major deficiencies is one of the reasons the inventory item on KEK's balance sheet has been qualified in all years so far.

PA has also recommended that KEK discontinue the practice of entering the company's source documents twice (in different modules of CAS), as this is not consistent with best practices and can be a source of errors. This can be done by creating a source document database and entering all documents there. The information can then be exported to all relevant modules.

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

Specifically, during the fourth quarter the PA team undertook the following activities:

Unbundling of Accounting

- PA assisted with the preparation of KEK's unbundled financial statements for FY 2008. The statements are being reviewed by the external auditors Deloitte & Touche.
- We began preparing KEK's unbundled financial statements for the first 6 months of FY 2009. The statements will be submitted to the auditors in Q1 of 2010.

Introducing Improvements to CAS and Financial Accounting

- PA supervised the training on the new Fixed Asset Module, which was performed by KEK's IS Division. The one-week training session was conducted in KEK's Training Center in Obilic.
- PA supervised the preparation of the user manual for the new Fixed Assets Module.
- We continued to compare the results of the calculation of depreciation in the new and the old CAS Fixed Asset Modules for the period 2003-2008 and analyze the differences. Based on the analysis PA will calculate the 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 Deloitte & Touche.
- PA supervised the tests of the whole system (CAS + new Fixed Asset Module) so that it could be safely put to work in January 2010.
- We continued to provide recommendations on the Inventory Module of CAS.

Financial Reporting and External Audit

- PA participated in all meetings between KEK and auditors from Deloitte & Touche
- Under PA's supervision, the final version of KEK's consolidated financial statements was submitted to the auditors. Following the presentation of the auditor's opinion (which was qualified but far less so than before), PA recommended that the Audit Committee approve it and submit it to the Board of Directors, and that the FY 2008 audited statements be signed by

the company's management. After considerable delay, KEK's consolidated Audited Financial Statements for FY 2008 were completed in the 4th quarter.

- Once the audited consolidated financial statements for FY 2008 were approved and signed, the PA team and the Department of Accounting Methodology helped KEK's Accounting Department prepare the final version of the unbundled financial statements for FY 2008. The statements were then submitted to the auditors. Deloitte and Touche are working on their opinion, which is expected in January.
- PA proposed a methodology and offered assistance with the preparation of KEK's consolidated financial statements for the first six months of FY 2009.
- PA prepared a tender dossier for the external auditor for 2010. The tender was announced in December 2009. The selection of auditors and signing of the contract are expected by mid-January 2010.

Taxation

- PA monitored the calculation of bad debt and the preparation and printing of bad debt invoices and VAT credit notes in accordance with the requirements of the Administrative Ruling on VAT of the Kosovo Tax Administration.
- PA monitored the corporate tax audit.

Financing

- We helped KEK to finalize its negotiations with Raiffeisen Bank of the terms and conditions for providing banking services to KEK and helped with the signing of the agreement.

Other

- PA organized a meeting with the newly appointed Auditor General of the Republic of Kosovo.
- We participated in all meetings of the Audit Committee.
- PA attended meetings between the MEF and the IMF Mission to Kosovo.
- We supervised the handling of any past RTK payments. Those payments are being held in special customer accounts pending the decision of the Supreme Court on the issue.
- PA continued to monitor the enforcement of the new cost control system.

Task 7: Support Tariff Applications and Improve Regulatory Compliance

New Director of Regulatory Department Appointed

In December, KEK's Managing Director appointed a new Director of the Regulatory Department. He has regulatory experience with ERO and regulatory compliance experience at KEK, but limited expertise on tariff matters. PA is working to train him on all aspects of tariffs.

2010 Tariff Filing

On 18 December 2009, KEK filed its Preliminary Tariff Application with ERO. According to the schedule issued by ERO, the filing was not due until 5 January 2010; however, PA helped KEK to make the initial filing earlier since the Transaction Advisors for the distribution company privatization are expected to follow this tariff process very closely. The filing included the results of the 2010 energy balance, the billing determinants for each tariff category based on forecasted sales, and the determination of "allowed revenues" (actually, revenue requirements based on costs). The information was developed using the tariff model PA developed and submitted to ERO last year. It is not clear whether the ERO will continue to use their spreadsheet model, which was developed by an EU advisor.

The Application indicates the need for a €20.7 million increase in 2010, a 13% increase in tariffs overall. The allocation of the costs to customer classes and tariff design will be addressed in the Final Application, which is due on 8 February 2010.

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 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 with the 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 2010 as part of the tariff review process.

Connection Tariffs

Several drafts of the connection methodology and prices have been developed by KEK's regulatory and network staffs. PA is working with them to have a credible submission to ERO. It is expected that the "new" connection tariff methodology will be submitted for approval in early 2010.

Conditions of Electricity Supply/Service

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 2010 and a final set of Conditions of Electricity Supply/Service should be completed and then approved by the ERO.

Training

PA's training in the fourth quarter focused on tariff training for the newly appointed Regulatory Director.

License Requirements

One of the license requirements 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. PA has been reviewing the plan and found that additional effort is needed to have a credible submission to ERO. Efforts are underway to make revisions to forecasted investments and their justification in order to submit the plan to ERO in early 2010.

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 how it will monitor the network and supply functions of KEK. Several members of the PA team participated in the group's first meeting 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.

