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2010 ANNUAL REPORT

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

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This annual report on the Korporata Energjetike e Kosoves (KEK) Network and Supply Project covers the period 1 January through 31 December 2010. It describes the main results achieved by the project team led by Tetra Tech ES, Inc. and supported by subcontractors Pierce Atwood LLP and Financial Stimulus Ltd., which are embedded in KEK. The report was prepared by Tetra Tech ES, Inc. (Tt), under Task Order 4 of Contract EPP-1-00-03-00008-00. This report was made possible through the support of the American people through USAID/Kosovo. Its contents are the sole responsibility of Tetra Tech ES, Inc. and do not necessarily reflect the views of USAID or the United States Government. 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

Given the severe and continuing problems in Kosovo' power sector, the United States Agency for International Development initiated the KEK Network and Supply Project in 2007. This project provides targeted assistance to the national electricity company, Korporata Energjetike e Kosoves (KEK), to ensure that its local management receives coaching and guidance to address the sector's dire situation, to facilitate the privatization of KEK, and to improve the company's commercial performance.

The following are the major milestones achieved in 2010 and major events that impacted project activities.

Distribution Business
In anticipation of privatizing KEK's distribution business, Tetra Tech (Tt) prepared the 2010 Network Development Plan in close cooperation with the executive director of KEK's Network Division. The Plan has been submitted to the Energy Regulatory Office (ERO) for approval, and will be an important document for potential investors. Tt also assisted the Network Division in developing maintenance procedures that will guide KEK network operations and maintenance, and outlined distribution system operator standard practices. Last, Tt developed a distribution network connection charging methodology and facilitated its review and updating by all interested parties in KEK. The methodology was submitted to ERO for comment and approval. This methodology will formalize the manner in which KEK processes customers' new connections and connection reinforcement requests.

Northern Kosovo
Tt prepared a detailed rebuttal to a legal opinion emanating from the EULEX mission. The legal opinion cast strong doubt on KEK's claim to the electricity system in Northern Kosovo. The response Tt drafted was needed to support KEK's property rights and control over the electricity system in Northern Kosovo.

By the end of 2010, no progress had been made in regularizing customers in the north, and Serbia had not been constructive about moving forward with an energy service company agreement (ESCO) after 18 months of discussions. Even though Serbia has been told that their demands are against the laws of Kosovo, they continue to insist on allowing ESCOs to serve Serb customers in the south, and unilaterally import electricity for the north as KEK's agent. Thus, 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, the assets in the north may have to be removed from the privatization list; this will lead to the perception that Kosovo is effectively partitioned. Energy issues should remain at the top of the agenda in discussions among the EU, US, Serbia and Kosovo in order to enforce KEK's ownership and control over the assets in the north. Otherwise, either the distribution privatization would fail or only the assets in the south will be privatized.

Kosova B Feasibility Study
Tt completed the Thermal Power Plant Kosova B Investment Requirement and Rehabilitation Feasibility Study, which was approved by USAID in September 2010 and circulated to stakeholders and the Kosova E Re Power Plant (KRPP) Transaction Advisory Team. The study maintains that it is feasible, both technically and financially, to rehabilitate the B units at less than half the cost of constructing a new unit.

KEK Disciplinary Code

KEK's Board of Directors approved the Disciplinary Code, which Tt prepared in mid-2007 and has been pressing for its implementation since then. The new Code introduces three important reforms to the existing disciplinary process: 1) the right of managers to take action against the non-performing employees under their supervision (this should be distinguished from misconduct), 2) the abolition of the current practice of establishing three-member commissions to adjudicate disciplinary cases, and 3) limitations on the discretion of the adjudicator when determining the applicable disciplinary penalty.

Kosova B – Capital Investment

August 2010 witnessed the commissioning of two new low-pressure rotors and one generator rotor at the Kosova B thermal power plant (TPP). This equipment was ordered by KEK in 2007 and 2008, respectively. These investments were secured and contracted by KEK with assistance and support from Tt.

New Energy Laws

The fourth quarter of 2010 saw the promulgation of the three new energy laws: the Law on Energy, Law on Electricity, and Law on the Energy Regulator. Tt provided specific input on two areas included in these laws: 1) the Law on Energy, which gives legal certainty and clarity to KEK and KOSTT's property rights over the assets that comprise Kosovo's energy system, and 2) provisions in the Law on Electricity that explicitly make electricity theft a criminal offense. Tt has long advocated for these legislative provisions.

Business Planning

Tt helped KEK to develop a detailed business plan for 2010 consistent with the plan approved by KEK's Board of Directors; Tt also assisted all divisions with the development of actions plans in support of the business plan. Tt assisted KEK in the preparation of the 2011 Business Plan and budget, which was approved by the Board of Directors.

Anti-corruption Efforts

Tt's assisted KEK's internal audit office to complete 104 audits and investigations during 2010 resulting in:

- *Recommendations:* From 104 cases the office has submitted 129 recommendations to KEK management and the Internal Audit Committee
- *Disciplinary Actions*. 220 KEK employees were proposed for different forms of disciplinary action including termination.
- *Law Enforcement*. 201 cases were submitted to law enforcement officials for follow-up action.
- *Customers Inspected*. More than 7,500 customers' electric use and metering were inspected.
- *System improvements:* 40 recommendations were made for improvements to KEK's management, operations and processes.
- The action plan for non-registered customers, which was drafted and supported by the IAO, has brought more than €10 million in revenue to the company and continues to be implemented.

Tt assisted KEK's Field Enforcement Department to launch an extensive campaign for resolving problems related to customers with large debts and high commercial losses.

- 983 "problematic" customers were disconnected (with police support where necessary)
- 766 cases of electricity theft were discovered and submitted to the Legal and Supply Departments for processing.

- Through disconnections and loss reclamations in cases of electricity theft, the Field Enforcement Department raised about €1,000,000 of additional income for KEK.
- 3,791 customers were visited for inspections or disconnections

Legal and Regulatory

Tt drafted and finalized the terms of two new credit facility agreements between KEK and the Kosovo Ministry of Economy & Finance (MEF), which will be used to fund capital expenditures on the Kosova B TPP, and in connection with opening of the new Sibovc SW mine. Tt also provided significant support to the KEK regulatory staff with regard to the 2010 Final Tariff Application, which was submitted to the Energy Regulatory Office (ERO) on 8 February; the Application for a tariff change related to the proposed lignite royalty increase, which was submitted on 13 October; and the Application for a regulated tariff for customers served at 220 kV, which was submitted on 6 December.

