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**KOSOVO**

# 2011 QUARTER I REPORT (1 JANUARY – 31 MARCH)

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

APRIL 2011

This quarterly report on the Korporata Energjetike e Kosoves (KEK) Network and Supply Project covers the period 1 January through 31 March 2011. It was prepared by Tetra Tech ES, Inc. (Tt) under Task Order 4 of Contract EPP-1-00-03-00008-00. The authors gratefully acknowledge the support of the United States Agency for International Development's Kosovo Mission (USAID/Kosovo) for this project.

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# Executive Summary

## Major Milestones in Quarter I

### Tariff Application

Tetra Tech (Tt) supported KEK in developing the 2011 Tariff Application, which was submitted to the Energy Regulatory Office (ERO) on 28 January. The application requested a tariff increase of 7.15% (€13.2 million). In addition to the standard elements, this tariff application included:

- Distribution use of system tariffs, which were prepared using a methodology developed by Tt.
- Unbundled tariffs, which were developed for each class of customer and include the following components: 1) wholesale price of electricity, 2) transmission services, 3) distribution use of system charge, and 4) retail supplier costs. Tt developed the methodology to determine unbundled tariffs. It was submitted as part of the tariff application and applied to 2011 tariff application data, resulting in detailed unbundled tariffs.
- An analysis of the financial impacts of including the assets acquired prior to 2006 in the regulatory asset base for tariff purposes. To date, the cost of those assets has been excluded in determining the level of tariffs. In accordance with the recently revised Law on the Energy Regulator, the value should be included in tariffs. Tt's analysis indicates that the depreciation expense is €22.4 million and the return on investment is €11.7 million. This would result in a tariff increase of 17% (€34.1 million).

Section 1.5 contains more information on the tariff application and review process during Q1.

### Dealing with Major Customers

The supply agreement KEK entered into with Ferronikeli in 2006 will expire on 18 April 2011. Tt's support of KEK regarding the agreement has included developing an entirely new supply agreement with a tariff structure appropriate to a large (90 MW) customer with a high load factor. Tt advised KEK to serve such a customer at a regulated tariff under its public supply license rather than under its trading license.

KEK submitted an application to the ERO proposing a 220 kV regulated tariff and Tt supported KEK during Q1 in its dealings with the ERO as well as in the discussions with the customer to finalize an agreement that Tt drafted. See Section 1.5 for more information on this issue.

KEK received a communication from Trepca indicating that, in Trepca's opinion, because it owns the Kishnicë and Artanë substations (according to a 1959 deed), KEK should pay Trepca a facilities charge for their use since they provide service to other KEK customers. Tt drafted a response that KEK sent to Trepca on 14 March to clarify the situation, especially with respect to the legal aspects of the new Law on Energy. That law affords KEK a statutory ninety-nine (99) year right of use over all energy facilities that it possesses or uses, which include the Kishnicë and Artanë substations.

Tt supported KEK in developing a new supply agreement with Sharrcem, KEK's second-largest customer.

### **ESCO Agreement for the North**

The EU-facilitated dialogue between the Governments of Serbia and Kosovo began during Q1, with energy being a key point of discussion. In this respect, Tt provided support and advice to the KEK Managing Director and the Head of the Kosovo delegation (Deputy Prime Minister Edita Tahiri) on the development of Kosovo's strategy on energy.

Tt also attended the inaugural meeting of the technical representatives of both parties in Brussels – during which the ESCO agreement was discussed at length. There appears to be broad consensus that the parties should move forward with the ESCO agreement. However, the Serbian delegation continues to insist on extending the activities of the ESCO to Serb areas in southern Kosovo – as previously reported, KEK cannot accept this request for both legal and commercial reasons. Further dialogue is expected in Q2 – it is imperative that there a resolution be reached on this issue in the near term so as not to undermine the ongoing distribution privatization process.

### **Other Notable Events and Accomplishments**

#### **Political Uncertainty**

There was continued political uncertainty during Q1 – a new government was only formed at the end of February, and the election of the new President was subsequently declared void by decision of the Constitutional Court. These events, in turn, meant that the 2011 Kosovo Budget (to include the €29 million for energy import subsidies) was not approved until the end March. The delayed approval of the budget also caused 1) delays in paying contractors under the loan agreements concluded between KEK and the GoK and 2) KEK to defer its purchase of energy imports for the remainder of 2011 – this decision ultimately proved to be a costly one as energy prices increased sharply in March in light of the German Government's decision to temporarily shut down seven of its nuclear reactors while it reconsiders its nuclear strategy.

#### **Finance**

Tt assisted KEK in preparing its Annual *Performance to Plan* report, which provides analysis on the execution of KEK's 2010 expenditure budget and the implementation of its 2010 Business Plan. Tt also supervised the preparation of KEK's expenditure budget for the first quarter of 2011 and monitored the implementation of its business plan for 2011. Tt initiated the design and implementation of an Integrated Cost Control (ICC) system to provide information support in the processes of budgeting, procurement and cost control. The system will also include Contracts and Invoices Database (CID) and a new Accounts Payable (A/P) Module. The ICC will be instrumental in the enforcement of the approved cost control procedures. Tt assisted KEK with hiring an external auditor to audit the 2010 financials, and the auditor's report is expected in Q2 of 2011.

#### **Implementation of the New Assets Register**

Tt supervised the posting of the adjustments to the General Ledger (G/L) to correct all the errors made in the calculation of depreciation in the period 2003-2009 and reconcile the new asset register data with the G/L data. The total corrections exceeded €11 million. Tt then oversaw the entry of asset data for 2010, the calculation of depreciation, the posting of the transaction journals to the G/L, and the generation of reports on the additions, disposals, and transfer of assets for KEK's 2010 financial statements.

## **Design of a New Integrated Human Resources and Payroll System**

Tt initiated the design of a new HR and Payroll System. The system will provide information support for the organizational changes related to the privatization of KEK; support the implementation of major improvements to KEK's payroll system; guarantee the verifiability, consistency, compatibility and timeliness of all HR and payroll data; provide an audit trail for all HR and payroll transactions; export employee information to the new Fixed Asset Register to help safeguard the company assets; and provide data to CCP to support the process of monitoring the performance of feeder teams.

## **Billing and Collections**

Collections for the first quarter of 2011 were higher (€6.7 million or 14%) than in the same quarter of 2010, due to a higher collection rate, and a significantly lower level of commercial losses. The billing rate was 75% and the collection rate 81%, resulting in overall performance (collection of delivered energy) of 61%. For the same quarter last year, the billing rate was 70%, the collection rate 80%, and overall performance was 56%.

Q1 2011 results indicate improvements on all key indicators. Unaccounted-for energy (commercial losses) continues to be a significant problem, however, especially considering that the ERO intends to reduce the amount of loss allowed in tariffs from 20% to 15.9%, an unreasonable level given the recent actual experience and the lack of support for aggressive disconnections.

## **Internally Displaced Persons (IDPs) Collective Centers**

Tt continued to work with central government ministries, local government officials, and the international community to provide funds to cover the cost of electricity provided to the IDP Collective Centers. Late in 2010, Tt prepared a Memorandum of Understanding (MoU) to document the agreement among the stakeholders wherein the Ministry of Labor and Social Welfare will pay €1,000 per month for all Centers, the municipalities pay an additional amount to cover up to 330 kWh per household, and the residents are responsible for payment of all consumption in excess of 330 kWh per month. As of year-end 2010, the Ministry and the Municipality of Gjilan committed to their portions, but the mayors of Strpce and Gracanica had not. On 12 January 2011, those mayors signed as well, resulting in the signing of the MoUs and completion of all payment arrangements.

During Q1, the Ministry fulfilled its obligation and residents of several of the Centers paid for their excess consumption. Residents of the two Centers in Gracanica refused to pay for their excess consumption and were disconnected. The Minister of Labor and Social Welfare subsequently agreed to pay for that excess consumption and those Centers were reconnected. The three mayors did not make any payments during Q1, and therefore did not fulfill their commitments. On 24 March, the Minister of Labor and Social Welfare notified KEK that his Ministry would pay the January and February payments that the mayors should have paid, thereby bringing the payments for IDP centers up to date as of the end of Q1. With the 2011 KCB now finalized, the Municipalities are expected to honor their commitments going forward.

## **Internal Audit and Field Enforcement**

Under Tt's guidance, the Internal Audit Office (IAO) completed 27 audits and investigations during the quarter.

- *Investigations:* 18 new audits were initiated.
- *Disciplinary Actions:* As a result of the investigations performed by the IAO, 7 KEK employees were proposed for termination and 5 for different forms of disciplinary action.
- *Customers Inspected:* 1,172 customers were inspected to determine the sources of commercial losses and check the network and supply operations' effectiveness and efficiency.

- *System improvements:* The IAO performed a significant volume of work to improve KEK's management, operations and processes, and made 34 recommendations for system improvements.

Under Tt's guidance, the Field Enforcement Department (FED) launched an extensive campaign for resolving problems related to customers with large debts and high commercial losses.

- 1,686 customers were visited for inspections or disconnections
- 731 "problematic" customers were disconnected with the total debt €1,327,315, from which €245,632.35 was collected
- 313 cases of electricity theft and other irregularities were discovered and submitted to the Legal and Supply Departments for processing
- Through disconnections and loss reclamations in cases of electricity theft, the FED collected about €280,000 of additional revenue for KEK.

The IAO and the FED have submitted 17 criminal cases to law enforcement agencies in relation to electricity theft and other irregularities detected during their investigations.

### **Upcoming Events and Activities**

Tt anticipates that the following important events will occur during Quarter 2 of 2011:

- KEK is scheduled to receive a final decision from ERO concerning tariffs to be effective on 01 April 2011. This decision will also incorporate the new regulated tariff for Ferronikeli.
- KEK anticipates that ERO will approve the Network Development Plan and the Connection Charging Methodology during Q2.
- Award of the following significant procurement contracts in January and February 2011:
  - Energy imports (baseload) for May 2011 to March 2012
  - Refurbishment/replacement of electrostatic precipitators in Kosova A Thermal Power Plant (TPP).
- Activation of the virtual data room for the Kosovo Electricity Distribution & Supply Company (KEDS) transactions and due diligence by the pre-qualified bidders.
- Continuation of the EU facilitated dialogue between the Governments of Serbia and Kosovo.
- Energy Briefing of key GoK Ministers.
- Issuance of a request for pre-qualification for the KEDS transaction.

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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 2011 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 are:

- Objective 1: Support for technical preparation of the Distribution Company for privatization
- Objective 2: Assistance with post-privatization implementation for the Distribution Company
- Objective 3: Privatization support for the Thermal Power Plant Kosova B.

The Tt team's approach to achieving these objectives is based on two task areas and eight subtasks, each of which is associated with one or more of the project's objectives.

Subtask	Task Area 1	Objective		
		1	2	3
1	Support Management and Operation to Maintain Asset Value	X	X	X
2	Prepare Technical and Contractual Documentation for Investor Due Diligence	X		
3	Provide Advisory Support in Privatization Process	X		
4	Strengthen Skills and Technical Capacity of Counterparts	X	X	
5	Support Management Post-Privatization		X	
Subtask	Task Area 2	1	2	3
6	Prepare a Thermal Power Plant Kosova B Investment Requirement and Rehabilitation Feasibility Study			X
7	Prepare Technical and Contractual Documentation for Investor Due Diligence			X
8	Strengthen Skills and Technical Capacity of Counterparts			X



## 2 Summary of 2011 Progress

A number of important accomplishments were realized in Quarter 1 based on the recommendations, assistance and support provided by Tt's resident advisory team embedded at KEK and other short-term advisors.

### **Subtask I: Support Management and Operation to Maintain Asset Value**

#### **1.1 New Internal Policies and Procedures**

- Tt prepared an executive order on the procedure to make changes to the organizational structure of KEK, in order to achieve efficiency and productivity in KEK operations and greater transparency in recruitment and human resources planning.

#### **1.2 Business Planning and Budgeting**

- The Tt team supervised the preparation of the *Annual Performance to Plan Report* for 2010. The report contains detailed information on the performance of each of the four core divisions (Mines, Generation, Network and Supply) against the approved key performance indicators (coal production, overburden removal and coal stockpile for Mines; availability, gross generation, auxiliary consumption, net generation and capital investment for Generation; commercial losses, meter reading, meter installation, meter inspection and calibration for Network; and billing rate, bill delivery, and collection rate for Supply).
- Tt assisted with the analysis of the execution of KEK's 2010 expenditure budget, the status of the procurement of goods, works and services, and the payments of all 2010 invoices by KEK's Treasury. Special consideration was given to the budget adjustments during 2010 including the justifications for the transfer of funds between budget lines and the use of the Budget Reserve Fund.
- Tt assisted with the analysis of the implementation of KEK's 2010 corporate business plan and the implementation of all division action plans in support of the business plan.
- Tt assisted with the analysis of the execution of KEK's long-term investment plan, including the implementation of all high-priority projects for the period 2010 to 2012. The team also assessed the efficiency of utilization of the loans granted by the Government of Kosovo to fund the major part of the plan.
- Tt also supervised the execution of KEK's expenditure budget for the first quarter of 2011 and monitored the implementation of its business plan for 2011.
- Tt initiated the design and implementation of an Integrated Cost Control (ICC) system to provide information support in the processes of budgeting, procurement and cost control. The system will also include Contracts and Invoices Database (CID) and a new Accounts Payable (A/P) Module. The ICC system will be instrumental in the enforcement of the approved cost control procedures.

#### **1.3 Billing and Collection**

Table 1 summarizes KEK's first quarter results for 2010 and 2011 metering, billing and collection performance for all customers, including those served at 110 and 220 kV. The values were extracted from the monthly reports to the Board of Directors.