On 4 November, a consultant to the ERO issued a Discussion Note entitled "Quality Standards for Electricity Licensees." In general, KEK is in agreement with the overall approach outlined in the Discussion Note since it recognizes the reality in Kosovo: that it will be some time before standards can be developed and used in a meaningful way. PA prepared comments for KEK's response to the discussion note and supported the suggestion to identify key performance indicators, measure performance against those indicators, and undertake initiatives to improve performance. As discussed in the note, it will be some time before the Kosovo energy sector will be in a position to compensate customers, especially since the licensees have virtually no equity base upon which to earn a return.

Task 8: Improve Internal Controls and Strengthen Internal Audit

Following the reorganization and addition of staff in the 2nd and 3rd quarters, the Internal Audit Office became fully operational in the 4th quarter. Under PA's leadership during the 4th quarter the Office conducted a number of large investigations related to efficiency improvement, commercial loss reduction and revenue increases, cost reduction and rooting out corruption. Under PA's leadership, the operations and compliance audit functions were able to complete all activities included in the Annual Audit Plan (AAP) in all targeted divisions.

Audit of Network and Supply

The bulk of effort during the investigations was performed in the Network and Supply Divisions, including all of their districts. In accordance with the Annual Audit Plan, the Internal Audit (IA) teams conducted extensive inspections in the districts in order to identify electricity theft and other elements of commercial losses, establish the efficiency of disconnections and the correctness of billing, and evaluate the performance of technical and supply staff.

Comprehensive inspections were performed in Peja District. The audit findings indicated there were serious management failures there as well as other violations of rules and procedures, and cases of negligence. Based on the findings the IA prepared a set of comprehensive conclusions and presented them to the district and division managers involved in the operation processes.

Sample studies and spot audits were performed in Pristina, Ferizaj, Prizren, Gjilan and Mitrovica districts. Special emphasis was put on some Pristina and Gjakova districts.

Most of the efforts were focused in areas recognized to be especially risky for operations. These areas also likely lacked leadership and management discipline. To demonstrate the potential for improvement, the IAs focussed their efforts on two of the worst performing sub-districts.

Drenas. This sub-district was plagued by operation and compliance problems, and accounted for approximately 53% of KEK's commercial losses. Combined teams from IA and Field Enforcement (FE) began inspecting meter readings, bill delivery, disconnections and all other factors that cause commercial losses. To demonstrate how to properly implement the recommendations issued by the IA Office, staff from these teams performed all operations in the presence of district employees. These rigorous steps taken to reduce losses and increase revenues caused serious dissatisfaction among customers, who blockaded IA and FE employees on several occasions in the district office and kidnapped the substation employees who refused to perform reconnection without payment. As a result, several customers were charged with public order offences and/or assault. Despite these

problems, all actions continued to be implemented, and consequently the collection rate in the sub-district increased by more than 200%, as did the number of paying customers.

Rahovec. This sub-district was among the worst performing and most problematic areas of KEK. With same perseverance, IA and FE employees analyzed and revamped the sub-districts' operations efficiency. It is expected that their efforts in this sub-district will bear fruit in the beginning of 2010.

The Internal Audit Office submitted to KEK management a number of recommendations. Although they have been implemented slowly and inefficiently at times, they have had a considerable impact on improving the efficiency of KEK's operations.

Under PA's guidance, the employees of the operations audit function continued to conduct night inspections to identify electricity theft and illegal consumption. Data analyses showed that district personnel (primarily, the feeder team specialists) are still neglecting their job requirements. They do not perform even very simple activities to reduce losses. Based on the Managing Director's request, the 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 the 2nd and 3rd quarters, 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.

PA continued to lead efforts to implement the action plan for customer registration, which was developed in the 3rd quarter. As a result more than 5,500 customers were registered and over 12 million kWh of consumption (valued at more than €1 million) were identified and billed. Based on the knowledge acquired in this process, the IA Office estimates that commercial losses may decrease by as much 4-5 % if this problem is continuously addressed and finally resolved. It should be noted that a number of sample studies showed that non-registered customers consume, on average, four to five times more energy than registered customers.

Procurement Audits

In the 4th quarter under PA's guidance, the IA Office kept a continuous focus on the implementation of the recommendations related to several procurement processes. One of the most remarkable achievements in this area was saving more than €400,000 in the procurement of "CISCO" communications equipment. The tender was let based on a KEK IS Department request. This request did not state that the €570,000 listed in the tender documents was budgeted for the entire IS project and the "CISCO" equipment was only one 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 "earmarked" amount. 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' bids. 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.

After the international tender was completed, KEK received offers for the same equipment with drastically lower prices. The winner's price is €199,755 which is almost €400,000 less than that of the previous successful bid.

Serious violations were also discovered in the procurement process for water treatment chemicals for the Kosovo A power plant. The IA Office conducted a comprehensive investigation of the current tender and of tenders conducted in 2007-2008. During the investigation serious suspicions arose that the quality and content of the delivered chemicals was not consistent with KEK's requirements. For this and other reasons, it was essential to gain clarification from the manufacturer. The IA Office contacted the chemical manufacturing company in Hungary on several occasions, through post and telephone, but no received no reply. Finally the investigation team ordered that product samples be sent for laboratory examination. In order to guarantee an impartial conclusion, samples were sent to Macedonia and Albania. The results are expected in Q1 of 2010.