Privatization

Tt developed several draft legal and regulatory documents to support the privatization of the Distribution Company (DistCo). All the documents were shared with the Transaction Advisory teams for the DistCo and also with the Kosova e Re Power Plant (KRPP) project.

Tt worked with USAID, USAID implementing partners and the National Association of Regulatory Utility Commissioners (NARUC) in holding a high-level forum in Pristina entitled "Public Forum on KEK Electricity Distribution and Supply Privatization: Enhancing the Security of Supply in Kosovo for Economic Growth." Tt delivered a presentation on sustainable commercial operations, and provided input and comments on the presentations made by the others. Tt also participated in the workshops that followed the high-level forum, which focused on market design and tariff reform in the context of the DistCo privatization and the KRPP Transaction.

In November 2010, an investor's conference was held in Pristina for entities/consortia that had shown an interest in the DistCo transaction. Tt drafted a power point presentation for KEK's managing director to present at the conference. Tt also participated and led discussions with the interested parties, during which it outlined the current status at KEK and explained the investment opportunities presented by the DistCo transaction.

Training

During 2010, Tt trained and coached 566 KEK employees on the technical energy field and on energy-related business management. Tt trained 143 KEK employees in 10 classroom-style training courses on topics such as internal customer service and communication, leadership and management and critical thinking, security and management. Tt also coached 265 KEK employees on billing, managing customer accounts and collection.

Completion of the New Assets Register

Tt oversaw the testing and fine tuning of the new asset register and the migration and cleaning of all fixed asset data for the period 2003-2009 from the old to the new asset register. Tt supervised the recalculation of depreciation for the period 2003-2009, analyzed the results and calculated the adjustments that have to be posted to the General Ledger (G/L) to correct all the errors made in past periods and reconcile the new asset register data with the G/L data. The total corrections exceeded €11 million. Tt prepared detailed documentation to support the reconciliation that will be presented to the external auditors in order to remove the longstanding qualification of the fixed assets information in KEK's audited financial statement.

Billing and Collections
Collections for the year 2010 were higher (€18 million or 11%) than in 2009, due to the increased amount of energy delivered to the distribution system (6%) and a higher collection rate, which was partially offset by higher commercial losses. For the full year of 2010, the billing rate was 78% and the collection rate 88%. Thus, overall performance (collection of delivered energy) was 69%. For the year 2009, the billing rate was 79%, the collection rate 81%, and overall performance was 64%.

Although improvements were made during 2010, unaccounted-for energy (commercial losses) continues to be a major problem. The principal impediment is management's failure to comply with district regulations requiring disciplinary action for employees who do not comply with their job requirements. The collapse of the Government of Kosovo in October and the national election in December also adversely effected KEK management's performance.

Internally Displaced Persons (IDPs) Collective Centers
Tt worked with government ministries and the international community to provide funds to cover the cost of electricity provided to the IDP Collective Centers since, effective 1 April 2010, KEK discontinued the practice of providing free electricity to the Centers. During the year, various ministries agreed to pay for up to 330 kWh of consumption per month per family.
On 15 December, a meeting was held with representatives of the Prime Minister's Office, Ministry of Labor and Social Welfare, UNHCR, US Embassy, USAID, Commissariat for Refugees, Swedish KFOR, US KFOR, KEK, and Tt to find a source or sources for funding IDP consumption in 2011. Given that no stakeholder came forward, the Minister of Labor and Social Welfare proposed a way forward based on the following key points:

- The municipalities must sign an agreement with KEK and register the Centers as customers.
- The individual Centers must be responsible for controlling their usage of electricity. They must be disconnected once they reach the limit that donors or others will pay for (330 kWh per month per family or whatever amount is agreed to and paid for).
- The Ministry of Labor and Social Welfare will pay €1,000 per month as its contribution to all the Centers for electricity
- The municipalities and others must commit to pay each month in order to provide the Centers with the amount of electricity they are willing to pay for.

Based on this proposal, Tt prepared an MoU and provided it to all attendees. In addition, KEK and Tt met with the Mayors of Strpce, Gracanica, and Gjilan (where the Centers are located) to explain the MoU and background in detail. The Mayor of Gjilan agreed to sign, but as of 31 December, the Mayors of Strpce and Gracanica had not. By 12 January 2011, those mayors signed as well, resulting in the completion of all payment arrangements.

Inter-Ministerial Meeting – Publicly Owned Enterprises
After months of delay, the Inter-Ministerial Committee for Publicly Owned Enterprises met in August and proceeded to approve three longstanding issues: 1) the Committee approved KEK's decision to proceed with the scheduled overhaul of Unit A3 of the Kosova A TPP, 2) the Committee approved KEK's decision to proceed with the installation of a hydraulic handling system for wet ash from the Kosova A TPP, subject to funding, and 3) the Committee agreed to defer the payment of interest and principal on the six loans made to KEK.

Closure of RTK Contract Issues
From 2003 to 2009, KEK was the billing and collection agent for the public broadcast fee for Radio Television Kosovo (RTK). KEK was required to include a €3.50 monthly RTK fee (actually a tax) in its customers' electricity bills. KEK stopped this billing and collection of the RTK fee in October

2009 based on a decision issued by The Constitutional Court of Kosovo on 16 October 2009, which ordered KEK to stop billing and collecting the RTK fee. In August 2010, Tt developed a "Transfer Advice" to notify individual customers of the RTK fees they were billed but did not pay, and to inform them that the balance on their KEK account was reduced by that amount and transferred to RTK. The debt balance for all customers in KEK's records was reduced by €38 million as a result of this transfer.

Asset Protection

Tt began its assistance to KEK on security matters in 2010. Tt assessed the current situation and made recommendations to improve staff working environment, to secure asset management, to streamline transportation and site access, and to clarify security service provider (BESA security company) deliverables. Tt developed and delivered a six-week training program for KEK's security service provider, BESA Security, during which 23 managers were trained on security and management issues. The training program's 12 sessions covered such topics as mental awareness, routine daily duties, emergency situations and legal aspects of security as well as self-management, communication, leadership, and decision making. The training improved the level of service that BESA's 560 security personnel currently provide to KEK to help protect KEK's assets from theft and damage.