**Table 1: KEK Metering, Billing and Collections Performance, Q1 2010 and 2011**

	Q1		Change
	2010	2011	
Ratio of energy billed vs. energy available for sale	69.9%	74.5%	4.6%
Percent of money collected vs. billed	79.9%	81.4%	1.5%
Percent collected vs. energy available for sale	55.9%	60.7%	4.8%
Collected revenue (millions of Euros)	€48.5	€55.2	€6.7

Collections for the first quarter of 2011 were higher (€6.7 million or 14%) than in the same quarter of 2010, due to a higher collection rate and a significantly lower level of commercial losses. The billing rate was 75% and the collection rate 81%, resulting in overall performance (collection of delivered energy) of 61%. For the same quarter last year, the billing rate was 70%, the collection rate 80%, and overall performance was 56%.

Q1 2011 results indicate improvements on all key indicators. Unaccounted-for energy (commercial losses) continues to be a significant problem, however, especially considering that the ERO intends to reduce the amount of loss allowed in tariffs from 20% to 15.9%, an unreasonable level given the recent actual experience and the lack of support for aggressive disconnections.

### **Improving Performance in District Operations**

Tt continues to maintain a daily presence in the districts to provide technical assistance and help build capacity within district management teams. During Q1 of 2011, Tt continued to support the districts on a regular basis and assist district management teams to implement regulations and policies, disconnect problematic customers, and check the effectiveness of disconnections.

In the first quarter, KEK appointed a new district manager for the Mitrovica district and from March a new Tt advisor was sent to provide policy implementation support to the new manager.

Tt continued to support the district performance evaluation process, analyzing the weaknesses of different sub-districts, helping management teams and sub-district coordinators hold meetings with district staff, conducting training and proposing new ideas to decrease commercial losses, and recommending changes in staff. Tt continued to provide recommendations and encourage the initiation of disciplinary actions against employees pursuant to the terms of the District Regulations. Based on Tt's recommendations, the Peja district manager received a final written warning and several sub-district coordinators were dismissed from the company.

Since the number of zero and negative bills continues to be an issue, Tt continued to work with KEK districts to reduce, and ultimately eliminate them. In support of this effort, Tt instructed KEK how to minimize the number of zero bills each month and accompanied the sub-district coordinators and feeder team specialists while the latter were checking customers with zero consumption. During these inspections, Tt identified a number of instances where KEK employees had clearly misread customer meters. As a result in March, the number of zero bills reduced by more than 7000 bills and zero bills should continue decreasing on a monthly basis.

Tt District Operations advisors also undertook the following specific activities during the quarter:

- Tt once more proved to KEK that disconnection is the main tool to improve performance and that it is not difficult to execute. In the problematic sub-district of

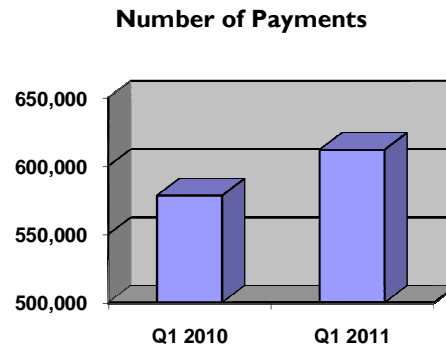
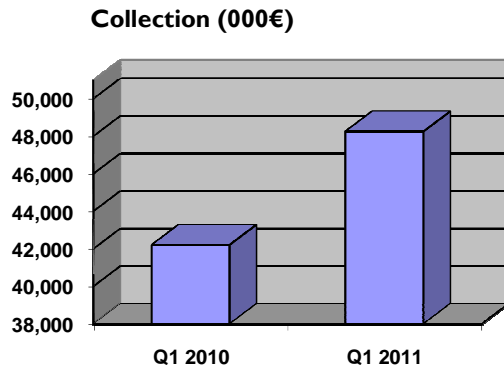
Skenderaj, the KEK team, supported by Tt was able to disconnect 20 problematic customers in 3 hours. This confirmed that the request to disconnect from 15 to 25 customers a day is achievable.

- With Tt instruction and support one of the problematic customers in Ferizaj district, the “Silcapor” brick factory with a debt of €105, 000 was disconnected and all other KEK customers served from the factory substation were moved to an alternative supply.
- Many irregularities were uncovered on A+ feeders and KEK personnel were instructed to review all contracts with such customers and the fact that other customers were being connected to feeders that were supposed to be dedicated only to A+ customers.
- Investigations found several 0.4 KV transformers whose coding was not accurate. With Tt direction, such cases were corrected and other transformers are being monitored to determine if there are other cases.
- The sub-district of Lipjan has 10kV feeders that supply areas populated by both Kosovo Serbs and Kosovo Albanians. After signing community agreements, Kosovo Serbs have generally paid their monthly bills regularly, but have been load shed as a consequence of failure of their neighboring Kosovo Albanian villages to pay their monthly bills. Therefore, upon Tt’s instructions, activities were undertaken to disconnect all non-paying customers in this area.
- Tt continues to monitoring the new debt settlement policy.
- Tt continues to work with KEK management to make changes in the KEK sub-district organizational structure. Tt proposed to unify supply sub-districts and network zones, and make them responsible for all energy and operations of that unit. Tt monitored and supported the selection process of new sub-district coordinators. Tt found inconsistencies in the structure and advised the changes to be undertaken. Implementation of this process has been delayed because of hidden resistance from KEK management, but Tt is pushing for it to happen in April.
- Tt continued to help KEK to conduct analyses and detect irregularities in energy balance reports from 10 kV feeders to 0.4 kV transformers and 0.4 KV customers in certain districts as part of an initiative to decrease losses.
- Tt continued to monitor and support KEK to identify and disconnect a number of customers who never paid their bills. After disconnections, the majority of customers visited started paying their bills regularly.

To better illustrate KEK’s performance during the quarter, Tt conducted a comparative analysis of the Q1 data of 2011 with data from the same period of 2010.

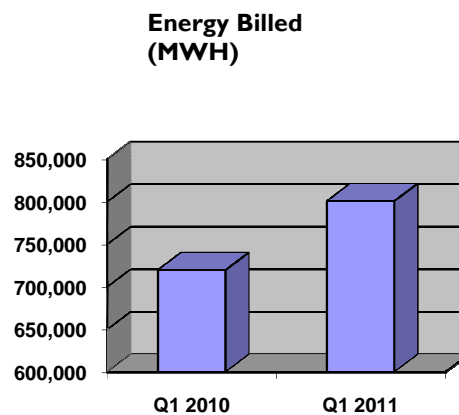
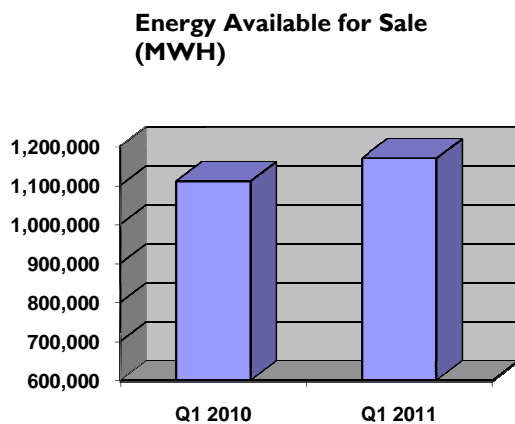
The number of transactions in 2011 increased by 17% (98,355 more payments) compared to 2010 and exceeded 676,000. The number of paying customers increased by 18% (more than 92,000 customers) and exceeded 612,000 customers in first 3 months.

Excluding 110 kV customers, cash collection was 14% higher (more than €6 million) in 2011 than in 2010 and it is worth mentioning that on 21 March 2011 KEK Districts had the highest collection ever recorded by KEK in a single day of €1,508,878.



In 2010, the billing rate for the Districts in Q1 (amount of energy billed as a percent of energy available for sale) was 65% and the collection rate was 78%, producing an overall performance (collection of delivered energy) of 50%.

For Q1 of 2011, the billing rate was 69%, the collection rate 80%, and overall performance 55%. During the current quarter there were huge efforts committed to decrease commercial losses by 4 percentage points.



Despite the improvements made, KEK still faces problems that need to be corrected in order to reduce commercial losses and increase collections.

### Source of Collections

Table 2 displays the sources of collections for the year 2010 in terms of both the number of payments and Euros collected.

**Table 2: KEK Collection Sources Q1 2011**

Q1 2011	# of Payments	%	Euro (000)	%
Customer offices	594,129	88%	32,231	58%
KOS-Giro	37,498	6%	7,979	15%
Bank transfers	7,469	1%	4,467	8%
Payroll deductions	34,708	5%	641	1%
Direct debit	3,227	0%	1,842	3%
Social Cases			1,086	2%
Total districts (CCP)	677,031	100%	48,246	87%
Direct (110 kV) customers	9	0%	6,924	13%
Total collections	677,040	100%	55,170	100%

Notes:

1. Total Cash Collections (in Euros) balances to Energy Accounting Report to Board of Directors
2. Number of Payments from Payroll Deductions balances to CCP. Amount includes two payments per month for most employees (1 for current bill, 1 for old debt)
3. Social Case Subsidy payment allocated 1/12 each month

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

Table 3 shows the payment volumes and amounts processed through KOS-Giro since this mechanism was implemented.

**Table 3: Use of the KOS-Giro Payment System**

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
Q1 2010	22,563	7,175
Q2 2010	26,748	5,335
Q3 2010	28,352	4,776
Q4 2010	33,743	6,592
Q1 2011	37,498	7,979
Source: KEK Supply Division		

Household and small commercial customers' participation continues to grow, in both the number of payments and amount collected. The increase in the number of payments in recent quarters reflects this fact. The addition of Western Union to the KOS-Giro System in late 2009 is one of the factors contributing to the increased volume of payments given the significant usage of the Western Union system by households in Kosovo.

### Direct Debit System

Additional customers continue to be added to the direct debit payment mechanism since it was made available to all customers in January 2010. Over 3% of the amount KEK collected during Q1 2011 came through direct debits. This is the result of the Tt support of KEK's efforts to have several commercial entities with multiple locations (IPKO, PTK, all commercial banks,

Kujtesa) enroll all their facilities in direct debit. In addition, all A+ customers are now part of direct debit. As of March 2011, 1,187 customer accounts were paid through direct debit.

### Minority Issues

It continued to make progress on normalizing service in minority areas to turn non-paying minority area consumers into regular KEK customers. KEK monitors the performance of customers subject to the 133 Community Agreements. The following report summarizes the results from the inception date (second half of 2009) of the various agreements through 31 March 2011.

MINORITY COMMUNITY AGREEMENTS  
OVERVIEW OF PERFORMANCE RESULTS  
As of 31 March 2011

1. Number of Customers	22,048
2. Debt Prior to Agreement	€33.1 million
3. Number of Bills Issued Since Agreement	443,127
4. Number of Payments since Agreement	294,458
5. Payment Transaction Percentage	66%
[% of Line 4 divided by Line 3]	
(KEK average = 49%)	
6. Amounts Billed Since Agreement (000)	€11,306
(€ value of Line 3)	
7. Amounts Paid Since Agreement (000)	€8,961
(€ value of Line 4)	
8. Payment Percentage	79%
[% of Line 7 divided by Line 6]	
(KEK average = 86%, households 82%)	
9. Number of Customers that Never Paid	2,370
[% of Line 9 divided by Line 1]	(11% of total)

As the results show, the newly regularized customers continue to pay quite well compared to the rest of KEK's customers.

Three small villages in the vicinity of the newly established Municipality of Gracanica (Dobrotin, Gusterica, and Livace) have been complaining for some time that, although they have been paying quite well since they signed the Minority Community Agreements, their load is being shed due to the fact that they share a 10 kV feeder with several villages that have a poor payment record. Serbian media reports distorted the facts by reporting that "Gracanica" was experiencing "power cuts" (load shedding). That was *not* the case since the Gracanica 1 and Gracanica 2 feeders (serving over 2,100 households and businesses in the town of Gracanica and surrounding areas) are in Category A, which is load shed very infrequently. The three villages at issue are connected (along with several other small villages) to a different 10 kV feeder in the Ferizaj District of KEK. That feeder has generally been categorized as "C" and subject to load shedding for 2 hours out of each 6; but effective 15 March it was categorized as "B" and load shedding has been less frequent. The payment percentage for all consumers on that 10 kV feeder was 62% in February while the payments of the 3 villages in question were: Dobrotin 70%, Gusterica 85%, Livace 75%.

When KEK met with these villages and the mayor of Gracanica Municipality in February, KEK committed to developing a plan to reconfigure the distribution network to serve these villages from the Gracanica 2 feeder (Pristina District). On 28 March, It and KEK officials met with the

Mayor of Gracanica and explained that the technical analysis was completed and indicated that the Gracanica 2 feeder can accommodate the additional load. The preliminary design indicates that 2 to 3 km of 10 kV feeder need to be added, requiring 27 new poles and 6,000 meters of conductor. The detailed cost analysis has not been completed but it will exceed €40,000. The Mayor of Gracanica indicated that he would locate a donor to cover the majority of the cost. Tt proposed an alternative plan: disconnect the non-paying customers on the current feeder, which should result in the feeder being upgraded to Category A. This process is currently underway and the Mayor was encouraged to support KEK in this effort by encouraging police support in the disconnection of non-paying customers.

Tt continued to interface with the minority communities, the Orthodox Church, Ministry of Community and Returns, local officials, and KFOR on all issues that arise in minority areas.

### **Internally Displaced Persons (IDP) Collective Centers**

Tt continues to work with central government ministries, local government officials, and the international community to provide funds to cover the cost of electricity provided to the IDP Collective Centers. Late in 2010, Tt prepared a Memorandum of Understanding (MoU) to document the agreement among the stakeholders wherein:

- The Municipalities must sign an agreement with KEK and register the Centers as customers.
- The Ministry of Labor and Social Welfare will pay €1,000 per month as its contribution to all the Centers for electricity
- The Municipalities pay for up to 330 kWh per month per family, less the amount paid by the Ministry.
- The individual Centers must be responsible to control their usage of electricity. They must be disconnected once they reach the limit of 330 kWh per month per family unless the residents pay for that excess consumption.

By the end of January, the Ministry, the Municipality of Gjilan and the Mayors of Strpce and Gracanica had all signed the MoUs and completed all payment arrangements.