Audits of the Mining Division

After a general study of the Mining Division's human resources system and operations was completed in the 3rd quarter, the IA Office issued a number of recommendations. They included the revamping of time attendance control, employees' performance evaluation criteria, and planning and work organization.

The auditors also observed the level of performance of Mining employees. When workers learned of the IA Office inspections, teams operating with 65-66% of their staff significantly exceeded their performance targets, which were calculated based on a 100% staffing level. These findings prompted further detailed analyses of the Division's work organization and assignments. For its initial target, IA adopted the premises of the Coal Production and Maintenance Department. After completing dozens of field inspections and data analyses, the audit staff concluded that work organization and overstaffing were causing significant problems. For instance, the Maintenance Department staff assigned to maintain the excavators exceeded a staggering 350. IA staff observed that these individuals were, for the most part, idle and had nothing to do, but simply wait until an excavator failed. Rightsizing of this Department would mean a reduction of at least 200 employees.

The IA Office organized several meetings with the Mining Division's management and submitted their main findings for their comments and suggestions. The next round of meetings to finalize the IA recommendations is scheduled for the first part of January 2010.

Transportation Audit

In previous quarters, the IA Office issued a number of recommendations to improve the transportation management system, reduce transportation costs and improve efficiency. Based on the findings of the audit the, transportation manager was dismissed and a new manager was selected through open competition and appointed. Under PA guidance the existing KEK Vehicle Regulation function, which effects over 700 vehicles, was significantly revamped to reflect the findings of the transportation audits and the new requirements following a considerable increase in KEK's transportation fleet. A new organizational chart for the Transportation Department was developed with assistance from PA and adopted by KEK. The new organization eliminated the duplications and overlaps that existed in Corporate Service, Network and Supply Divisions.

The new organization structure and the revamped vehicle regulation were approved and will become effective as of 1 January 2010.

Summary of Audits and Investigations and Measures Taken to Address the Findings

In all, 22 investigations and audits involving electricity theft were conducted, as were another 2 concerning illegal activities by customers and KEK employees, including violations and non-compliance with written policies and procedures.

- *Investigations.* 17 investigations are ongoing; they are expected to be completed in the 1st quarter of 2010.
- *Disciplinary Actions.* As a result of the investigations performed by the Internal Audit Office, 12 KEK employees were proposed for dismissal; final written warnings were given to 18 employees.
- *Law Enforcement.* With assistance from PA, KEK was able to submit four cases to law enforcement officials for follow-up action.
- *Customers Inspected.* The Operations Audit Function inspected more than 2500 customers' electric use and metering.

Task 9: Provide Legal Support for Unbundling and Privatization

The Unbundling/Privatization Process

As noted in previous reports, PA prepared in draft form the primary documents required to implement the legal unbundling of KEK. In this respect, the actual timing of the unbundling and activation of the newly established KEDS will need to be discussed at length with the Transaction Advisors (IFC) and a final decision made by the Government of Kosovo. In the meantime, PA will be looking to implement changes within KEK's organizational structure during the 1st quarter of 2010 in preparation for legal unbundling.

Debt Recovery

PA participated in two training sessions for execution clerks (individuals executing court orders) on 20 and 22 October 2009, which was organized by another USAID implementing partner (the National Centre for State Courts).

PA also attended a roundtable conference on the reform of enforcement law on 7-8 October 2009, which was convened by USAID, the EU and the Dutch Government. The consensus is that the existing framework for debt enforcement in Kosovo suffers from numerous shortcomings, which range from inadequate resources to outdated legislation. Accordingly, and in the absence of widespread reform of this sector, it is difficult to foresee any significant improvement in the number of debt claims issued by KEK, which are actually executed by the courts. This, in turn, means that there is little prospect of increasing the percentage of debt claimed versus recovered.

Other Advice to KEK on Discrete Legal Issues

PA provided legal assistance on the following issues during the quarter 4:

- Continuing to advise KEK on its dispute with Turbocare in connection with the purchase of a used transformer for the Kosovo A power plant. During the 4th quarter, PA attended a without-prejudice settlement meeting between KEK and Turbocare, and is now advising KEK on the terms of a possible settlement, which will include an expert determination.

- Participated in contract negotiations with the winning bidder for the refurbishment of the water treatment facility for the Kosovo A power plant, and assisted KEK with finalizing the terms of the contract, which was signed in December 2009.
- Advising KEK on the implementation of the power purchase agreements for the rehabilitation and capacity increases of two small hydro plants owned by KEK: Dikanc and Radavc.
- Providing legal assistance to KEK's efforts to regularize electric service to minority communities in the northern part of Kosovo, to include attending meetings with the GoS and EPS representatives, and drafting various letters to local and international stakeholders on this issue.
- Assisting with the procurement process for the design and construction of a new 100/35/(20) 10 kV substation in the vicinity of Vaganicë, to include producing the final tender dossier; contract terms were circulated to pre-qualified bidders in November 2009.
- Advising KEK on the terms of the contract with the Ministry of Trade and Industry and Glllogvc Municipality in connection with the development of the Drenas Business Park.
- Finalizing new corporate documents for KEK, and liaising with the head of the Publicly Owned Enterprises Monitoring Unit (at the Ministry of Economy and Finance) in connection with the same. The new documents were approved by the shareholder in December, and then submitted to the Business Registration Agency on 23 December 2009.
- Advising KEK in connection with energy import agreements, using the EFET General Agreement and customized election sheet. KEK has now signed the General Agreement and customized election sheet with all of its principal suppliers. In addition to fixed price "base load" import contracts, KEK has now concluded contracts for emergency and "day ahead" import power.
- Providing a legal overview to the Board of Directors on the terms of KEK's electricity supply contract with Ferronikeli.
- Producing the third revision of the District Regulations, which was approved by the KEK Managing Director in December 2009.
- Monitoring KEK's sale of its scrap metal and rubber waste, which adopted the procedure for the "Sale of Moveable Property" that PA developed in the 3rd quarter.
- Advising on the contents of the tender dossier and draft contract for the external audit of KEK's financial statements for FY 2009.