Contents

Acronyms

AMR	Automated meter reading
CAPEX	Capital expenditures
CAS	Computerized accounting system
CCP	Customer Care Package
CEO	Chief Executive Officer
CPD	Coal Production Division
DistCo	The Kosovo Electricity Distribution and Supply Company
EULEX	European Union Rule of Law Mission
ERO	Energy Regulatory Office
ESCO	Energy Service Company
FED	Field Enforcement Division
FN	Ferronikeli
GoK	Government of Kosovo
GoK	Government of Kosovo
HR	Human resources
IAC	Internal Audit Committee
IAO	Internal Audit Office
IDP	Internally displaced persons
IFC	International Finance Corporation
ICMM	Independent Commission for Mines and Minerals
IS	Information Services
KCB	Kosovo Central Budget
KEK	Korporata Energjetike e Kosoves or Kosovo Energy Corporation
KFOR	NATO peacekeeping force in Kosovo
KOSTT	Transmission, System and Market Operator
KPEP	Kosovo Private Enterprise Program
KRPP	Kosova e Re Power Plant
LCGP	Least-cost generating plan
MEF	Ministry of Economy and Finance
MEM	Ministry of Energy and Mines
MoU	Memorandum of Understanding
NASID	Network and Supply Integrated Database
OSCE	Organization for Security and Cooperation in Europe
OPEX	Operating expenditures
PBMS	Performance-Based Management System
POE	Publicly Owned Enterprise
PPA	Power Purchase Agreement
PR	Payroll
PwC	Price Waterhouse Coopers
RTK	Radio Television Kosovo
SSW	Sibovc South West Mine
TAK	Kosovo Tax Administration
TETKo	Tools of Electrical Tree for Kosovo
TPP	Thermal power plant
Tt	Tetra Tech ES, Inc.

UNHCR	The UN Refugee Agency
UNMIK	United Nation Mission in Kosovo
USAID	United States Agency for International Development
USEA	US Energy Association
US KFOR	United States Kosovo Force
VAT	Value-Added Tax

1 Introduction

The KEK Network and Supply Project aims to build the capacity of the electric utility Korporata Energjetike e Kosoves (Kosovo Energy Corporation, or KEK), and improve the company's commercial performance, with the ultimate objective of supporting its privatization. The project runs from January 2007 to December 2011.

This annual report covers the period 1 January through 31 December 2010 and meets the requirements of Section A.6 (Reports), Paragraph F (Annual Report) of Task Order 4 under Contract EPP-1-00-03-00008-00. It was prepared by Tetra Tech ES, Inc. to document the main results achieved by the project team (Tetra Tech ES, Inc., Pierce Atwood LLP, and Financial Stimulus Ltd.), which are embedded in KEK.

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.

Table 1: Relationships among Objectives and Tasks

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**	**Objective**		
		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 2010 Progress

This section reports the progress made during 2010 for each of the project's eight subtasks. Appendix A summarizes the status of activities and deliverables under the project's performance-based management system (PBMS). Appendix B summarizes its accomplishments in terms of key performance indicators and related metrics.

Subtask 1: Support Management and Operation to Maintain Asset Value

1.1 New Internal Policies and Procedures

- Tt prepared several internal policies and procedures in 2010 including:
    - The KEK disciplinary code, a document that was first drafted by Tt in 2007, but has always faced opposition within KEK because it introduces three important changes to the existing disciplinary process. Namely, it 1) introduced the right of managers to take action against non-performing employees under their supervision (this should be distinguished from a misconduct), 2) abolished the current practice of establishing three-member commissions to adjudicate upon disciplinary cases, and 3) limited the discretion of the adjudicator when determining the applicable disciplinary penalty
    - Instructions regarding zero and negative bills
    - A new internal KEK procedure for the sale of surplus electricity to wholesale buyers
    - An addendum to the Redundancy Rules and Procedures
    - Revisions to the KEK Vehicles Regulation
    - A new policy and procedure on disconnecting customers, and payment of debt.

- Tt assisted KEK's Accounting Methodology Department in the development of policies and procedures for the recording and reporting of deferred taxes and policies, and the disclosure of financial information in accordance with the requirements of International Financial Reporting Standard #7.

- Tt helped the Network Division develop network maintenance procedures that will guide KEK's network operations and network maintenance, and outlined Distribution System Operator standard practices, which were subsequently approved and adopted by KEK.

1.2 Business Planning and Budgeting

- The Tt team supervised the preparation of the *Performance to Plan Reports* for the fourth quarter of 2009, the first quarter of 2010, the first six months of 2010, and first nine months of 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 also monitored the implementation of the Division Action Plans for performance improvement based on the findings of the various *Performance to Plan Reports*.

- Tt helped finalize the details of KEK's 2010 expenditure budget. The division managers justified their budget requests in detail, regardless of their previous year expenditures, and revised the ranking of all operation and maintenance (OPEX) and capital (CAPEX) expenses included in their budgets. Tt and the Budget Department revised the ranking of all projects and identified a single "priority" category in the budget consistent with the most conservative scenario of the revenue forecast approved by the Board of Directors.

- Tt supervised the execution of KEK's 2010 expenditure budget, including the commitment of funds based on budget commitment requests submitted by the divisions and reviewed and approved by the Budget Department. Tt also reviewed procurement procedures and contracting for goods, works and services; invoicing upon delivery and completion; and the payments of invoices by KEK's Treasury. Tt and the Budget Department also regularly reviewed the ranking of all projects in the "priority" category of the budget to make sure that the total amount in this category is consistent with the actual revenue as directed by the Board of Directors. Tt reviewed the applications and justifications for budget adjustments (mainly the transfer of funds between budget lines) and the use of the Budget Reserve Fund.

- With Tt's assistance, KEK developed a detailed business plan for 2010 consistent with the plan approved by KEK's Board of Directors and Tt assisted all divisions with the development of actions plans in support of the business plan. Tt monitored the implementation of the plan to ensure for it with the plan approved by KEK's Board of Directors and tracked the implementation of all division action plans in support of the company's business plan. Tt assisted KEK in the preparation of the 2011 Business Plan, which was approved by the Board of Directors.

- Tt continued to supervise the execution of KEK's long-term investment plan, including all high-priority projects for the period 2010 to 2012. The team also monitored the procedures for the efficient utilization of the loans granted by the Government of Kosovo to fund the major part of the plan.