During Q1, the Ministry fulfilled its obligation and residents of several of the Centers paid for their excess consumption. Residents of the two Centers in Gracanica refused to pay for their excess consumption and were disconnected. The Minister of Labor and Social Welfare subsequently agreed to pay for that excess consumption and those Centers were reconnected. The 3 Mayors did not make any payments during Q1, and therefore did not fulfill their commitments. On 24 March, the Minister of Labor and Social Welfare notified KEK that his Ministry would make the January and February payments that the Mayors should have paid, thereby bringing the payments for IDP centers up to date as of the end of Q1. With the 2011 Kosovo Central Budget now finalized, the Municipalities are expected to honor their commitments going forward.

### **Initiatives Related to Regularizing the Consumers North of the Iber River**

EPS and its Kosovo branch Elektrokosmet continue to perform the activities of an electricity distribution system operator and electricity supplier in areas north of the Iber/Ibër River without any legal basis or authority.

The EU-facilitated dialogue between the Governments of Serbia and Kosovo began during Q1, with energy being a key point of discussion. In this respect, Tt provided support and advice to KEK's Managing Director and the Head of the Kosovo delegation (Deputy Prime Minister

Edita Tahiri) on the development of Kosovo's strategy on energy. It also attended the inaugural meeting of the technical representatives of both parties in Brussels – during which the ESCO agreement was discussed at length. There appears to be broad consensus that the parties should move forward with the ESCO agreement. However, the Serbian delegation continues to insist on extending the activities of ESCO to Kosovo Serb areas in southern Kosovo – as previously reported, KEK cannot accept this request for both legal and commercial reasons. Further dialogue is expected in Q2 – it is imperative that this issue be resolved in the near term so as not to undermine the ongoing distribution privatization process.

It continues to monitor the water level at Ujmani/Gazivode reservoir/dam to ensure that the proper water level is maintained in the reservoir.

## **1.4 Accounting and Financing**

It continued to advise KEK on finance and accounting issues, primarily regarding the replacement of some of the modules of the Customer Accounting System (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. Specifically, It undertook the following activities during Q1:

### **Unbundling of Accounting**

- Assisted KEK in the preparation of the first draft of the unbundled financial statements for FY 2010.

### **Introducing Improvements to CAS and Financial Accounting**

- Designed and developed additional utilities for the new asset register, including:
  - Reporting deferred income from grants for assets and its recognition as revenue
  - Reporting revaluation reserve and its recognition as equity
  - Generating reports to support the annual take of asset inventory.
- Supervised the posting of the adjustments to the General Ledger (G/L) to correct all the errors made in the calculation of depreciation in the period 2003-2009 and reconcile the new asset register data with the G/L data. The total corrections exceeded €11 million. It then oversaw the entry of all asset data for 2010, the calculation of depreciation, the posting of the transaction journals to the G/L, and the generation of reports on the additions, disposals, and transfer of assets to be included in KEK's 2010 financial statements.
- Assisted KEK with the calculation of depreciations for tax purposes for the period 2003-2009 and for 2010 (taking into account the changes to the Corporate Tax Law in 2010).
- Initiated the design of a new HR and Payroll System. The system will provide information support for the organizational changes related to the privatization of KEK; support the implementation of major improvements to KEK's payroll system; guarantee the verifiability, consistency, compatibility and timeliness of all HR and Payroll data; provide an audit trail for all HR and Payroll transactions; and export employee information to the new Fixed Asset Register to help safeguard the company assets and provide data to CCP to support the process of monitoring the performance of Feeder Teams.



- Continued work on the design and development of a new centralized source document database to input all invoices and other accounting documents into all CAS modules.
- Continued work on the source document database and the replacement of the accounts payable module.

### **Financial Reporting and External Audit**

- It helped KEK complete the process of selecting external auditors for FY 2010, including: development of tender documents and evaluation criteria, review of the documents submitted by the bidders, preparation of answers to the questions of the bidders, and evaluation of the bids and contract negotiations. The tender was cancelled twice and the work plan and schedule of the field work had to be modified in order to make them (to the extent possible) consistent with the approved privatization timelines.

The external auditor's audit of KEK's financials is expected to be completed in Q2 of 2011.

- It participated in the first meetings between KEK and the external auditors on the audit of the consolidated and unbundled financial statements for FY 2010. We discussed the 2010 draft trial balance and financial statements, and the actions KEK should take to address the weaknesses in internal controls and accounting for business transactions, which resulted in qualifying the auditor's opinion on the fair presentation of the company's financial position and performance in the 2009 financial statements.

### **Budgeting and Cost Control**

- It initiated the design and implementation of an Integrated Cost Control (ICC) system to provide information support in the processes of budgeting, procurement and cost control. The system will also include a Contracts and Invoices Database (CID) and a new Accounts Payable (A/P) Module. The ICC system will be instrumental in the enforcement of the approved cost control procedures.

### **Other**

- It participated in the meetings between the CFO and the privatization transaction advisor on issues related to the financial position and performance of KEK.
- It assisted KEK's Accounting Methodology Department with the development of an accounting methodology for calculating and reporting deferred taxes and disclosure of information in accordance with the requirements of IFRS 7.

## **1.5 Legal and Regulatory**

It continued to provide legal advice and support to KEK's management on a variety of issues, which included:

- Continuing to advise KEK on its dispute with Turbocare over the purchase of a used transformer for the Kosova A thermal power plant (TPP), to include meeting with representatives from Turbocare to discuss a potential settlement of the dispute.

- Advising KEK on agreements for 2011-2012 energy imports, using the EFET General Agreement and customized election sheet.
- Advising KEK on its revisions to internal employment regulations in order to comply with the provisions of the new Labor Law.
- Continuing to provide legal advice to KEK project managers on the implementation of the contracts for refurbishing equipment in the overburden removal system I, to include 1) refurbishment of two bucket wheel excavators by the original manufacturer, Thyssenkrupp, 2) refurbishment of two conveyor belts by Eco Trade, and 3) refurbishment of two spreaders by FAM/Intering, which will be deployed to the new Sibovc SW mine.
- Drafting contracts for an external audit of KEK's financial statements for 2010 and additional works for the 2011 overhaul of Unit B1 of the Kosova B TPP.
- Continuing to provide legal assistance to KEK's efforts to regularize electricity service to minority communities in the northern part of Kosovo, to include producing a strategy paper for the Kosovo Government in preparation for the technical dialogues with the Government of Serbia, which are overseen by the EU.
- Advising KEK on its procurement of a contract for the repair or replacement of the electrostatic precipitators of Units A3, A4 and A5 of the Kosova A TPP.
- Continuing to advise KEK on the terms of the supply agreement for Ferronikeli. It is anticipated that the agreement will be signed early in Q2.
- Continuing to advise KEK in connection with a new customer supply agreement for Trepca's facilities. The agreement was signed during Q1.
- Advising KEK on the terms of the supply agreement for Sharrcem cement factory. The agreement was signed in Q1.
- Continuing to closely monitor the implementation of the GoK's May 2009 decision to proceed with the expropriation of land near Hade village. As previously reported, Tt has noted, with concern, that the process is not progressing at the required pace. The delay is now causing difficulties for KEK's mining operations.
- Advising KEK's Managing Director on legal issues pertaining to a request for salary increase submitted by KEK's Trade Union, to include preparing a briefing paper on the same.
- Advising KEK on legal issues pertaining to the industrial dispute instigated by former KEK security staff, who is now an employee of Besa Security.

Tt provided support to the KEK regulatory staff during Q1 on the following matters:

- The 2011 Tariff Application was submitted on 28 January, which included KEK's tariff model and all data elements requested by the ERO. The application requested a tariff increase of €13.2 million (7.15%).

- Distribution Use of System tariffs were developed utilizing a methodology prepared by Tt. The methodology was submitted as part of the tariff application and was applied to 2011 tariff application data resulting in proposed tariffs by voltage level for consumers connected to the distribution system at 35 kV, 10 kV, and 0.4 kV. This information will be utilized to charge customers who apply to be eligible to choose a supplier other than KEK and are also used to determine unbundled tariffs as discussed below.
- As required by the ERO, the tariff application included information on unbundled tariffs, meaning that for each class of customer, the cost would include the following components:
  - Wholesale price of electricity
  - Transmission services
  - Distribution Use of System charge
  - Retail supplier costs.
- Tt developed the methodology to determine unbundled tariffs for the 8 primary tariff categories (220 kV, 110 kV, 35 kV, 10 kV, Large Commercial, Small Commercial, Public Lighting, and Households). The methodology was submitted as part of the tariff application and applied to 2011 tariff application data, resulting in detailed unbundled tariffs. That information was then used to determine the cost to provide service to the 8 primary tariff categories and compute cost-reflective tariffs. Those cost-reflective tariffs were compared to current tariffs and indicated that Household tariffs are currently far below cost, while other categories are paying more than cost. The unbundled tariffs confirmed the cost analyses provided to the ERO in prior tariff applications.
- Tt developed an analysis of the financial impacts of including the assets acquired prior to 2006 in the Regulatory Asset Base for tariff purposes. To date, the cost of those assets has been excluded in determining the level of tariffs. In accordance with the recently revised Law on the Energy Regulator, the value should be included in tariffs and the Tt analysis indicates that the depreciation expense is €22.4 million and return on investment is €11.7 million. This would result in a tariff increase of €34.1 million or 17%.
- Tt supported the KEK Regulatory Department in responding to data requests and in meetings with the ERO and their Advisor. On 22 February, ERO issued its “Consultation Paper” (CP), which outlines its position on the tariff application. The ERO’s conclusion was that there should be no change in tariffs in 2011; however, their analysis was flawed in several respects. With the support of Tt, KEK submitted its response to the CP on 04 March 2011, which pointed out the erroneous analysis, disputed several of the adjustments made to KEK’s submission, and agreed to some of the adjustments. A significant point of dispute is the reduction of the allowance for commercial losses. In the current tariffs, there is an allowance of 20% for these losses, which is equal to the actual experience during 2010. KEK agreed with the ERO to set a more aggressive target of 18%, however, in its CP, the ERO reduced the allowance for 2011 to 15.9%, an arbitrary and unreasonable value. The ERO was scheduled to issue its decision on 23 March, however, as of the end of the first quarter they had not done so.
- On 09 March, the ERO issued a CP discussing the criteria that should be used to measure the effectiveness of competition in the electricity sector of Kosovo. In the CP, there were two criteria identified (number of independent suppliers and share of the market served by independent suppliers). The benchmarks proposed to determine effective competition were three independent suppliers and the share of the market served by those suppliers must exceed 30%. KEK submitted responses to the CP on 16

March, essentially agreeing with the criteria and benchmarks. This was a critical issue to resolve since the ERO must determine (using objective criteria) that there is no competition in the Kosovo market prior to approving a regulated 220 kV tariff for Ferronikeli, an eligible customer.

- Tt supported KEK in discussions on the application it submitted to the ERO in December 2010 for approval of a tariff for customers served at 220 kV. Meetings were held with ERO, its advisor, and Ferronikeli officials to move the approval process along. As of the end of Q1 it appears that the ERO will approve the composite tariff of €4.2 cents per kWh as well as the tariff design wherein 50% of the cost is recovered in the form of a contract demand charge and 50% is recovered in an energy charge.
- On 09 February KOSTT initiated a complaint to the ERO alleging that KEK 1) refused to pay a portion of invoices for transmission services in 2010, 2) refused to sign the Connection Agreement prepared by KOSTT, and 3) failed to pay the 2008 and 2009 reconciliation invoices submitted by KOSTT. The primary issue is one that Tt raised in 2009 – KEK does not have the financial resources to pay KOSTT any amount in excess of the amount included for cost recovery in retail tariffs. Tt developed a response for KEK to send to the ERO, which provided support to the KEK position and recommended that the ERO dismiss the KOSTT dispute. Although the ERO has not responded to the dispute, its CP on the tariff process indicates it agrees with the KEK position. It appears that the KOSTT tariffs will be significantly reduced effective 01 April 2011, which will result in KEK payments being much closer to the amounts billed for transmission services.
- Tt continues to support AEAI consultants in the completion of their Independent Loss Study. During Q1 Tt coordinated and facilitated the field visits and other meetings for the commercial loss consultant during his weeklong mission in Kosovo. In addition, Tt provided the technical loss consultant with full year 2010 data so he could finalize his portion of the study.
- KEK received a communication from the Head of the POE Unit of the Ministry of Finance and Economy requesting that KEK develop a special tariff for water companies. Tt drafted a response for KEK indicating that tariffs are based primarily on the voltage at which service is provided and not on the end use of the electricity (e.g., water pumping). Tariffs must be cost based and KEK cannot subsidize water companies. If water companies feel they need a subsidy based on the very critical nature of their service, they should seek a subsidy from the Government. The response did indicate that KEK is willing to work with individual customers to place them on the lowest tariff they qualify for based on their load and to help them take advantage of the time-of-use tariffs to the extent they can shift pumping load to off-peak periods.

## **1.6 Internal Audit and Anti-corruption**

Due to inadequate decisions and interference from the Internal Audit Committee (IAC) in 2010, the operations audit function of the Internal Audit Office (IAO) has been hampered by multiple vacancies amongst senior staff positions. The IAO advertised the Principal Operations Auditor's position several times, but only at the end of the fourth quarter of 2010 did the interview panel decide to select an appropriate candidate. The candidate was appointed and began working in Q1.

In January the IAO generated and submitted to the IAC the Annual Internal Audit Plan (AIAP) for 2011. The plan has significantly higher targets than in previous years and is especially ambitious for the operations audit function. With Tt's guidance and assistance, the office has begun its 2011 operations with successful results. All quarterly activities defined by the AIAP were implemented and in several cases the office has initiated audits scheduled for Q2. During its last meeting, the IAC reviewed the first three months of results for the IAO and based on a positive evaluation, the committee decided to issue bonuses to all employees in appreciation and for further encouragement.

In Q1 Tt trained 10 employees from the Internal Audit and Field Enforcement units on reclaim loss calculation and the interpretation of applicable legislation.