Task 10: Assist Privatization Transaction Advisor

In November 2009, the Government of Kosovo concluded a contract with the International Finance Corporation (IFC) to act as its Transaction Advisor for the privatization of KEK's Distribution and Supply Business. Since the IFC's appointment, PA has met with its representatives on several occasions to provide information and materials on KEK, and to discuss the general approach to the privatization process. This close cooperation is expected to continue and intensify in 2010.

PA has undertaken specific steps in support of the Transaction Advisor, including:

- Providing input on the “Key Legal Issues Report,” which was prepared by Deloitte and submitted to the IFC.
- Continuing to collect documents for the data room, which has been established in KEK’s Distribution Building.
- Finalizing a new organizational chart for the Distribution Company, which will be implemented in early 2010.
- Finalizing a number of draft documents that will support the work of the transaction advisors, to include a distribution privatization law, a regulatory statement for future tariffs, all requirements for the offtake agreement, and a collection agency agreement.

Task 11: Support Normalization of Service to Enclaves

As discussed in the 2nd and 3rd quarter reports, significant progress was made in 2009 to normalize service in minority areas, which had not paid for electricity in ten years. As of the 4th quarter, all minority communities south of the Ibar River are now regularized in their electricity supply. 30 December 2009 saw the last pocket of resistance to the regularization of electricity supply – certain Orthodox religious facilities – agree to become KEK customers.

Monitoring of Agreements with Minority Communities

With the minority communities in the south now regularized, this task has moved to monitoring compliance with the agreements. KEK’s IS Department developed a community agreement monitoring system based on specifications provided by PA. This allows KEK to monitor compliance with the terms of the agreements for each of the approximately 21,700 consumers subject to them, especially as far as payment issues are concerned. During the fourth quarter, 3,200 customers in the areas covered by agreements were identified as having made no payments. As called for in the agreements, KEK’s Managing Director ordered those customers to be disconnected.

Discussions with the Government of Serbia (GoS) and EPS

PA’s discussions with the GoS and EPA continued concerning having a subsidiary of EPS (to be registered as a commercial business in Kosovo) act as a contractor (energy service company or ESCO). The EPS would provide network operation and maintenance, meter reading, billing, collection, and customer service in the area of the Ibar River.

On 4 November and 7 December, PA advisors to KEK met with the State Secretary of the Serbian Ministry of Energy and Mines and Deputy Minister for Kosovo and Metohjia to discuss issues related to the north – specifically, the Memorandum of Understanding and the draft contract for an ESCO arrangement in the north. It was obvious that the GoS and EPS had made no progress on this issue, which has been under discussion for months. As of the end of 2009, it appears that KEK may have to regularize the north on its own, following the same process as Strpce.

Checklist for Regularizing Customers North of the River Ibar

As part of the efforts to regularize the customers north of the Ibar, the PA team led the development of a checklist document for the disconnection and reconnection of the customers north of the river. This is an extraordinary disconnection procedure since it includes disconnection of the power system at the 10 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.

Attempts to Read Substation Meters

On 24 December, police escorted a team of KEK and KOSTT personnel to northern Kosovo to read substation meters. The team was allowed to read the meters at Valac Substation, but was denied access to meters at Zvecan Substation by Trepca personnel, who stated that KEK was no longer their supplier (they said EPS was their supplier). At Ulmani Hydro Station, operators did not allow the team to read its meters, and said they deal with EPS. This situation is a clear indication of the need to enforce KEK's role as the only licensed network operator in Kosovo and KOSTT's role as the transmission operator.

Plan for the Commercial Aspects of Regularizing the North

In anticipation of KEK's need to regularize consumers in the north, PA has led the development of a plan to initially register and subsequently bill and collect from them. KEK's 8th district (initially referred to as North District) is planned. The CCP customer system is ready along with a file server to run it. All IT hardware and software, vehicles, equipment, and personnel have been specified and are expected to be available when needed.

In December, EPS began delivering bills to consumers in the North. This is a clear violation of the laws of Kosovo and the international community has been informed that their support is needed to enforce the rule of law.

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

The PA team facilitated the development of a report for monitoring, logging, and reporting the compliance of distribution personnel in substations north of the Ibar with 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 meters for remote reading at all 10 kV to 110 kV feeders north of the Ibar.

New 10 kV Feeder to the Dečani Monastery

KEK 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 was nearing completion as of the end of the 4th quarter.

New 10 kV Feeder to the Devich Monastery

KEK agreed to build a new 10 kV distribution line and provide support in building a new 10/0.4 kV transformer station for the Devich Monastery as part of the regularization of supply. The PA team facilitated the technical planning and design for this project. The project was successfully completed at the end of 2009.