- KEK, with Tt's assistance, revised the Kosovo Central Budget (KCB) funding needs for 2009-2011, including the cash flow requirements. The document was re-submitted to the Ministry of Economy and Finance (MEF) and was subsequently agreed to by all stakeholders. At the request of MEF, KEK, with Tt's assistance, reviewed its cash flow forecasts related to the loans and electricity import subsidies from the KCB to examine the possibility of deferring some of the payments to 2011. The results were communicated to MEF and the final cash flow forecast was subsequently confirmed and agreed by all stakeholders.

  In the context of budget hearings for 2011, KEK, with Tt's assistance, reviewed its cash flow forecasts related to the loans and electricity import subsidies from the KCB. The Government of Kosovo announced that it will not be able to honor the signed loan agreements with KEK and asked KEK to limit its withdrawals from the loans to €60 million in 2010 and €45 million in 2011. The Government also reduced the purchase power grants to KEK for 2010 by €5 million. Tt helped KEK to revise its 2010 capital budgets and cash flow forecasts and start developing plans for increasing the funding of capital expenses from its own sources to meet its obligations under the signed contracts.

Tt assisted KEK in requesting and obtaining an extension to one of the existing loan agreements with the KCB to accommodate the revised payment schedules of some of the contracts for the supply of goods and services to the Mines funded by the loan. Further, Tt helped KEK conclude two new loan agreements for capital investments needed for the Kosova B thermal power plant (TPP), and in connection with opening the new Sibovc South West Mine.

- Tt assisted KEK in all phases of the preparation of the 2011 KEK budget. Following a series of budget hearings at which the bottom-up budgets of KEK Mines, Generation, Network, Supply and HQ (HQ includes Finance, Corporate Services, Procurement and Internal Audit) were reconciled with the KEK top-down consolidated budget prepared by the Budget Department, and based on the priorities identified in the 2011 Business Plan, KEK's CFO presented the final budget to the Board of Directors. The Board approved both the budget and the top-priority OPEX and CAPEX.

1.3 Billing and Collection

Table 2 summarizes KEK's 2009-2010 metering, billing and collections performance for all customers, including those served at 110 and 220 kV. The values were extracted from the monthly report to the Board of Directors.

Table 2: KEK Metering, Billing and Collections Performance, 2009 and 2010

	2009	2010	Change
Ratio of energy billed vs. energy available for sale	79.3%	78.5%	(0.8)%
Percent of money collected vs. billed	81.4%	87.8%	6.4%
Percent collected vs. energy available for sale	64.5%	68.9%	4.4%
Collected revenue (millions of Euros)	€160.3	€177.8	€17.5

Collections for 2010 were higher (€18 million or 11%) than in 2009, due to the increased amount of energy delivered to the distribution system (6%) and a higher collection rate, which was partially offset by higher commercial losses. For 2010, the billing rate was 78% and the collection rate was 88%. Thus, overall performance (collection of delivered energy) was 69%. For 2009, the billing rate was 79%, the collection rate 81%, and overall performance was 64%.

Although improvements were made during 2010, unaccounted-for energy (commercial losses) continues to be a major problem. The principal impediment is management's failure to comply with district regulations requiring disciplinary action for employees who do not comply with their job requirements. The collapse of the Government of Kosovo in October and the national election in December also adversely effected KEK management's performance, due to lack of law enforcement, political pressure to not disconnect customers, and the provision of more electricity to non-paying customers.

Improving Performance in District Operations

The lack of proper daily management in the districts continues to be an issue for KEK. Because of this, Tt maintains a daily presence in the districts to provide technical assistance and help build capacity within district management teams. Throughout 2010, Tt held meetings with district managers, sub-district coordinators and feeder team leaders across sub-districts to motivate them and to increase their awareness of the District Regulations, which outline the duties and responsibilities of KEK employees in district operations. Tt visited the districts on a regular basis and helped the district management teams to implement regulations and policies, disconnect problematic customers, and check the effectiveness of disconnections. Tt was involved in 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.

Tt made recommendations and encouraged the taking of disciplinary actions against employees pursuant to the terms of the District Regulations. The majority of the recommendations were not implemented by KEK and there were many instances of KEK awarding bonuses to district employees for alleged "good performance," even when the employees were out of the office for annual leave. Tt intervened and vetted bonuses that were to be awarded to district employees for good performance and provided recommendations on employees who should be disciplined for poor performance.

At the request of labor unions and KEK management in quarter one, joint commissions were established to verify whether the disconnection targets specified in the District Regulations are realistic and achievable. Tt closely monitored the work of each commission and the results clearly confirmed that the targets in the District Regulations are indeed achievable. In addition, the number of customer meters to be read by feeder team specialists was verified in the same manner, and it was confirmed that the targets specified in the District Regulations are achievable. During the second quarter, Tt organized for all feeder teams and sub-district coordinators, more than 700 KEK employees, to be tested on both practical and theoretical skills using tests developed and supervised by Tt. In 2010, Tt trained a total of 127 KEK employees on the District Regulations, the new debt settlement policy, and other activities related to field operations.

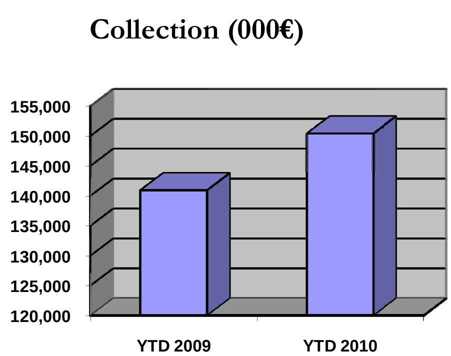
Tt also undertook the following specific activities during 2010:

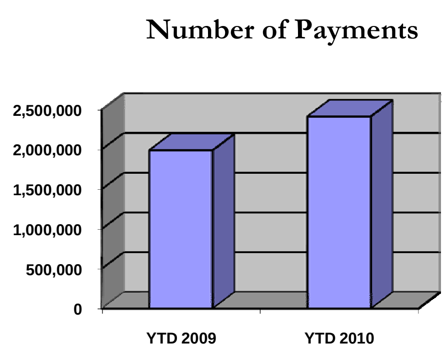
- Assisted KEK with implementing a project that involved the verification of employees' metering points, with the aim of detecting any unauthorized consumption by employees. As a consequence of this action, a number of employees were dismissed.
- Initiated a project in Ferizaj District aimed at decreasing commercial losses. Group meter reading forms were prepared, training was conducted for employees and they were instructed to read the 508 balancing meters located on 10/0.4 kV transformers twice a month.
- Investigated the status of electricity supply to all minority customers in Vitia, which is a mixed ethnicity area, and individual contracts to regularize payments were signed with KEK. Those customers who did not sign an agreement or did not make the initial payment were recommended for disconnection.
- Assisted KEK with regularizing electricity service to mosques across Kosovo. This action resulted in KEK management instructing districts to disconnect non-paying mosques.
- Initiated and oversaw the transfer of two villages in Skenderaj sub-district from an old network line to the newly built network after several months of inaction by KEK, and advised KEK not to permit customers who receive electricity from this new line to be connected unless they start paying their debts to KEK.
- Prepared a new debt settlement policy, which was approved by the KEK managing director; it was implemented across all districts after the pilot project in the Pristina district proved

successful. Tt also prepared instructions and a reporting form for KEK districts to submit on a weekly basis.

- Worked with KEK management to make changes in the KEK sub-district organizational structure by proposing to unify supply sub-districts and network zones, and make them responsible for all energy and operations of that unit. Meetings were held with all district management teams and the supply and network executive directors, and the decision was made to implement the changes in the first quarter of 2011.
- Helped KEK to resolve the Gracanica street light issue, whereby the municipality paid €5,000 for prior consumption and agreed to pay for current consumption on a monthly basis.
- Assisted KEK districts 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.
- Assisted KEK field staff to organize night inspections. As a result, a number of customers were caught in electricity theft.
- Since the number of zero and negative bills continues to be an issue, Tt helped to develop instructions on how to conduct readings and is continually working on this issue by reviewing the procedures in use and by verifying customers with zero and negative bills.

To better illustrate KEK's performance in the districts, Tt conducted a comparative analysis of the year to date data for 2009 and 2010. Excluding 110 kV customers, cash collection was 6% higher (more than €9.5 million) in 2010 than in 2009, while the number of payment transactions increased by 21% (425,234) compared to 2009.

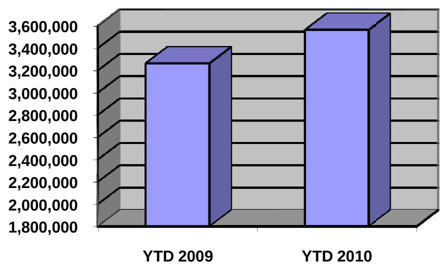




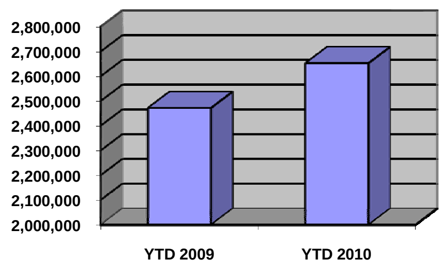
In 2009, the billing rate (amount of energy billed as a percent of energy available for sale) was 76% and the collection rate was 81%, producing an overall performance (collection of delivered energy) of 61%.

For 2010, the billing rate was 74%, the collection rate 87%, and overall performance 65%.

Energy Available for Sale (MWH)



Energy Billed (MWH)



Despite the improvements made, KEK continues to face problems that need to be corrected. These include: relatively poor quality of meter readings and bill delivery, improper implementation of individual disconnection policy, high commercial losses, unqualified employees, reluctance to dismiss specific persons, the Customer Care Package (CCP) cleanup process, and pressure from local authorities to minimize disconnections and dismissal.

Source of Collections

Table 3 displays the sources of collections for the year 2010 in terms of both the number of payments and Euros collected.

Table 3: KEK Collection Sources 2010

Year 2010	# of Payments	%	Euro (000)	%
Customer offices	2,072,601	86%	102,229	57%
KOS-Giro	111,406	5%	23,878	13%
Bank transfers	34,266	1%	14,300	8%
Payroll deductions	125,976	5%	1,887	1%
Direct debit	9,171	0%	3,583	2%
Social Cases	58,828	2%	4,500	3%
Total districts (CCP)	2,412,248	100%	150,376	85%
Direct (110 kV) customers	28	0%	27,460	15%
Total collections	2,412,248	100%	177,837	100%

Notes:

1. Total cash collections (in Euros) balances to Energy Accounting Report to the Board of Directors
2. Number of payments from payroll deductions adjusted to eliminate double counting (related to old debt)

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 ayment Mechanism
The payment volumes and amounts processed through KOS-Giro since this mechanism was implemented are shown in the Table 4.

Table 4: Use of the KOS-Giro Payment System

Use of the KOS-Giro Payment System		
Year	Number of Payments	Amount (€ 000)
2008	21,173	9,359
2009	45,442	17,951
2010	111,406	23,878
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.

Late in 2009 following the Central Bank of Kosovo's approval of Western Union to participate in the KOS-Giro System, KEK decided to allow Western Union to be a KOS-Giro participant. The payments are now being processed through the Interbank Transaction System by a commercial bank and all procedures are working properly. The addition of Western Union to the KOS-Giro System is 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
Customers continue to be added to the direct debit payment mechanism since it was made available to all customers in January 2010. Over 2% of the amount KEK collected during 2010 came through direct debits. This is the result of Tt's 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. During December 2010, 1,061 customer accounts were paid through direct debit.

Central Bank of Kosovo Initiative to Reduce Cash Payments
The Central Bank has begun an initiative to reduce cash payments in Kosovo and more payments are going through the banking system. The CEO of Raiffeisen Bank was selected to lead this initiative, which involves all commercial banks and the major payment recipients in Kosovo (KEK, PTK, Thermokos, etc.). On 2 December, Tt and KEK officials attended the kickoff meeting at Central Bank, participated in discussions, and agreed to support this effort. KEK is looking forward to using this initiative as a way to increase participation in the Kos Giro and direct debit mechanisms.

Closure of RTK Contract Issues
From 2003-2009, KEK was the billing and collection agent for the public broadcast fee for Radio Television Kosovo (RTK). KEK was required to include a €3.50 monthly RTK fee (actually a tax) in its customers' electricity bills. KEK stopped billing and collecting the RTK fee in October 2009 based on a decision issued by the Constitutional Court of Kosovo on 16 October 2009, which ordered KEK to stop billing and collecting the RTK fee. Tt developed a "Transfer Advice" to notify individual customers of the RTK fees they were billed but did not pay, and to inform them that the balance on their KEK account was reduced by that amount and transferred to RTK. The Transfer Advice was delivered to customers in early August. The debt balance for all customers in KEK's records was reduced by €38 million as a result of this transfer.