Among the large-scale audits performed in Q1 were the operational audits of Network and Supply, inspections of several large project implementations in the Generation Division and audits of the activities of the Information Services and Communication Departments. The results of some of the audits are summarized below.

### ***Audit of Network and Supply***

The IAO completed comprehensive audits of the Peja and Prizren districts and performed selective audits in Pristina and Ferizaj. Amongst the most widespread problems identified is the high number of unjustified "zero bills." In this regard, the office issued a number of recommendations in 2010 and based on IAO's proposals, the Managing Director issued a special warning to all district personnel during the quarter mandating strict implementation of the applicable regulation and punishment of all feeder team specialists who are not in compliance with the rules. In spite of this, the issue still persists and in the future, the IAO will conduct regular audits after the completion of each meter reading cycle. The audits also identified the following weaknesses that continue to occur in KEK's supply and network operations:

- Low quality of the customer data kept in the customer care system
- Serious underperformance in the disconnection of indebted customers
- High numbers of unregistered customers connected to the KEK network
- Slow speed and poor quality of new customer registrations
- High numbers of customers without sealed measurement installations – up to 22%
- Low level of information about the network structure and schemes of electricity supply
- Gross neglect of KEK's approved policies and procedures.

Despite the obligation to visit all customers at least once each month and correct all inaccurate information in the Customer Care Package (CCP) database, district employees are still not completing this task. The CCP contains a high number of customers with inaccurate or incomplete information such as customers whose dwellings have been demolished, new owners of existing buildings with multiple customer accounts, incorrect customer identification numbers and lack of customer seal information recorded or information recorded incorrectly. These inaccuracies in the CCP complicate the work of the network and supply divisions, cause delays, and contribute to mismanagement.

Despite a tangible increase in the number of disconnections, in most cases the districts continuously fail to enforce payment discipline. The number of customer disconnections for non-payment is still far below the planned and acceptable level. The debt restructuring procedure developed by Tt based on the IAO's recommendations is also not being implemented appropriately. Other irregularities discovered during the audits included tampering with the meters, falsifying seals and ratios of current transformers, illegal connections, and lines. KEK is incurring large financial losses as a result of these illegal acts.

### **Resolving the Problem Related to Unregistered Customers**

In Q1 Tt continued to assist the IAO and the Field Enforcement Department (FED) in the implementation of “Regulation 66,” which is an initiative to register all users of the KEK network who are consuming electricity as KEK customers. With the support of both units, the Network Division has initiated a special process to verify and register these customers. By the end of the quarter, 6,740 customers were registered and KEK billed more than €2 million of unauthorized consumption and collected €500,000 of the billed amount. In addition, another 2,000 unregistered customers were identified and their regularization is underway. These actions not only increased KEK’s revenue, but significantly decreased commercial losses. Every billed kilowatt is in direct proportion to the reduction of commercial losses by the same amount.

### **Unsealed Customer Regularization**

All relevant audits performed in 2010 identified a very high number of customers without sealed measurement installations, which makes electricity theft and unauthorized consumption very easy. Tt helped KEK develop a detailed action plan to eliminate this problem, and the implementation commenced during the quarter. Initial results indicate success; all sealed customers have reduced their consumption by at least 30%. The project is expected to be completed in Q2.

### **Audit of KEK Employees as Electricity Consumers**

The IAO, in cooperation with the FED, has conducted a number of audits of KEK employees’ premises. In three cases, the audits detected that the KEK employees were stealing electricity. All three of them were proposed for dismissal and the cases submitted to law enforcement agencies.

### **Summary of Audits and Measures Taken to Address the Findings**

Under Tt’s guidance, the IAO completed 27 audits and investigations during the quarter.

- *Investigations:* 18 new audits were initiated.
- *Disciplinary Actions:* As a result of the investigations performed by the IAO, 7 KEK employees were proposed for termination and 5 for different forms of disciplinary action.
- *Customers Inspected:* 1172 customers were inspected to determine the sources of commercial losses and check the network and supply operations’ effectiveness and efficiency.
- *System improvements:* The IAO performed a significant volume of work to improve KEK’s management, operations and processes, and made 34 recommendations for system improvements.

### **Field Enforcement**

Under Tt’s guidance, the FED launched an extensive campaign for resolving problems related to customers with large debts and high commercial losses.

- 1,686 customers were visited for inspections or disconnections
- 731 “problematic” customers were disconnected with the total debt €1,327,315, from which €245,632.35 was collected
- 313 cases of electricity theft and other irregularities were discovered and submitted to the Legal and Supply Departments for processing

- Through disconnections and loss reclamations in cases of electricity theft, the FED collected about €280,000 of additional revenue for KEK.

The IAO and the FED have submitted 17 criminal cases to law enforcement agencies in relation to electricity theft and other irregularities detected during their investigations.

## **1.7 Network, Human Resources, Information Services, Communications**

### **Network Division**

- *Supporting KEDS Privatization* – Tt provided full support to the Loss Study by being conducted by AEAI. Tt reviewed and provided detailed comments on the first draft of the report, and responded to all other enquiries by AEAI. Tt facilitated information gathering from various sources within KEK, and prepared responses to all enquiries from Mott MacDonald, ensuring an adequate level of consistency. Tt ensured that all interactions among KEK, AEAI, Mott MacDonald and Tt were transparent and satisfactory to all parties.
- *Operations Support* – Tt worked with KEK staff on several routine operational matters, coaching and assisting in the management and resolution of problems, in order to ascertain adherence to regulations, and ensure timely progress and proper closure. Examples of such matters include:
  - Development of reports in accordance with ERO requirements
  - Improved reporting on maintenance activities
  - Pilot project on reporting service interruptions at the 10 kV feeder level
  - Initiation of a monthly Energy Balancing Report at every substation
  - Survey of system protection facilities
  - Pilot project on gap identification for conversion to 20 kV operation
  - Management support for rerouting electric facilities for the Morine-Merdare Motorway Project.
- *Organizational Changes* – Tt supported KEK in implementing organizational changes at the district level that were planned in Q4 2010. Detailed organization charts and job descriptions were drawn up, and the recruitment process to fill sub-district coordinator positions was started. Full implementation is expected to be completed in Q2 2011.
- *Network Division Management* – Tt continues to support KEK with the monthly departmental management meeting and a semi-monthly project management meeting. Tt's level of effort for these meetings has become progressively lower as KEK has developed adequate capacity to continue on its own.
- *Tendering and Procurement* – Tt assisted KEK with the tendering and procurement processes related to the following:
  - 30,000 simple electronic meters
  - Meter testing equipment
  - Supplies for installation of half-indirect meters
  - Communication service for remote read meters
  - 300 full indirect meters
  - 2x40 MVA, 110/10(20) kV transformers.

During Q1 2011, final tenders were prepared for all of the above.

- *2010-11 Network Reinforcement* – Tt assisted KEK in developing a rigorous justification for the largest project under this contract. This project has now been initiated for implementation by the vendor. Each district has been asked to provide similar justification in order to ensure that projects are initiated in priority order and that funding is used effectively. Tt continues to support KEK in this process to ensure that quality is not compromised.
- *Regularization Projects* – Tt continued to assist KEK with the monitoring and execution of two projects focused on regularizing customers.
  - *Regulation 66 Customer Regularization* – The scope of this project is to regularize approximately 2,000 customers who were registered temporarily under “Regulation 66.” About 995 customers have now been regularized.
  - *Unregistered Customers* – The regularization of 5,000 unregistered customers was completed in Q1. A new list of approximately 2,000 unregistered customers is being finalized and another project will be initiated in Q2 2011.
- *Network Development Plan* – The 2010 Network Development Plan is still awaiting ERO approval. Tt made minor changes to the plan as requested by ERO and is currently supporting KEK staff with the approval process. The approval process is complicated by the fact that ERO requirements seem fluid.
- *Connection Charging Methodology* – The initial version of this document was developed by Tt in cooperation with KEK and submitted during Q3 2010 to the ERO for comments. Several meetings and workshops were held with the ERO in order to address all their comments. The ERO continues to specify additional changes. Tt supported KEK with preparation of several updates to the Connection Charging Methodology. A new updated draft will be submitted for final approval by the ERO in Q2.
- *Reconstruction of Palaj 110/35 kV Substation* – Tt supported KEK in all technical and project management aspects of this on-going project. Tt will continue its support over the entire life of the project, which is expected to be completed in Q4.
- *Pristina 7 110/20(10) Substation* – Tt supported KEK in preparing a new technical specification. The technical specification and a complete tender package are expected to be ready in the beginning of Q2.
- *Construction of Gjilani-5 110/20(10) kV Substation* – Tt supported KEK with all technical and project management aspects of this on-going project. KEK is responsible for engineering and project management inputs at all stages of this project. The project is expected to be completed by Q3 2012.
- *Least-Cost Generation Plan (LCGP)*: The first draft of the LCGP was completed and is being reviewed internally by Tt. The document consists of a review of relevant past studies, the development of input data, and scenarios and cases to be considered in developing a LCGP to meet the electricity demand in Kosovo until 2030. Specific plans for generation development/refurbishment are included. The LCGP is expected to be finalized in Q2.
- *Loss Calculations and Network Modeling* – The draft loss calculation methodology developed by Tt is being reviewed by KEK. In Q1, the Kosovo network was modeled down to (and



including) the 10/0.4 kV transformers. However, initial analysis of the model with an extended dataset identified significant deficiencies in the data submitted by districts. Both the model and data need further refinement. Data verification will be the primary focus in Q2. Tt provided support to KEK on technical aspects of model development and analysis.

- *Master Distribution Plan (MDP) Development* – Tt prepared a draft work plan for development of a Distribution Network Master Plan. This work plan framed the scope and tentative schedule for the development of an MDP for network long-term planning, operations, maintenance, and capital projects. Due to resource constraints and prioritization, further steps have been postponed until Q2 2011.

### **Information Services (IS) Division**

As part of its ongoing support for the IS Division, Tt:

- Tt provided the database design and the functional algorithms, and supervised the development of the following sub-modules of the Integrated Cost Control System:
  - Budgeting Module
    - Budget structure and organization and budget line items
    - Budget development and adjustments
    - Budget commitment.
  - Procurement Module
    - Procurement plan
    - Tender processing
    - Contracts register and delivery and payment schedules.
  - Invoices and Payments Module
    - Invoice register and invoice approval
    - Payments.
- Tt designed and presented to the IS Department a new HR database structure and organization.
- Tt described the main objects and designed a draft structure for the new Payroll database.

### **Human Resources (HR) Department**

As part of the ongoing development of this department, Tt:

- Assisted the preparation of the new Network and Supply and Customer Services organizational structure and provided recommendations for staff optimization.
- Supervised and made recommendations to KEK management on job postings, interviews and the recruitment process for various KEK positions.
- Advised KEK in connection with a new early retirement scheme for employees aged 55 and over and disabled employees under the age of 55. Out of 2,355 forms that were disseminated to eligible employees, 95 expressed an interest in applying to participate in the scheme.

- Provided supervision of and assistance to, the HR Department on drafting job announcements, job descriptions, interviewing, recruitment, implementing disciplinary measures, and preparing of payroll and salary deductions.
- Completed the collection of the final 531 declarations regarding payment of employees' electricity consumption through payroll, resulting in registration of the complete KEK staff, which will enable KEK to ensure that its employees consistently pay for their electricity use.
- Prepared an executive order on the procedure to make changes to the organizational structure of KEK, in order to achieve efficiency and productivity in KEK operations and greater transparency in recruitment and human resources planning.
- Reviewed and analyzed all recommended disciplinary measures and bonuses to determine compliance with the KEK District Regulations, and oversaw the implementation of these recommendations against non-performing employees.
- Supervised the selection process, created new job descriptions, and provided recommendations on the recruitment of key Supply and Customer Services positions.
- Worked with HR Department and provided recommendations for the staff optimization for Electricity Production Division, TPP "A" and TPP "B."
- Assisted KEK's HR Department in submitting documents to the National Qualification Authority in order for the KEK Training Center to be nationally accredited.
- Prepared payroll analyses of KEK's employees from 2003 to 2011.
- Implemented and supervised regular recruitment of reserve feeder specialists and initiated the monthly training of newly recruited feeder specialists to create a reserve of potential employees, according to the analyses conducted of district operations.

## **Security**

It continued to assist KEK on security matters during this quarter. It:

- Made regular ad-hoc visits to all KEK districts, the open mine, key asset depots, warehouses, and workshops to observe the execution of security duties.
- Supervised the development of the KEK vehicle database, which will allow for greater and easier monitoring of vehicle data, movement, monthly fuel consumption and running costs.
- Worked to identify all existing KEK vehicle assets dating back to 2009 (830 in all), including assets transferred to outsourced entities.
- Managed the implementation of the new transportation executive order that clarifies how and when KEK vehicle should be used, stipulates the allocation of vehicles to designated officials and to department/district pools, and clarifies various authorizations and

approval processes. To date, implementation of the order has resulted in 10,000 to 12,500 liters of fuel saved across the fleet, per month.

- Helped KEK management to address the protest action of about 260 former KEK security employees who are now employed by BESA, KEK's security provider. Tt advised KEK to seek alternative security in order to prevent any unnecessary blockages of its entrances or malicious damage to KEK assets during the strike period of 27 February to 14 March. Tt also supported negotiations with BESA and the former KEK security employees to ensure a rapid return to guarding KEK's assets and a fulfillment of contractual duties by BESA.
- Finalized the auction process of 136 old KEK vehicles in KEK's district offices. The auction resulted in €60,000 of revenue. A second auction will now be scheduled in May/June 2011 for 55 to 85 vehicles.
- Monitored the implementation of the amendment to the BESA contract to empower guards with the right to search, apprehend and detain any persons on KEK property suspected of suspicious activities, including KEK employees.
- Finalized the expense justifications and equipment specifications for the implementation of facility upgrades at all BESA guard duty points with newly constructed control checkpoints and operational booms.