New 10 kV Feeder to the Peja Monastery

KEK agreed to build a new 10 kV distribution line to the Peja Monastery as part of the regularization of supply. The PA team facilitated the technical planning for this new feeder. The project was successfully completed at the end of 2009.

Initiatives Related to IDP Collective Centers

Since KEK did not previously have access to minority areas, it did not have to deal with the 10 Internally Displaced Persons (IDP) Collective Centers in those areas. PA visited each of the centers and assessed their living conditions and electrical configuration. PA has been working extensively with the Ministry of Labor and Social Welfare (MLSW) and their regional offices in Gračanica and Strpce 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).

PA met with MLSW and representatives of the two camps in Gračanica on 27 October. At that meeting, the representatives of the camps were given information sheets for each family to instruct them on applying as Social Cases. On 1 December we met with the Deputy Mayor of the Parallel Structures, Mr. Ljubinko Karadic, in Gračanica. He was informed about KEK's approach towards those IDP camps and was reminded to have residents apply as Social Cases.

On the 20 November PA met with representatives of the four camps in Strpce, the Red Cross, UNHCR, and OSCE. They were given copies of information sheets on the Social Case Subsidy to be provided to each resident.

KEK, with PA support, is developing data on consumption by month for each facility in order to know the magnitude of the situation.

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 needed 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.

In September and October all facilities that were not willing to pay were disconnected. Some of the facilities then decided to pay and were reconnected. By the end of December, 57 facilities remained disconnected. In an attempt to address 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 facilities. This proposal was provided to Serbian Government officials, the Gračanica Monastery, and stakeholders. UNMIK was requested to act as an intermediary and meetings were held with their Legal Office. However, UNMIK took no action. On 30 December 2009 Gračanica Monastery officials agreed to become KEK customers and were reconnected on the same day. Consequently, it is expected that all remaining Orthodox facilities will follow suit, and will be reconnected before the Orthodox Christmas on 7 January 2010. The resolution of this matter, after four months of discussions, represents a significant milestone for KEK and PA.

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 as well as with Gračanica Monastery.

- Coordination meetings continued to be held during the fourth quarter with representatives of KFOR, EULEX, ICO, OSCE, UNMIK, the US Embassy, and USAID; PA chaired the meetings. Participants were updated on the status of electric service to Serb areas. PA responded to all questions and provided participants with information they 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.

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. This section discusses the barriers that are hampering the achievement of better project results.

KEK Board of Directors

In contrast to the previous Board of Directors, the existing Board has shown a willingness to cooperate with PA and displays 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.

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. This aspect will become increasingly problematic as employees dismissed under the new District Regulations for non-performance contest their termination through the courts.

As reported in previous quarters, the new Regulations for Operations in KEK Districts provide clear benchmarks for assessing poor or unsatisfactory performance by employees and introduce a zero-tolerance approach to serious disciplinary offences. While KEK management has shown more willingness in the 4th quarter to fully implement its terms, difficulties remain.

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 derailed the ongoing procurement activity for the rehabilitation of Unit A2, which will cost Kosovo €10's of millions a year. Continued USAID support and leadership are appreciated and needed to ensure that stakeholder involvement and interest in KEK can be managed properly.

Union Interference

The KEK unions have initiated an assault on KEK management, orchestrated by various political parties, demanding the termination of KEK's Managing Director and Executive Director of Supply, pay raises, stoppage of any employee termination, shorter working hours, involvement in management decisions, and a halt to privatization activities. The opposition is growing both internally and externally as PA's efforts are making it harder for non-performing employees to remain in KEK, and commercial facilities owned by influential individuals are disconnected for debt and non-payment.

The Kosovo Government's support of KEK's management actions is a must if KEK's performance is to continue improving.

V. Proposed Solutions to New or Existing Problems

In this section, we discuss two problems 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 defects discovered 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 team to either introduce improvements to the existing modules (which is very difficult because KEK does not own the source code) or to develop and implement new modules (designed by PA) that 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.

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 on the approach used to solve this problem and the results achieved. As of the end of the 4th quarter, all communities south of the Ibar have signed, or are likely to sign agreements, and service has been regularized. Initiatives to regularize customers north of the river are being launched and significant effort is being devoted to this area and will continue in early 2010.

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 and Štrpce to develop a 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 were taken into account 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 the 4th quarter:

- PA continued to coordinate with Deloitte Touche 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.
- PA has cooperated and shared information with the IFC, as the newly appointed Transaction Advisors for the distribution privatization.
- 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 KEK's corporate tax and VAT liability.
- PA cooperated with Deloitte advisors at the MEF on the 2009-2011 budget and potential GOK assistance for the procurement of mining equipment.
- The team liaised with OSCE, EULEX, UNMIK, Irish KFOR, and US KFOR on the issue of minority area policies.
- PA continues to maintain regular contact with the WB, IMF, KfW, EU, UNMIK, EULEX, OSCE 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.

VIII. Upcoming Events with Dates

Minority Areas

As discussed in Section 2, Task 11, significant progress was made during the last three quarters of 2009 on resolving issues in minority areas. Beginning early in 2010, extensive efforts will be made to regularize electricity service for all consumers north of the Ibar 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 and other minority related issues and concerns. However, it appears that KEK will have to regularize the customers in the north on its own.