Social Cases Subsidy
Tt drafted a letter for KEK to send to the Ministry of Economy and Finance to release to KEK the remaining €155,000 related to the social case subsidy provided earlier in 2010. The Ministry responded favorably to the request and released the funds to KEK in December. They were posted to customer accounts prior to the end of the year.

Minority Issues
Tt 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 December 2010.

MINORITY COMMUNITY AGREEMENTS
OVERVIEW OF PERFORMANCE RESULTS
As of 31 December 2010

1. Number of Customers	22,244
2. Debt Prior to Agreement	€33.8 million
3. Number of Bills Issued Since Agreement	385,911
4. Number of Payments since Agreement	255,990
5. Payment Transaction Percentage	66%
[% of Line 4 divided by Line 3]	
(KEK average = 50%)	
6. Amounts Billed Since Agreement (000)	€9,641
(€ value of Line 3)	
7. Amounts Paid Since Agreement (000)	€7,581
(€ value of Line 4)	
8. Payment Percentage	79%
[% of Line 7 divided by Line 6]	
(KEK average = 81%, households 73%)	
9. Number of Customers that Never Paid	2,408
[% 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.

In addition to the minority customers residing in areas with Minority Community Agreements, there are others living in "mixed ethnicity areas" that have no agreements. Given the fact that KEK has been more aggressive in disconnecting customers based on their outstanding debt, minority consumers in mixed ethnicity areas have approached KEK to request that they be provided the same opportunity as other minority customers to have their old debt "frozen." Many of these families have been paying for electricity for the past one to two years, but accumulated significant debts in prior years when KEK was not allowed to disconnect them for non-payment. Tt developed an "individual consumer" agreement, which is a variation of the Community Agreement. It requires the customer to pay all invoices dating from 1 July 2009 and to agree to pay the next 12 monthly bills by the due date (36 bills in the case of non-households). In return, KEK agrees not to disconnect the customer based on debts incurred prior to 30 June 2009. This agreement is only available to those consumers that the international community restrained KEK from disconnecting since 1999. The customers in mixed areas that have taken advantage of this agreement reside in Fushe Kosova, Vitia, and Pristina.

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. Tt personnel provided an in-depth orientation on minority issues to a KEK Kosovo Serb employee who was hired in quarter 4 to work in media relations. The orientation included background on the regularization of all customers south of the Iber River, issues with the Serbian Orthodox Church, the situation with IDP Collective Centers, and ongoing efforts to monitor the newly regularized areas.

Internally Displaced Persons (IDP) Collective Centers
Collective Centers represent the final group of consumers south of the Iber River to be regularized. Tt has been working since August 2009 with government ministries and the international community to raise awareness of the need to provide funds to cover the cost of electricity provided to the IDP Collective Centers.

On 19 February, KEK communicated to every resident of the Collective Centers that it would discontinue the practice of providing free electricity to the Centers effective 1 April 2010. Tt had been urging all members of the international community to work toward a payment solution and had provided OSCE, UNMIK, and ICO with a proposal to present to the government recommending that the Ministry of Labor and Social Welfare treat the Collective Centers much in the way it treats Social Cases and pay for 300 kWh of consumption per month per family.

Tt and USAID met with the Minister of Labor and Social Welfare and the Minister of Communities and Return on 22 March to provide them with the background. On 31 March, Minister of Communities and Returns Sasa Rasic informed KEK that his Ministry would pay for April consumption of the IDP Centers. The Ministry made the April payment, the first ever received for the Centers' electric consumption.

On 29 April 2010 a meeting was held with the Minister of Communities and Returns, Minister of Labor and Social Welfare, US Embassy, USAID, KEK, and Tt advisors. Discussions focused on a presentation Tt prepared that KEK's Managing Director sent to all participants entitled "KEK's Analysis and Views on Service to IDP Collective Centers." Participants were informed that metering individual residences in the Centers would be impractical and costly to the residents. A single meter for each facility is the only workable solution and KEK and the Ministry would have to closely monitor consumption since several of the facilities have extremely high consumption per family. The Minister of Communities and Return also agreed to pay for May consumption and Tt prepared a Memorandum of Understanding (signed by KEK and the Ministry) to formalize the agreement.

On 7 June a meeting was held with the same attendees plus the Senior Advisor to the Prime Minister. Minister Sasa Rasic stated that the government, through his Ministry, would be willing to pay for up to 330 kWh per family per month (the government paid this amount for Social Cases in 2009) through 1 October 2010 and possibly until 31 December 2010. He stressed that if the 330 kWh limit is reached prior to the end of a calendar month, KEK should disconnect the facility for the remainder of that month. Tt prepared a notice to this effect that KEK delivered it to each household in the various Centers along with an energy conservation brochure by mid-June.

On 14 October, the Ministry of Community and Return, Ministry of Labor and Social Welfare, the Prime Minister's Office, USAID, KEK and Tt met to discuss funding for electricity at the IDP Centers. At that meeting, the Ministry of Community and Return agreed to pay for October consumption, the Ministry of Labor and Social Welfare for November, and the Prime Minister's

Office for December. Tt documented the agreement in a Memorandum of Understanding that was signed by the three government officials and KEK.

On 15 December, a meeting was held with representatives of the Prime Minister's Office, Ministry of Labor and Social Welfare, UNHCR, US Embassy, USAID, Commissariat for Refugees, Swedish KFOR, US KFOR, KEK, and Tt. (Although the mayor of Gracanica attended, the mayor of Strpce did not.) The purpose of the meeting was to find a funding source(s) for IDP consumption in 2011. It was made very clear that the mayors of Gracanica and Strpce needed to attend and become actively involved in finding a solution for the larger Centers in their areas. The Commissariat for Refugees and UNHCR have been involved in discussions on the IDP issues for the past 18 months, but had no proposal for funding. Given that no stakeholder came forward, the Minister of Labor and Social Welfare proposed a way forward based on the following key points:

- The Municipalities must sign an agreement with KEK and register the Centers as customers.
- The individual Centers must be responsible to control their usage of electricity. They must be disconnected once they reach the limit that donors or others will pay for (330 kWh per month per family or whatever amount is agreed to and paid for).
- The Ministry of Labor and Social Welfare will pay €1,000 per month as its contribution to all the Centers for electricity.
- The Municipalities and others must commit to pay each month in order to provide the Centers with the amount of electricity they are willing to pay for.