## **1.8 Management and Operational issues**

- For the most part, KEK's Board of Directors continues to perform well and support management's actions to improve KEK's performance. The Board, however, continues to interfere in employment and contractual issues.
- KEK's managing director continued to perform well and was very cooperative. He is under continuous pressure from both internal and external forces to hire individuals, not to disconnect customers, invest in villages tied to politicians, not to terminate poor performing or corrupt employees, restate terminated employees, and to influence tenders and their outcome. Fortunately, he understands that he has the full support of the advisors and has resisted all of these pressures to a great extent.
- Tt's relationship with the chairman of KEK continues to be very positive. He recognizes the role and the importance of Tt's advisers in improving KEK's performance, and has continuously encouraged and recognized the cooperation of KEK's managing director with the Tt advisers.
- Because there was no outright winner in December's national election, Kosovo's 2011 budget was not approved until the end of March 2011. This created uncertainty regarding GoK financial commitments to KEK for 2011, and delayed payment of contractors under the loan agreements concluded between KEK and the GoK. Further, the uncertainty regarding the level of the GoK grant for power purchases in 2011 caused KEK to delay its decision to award import contracts for the remainder of the year.
- Tt provided guidance and support to the KEK Managing Director in his oversight of the Generation Management Team – specifically at the Kosova B TPP during the quarter. There were numerous operational problems with the power plant during the quarter.

Most notably, there were repeated failures in the jacking oil pumps supplied by Alstom for the power plant, which were largely attributable to errors during installation by KEK employees.

- Tt accompanied the KEK generation team (five individuals) during their US visit to Cleco and Luminant power plants. Tt secured the agreement to host the event by both companies, and both USEA and Tt coordinated the plans, while USEA/USAID funded the visits. The KEK generation team found the visits to be eye opening and a great experience.

## **Subtask 2: Prepare Technical and Contractual Document for Investor Due Diligence**

### **2.1 KEK Unbundling Documentation**

Tt has already developed the pertinent agreements and shared them with the Kosovo Electricity Distribution & Supply Company (KEDS) and Kosova e Re Power Plant (KRPP) Transaction Advisory teams. Given the progress with the KEDS transaction in Q1, it is anticipated that these documents will need to be reviewed and updated in Q2.

### **2.2 Draft Agreements**

Tt has already developed and shared the pertinent agreements with the KEDS and KRPP Transaction Advisory teams. For the reasons mentioned above, it is anticipated that these agreements, particularly the interim power purchase agreement between KEK and KEDS (pending closure of the KRPP transaction) will need to be reviewed and updated in Q2.

### **2.3 Legal/Regulatory**

Tt has already developed a draft regulatory statement that should form an integral part of the transaction documents for the sale of KEDS; these have been shared with representatives from the IFC and the KRPP Transaction Advisory team.

### **2.4 Investor Due Diligence**

Per Tt's recommendation, a new KEK coordinator for KEDS' privatization was appointed by the KEK managing director in November 2010. The individual concerned continues to do an excellent job.

Tt assisted KEK in providing a list of updated documents to IFC that are ready to be uploaded to the KEDS data room. The virtual data room was scheduled to be activated in February 2011, but this appears to have been delayed by IFC until Q2.

Tt continues to attend meetings with KEK, IFC and their technical advisors (Mott MacDonald) to discuss financial matters and technical issues related to KEK's distribution network. In addition, Tt continued to provide materials and input for the loss study (for AEAI), which should be finalized in Q2.

## **Subtask 3: Provide Advisory Support in Privatization Process**

### **3.1 Tender Process Responses**

The prequalification of bidders for the KEDS transaction is expected early in Q2. Thereafter, Tt stands ready to provide assistance and data to the transaction advisors in connection with any questions raised by the qualified bidders, and attend meetings with these bidders as, and when they visit KEK to conduct their due diligence.

### **3.2 Bid Submission, Evaluation and Award**

There were no actions to report for the quarter.

## **Subtask 4: Strengthen Skills and Technical Capacity of Counterparts**

### **4.1 Distribution Company Staff Coaching**

Tt actively supported the Network Division's management staff by assisting with strategic and tactical issues and ensuring proper follow-up and adequate quality in the resolution of issues. These activities were carried out by Tt with the objective of achieving on-the-job training.

### **4.2 Coaching on Billing, Managing Customer Accounts and Collection**

During Q1 Tt trained 25 people to give them a better understanding of how to conduct analyses and proper planning, how to implement their daily tasks, and other activities related to field operations. Tt also trained 10 employees from the internal audit and field enforcement units on reclaim loss calculation.

### **4.3 Training on Management Principles, Customer Service**

There were no actions to report for the quarter.

### **4.4 Training of Trainers**

There were no actions to report for the quarter.

## **Subtask 5: Support Management Post-Privatization**

As the tendering process for KEDS is at an early stage, there are no actions to report for this subtask.

## **Subtask 6: Prepare a Thermal Power Plant Kosova B Investment Requirement and Rehabilitation Feasibility Study**

### **6.1 Kosova B TPP Investment Requirement and Rehabilitation Feasibility Study**

As previously reported, the final version of the Kosova B TPP's Investment Requirement and Rehabilitation Feasibility Study was approved in September 2010.

## **Subtask 7: Prepare Technical and Contractual Documentation for Investor Due Diligence**

### **7.1 Documentation for Data Room**

Tt continued to provide support and advice to the KEK employee who is the main contact point and coordinator for documentation requested by the KRPP project implementation unit, and the KRPP transaction advisors. However, there was little activity on this transaction during the quarter. It is anticipated that the activities will increase during Q2 and Q3 of 2011 as the transaction advisors aim to finalize the Request for Proposals.

### **7.2 Asset Sale/Lease and Power Purchase Agreements**

There were no actions to report for the quarter.

### **7.3 Responses to Tender Process Issues**

There were no new actions to report for the quarter.

As previously reported, Tt's stated position is that all of KEK's existing generation and mining assets, to include the Kosova A TPP either under a lease/ownership or an operations and management arrangement, should be included in the KRPP transaction. In this respect, while the draft RFP includes the majority of existing KEK mining and generation assets, it unfortunately omits the Kosova A TPP and operations in the Sitnica mine. It is likely that there will be further discussion on this issue in Q2 of 2011 with the new Minister responsible for leading the transaction (the Minister for Economic Development).

## **Subtask 8. Strengthen Skills and Technical Capacity of Counterparts**

### **8.1 Training on Feasibility Study Methodology**

There were no actions to report for the quarter.

### **8.2 Kosova B TPP Privatization Round Table Discussions**

There were no actions to report for the quarter.

## 3 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.

### 3.1 KEK Board of Directors

In contrast to the previous Board of Directors, the current Board has shown a willingness to cooperate with Tt 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 other Board members. One continuing issue of concern is that the new government may want to replace part or the entire KEK Board despite the fact that their mandate does not expire until the end of 2011.

### 3.2 Procurement

Tt has regularly reported on the problems caused to KEK's operations by Kosovo's inflexible procurement regulations. In these circumstances, Tt has always recommended that the EU's Procurement Regime for Utilities (2004/17/EC) be applied in Kosovo. This issue has now been partly addressed with recent amendments to the Procurement Law. The amendments largely exempt future private investors for both KRPP and KEDS from the provisions of the Procurement Law. The amendments also introduce additional, more flexible procedures that KEK can utilize even before privatization, which is helpful. However, KEK remains largely subject to PPA supervision on key issues, such as obtaining approval for conducting negotiations without competition.

### 3.3 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. However, the new Labor Law, which was promulgated in Q4 of 2010, states that with the exception of discrimination claims, employees found to be unlawfully terminated should not be reinstated, but should only receive financial compensation. Time will tell whether this provision is respected.

As reported in previous quarters, the 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. However, as outlined earlier in this report, KEK management has shown itself reluctant to fully enforce the terms of the District Regulations. This hesitancy continues.

Similarly, the new Disciplinary Code provides adequate tools to discipline and dismiss non-performing employees, and those found to be guilty of misconduct. However, KEK management appears reluctant to fully enforce the terms of the Disciplinary Code.



# 4 Proposed Solutions to New or Existing Problems

## 4.1 Dispute Regarding KEK's Corporate Tax Liability

**Problem:** The Kosovo Tax Administration (TAK) is forcing KEK to recognize and pay taxes on non-existent revenues from the sales of electricity to minority customers, insolvent companies, and warned and disconnected customers who have not been paying their debts, despite all measures taken by KEK.

TAK failed to recognize the “bad debt” recorded in the books of KEK and confirmed by the external auditors Grant Thornton and Deloitte & Touche during the audits of KEK financial statements for 2005, 2006, 2007 and 2008.

As a result, after adjustments that the tax auditors made to KEK's financial results, KEK appeared to owe TAK large amounts of corporate profit tax. This tax was further increased with penalties and charges for KEK's failure to declare it in due time. KEK filed an appeal of this matter with the TAK Appeals Division on 12 January 2010. On 30 April the Appeals Division issued a ruling that recognized the existence of “bad debt,” but limited the amount only to the debt of customers taken to court and refused to include amounts owed by households that have been warned and disconnected for non-payment and uncollectible amounts from minorities. It has concluded that this ruling is not consistent with the current law and does not accurately reflect the situation in Kosovo. KEK filed a second appeal on 7 June with the Independent Appeals Board against the findings for 2005 and 2006.

Due to the fact that there is as yet no written ruling interpreting the requirements of the law on corporate tax, it is subject to misinterpretation. At the same time, the procedure for recognizing bad debt for the purposes of value added tax (VAT) was clearly defined in a ruling by the Minister of Economy and Finance, which was approved by the Government of Kosovo on 8 April 2009 (Decision No. 02/60) and KEK has been using it for more than a year.

**Proposed solution:** KEK is pressing for the Independent Appeals Board to expedite their review of KEK's appeal so that a final resolution can be reached – if 1) the Board reduces KEK's corporate tax liability to €1,000,000 or less, KEK will be in a position to pay this immediately; alternatively if 2) the Board assesses that KEK's corporate tax liability exceeds €1,000,000, KEK will press the Minister of Finance and the Tax Administration to waive the penalty charges and defer payment until after privatization. In the meantime, the Tax Administration has issued a levy on all payments, with the exception of loan monies and subsidies, which are made directly from the Ministry of Finance to KEK.

## 4.2 Delays in Expropriation – Hade Village

**Problem:** Government Decision No. 08/66 of 29 May 2009 approved KEK's request for the expropriation of land in the vicinity of Hade Village, as part of the ongoing development of the new Sibovc South West mine. Subsequently, the Ministry of Environment and Spatial Planning (MESP), in conjunction with other stakeholders – notably KEK, the Municipality of Obiliq, and

the Ministry of Economy & Finance (MEF) – formed a Working Group/Committee to implement the terms of the decision.

Given that it has been over one year since the decision, It is increasingly concerned at the slow progress of the expropriation proceedings. Indeed, only 22 of the over 90 properties within the Shala neighborhood of Hade Village have been registered and valued. Over the past five months, the Working Group/Committee has been spent significant time considering a variety of demands submitted by Hade residents, which have included the right to be employed by KEK. The vast majority of these demands was not foreseen by the provisions of the Law on Expropriation (No. 03/L-139) and should not be allowed to delay the expropriation process.

The land subject to expropriation must be available to KEK's mining operations in the coming months. Failure to comply with this timetable will seriously endanger the development of the new Sibovc South West mine and the continuity of coal supply to the Kosova A and B plants. KEK cannot afford any further delays in this process.

**Proposed solution:** It advised the KEK Board to respond positively to the GoK's recommendation and agree to hire qualified individuals from Hade village in accordance with the law and KEK's regulations when the expropriation of the land for the SSW mine is completed. It is also impressing upon all relevant ministries the urgency of this matter and the need to proceed expeditiously with the expropriation process in accordance with the applicable law. Unfortunately, there are now new Ministers responsible for the process, and they must be briefed and advised of the action items required in order to avoid further delays.

#### **4.3 Lack of Progress in Addressing the Issues in Northern Kosovo**

**Problem:** There has been no tangible progress in regularizing the customers in the north and Serbia has not been constructive about moving forward with the ESCO agreement after 18 months of discussions. Even though Serbia has been told that having a second distribution operator in the north is not an option, its representatives continue to demand creating a second distribution operator in the north or as their fallback position, despite the fact that KEK has informed them their demands are against the laws of Kosovo and that it cannot do anything illegal. They continue to insist on allowing the ESCO to serve Serb customers in the south and to unilaterally import electricity for the north as KEK's agent.

The IFC is moving forward with the KEDS privatization process and four investors have now been prequalified. Given this timeframe and the need for due diligence in the north, it is not clear how the investors will be given access to the assets in the north to perform their due diligence. If access is not provided to the investors, the IFC may have to remove the assets in the north from the privatization list. Effectively, this will lead to the perception that Kosovo is partitioned.

**Proposed solution:** The energy issues should remain on the top of the agenda for the ongoing EU-facilitated dialogue in Brussels between the Governments of Kosovo and Serbia. In particular, the EU must press upon the Serbian delegation the need to move forward with the ESCO agreement only in northern Kosovo without further delay.

# 5 Documentation of Best Practices that Can be Taken to Scale

The following procedures were produced under the project in Quarter 1 and are best practices that can be used on other similar projects.

- Energy strategy paper for the EU-facilitated dialogue between the Governments of Kosovo and Serbia.
- Electricity supply agreements for large customers – Ferronikeli, Sharrcem and Trepca.