Direct Debt Mechanism

This new mechanism has been fully tested and is working well. The number of participants was gradually increased each month during the 4th quarter and is being made available to all consumers as of January 2010.

New Kosovo Transaction/Kosovo B+

Expressions of interest are due by the end of January 2010, with an investors conference scheduled for the 20/21 January 2010.

Legal Unbundling of KEK

Subject to the input of the privatization Transaction Advisor, PA will be assisting KEK with preparations for legal the unbundling of KEK's Network and Supply early in 2010.

Vaganice Substation

The final bids by pre-qualified bidders were submitted at the end of December 2009 and will be evaluated in the 1st quarter of 2010.

Contract with RTK

The agreement between KEK and RTK, wherein KEK acts as the collection agent for the RTK fee, expired in November 2009. As of the end of 4th quarter it appears that KEK will not be forced to enter into another agreement with RTK. On 16 October 2009 the Constitutional Court declared the collection of the RTK fee through electricity bills as unconstitutional and KEK immediately ceased billing customers for the fee. As of year end 2009, KEK awaits the final ruling of the Court as to the status of amounts collected since 16 October. Plans are in place to implement the terms of the final decision with respect to amounts due to RTK, if any, since 16 October.

New External Auditor

In the 4th quarter KEK initiated procurement for the selection of a new external auditor for the audit of KEK's financial statements for FY 2009. The evaluation and selection of the winning bidder are expected early in the 1st quarter of 2010.

Small Hydros

The inauguration of the refurbished small hydro power plants (Dikanc and Radavc) is expected in the 1st quarter of 2010.

Ferronikeli

As reported above, KEK will be holding discussions with Ferronikeli management in January 2010 in connection with its electricity supply post-April 2011, at which time its existing electricity supply contract with KEK expires.

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 Managing Director with clear performance expectations from all levels of management	Ongoing	Partially completed. Progress has been achieved. Lack of an 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 intention.
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 Date (End-of-month)	Major Activities Completed/ Status of Deliverables
3.1	Accurate and timely meter reading between KEK and KOSTT exchange points that provide for system energy balance	December 2009	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 Date (End-of-month)	Major Activities Completed/ Status of Deliverables
3.4	Meter purchases to be electronic, with emphasis on anti-tampering features and load profile data recording for large customers and substations.	December 2009	<p>Completed.</p> <ul style="list-style-type: none"> • All three shipments with a total of 7,500 meters have arrived. The meters are being distributed to the KEK districts for installation. • A shipment of 1,500 ‘half indirect’ meters for commercial customers delivered during Q3 2009 were tested and sealed in the KEK meter lab during the Q4 2009 and are being distributed to the districts. • The contract for 400 meters (fully indirect) for industrial customers and substations has been signed. A shipment of 400 meters has arrived at KEK. Complete replacement and installation of these meters at the 10 kV feeders is planned to be finished in January 2010.
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, there is no need for remote meter reading. • Per PA’s recommendation, the USAID metering project was terminated.

Nr.	Task 4: Increase Collections from Customers Specific Objectives / Accomplishments	Completion Date (End-of-month)	Major Activities Completed/ Status of Deliverables
4.1	Improve collections, over the baseline, per PBMS targets for 2008 and 2009	Ongoing	Collections improved in the 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 high. See the Task 2 discussion 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 continue to increase. KOS-Giro payments represent only 2.5% of total payments made, but 11% of money collected. Western Union added to the system in Q4. Most important, however, is the fact that the number of payments and amounts from household and small commercial customers are increasing each month.

Nr.	Task 4: Increase Collections from Customers Specific Objectives / Accomplishments	Completion Date (End-of-month)	Major Activities Completed/ Status of Deliverables
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 was gradually increased each month and is being made available to all consumers as of January 2010.
4.7	Advise KEK and the Government to improve the effectiveness of the Social Cases Subsidy by broadening the base of recipients.	December 2008	Completed. The 2008 subsidy was successfully posted to customer accounts during Q2. 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).

Nr.	Task 5: Assist KEK to Take Over and Clean Up CCP Specific Objectives / Accomplishments	Completion Date (End-of-month)	Major Activities Completed/ Status of Deliverables
5.1	Rules defining the responsibilities of KEK IT, Network, Supply and Finance Divisions for the maintenance and operation of the CCP system are developed and adopted (an executive order is signed)	September 2008	Completed
5.2	Rules defining the responsibilities of KEK IT and of the appropriate persons in the Divisions, for the maintenance and operation of the ABC module are approved.	October 2008	Completed
5.3	Komtel contract ends for all work except system changes. Komtel has delivered final versions of “user” and “system administrator” manuals, and concluded training.	November 2008	Komtel delivered 5 updated manuals, but failed to deliver the rest in Q3. It is not expected that Komtel can deliver what is required. Therefore, 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 Date (End-of-month)	Major Activities Completed/ Status of Deliverables
5.7	Automatic and manual corrections to the customer database made in response to detected and identified anomalies are defined.	December 2008	The work plan for CCP cleanup was developed and approved. The Analysis Team developed the flag reports that were used by field teams. Field work is complete and archiving of nonexistent customers and disconnections of vacant facilities are being completed 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 analyzed prior to updating. Field work is complete. Corrected the data for 21,000 new minority customers. 8,000 nonexistent customers with €6.7 million of debt were archived 13,000 vacant facilities being disconnected.
5.10	All non-existing facilities (customers) are deleted.	May 2009	Completed. 8,000 nonexistent customers with €6.7 million of debt were archived
5.11	“Passive customers” are eliminated.	May 2009	Completed. 13,000 vacant facilities being disconnected.