Based on this proposal, Tt prepared an MoU and provided it to all attendees. In addition, KEK and Tt met with the mayors of Strpce, Gracanica, and Gjilan (where the Centers are located) to explain the MoU and background in detail. The mayor of Gjilan agreed to sign, but as of 31 December, the mayors of Strpce and Gracanica had not. By 12 January 2011, those mayors signed as well, resulting in the completion of all payment arrangements.

Initiatives Related to Regularizing the Consumers North of the Iber/Ibër **River**

Tt led multiple discussions in 2010 with Serbian officials (State Secretary of Ministry of Energy and Mines, Deputy Minister of Ministry for Kosovo and Metohjia, and EPS) concerning the draft energy services company (ESCO) agreement that was provided to them in September 2009. Observers from the US Embassy Kosovo and ECLO Kosovo also participated in the discussions. It is apparent that Serbian entities will not be able to sign the ESCO agreement, given the political environment in Serbia. Therefore, the Serb Government representatives who attend the meetings have been instructed to continue raising the same issues that the Kosovo law does not allow, hence stalling any progress. Tt believes that the Serbian Government will not endorse the ESCO agreement unless it is forced to do so by the US and the EU governments.

On 19 April, a meeting was held in North Mitrovica to discuss the draft ESCO contract; however, the Serbian participants brought up two old issues that KEK had previously told them were not open to discussion for legal, regulatory, and commercial reasons. One issue related to having the ESCO arrangement pertain to communities south of the Iber River that KEK regularized in 2009. Tt explained to the Serbian representatives that this would be a step backward since those consumers are paying quite well and there is no business reason to do so. The other issue was the desire of the Serbian side to export energy from Serbia (and possibly elsewhere) to Kosovo. They were told that KEK cannot justify the sole sourcing of imports.

On 28 May another meeting was held between the parties. The Serbian side again brought up the same two issues. After the summer impasse, Tt sent an email on 2 September to the Serbian Ministry of Energy State Secretary, Nikola Rajakovic, and to Assistant Minister for Kosovo and Metohija, Dragan Petkovic, expressing frustration and disappointment that they had failed to provide any comments on the ESCO agreement and that 12 months has passed since Tt had provided the draft ESCO contract to them. The email again invited the Serbs to work with Tt and KEK to achieve what is practical and possible within the laws and regulations of the Kosovo, to prevent another winter of hardship for the people in northern Kosovo. The Serbs simply acknowledged receipt of the email; they did not give a substantive response or accept the offer to meet. To date, they have not yet addressed the technical and commercial aspects of the draft ESCO contract.

Tt advisers traveled to the north to determine the validity of Serbian propaganda about the construction of a new line from Serbia to Valaq substation in Kosovo. No sign of line construction activity was observed by the team. Tt did, however, confirm from evidence gathered by KEK in the third quarter that 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. In addition, there is evidence suggesting that the Trepca mining enterprise – specifically its facility in Zvečan (Trepca) – is also representing itself as an electricity supplier in areas north of the Iber/Ibër River without any legal basis or authority. This represents a further attack on the integrity of Kosovo's energy system.

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

Energy Supply Issues During the National Election Period

KEK and Tt met with the Head of the Central Election Commission to clarify what actions KEK can and cannot take during the election process. Based on our advice, KEK confirmed that it could not favor any specific party or candidate (for example, by not load shedding certain feeders at certain times), but that it was willing to make its best efforts, within financial constraints, to provide uninterrupted service to the Central Election Commission office and its data processing center. In addition, KEK agreed to have network maintenance personnel work evenings to repair any damage to the network near election polling places. Tt drafted several press releases for KEK to clarify its impartial role during the election and to warn the political parties not to schedule events in areas served by Category C feeders, especially during the peak evening hours.

1.4 Accounting and Financing

Tt continued to advise KEK on finance and accounting issues, primarily regarding the replacement of some of the modules of the Computerized 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, Tt undertook the following activities in 2010:

Unbundling of Accounting

- Tt assisted KEK with finalizing the unbundled financial statements for FY 2008 and 2009 based on the results of the review by the external auditors Deloitte & Touche.

Introducing Improvements to CAS and Financial Accounting

- Tt designed and supervised the implementation of a new Fixed Asset Module (containing a new asset register). The new module was linked with the existing General Ledger.

- Tt developed case studies for training on the new Fixed Asset Module, supervised the training performed by KEK's Information Services (IS) Division and supervised the data entry and generation of reports completed during the training.

- Tt compared the results of the calculation of depreciation in the new and the old CAS Fixed Asset Modules for FY 2009 and analyzed the differences. These adjustments will be recorded as post-closing adjustments at the end of 2009 (reflected in the opening balance for 2010) in order to eliminate the errors in the accumulated depreciation accounts in the ledger identified by KEK's auditors Deloitte & Touche.

- Tt assisted with the migration and cleaning of data for the period 2003-2010 from the old Fixed Asset Module into the new Fixed Asset module.

- Tt designed and developed additional utilities for the new asset register, including:
    - Functions for the import and export of information in MS Excel
    - Additional management and audit reports
    - Generation of asset account trial balance
    - Generation of post-closing adjustments journals
    - A new "partial write off – write down" function
    - Functions to check asset information for consistency.

- Tt developed a methodology for the generation of an asset account trial balance based on information from the new assets register. It compared the new asset account trial balance information for the period 2003-2009 with the trial balance information in the existing general ledger. Tt then analyzed the differences and classified them as "differences due to asset data differences" and "differences due to erroneous posting from the old Data Register."

- Tt developed a methodology for the automatic generation of journals posting the calculated post-closing adjustments to the general ledger. The post-closing adjustment eliminated the errors posted by the old assets register to the general ledger and reconciled the data in the new asset register with the data in the ledger.

- Tt continued work on the analysis of the existing human resources (HR) and payroll (PR) modules. It also provided recommendations on the new HR and PR database designed by KEK's IS Division.

- Tt 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.

- Tt continued work on the source document database and the replacement of the accounts payable module.