## 6 Coordination with Other USAID Implementing Partners and Other Donors

The Tt team coordinated with several other USAID partners, especially Deloitte and other donors, on a number of activities during Quarter 1:

- Tt continued to coordinate with Deloitte advisors on issues regarding the privatization of KEDS and the KRPP Project. Draft documents were shared with Deloitte for comment before their submission as final.
- Tt cooperated and shared information with the IFC (and its technical advisors) as the transaction advisor for the KEDS privatization, and also with the KRPP transaction Advisory Team.
- Tt continued to maintain regular contact with AEAI advisors on the Independent Loss Study. During Q1 support was provided to the commercial loss consultant during his March field trip and 2010 actual data were provided to the technical loss consultant to finalize his report.
- Tt continued to liaise with Deloitte advisors at the Tax Administration on various issues, including KEK's corporate tax and VAT liability.
- Tt cooperated with Deloitte advisors at the MEF (now Ministry of Finance) in connection with the level of import subsidies and loan monies available to KEK.
- Tt maintained its communications with OSCE, EULEX, UNMIK, COM KFOR, Swedish KFOR, and US KFOR on the issue of minority area policies, including internally displaced persons.
- Tt made a presentation on March to the incoming US KFOR personnel from the New Mexico National Guard to provide an overview of KEK, the issues it faces, and the specifics of its relations with minority areas.
- On 10 March, Tt made a presentation to Central KFOR (COM KFOR) personnel providing an overview of KEK, issues related to ABC load shedding, communal disconnections, and the specifics of its relations with minority areas.
- Tt continued to maintain regular contact with the WB, IMF, KfW, EU, UNMIK, EULEX, OSCE, ICO, and other stakeholders, and has been responsive to their requests.

# 7 Upcoming Events with Dates

- KEK is scheduled to receive a tariff decision from the ERO early in Q2 since the tariffs are to be effective 01 April. That decision is expected to include approval of a regulated tariff for 220 kV customers.
- KEK anticipates that ERO will approve the Network Development Plan and the Connection Charging Methodology during Quarter 2 of 2011.
- The following significant procurement contracts were awarded in January and February 2011:
  - Energy imports (baseload) for May 2011 to March 2012
  - Refurbishment/replacement of electrostatic precipitators in the Kosova A TPP.
- Energy briefing of key GoK Ministers.
- Activation of the virtual data room for the KEDS transaction and due diligence by pre-qualified bidders for the KEDS transaction.
- Continuation of the EU-facilitated dialogue between Kosovo and Serbia, which will include energy issues.

## Appendix A. List of Activities and Deliverables

Nr.	Subtask 1: Support Management and Operation to Maintain Asset Value Specific Objectives / Accomplishments	Completion Date (End-of-month)	Major Activities Completed/ Status of Deliverables
1.1	Assist with the development and implementation of new internal policies and procedures.	Ongoing	Tt prepared an executive order on the procedure to make changes to the organizational structure of KEK, in order to achieve efficiency and productivity in KEK operations and greater transparency in recruitment and human resources planning.
1.2	Support business planning and budgeting.	Ongoing	Tt supervised the preparation of the <i>Annual Performance to Plan Report</i> for 2010, assisted with the analysis of the execution of KEK's 2010 expenditure budget, the status of the procurement of goods, works and services, and the payments of all 2010 invoices by KEK's Treasury.
1.3	Recommend improvements to billing and collection and monitor their implementation in the field on a daily basis.	Ongoing	Readings, bill delivery, and disconnections are continuously monitored by Tt. The performance of the districts is evaluated each month.
1.4	Provide support to accounting and financing.	Ongoing	Tt assisted KEK in the preparation of the first draft of the unbundled financial statements for FY 2010 and with the calculation of depreciations for tax purposes for the period 2003-2009 and for 2010 (taking into account the changes to the Corporate Tax Law in 2010).

Nr.	Subtask 1: Support Management and Operation to Maintain Asset Value Specific Objectives / Accomplishments	Completion Date (End-of-month)	Major Activities Completed/ Status of Deliverables
1.5	Provide assistance in legal and regulatory affairs.	Ongoing	<p>Tt continued to provide legal advice to KEK senior management and various project managers on a number of discrete issues during Q1 as summarized in this report.</p> <p>Tt's assistance in regulatory affairs during Q1 included 1) filing of the 2011 tariff application, 2) support of the 220 kV tariff application, 3) development of a distribution use of system tariff, 4) development of unbundled tariff, and 5) the dispute initiated by KOSTT related to transmission fees.</p>
1.6	Provide active support to Internal Audit and Anti-corruption.	Ongoing	<p>Tt assisted the IAO with the completion of 27 audits and investigations and the initiation of 18 new audits (expected to be completed in Q2). As a result of the investigations performed by the IAO, 12 KEK employees were proposed for different forms of disciplinary action. With Tt's assistance, KEK was able to register 318 cases of electricity theft and other irregularities, and initiate legal procedures for criminal prosecution. With Tt's guidance, the IAO and the FED have taken actions that allowed KEK to recover more than €1 million.</p>

Nr.	Subtask 1: Support Management and Operation to Maintain Asset Value Specific Objectives / Accomplishments	Completion Date (End-of-month)	Major Activities Completed/ Status of Deliverables
1.7	Provide support to other functions in KEK on an as-needed basis, e.g., Network, Human Resources, Information Services, Public Relations and Communications.	Ongoing	<p>Tt provided full support to the Loss Study by AEAI. Tt reviewed and provided detailed comments on the first draft report, and responded to all other enquiries by AEAI. Tt facilitated information gathering from various sources within KEK, and prepared responses to all enquiries from Mott MacDonald, ensuring adequate levels of consistency. Tt ensured that all interactions among KEK, AEAI, Mott MacDonald and Tt were transparent and satisfactory to all parties.</p> <p>Tt initiated the design of a new HR and Payroll System.</p> <p>Tt completed the collection of the final 531 declarations regarding the payment of employees' electricity consumption through payroll, resulting in registration of the complete KEK staff which will enable KEK to ensure that its employees consistently pay for their electricity use.</p>
1.8	Advise KEK top management on other management and operational issues.	Ongoing	Tt provided advice on management and operational issues. Regular meetings were held with the Managing Director and with Supply, Network, CFO, and Corporate Services executives. Meetings were also held on an as-needed basis with mining, generation and procurement executives.



Nr.	Subtask 2: Prepare Technical and Contractual Document for Investor Due Diligence in KEK DistCo (KEDS) Specific Objectives / Accomplishments	Completion Date (End-of-month)	Major Activities Completed/ Status of Deliverables
2.1	Prepare KEK unbundling documents and related transfer papers.	Per TA's Request	First drafts completed, save for populating the schedules.
2.2	Prepare draft agreements between the electricity market participants.	April 2010	First drafts completed.
2.3	Prepare Legal/Regulatory documentation related to the privatization transaction.	Per TA's Request	Completed the following deliverables:  1) Draft Regulatory Statement 2) Draft Collection Agreement 3) Draft KEDS Privatization Law 4) New wording for the draft Energy Law, to address the property rights of KEDS/KEK. 5) New wording for the draft Electricity Law, to address the theft of electricity.
2.4	Assist KEK to prepare data for the Investor Due Diligence.	Per TA's Request	It compiled an index to the documents collected in the KEDS data room, provided a copy to the IFC for their review and comment, and facilitated the provision of various documents requested by the IFC and the KEDS privatization project implementation unit. It is in the process of reviewing and updating the index.

<b>Nr.</b>	<b>Subtask 3: Provide Advisory Support In Privatization Process Specific Objectives / Accomplishments</b>	<b>Completion Date (End-of-month)</b>	<b>Major Activities Completed/ Status of Deliverables</b>
3.1	Assist KEK with the timely preparation of responses to all technical, legal and financial issues raised during the tender process.	Per TA's Request	No action required at this time.
3.2	Provide active support to the Transaction Advisor during the process of bid submission, evaluation and award.	Per TA's Request	Tt met with the transaction advisor and provided information on KEK's financial position and performance.

<b>Nr.</b>	<b>Subtask 4: Strengthen Skills And Technical Capacity Of Counterparts Specific Objectives / Accomplishments</b>	<b>Completion Date (End-of-month)</b>	<b>Major Activities Completed/ Status of Deliverables</b>
4.1	Provide assistance and coaching to the KEDS staff on a daily basis in developing leadership skills, including communicating expectations, motivating employees, time management, meeting management, presentation skills, and planning and organization.	Ongoing	Tt actively supported the Network Division's management staff by assisting with strategic and tactical issues and ensuring proper follow-up and adequate quality in the resolution of issues. These activities were carried out by Tt with the objective of achieving on-the-job training.
4.2	Provide day-to-day coaching on billing, managing customer accounts, and collection.	Ongoing	Tt team members provided advisory support to the districts on a daily base, in line with the District Regulations. Tt also continued to coach the managers and staff on employee motivation and rewards, and monthly performance monitoring.
4.3	Conduct training on management principles, customer service and other areas as deemed necessary.	December 2010	No action at this stage.
4.4	Convene round table discussions and workshops on important topics to support the privatization process.	December 2010	No action at this stage.

<b>Nr.</b>	<b>Subtask 4: Strengthen Skills And Technical Capacity Of Counterparts Specific Objectives / Accomplishments</b>	<b>Completion Date (End-of-month)</b>	<b>Major Activities Completed/ Status of Deliverables</b>
4.5	Identify potential trainers and train them to deliver all training courses developed and offered by the Tt team.	December 2010	No action at this stage.

<b>Nr.</b>	<b>Subtask 5: Support Management Post-Privatization Specific Objectives / Accomplishments</b>	<b>Completion Date (End-of-month)</b>	<b>Major Activities Completed/ Status of Deliverables</b>
5.1	Develop and assist with the implementation of a transition plan for the Finance and Accounting Function.	One month after closing the privatization transaction.	Completed
5.2	Develop and assist with the implementation of a transition plan for the Legal Function.	One month after closing the privatization transaction.	Will be defined once a specific work plan is developed by KEDS and the incoming private sector investor
5.3	Develop and assist with the implementation of a transition plan for the Regulatory Affairs Function.	One month after closing the privatization transaction.	Will be defined once a specific work plan is developed by KEDS and the incoming private sector investor
5.4	Develop and assist with the implementation of a transition plan for the Human Resources Function.	One month after closing the privatization transaction.	Will be defined once a specific work plan is developed by KEDS and the incoming private sector investor
5.5	Development and assist with the implementation of a transition plan for the Billing and Collection Activities.	One month after closing the privatization transaction.	Will be defined once a specific work plan is developed by KEDS and the incoming private sector investor

<b>Nr.</b>	<b>Subtask 6: Prepare A Thermal Power Plant Kosova B Investment Requirement And Rehabilitation Feasibility Study Specific Objectives / Accomplishments</b>	<b>Completion Date (End-of-month)</b>	<b>Major Activities Completed/ Status of Deliverables</b>
6.1	Prepare TPP Kosova B Investment Requirement and Rehabilitation Feasibility Study.	October 2010	The final version was approved by USAID and circulated to stakeholders and the KRPP Transaction Advisory Team during Q3 2010.

<b>Nr.</b>	<b>Subtask 7: Prepare Technical And Contractual Documentation For Investor Due Diligence Specific Objectives / Accomplishments</b>	<b>Completion Date (End-of-month)</b>	<b>Major Activities Completed/ Status of Deliverables</b>
7.1	Assist KEK and Transaction Advisors with collating documentation for the data room.	Upon request	It provided support to the designated KEK employee who acts as the main contact point/coordinator for documentation requested by the KRPP Project.
7.2	Provide assistance and input to the Transaction Advisors in connection with asset sale or lease agreement(s), and power purchase agreement.”	Upon request	It has developed two draft power purchase agreements for the sale of the Kosova B TPP’s output and shared these with the KRPP transaction advisors.
7.3	Timely preparation of responses to all technical, legal and financial issues raised during the tender process.	Upon request	It continued to provide its input to the KRPP Transaction Advisory Team and the World Bank representatives on what assets it believes should be included in the KRPP transaction.

<b>Nr.</b>	<b>Subtask 8: Strengthen Skills And Technical Capacity Of Counterparts Specific Objectives / Accomplishments</b>	<b>Completion Date (End-of-month)</b>	<b>Major Activities Completed/ Status of Deliverables</b>
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Nr.	Subtask 8: Strengthen Skills And Technical Capacity Of Counterparts Specific Objectives / Accomplishments	Completion Date (End-of-month)	Major Activities Completed/ Status of Deliverables
8.1	Conduct training on the methodology to evaluate performance, characteristics of the new technology and the methodology for economic and financial analysis used in the Feasibility Study.	Three months following the completion of the Feasibility Study	No action at this time.
8.2	Convene round table discussions on important issues raised during investor Due Diligence (see Subtask 7) to support the TPP Kosova B privatization process.	Three months following the completion of the Feasibility Study	No action at this stage.

## List of Outputs prepared in Q1

- Letter to Minister of Finance and Economy regarding loans and imports
- Memo on zero bills
- Dialogue between Kosovo and Serbia in March 2011 about the strategy paper and energy issues
- Regularization of electricity supply to minority communities report for the period January 2009 to March 2011
- KEK legal office – pending claims
- KEK intellectual property rights
- Summary of KEK-owned small hydro plants
- Contract for additional works relating to a major overhaul the turbine B2 at the Kosova B power plant
- Final draft of the KEK labor code
- Contingency for litigation liabilities
- Agreement for the supply of electricity for 2011
- District reporting templates
- Executive Order 96: Procedure of making changes to the organization structure
- Early Retirement Memorandum and Agreement Form
- *Internal Audit Annual Report* for 2010
- 2011 Tariff Applications
- Memorandums of agreement for IDPs
- KEK responses to the ERO regarding the KHOSIT complaint, consultation paper on competition, and consultation paper
- KEK response to Trepca concerning the Kishnicë and Artanë Substations
- Customer Supply Agreement for Trepca
- Tender documents and technical specifications
  - 30K Meters for Household Customers - Tender Dossier
  - 300 Full Indirect Meters - Tender Dossier
  - Meter Test System - Tech Spec
  - Supplies for Installation of Half Indirect Meters
- Data provided to Mott MacDonald
  - 10 kV & 04 kV system maintenance 2008-2010
  - 25 Nov\_KEK Network Development Plan 2010 - Eng\_Draft 01\_Redacted
  - 35 kV substation switchgear data
  - 35 kV line information 2010
  - 110 kV SS maintenance 2007-2010
  - Consumption & load shedding 2007 – 2010
  - Distribucioni 2006\_2010
  - Distribution Assets - KEK Response to MM Request\_Feb11
  - Energy not supplied 2007-2010
  - Failures for the period 2007-2010
  - Maintenance and upgrade of 35-xx kV transformers
  - Maintenance of tap changers 2009-2010
  - Mitrovica District SLD
  - MV & LV network statistics 2010
  - Network problem areas

- North Mitrovica – single-line diagram
- Oil filtering of power transformers 2006-2010
- Overloaded OHL 2010
- Overloaded SS and burned TR 2007-2010
- Protection maintenance 2010
- Recommendations from chromatography of 35 kV transformer oil
- Recommendations from chromatography of 110 kV transformer oil
- Repaired distribution transformers 2006-2010
- SAIDI 2007-2010(new)\_March2011
- SAIFI 2007-2010(new)\_March2011)
- Stores inventory
- Transformer maintenance schedule
- Vjetersia e TS LPk LPa\_v02\_english.