Nr.	Task 6: Assist KEK to Take Over CAS and Unbundle Accounting Specific Objectives / Accomplishments	Completion Date (End-of-month)	Major Activities Completed/ Status of Deliverables
6.1	Rules defining the responsibilities of all divisions of KEK for the maintenance and operation of the CAS (HR and Payroll) are developed and adopted (an executive order is signed)	September 2008	Completed.
6.2	Komtel contacts end (and are not renewed). Komtel has delivered final versions of “user” manuals and “system administrator” manuals, and concluded training.	October 2008	A new solution to the problem has been proposed based on the replacement of some of the CAS modules by modules developed by KEK with PA’s assistance.
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 Date (End-of-month)	Major Activities Completed/ Status of Deliverables
7.1	Complete the KEK tariff filing for 2009	April 2009	Completed. In addition, the Preliminary Tariff Application for 2010 was filed in December 2009, ahead of schedule
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 and a revised connection tariff are expected to be submitted in early 2010
7.3	Complete and obtain ERO approval of the disconnection rules	May 2009	Completed.
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 the equipment is already available. Specifications are developed for the rest and procurement process should be completed in Q1 2010.
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.

Nr.	Task 8: Improve Internal Controls and Strengthen Internal Audit Specific Objectives / Accomplishments	Completion Date (End-of-month)	Major Activities Completed/ Status of Deliverables
8.6	Assist with the introduction of procedural refinements to KEK procurement procedures to create safeguards against corruption	December 2008	In process. A number of audits were completed and procedural improvements based on lessons learned and weaknesses detected were proposed.
8.7	Assist with the enforcement of the new cost control procedures.	December 2009	In process. Two audits were completed on this direction. Several weaknesses were detected and remedies proposed. The process implementation requires permanent supervision and control.

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 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 Q4, specific advice and guidance were provided on the terms and conditions of KEK's electricity supply contract with Ferronikeli.

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 the 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. All areas south of the Ibar/Ibër River are now regularized. Plans are in place for areas north of the river for implementation early in 2010.

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	2009 Actual
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%	21%
2 ²	1, 2, 3, 5, 6, 7, 8	1	Reduce technical losses (ratio of technical losses vs. energy delivered to distribution)	18.2% ³	17.4%	17%	16.6%	16.5%	17.7%
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%	79.3%
4		1 through 6, and 8	Ratio of revenue collected versus billed	74.2%	76.6%	80.0%	75.6%	89.0%	81.4%
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%	64.5%
6		1 and 4	Ratio of debt collected vs. claimed ⁵	Not Av.	23.48 %	30%	17.5%	35%	19%
7	1, 2, 3, 5, 6, 7, 8	1 through 8, and 11	Collected revenue in Euros	€96 mm	€110.8 mm	€116 mm	€135 mm	€140 mm	€160.3 mm

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 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. Although collection rates have been improving and some “old debt” is being recovered from customers, there is not a significant recovery rate on old debt.
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, 5.8, 5.10, and 5.11 are completed. Archiving work and disconnection of inactive customers being completed 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, 5.8, 5.10, and 5.11 are completed. Archiving work and disconnection of inactive customers being completed 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.

Task	Performance or Impact	Indicators Definition and Unit of Measure	Reporting Frequency	2008 Target	2009 Target	Status
	Impact Indicators	KEK will have adopted the rules and regulations for the operation and maintenance of CAS by all KEK divisions and the IT Division, and will have taken over the operation and maintenance of CAS and cleaned up the CAS database. The new Chart of Accounts will have been implemented and financial statements of all KEK functions generated.	Quarterly	Un-bundle KEK financial accounting	Improved Regulatory Reports	KEK IT has taken over the KEK IT support with limited support from outside contractor.
Task 7	Performance Indicators	PA will have completed its activities on this task, developed an action plan for KEK to implement the recommendations; success will be measured based on the approval of the tariffs and proposed regulations.	Quarterly	File for new tariffs	File for new tariffs	2009 tariff filing was completed.
	Impact Indicators	KEK will have filed for new tariffs and rules, and ERO will have approved them.	Quarterly	Obtain ERO approval	Obtain ERO approval	Several filings regarding various rules are pending ERO approvals.
Task 8	Performance Indicators	PA will have assisted KEK's Internal Audit Department, to address all forms of loss or theft, excessive costs, fraud and embezzlement. Indicators will measure the results of this effort.	Quarterly	Establish a fully operational Internal Audit function in KEK	Support the continued strengthening of Internal Audit	Structural formation and staffing processes are completed. Suitable equipment specifications are drafted and procurement is in process. Daily tutoring and training are ongoing. 22 investigations were completed in Q4 and 17 investigations are underway.