# Appendix B. Performance-Based Management System Results

## I. Key Indicators (KI) (Reported Quarterly)

No.	Objectives Supported by These Results	Task Reference Supported by These KI	Definition of Indicator and Unit of Measure	2006 Actual/ Calculation	2007 Actual	2008 Actual	2009 Actual	2010 Actual	Q1 2011 Actual
1	1, 2, 3	1	Reduce commercial losses as compared with previous year (ratio of commercial losses vs. energy available for sale)	31%	30%	20%	21%	22%	25%
2	1, 2, 3	1	Reduce technical losses (ratio of technical losses vs. energy delivered to distribution)	18.2%	17.4%	16.6%	17.7%	17.1%	17.6%
3	1, 2, 3	1	Ratio of energy billed vs. energy available for sale	69.1%	69.9%	79.8%	79.3%	78.5%	74.5%
4	1, 2, 3	1	Ratio of revenue collected versus billed	74.2%	76.6%	75.6%	81.4%	87.8%	81.4%
5	1, 2, 3	1	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%	60.3%	64.5%	68.9%	60.7%
6	1, 2, 3	1	Collected revenue in Euros	€96 M	€110.8 M	€135 M	€160.3 M	€178 M	€55 M



## 2. Milestone Indicators

Subtask	Description	Milestones	Reporting Frequency	Status
1	Support Management and Operation to Maintain Asset Value	2010 Business Plan approved by the BOD 2010 Budget approved by the BOD Tariff filing for 2010 Performance against the budget Draft audited financial statements Billing and collection reports to the BoD Unbundled financial statements Credit facility agreements Internal audit summary report	Quarterly	Completed. Completed. Completed, but no tariff increase ordered by ERO. Report completed and submitted to the BOD. Completed. Provided. Completed. Completed. Completed.
2	Prepare Technical and Contractual Documentation for Investor Due Diligence	Draft legal unbundling agreement Draft KEK/KEDS (KEDS regulated power sales agreement Draft KEK/KEDS, deed transferring assets & liabilities from KEK to KEDS Briefing paper - transfer of 110 kV system to KEDS/KEK Draft full requirements electricity service agreement between KEDS and New Mine/Generation Co. Draft regulatory statement Draft collection agreement between KEDS and GoK/MEF Draft KEDS Privatization Law Draft share purchase agreement between GoK/investor Draft index of data room documentation. Create KEDS asset registers and compile asset ownership documentation	Quarterly	Completed Completed.  Completed. Completed.  Completed. Completed.  Completed. Ongoing.  Completed. Ongoing.
3	Provide Advisory Support in Privatization Process	Timely preparation of responses to all technical, legal and financial issues raised during the tender process.	Quarterly	Ongoing.

Subtask	Description	Milestones	Reporting Frequency	Status
4	Strengthen Skills and Technical Capacity of Counterparts	Per training indicators	Quarterly	See training indicators
5	Support Management Post-Privatization	Producing transition plan for the Finance and Accounting Function. Producing transition plan for the Legal Function. Producing transition plan for the Regulatory Affairs Function. Producing transition plan for the Human Resources Function. Producing transition plan for the Billing and Collection Activities.	Quarterly	No action at this stage.
6	Prepare a Thermal Power Plant Kosova B Investment Requirement and Rehabilitation Feasibility Study	Feasibility study report, including technical and financial feasibility for rehabilitation and potential efficiency improvement of Power Plant B, investment requirements, recommendation, and implementation schedule	Quarterly	Completed.
7	Prepare Technical and Contractual Documentation for Investor Due Diligence	Timely preparation of responses to all technical, legal and financial issues raised during the tender process.	Quarterly	Ongoing.
8	Strengthen Skills and Technical Capacity of Counterparts	Per training indicators	Quarterly	See training indicators

### 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	2010 Target Actual	2011 Target Actual	Q1 2011 Actual																								
1.	1, 2 &3	Number of people who received training in technical energy field	0	231	Target 60 (M=42 and W=18) <b>Actual 54</b> (M=54 and W=0)	Target 60 (M=48 and W=12) <b>Actual 36</b> (M=32 and W=4)	Target 40 (M=35 and W=5) <b>Actual 425</b> (M=399 and W=26)	Target 40 (M=35 and W=5)	<table border="1"> <thead> <tr> <th></th> <th>Men</th> <th>Women</th> <th>Total</th> </tr> </thead> <tbody> <tr> <td>Q1 2011</td> <td>10</td> <td>-</td> <td>10</td> </tr> <tr> <td>Q2 2011</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Q3 2011</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Q4 2011</td> <td></td> <td></td> <td></td> </tr> <tr> <td><b>Total Year 2011</b></td> <td></td> <td></td> <td></td> </tr> </tbody> </table>		Men	Women	Total	Q1 2011	10	-	10	Q2 2011				Q3 2011				Q4 2011				<b>Total Year 2011</b>			
	Men	Women	Total																														
Q1 2011	10	-	10																														
Q2 2011																																	
Q3 2011																																	
Q4 2011																																	
<b>Total Year 2011</b>																																	
No.	Task Order Objective Reference	Definition of Indicator & Unit of Measure	2006 Actual/ Calculation	2007 Actual	2008 Target Actual	2009 Target Actual	2010 Target Actual	2011 Target Actual	Q4 2010 Actual																								
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) <b>Actual 69</b> (M=61 and W=8)	Target 60 (M=30 and W=30) <b>Actual 261</b> (M = 196 and W =65)	Target 200 (M=150 and W=50) <b>Actual 141</b> (M=112 and W=29)	Target 200 (M=150 and W=50)	<table border="1"> <thead> <tr> <th></th> <th>Men</th> <th>Women</th> <th>Total</th> </tr> </thead> <tbody> <tr> <td>Q1 2011</td> <td>31</td> <td>2</td> <td>33</td> </tr> <tr> <td>Q2 2011</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Q3 2011</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Q4 2011</td> <td></td> <td></td> <td></td> </tr> <tr> <td><b>Total Year 2011</b></td> <td></td> <td></td> <td></td> </tr> </tbody> </table>		Men	Women	Total	Q1 2011	31	2	33	Q2 2011				Q3 2011				Q4 2011				<b>Total Year 2011</b>			
	Men	Women	Total																														
Q1 2011	31	2	33																														
Q2 2011																																	
Q3 2011																																	
Q4 2011																																	
<b>Total Year 2011</b>																																	

**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	FY 2009 Actual	FY 2010 Actual	FY 2011 Target	Q2 2011 Actual
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 %	8.54%	3.53%	5%	5.51%

Note: The Fiscal Year (FY) runs from 1 October of one year to 30 September of the following year; Q1 of the Fiscal Year is the fourth quarter (October to December) of the calendar year.

# Appendix C. Supporting Documentation

# Energy Accounting Report – Quarter I

## ENERGY FLOWS - THROUGH TRANSMISSION Total Janar - March 2011 (All flows in MWH)

### Flows Into KOSTT:

<b>A&amp;B Generation</b>	
Gross	1,688,240
Aux (on-site only)	143,608
<b>Net</b>	<b>1,544,632</b>

HPP Ujmani	16,960	MK
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Kosova Coal	0	MK
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Interconnections In	844,360	MK
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<b>Total In:</b>	<b>2,405,952</b>
------------------	------------------

<b>PP Kosova A</b>		
Gross	555,408	MK
Aux (on-site only)	49,659	MK
Aux at PP Kos. A in excess of Net	24,231	MK
<b>PP Kosova B</b>		
Gross	1,132,832	MK
Aux (on-site only)	93,948	MK
Aux at PP Kos. B in excess of Net	18,898	MK

<b>Coal production</b>	<b>2,422,239</b>
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<b>Overburden production</b>	<b>1,909,264</b>
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Net Import (In-Out)	195,945
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Losses (% of Flow In)	40,391	1.68%
-----------------------	--------	-------

### Flows Out Of KOSTT:

KOSTT delivery to Direct Customers (3)	171,503	MK
--	---------	----

KOSTT delivery to LOMAG	73,625	MK
<b>Total</b>	<b>73,625</b>	

KOSTT Delivery to 7 Districts 52 mtrs @ 22 s/s	1,472,019	MK
---	-----------	----

Interconnections Out	648,415	MK
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<b>Total Out:</b>	<b>2,365,562</b>
-------------------	------------------

Responsibility for Input: C = Capacity Management; N = Network; S = Supply

ENERGY FLOWS - DSO including 220 and 110 kV  
Total Janar - March 2011  
(All flows in MWH)

**Flows In To KEK (Gross)**

<b>Delivery From KOSTT</b>	
KOSTT delivery to Direct Customers (3)	171,503 MK
KOSTT delivery to LOMAG	73,625 MK
KOSTT Delivery to 7 Districts	1,472,019 Mk
<b>Total</b>	<b>1,717,147</b>

<b>Small HPP Connected in Distribution</b>	
Lumbardh	4,611 R
HPP Dikance+HPP Radavc+WP Golesh	2,368 R
<b>Total</b>	<b>6,979</b>

<b>Flow Through non 110 kV</b>	
Delivery to 7 Districts and LOMAG	1,545,644
Small Hydro Inflow	6,979
<b>Total</b>	<b>1,552,623</b>

<b>Allocation of Losses</b>		
	MWH	Euro (000)
<b>Technical Losses</b>		
110 kV Xfrmer to 10 kV	107,530	3,622
0.4 kV from ESTAP	152,804	5,149
<b>Total</b>	<b>260,334</b>	<b>8,771</b>
% of Total Technical Losses for KEK excluding N. Mitrovica	17.63%	
% of Technical Losses at 7 Districts excluding N. Mitrovica	18.52%	
<b>Unaccounted for Energy Losses</b>	<b>334,759</b>	<b>18,084</b>
(Energy component of commercial losses)	21.56%	
<b>Total</b>	<b>595,093</b>	<b>26,855</b>
(% Flow Thru Non 110 kV)	38.33%	

Average Wtd Trf (Euro / MWH)	54.0
Cost of purchased losses 33.7 (Euro / MWH) from 01 April 10 as per ERO tariffs order.	

<b>Total In to KEK (Gross)</b>	<b>1,724,126</b>
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<b>Losses Total</b>	<b>595,093</b>
---------------------	----------------

**Flows Out Of KEK Distribution**

<b>Customer Billing (by CCP)</b>	
Residential	573,947 F
Commercial	166,703 F
Industrial (35&10KV)	63,595 F
Public Lighting	3,189 F
<b>Total</b>	<b>807,435</b>

KOSTT delivery to Direct Customers (Billed but not in CCP)	171,503 F
--	-----------

<b>KEK Internal Use:</b>	
KEK Mines	28,573 R
Aux for Gen in excess of Net	43,129 R
Distribution (Self Consumption)	2,591 F
<b>Total</b>	<b>74,293</b>

<b>Minorities</b>	
N. Mitrovica (Unbillable)	75,802 R
<b>Total</b>	<b>75,802</b>

<b>Total Out:</b>	<b>1,129,032</b>
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Note:  
1) Cost of purchased technical losses is 33.7 (Euro/MWH) from April 2010 as per ERO tariffs order.

**RESULTS BY DISTRICT**  
**Total Janar - March 2011**  
(Energy flows in MWH, Monetary amounts in 000 €)

Responsible Area	Input to KEK N	Technical Losses N	KEK Internal Use: S	Minorities Unbillable & Uncollectable N/S	Energy Available For Sale (EAFS) Calculated	Energy Billed			Indicators Based on January-March 2011 Data			
						MWH S	€ (000) S	Collections € (000) S	Billed as % of EAFS Calculated	Collection As % of Billed Calculated	% Collected Versus EAFS Calculated	% Energy Accoun. Versus Input to DSO. Calculated
Prishtinë	476,876	84,170	1,146	0	391,559	278,470	21,608	18,619	71.12%	86.16%	61.28%	76.29%
Prizren	203,652	41,445	96	0	162,111	120,080	8,778	7,271	74.07%	82.83%	61.36%	79.36%
Pejë	160,605	28,618	347	0	131,640	86,612	6,643	5,131	65.79%	77.24%	50.82%	71.96%
Ferizaj	173,791	35,477	190	0	138,123	98,313	7,270	5,505	71.18%	75.72%	53.90%	77.09%
Gjilan	115,623	18,507	329	0	96,787	83,039	5,945	4,556	85.80%	76.63%	65.75%	88.11%
Mitrovicë	212,535	25,110	223	75,802	111,399	65,339	4,838	2,999	58.65%	61.99%	36.36%	78.33%
Gjakovë	136,948	26,764	260	0	109,923	75,582	5,509	4,166	68.76%	75.62%	52.00%	74.92%
<b>Sub TOTAL</b>	<b>1,480,028</b>	<b>260,091</b>	<b>2,591</b>	<b>75,802</b>	<b>1,141,544</b>	<b>807,435</b>	<b>60,591</b>	<b>48,246</b>	<b>70.73%</b>	<b>79.63%</b>	<b>56.32%</b>	<b>77.43%</b>
% of Technical Losses at 7 Districts excluding N. Mitrovica		18.52%										
Land of Mines & Generation (Energy delivered and billed to tariff customers is included in PR Dis.)	72,595	244	71,702	0	649				0.00%	#DIV/0!	#DIV/0!	99.11%
<b>Sub TOTAL</b>	<b>1,552,623</b>	<b>260,335</b>	<b>74,293</b>	<b>75,802</b>	<b>1,142,193</b>	<b>807,435</b>	<b>60,591</b>	<b>48,246</b>	<b>70.69%</b>	<b>79.63%</b>	<b>56.29%</b>	<b>78.44%</b>
% of Total Technical Losses for KEK excluding N. Mitrovica		17.63%										
Direct Customers billed but not in CCP	171,503				171,503	171,503	7,148	6,924	100.00%	96.87%	96.87%	100.00%
<b>TOTAL</b>	<b>1,724,126</b>				<b>1,313,695</b>	<b>978,937</b>	<b>67,739</b>	<b>55,170</b>	<b>74.52%</b>	<b>81.44%</b>	<b>60.69%</b>	

7 Districts + 3 Direct Customers	1,651,530				1,313,046	978,937	67,739	55,170	74.55%	81.44%	60.72%
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Customer Billing	Total Janar - March 2011									
	Energy Billed				Collection		Customer Debt per month € (000')			
	MWH	%	EURO	%	EURO	%	January	February	March	April
Household	573,947	59%	36,272	54%	27,056	49%	368,480	371,016	374,778	
Commercial	166,703	17%	18,356	27%	16,068	29%				
Industrial & Public Lighting	66,784	7%	5,963	9%	5,122	9%				
(3) Direct Customers	171,503	18%	7,148	11%	6,924	13%				
<b>Total</b>	<b>978,937</b>	<b>100%</b>	<b>67,739</b>	<b>100%</b>	<b>55,170</b>	<b>100%</b>	<b>June</b>	<b>July</b>	<b>August</b>	<b>September</b>

Note:

- 1) The energy billed to tariff customers located at LOMAG is included in Prishtina District.
- 2) Customer debt accumulated in a given month is equal to the difference between billing and collection for this month.
- 3) Column P 'Collections € (000)' might be subject to changes because of later adjustments due to payments done through bank accounts (including Kos Giro).



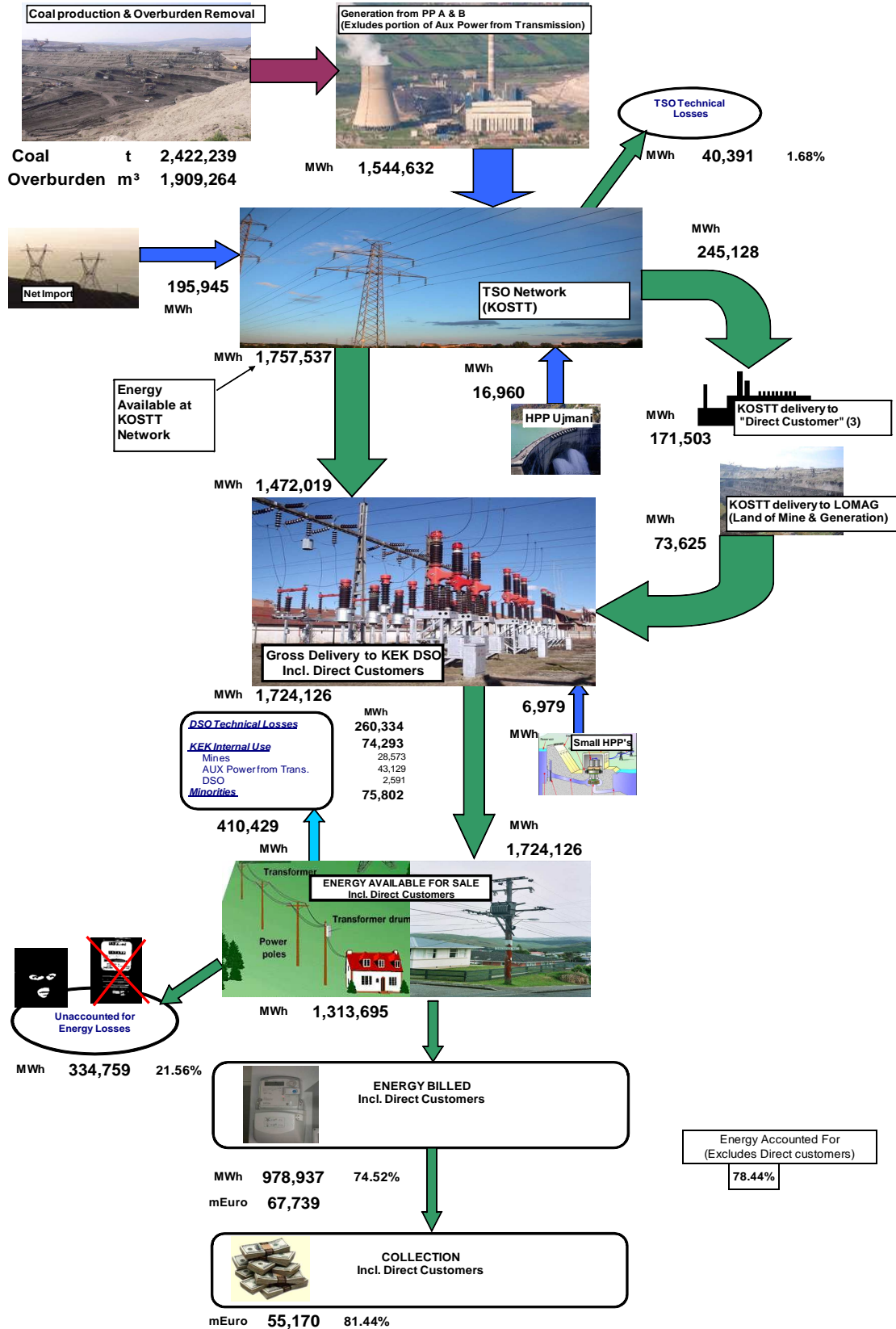
## **NOTE CONCERNING ENERGY ACCOUNTING REPORT – RESULTS BY DISTRICT**

The format of the Energy Accounting Report Results by District page has changed since July 2010, affecting the presentation and calculation of data used in the Performance-based Management System. The report's "Results by District" page has four columns on the far right of the sheet that contain indicators of performance. From September 2010 onward, the indicators have been computed using the data in the columns to the left, as was the practice from 2006 through the end of 2009. The indicators shown in the March 2010 year to date and June 2010 year to date reports were computed using "lagged" data, which were used to measure the performance of district personnel. The lagged data compared billing in one month with collection in the subsequent month to measure the performance of districts.

As far as the PBMS measures are concerned, the Energy Accounting Report "indicators" are not relevant since all reporting to USAID since 2007 has consistently been based on the actual base data as shown on the left side of the page.

# ENERGY FLOW THROUGH SYSTEM

Total Janar - March 2011



# Unservd Demand Report – Quarter I

TABLE 1: Actual FY 2008 (October 2007 - September 2008)

[MWh]	2007			2008									USAID Fiscal Year PUD		
	10	11	12	1	2	3	4	5	6	7	8	9	SubTot.		
Served demand (Gross Consumption)	388,862	467,904	522,047	523,567	459,620	452,155	394,926	353,068	294,030	318,849	321,106	379,584	SubTot.	4,875,718	
Un-served demand (Load shedding)	59,015	74,761	126,784	134,529	93,087	58,668	49,117	45,878	64,010	33,903	70,233	30,421	SubTot.	840,406	
Quarterly PUD			1,378,813 260,560 15.89%			1,435,342 286,284 16.63%			1,042,024 159,005 13.24%			1,019,539 134,557 11.66%			
													PUD = UD / (UD + SD) * 100%		14.70%

Calendar Year PUD
Q1+Q2+Q3+Q4 2008
4,921,392
724,855
12.84%

TABLE 2: Actual FY 2009 (October 2008 - September 2009)

[MWh]	2008			2009									USAID Fiscal Year PUD		
	10	11	12	1	2	3	4	5	6	7	8	9	SubTot.		
Served demand (Gross Consumption)	424,452	461,502	538,533	575,293	522,811	526,077	386,131	351,686	321,742	336,304	346,483	352,296	SubTot.	5,143,310	
Un-served demand (Load shedding)	43,814	45,297	55,898	74,681	35,229	46,737	34,202	24,363	23,923	35,292	40,192	24,410	SubTot.	484,038	
Quarterly PUD			1,424,487 145,009 9.24%			1,624,181 156,647 8.80%	113.2% 45.3%		1,059,559 82,488 7.22%	101.7% 48.1%		1,035,083 99,894 8.80%	101.5% 25.8%		
													PUD = UD / (UD + SD) * 100%		8.60%

Calendar Year PUD
Q1+Q2+Q3+Q4 2009
5,241,899
389,202
6.91%

TABLE 3: Actual FY 2010 (October 2009 - September 2010)

[MWh]	2009			2010									USAID Fiscal Year PUD		
	10	11	12	1	2	3	4	5	6	7	8	9	SubTot.		
Served demand (Gross Consumption)	447,956	506,950	568,170	599,918	524,740	529,168	428,294	388,455	351,084	364,140	378,480	369,064	SubTot.	5,456,419	
Un-served demand (Load shedding)	22,184	22,184	5,805	19,372	32,979	18,508	25,645	18,542	11,385	3,627	13,584	6,177	SubTot.	199,992	
Quarterly PUD			1,523,076 50,173 3.19%	106.9% 65.4%		1,653,826 70,859 4.11%	101.8% 54.8%		1,167,833 55,572 4.54%	110.2% 32.6%		1,111,684 23,388 2.06%	107.4% 76.6%		
													PUD = UD / (UD + SD) * 100%		3.54%

Calendar Year PUD
Q1+Q2+Q3+Q4 2010
5,465,263
194,911
3.44%

TABLE 4: Actual FY 2011 (October 2010 - September 2011)

[MWh]	2010			2011									USAID Fiscal Year PUD		
	10	11	12	1	2	3	4	5	6	7	8	9	SubTot.		
Served demand (Gross Consumption)	468,007	480,994	582,919	630,726	541,259	542,352							SubTot.	3,246,257	
Un-served demand (Load shedding)	22,604	12,313	10,175	25,846	41,163	32,895							SubTot.	144,996	
Quarterly PUD			1,531,920 45,992 2.86%	100.6% 10.1%		1,714,337 99,904 5.51%	103.7% -41.0%		- - -	0.0% 100.0%		- - -	0.0% 100.0%		
													PUD = UD / (UD + SD) * 100%		4.28%

Calendar Year PUD
Q1+Q2+Q3+Q4 2011
1,714,337
99,904
5.51%

TABLE 5: Actual FY 2012 (October 2011 - September 2012)

[MWh]	2011			2012									USAID Fiscal Year PUD		
	10	11	12	1	2	3	4	5	6	7	8	9	SubTot.		
Served demand (Gross Consumption)													SubTot.	-	
Un-served demand (Load shedding)													SubTot.	-	
Quarterly PUD			- - #DIV/0!	0.0% 100.0%											
													PUD = UD / (UD + SD) * 100%		#DIV/0!

Unservd Demand is 5.51% in Q1 2011 compared to 4.11% in Q1 2010.

- The data for above table are provided by the KEK Capacity Management Department.
- Consumption is defined to be "Input to Distribution + Trepca + Newco Feronikeli Production + Sharri + Kosova Thengjilli + TS Palaj&Bardhi Drenas + Self Consumption + Kosova A PP SS, note that these numbers will be different from the numbers for the "Input to Distribution TOTAL" from the Energy Accounting Reports to the KEK Board of Directors.
- Consumption in the future is based on the energy forecast that KEK has already prepared as part of the KEK business plan process.
- Data not available is indicated as "n/a" in the cell.
- The data are arranged based on USAID Fiscal Year (that is FY 2009 starts on 1 October 2008 and ends on 30 September 2009)
- The Consumed Energy includes the transmission losses of KOSTT (which are a little over 2%).

Note: Prior year data has been restated based on a review of actual data. All changes were insignificant.

## Training Information – Quarter I

The following 10 people received training in the technical energy field during Quarter 1 of 2011.

**Training Topic:** Reclaim loss calculation methodology

**Training Date:** 20-21 January, 2011

**Trainer:** Givi Jgarkava

**Trainees:**

No	Name	Gender
1	Besnik Ferati	M
2	Bekim Morina	M
3	Fehmi Vojvoda	M
4	Flamur Bllacaku	M
5	Bujar Jupaj	M
6	Hajdar Hoxha	M
7	Bekim Hertica	M
8	Alban Qeku	M
9	Veton Krasniqi	M
10	Bekim Zeqiri	M

**Training Topic:** Applicable legislation to fight commercial loses in KEK

**Training Date:** 17-18 February, 2011

**Trainer:** Givi Jgarkava

**Trainees:**

No	Name	Gender
1	Besnik Ferati	M
2	Bekim Morina	M
3	Fehmi Vojvoda	M
4	Flamur Bllacaku	M
5	Bujar Jupaj	M
6	Hajdar Hoxha	M
7	Bekim Hertica	M
8	Alban Qeku	M
9	Veton Krasniqi	M
10	Bekim Zeqiri	M

The following 25 people received training in the energy-related business management during Quarter 1 of 2011.

**Training Topic:** Proper planning and implementation of daily tasks

**Training Date:** January 11, January 28, March 1, 2011

**Trainer:** Irakli Babukhadia

**Trainees:**

No	Name	Gender
1	Idriz Ibraj	M
2	Jakup Smajli	M
3	Namik Bajraktari	M
4	Ymer Çarkaxhiu	M
5	Rexhë Blakaj	M
6	Nexhmedin Elezi	M
7	Shpetim Stojkaj	M

8	Besim Loshi	M
9	Afërdita Lama	F
10	Dritan Frati	M
11	Agim Qela	M
12	Alban Mazreku	M
13	Milot Kursani	M
14	Visar Hasi	M
15	Genc Pylla	M
16	Genc Kërleshi	M
17	Vehebi Sofiu	M
18	Hymet Myditi	F
19	Ibrahim Elezi	M
20	Artan Kazazi	M
21	Enver Berisha	M
22	Sherif Sallahaj	M
23	Selam Dolumezi	M
24	Valon Gashi	
25	Vehebi Sofiu	