Task	Performance or Impact	Indicators Definition and Unit of Measure	Reporting Frequency	2008 Target	2009 Target	Status
	Impact Indicators	KEK will have achieved significant results in fighting losses, fraud and embezzlement. Measurable results in adherence to procedures will be shown within KEK, which will begin to improve the image of KEK to its customers and to the community.	Quarterly	Improve internal controls	Substantially reduce fraud and embezzlement	12 employees were terminated for misconduct in Q4 and 18 were subject to other disciplinary measures. Up to 2500 customers were inspected and dozens of instances of electricity theft, corruption, and bribery were identified. 4 cases were filed with the prosecutor.
Task 9	Performance Indicators	PA will have drafted documents required for the agreed unbundling strategy, to include incorporation documents for new corporation(s), documentation transferring assets and liabilities to any new corporation(s) and contractual arrangements post-unbundling between the corporations. Other indicators include: a) presenting to the KEK Board of Directors, new Employment Regulations for KEK employees; and b) focusing on successfully enforcing debt judgments for non-payment of electricity against a select number of defendants.	July, October, January	Documents submitted to KEK in line with the deliverables timeline.	Documents submitted to KEK in line with the deliverables timeline.	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.

Task	Performance or Impact	Indicators Definition and Unit of Measure	Reporting Frequency	2008 Target	2009 Target	Status
	Impact Indicators	New unbundled corporation(s) have been created and all relevant contractual and corporate documents have been concluded. New Employment Regulations have been adopted and are being implemented. Prioritized civil cases are being processed more effectively by the courts and debt judgments for non-payment of electricity are actually being enforced by the courts.	July, October, January	All documents and recommendations have been accepted and adopted by KEK in accordance with the deliverables timetable. Debt recovery rate is 30% of the debt claimed	All documents and recommendations have been accepted and adopted by KEK in accordance with the deliverables timetable. Debt recovery rate is 35% of the debt claimed	Draft Employment Regulations are not implemented and are being opposed by KEK staff. This failure is mitigated by better implementation of the District Regulations, which contains clear disciplinary measures and performance parameters. Incorporation of the new company has been completed. Debt recovery rate is 19% for 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 had been prepared to assist the Transaction Adviser once he was on board. These were being implemented in the Q4.
	Impact Indicators	Information Memorandum Issued, privatization deal structure identified	Quarterly	Privatization is underway	Information Memorandum is issued	TBD
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 north of Ibar River.	Quarterly		Complete the regularization of service in minority areas	Completed regularization of areas South of the Iber River. Plans to regularize areas North of the Iber River are in place for implementation early in 2010.

Task	Performance or Impact	Indicators Definition and Unit of Measure	Reporting Frequency	2008 Target	2009 Target	Status
	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)	Target 60 (M=48 and W=12) <u>Actual 36</u> (M=32and W=4)	Q4 2009: PA-conducted training statistics <table border="1"> <thead> <tr> <th>Dept.</th> <th>Men</th> <th>Women</th> <th>Total</th> </tr> </thead> <tbody> <tr> <td>Distr. Oper.</td> <td>32</td> <td>3</td> <td>35</td> </tr> <tr> <td>Fin / Acct</td> <td>10</td> <td>2</td> <td>12</td> </tr> <tr> <td>Hum Res</td> <td>57</td> <td>41</td> <td>98</td> </tr> <tr> <td>IT / IS (Tech)</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Legal</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Regulatory</td> <td>2</td> <td></td> <td>2</td> </tr> <tr> <td>Internal Audit (Tech)</td> <td>7</td> <td>1</td> <td>8</td> </tr> <tr> <td>Supply</td> <td>5</td> <td></td> <td>5</td> </tr> <tr> <td>Network</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Board of Directors</td> <td>6</td> <td></td> <td>6</td> </tr> <tr> <td>Subtotal (Q4)</td> <td>119</td> <td>47</td> <td>166</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>Q4 2009</td> <td>119</td> <td>47</td> <td>166</td> </tr> <tr> <td>Total Year 2009</td> <td>221</td> <td>68</td> <td>289</td> </tr> </tbody> </table>	Dept.	Men	Women	Total	Distr. Oper.	32	3	35	Fin / Acct	10	2	12	Hum Res	57	41	98	IT / IS (Tech)				Legal				Regulatory	2		2	Internal Audit (Tech)	7	1	8	Supply	5		5	Network				Board of Directors	6		6	Subtotal (Q4)	119	47	166	Q1 2009	40	3	43	Q2 2009	12	1	13	Q3 2009	50	17	67	Q4 2009	119	47	166	Total Year 2009	221	68	289
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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 261</u> (M = 196 and W =65)																																																																					

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 % Actual Q4 2009 3.19 % Q1 + Q2 + Q3+Q4 6.86 %	10.72 % +/- 2 %	10.44 % +/- 2 %	10.19 % +/- 2 %	Consumption increased in Q4 2009 over Q4 2008 by 6.9 % due to increased generation and imports; resulting in a 65.4 % reduction in unserved energy. The percentage of unserved load is 3.19 % for Q4 2009 as compared to 9.24 % for Q4 2008.

Note: The Fiscal Year (FY) runs from 1 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 4 for public communications/information:

A press release concerning the overloading of the energy facilities in Vallaç was prepared and issued to communicate the serious nature of the energy supply problem in the north.

PA prepared a fact sheet on the technical and commercial aspects of the energy supply to the north and provided it to stakeholders.

A public notice concerning “KEK’S Position on the Electricity Situation in Northern Kosovo” was developed.

PA prepared a communication to the general public, informing them that they are not to give cash to any KEK employee other than an authorized cashier in a KEK office or a mobile cash collection van. This was published in local papers and posted in all KEK offices. In addition, every customer was given a handout containing the same information when they paid their bill during the fourth quarter.