Financial Reporting and External Audit

- Tt helped KEK to complete the process of selecting external auditors for FY 2009 by reviewing the documents submitted by the bidders, developing criteria for the evaluation of the bids, and assisting with the negotiations of the contract.

- Tt assisted KEK with finalizing the consolidated financial statements for FY 2009 and took part in the initial review of the statements by the external auditors. Specifically, Tt advised the Accounting Department on recording KEK's environmental liabilities, estimating and recording provisions for contingent liabilities related to the payment of pensions, and recording provisions related to payments for the supply of a transformer, which failed in the process of commissioning.

- Tt assisted KEK with finalizing the unbundled financial statements for FY 2009

- Tt participated in all meetings between KEK and the external auditors from Deloitte & Touche in the process of the audit of FY 2009 and the preparation of adjustments to the consolidated and unbundled financial statements for FY 2009. Tt also recommended changes to the draft Auditor's Report and the 2009 management representation letter proposed by the external auditors. The recommendations were adopted and the letter was signed by KEK management.

- Tt participated in the final meetings between KEK and the external auditors on the audit of the consolidated and unbundled financial statements for FY 2009. Tt discussed the KEK management strategy and action plan 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.

Corporate Income Tax

Tt assisted KEK in filing an appeal against the findings of the Kosovo Tax Administration (TAK) during the audit of KEK's financial statements for the period 2005-2008. TAK failed to recognize the "bad debt" recorded in the books of KEK and confirmed by the auditors Grant Thornton and Deloitte & Touche. Thus, after the adjustments that the TAK auditors made to KEK's financial results (for tax purposes), 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. Tt initiated a meeting between KEK and TAK's Appeals Division at which Tt explained KEK's policies and procedures for identifying, quantifying and recording bad debt. Tt also reminded TAK that KEK is currently filing and paying VAT based on "billing" (accruals) less defined provisions for "bad debt" approved by TAK. The Appeals Division promised to research the matter and issue an acceptable ruling on it in the following quarter.

The Appeals Division issued a ruling in which they recognized the existence of "bad debt," but pronounced that the amount of bad debt would be limited to the debt of customers that has been claimed at court. It thus refused to include in KEK's bad debt the amounts owed by households that have been warned and disconnected for non-payment and uncollectible amounts from minorities. The ruling of TAK's Appeals Division on the amount of "bad debt" (which is currently being disputed by KEK) is not consistent with the current law and does not truly reflect the situation in Kosovo. Tt assisted KEK in filing a second appeal with the Independent Appeal Board against the findings of the TAK.

Financing

- Tt drafted loan agreements between KEK and the Government of Kosovo for funding the top-priority capital projects in mining and generation. The team then took part in a series of meetings with the Treasury Department at MEF to finalize the terms of the agreements.

- Tt assisted KEK in requesting and obtaining an extension to one of the existing loan agreements with the Kosovo Central Budget (KCB) to accommodate the revised payment schedules of some of the contracts for the supply of goods and services to the Mines funded by the loan.

Other

Tt also supported KEK as follows:

- Assisted KEK's Accounting Methodology Department with developing accounting policies and procedures for:
  - recording the capitalization of fixed assets
  - recording the reversal of impairment of fixed assets
  - recording adjustments related to the implementation of the new asset register
  - calculating and reporting of deferred taxes and disclosure of information in accordance with the requirements of IFRS 7.
- Attended meetings on issues related to the financial position and performance of KEK between the CFO and the DistCo Privatization Transaction Advisor.
- Attended meetings between the MEF and the International Monetary Fund Mission to Kosovo.

1.5 Legal and Regulatory

Tt continued to provide legal advice and support to KEK's management on a variety of issues, which included the following.

Advised KEK:

- on its procurement strategy for securing contracts for the supply of spare parts, and installation services in connection with Alstom's delivery of a new generator rotor for the Kosova B TPP, together with the repair of the existing damaged generator rotor. KEK has faced significant difficulties in securing these contracts owing to the unwillingness of the Public Procurement Agency to grant approval to contract directly with the original equipment manufacturer (Alstom) despite there being ample legal basis for doing so.
- in connection with the terms of a Memorandum of Understanding with KEK, PTK and the Kosovo Judicial Council to facilitate the enforcement of debt claims and reduce the backlog of cases.
- on the terms of a Memorandum of Understanding between KEK and the Kosovo Private Enterprise Program (KPEP), a USAID implementing partner, in connection with the international accreditation of KEK's training center for welding skills.
- in connection with energy import agreements, using the EFET General Agreement and customized election sheet.
- on the drafting of several contracts related to the refurbishment of coal system one, specifically the coal conveyor system, which will be used in the new Sibovc South West mine.

- on the implementation of the Government of Kosovo's (GoK) May 2009 decision to proceed with the expropriation of land near Hade village. Tt has noted, with concern, that the process is not progressing at the required pace. Tt assisted KEK with drafting a letter to the Ministry of Economy & Finance, and Ministry of Environment & Spatial Planning, which urged them to utilize all provisions of the Law on Expropriation (No. 03/L-139) and, where necessary, call upon law enforcement bodies, to ensure that the property registration and valuation process is completed by 1 October 2010 – failure to do so may result in KEK having insufficient coal reserves to supply its power plants through the upcoming winter months. Notwithstanding this stark warning, little progress was made. Tt assisted KEK in its efforts to press these two Ministries to conclude the property registration and valuation process. The delay is now causing difficulties for KEK's mining operations.

Provided legal advice:

- to the commission tasked with evaluating the final bids submitted for the construction of a new 110/35/20 kV substation in the vicinity of Vaganicë.
- to the KEK project manager in connection with the implementation of the contract for refurbishing the water treatment facility for the Kosova B TPP by Siemens.
- to KEK in connection with its request to the Public Procurement Agency for additional works to be performed by Siemens for refurbishing the water treatment facility at the Kosova B TPP.
- to KEK project managers in connection with the implementation of the contracts for refurbishing equipment in overburden removal system one, 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 Fixed Assets Model/Intering, which will be deployed to the new Sibovc SW mine.
- to KEK in connection with its post-contractual obligations for the collection of RTK Fees, including drafting a letter to RTK outlining KEK's interpretation of the Constitutional Court Decision of October 2009, meeting with the Constitutional Court to clarify and confirm the ambit of its October 2009, injunction and assisting KEK with countering the legal claim issued by RTK, seeking an order that KEK be required to continue collecting the RTK fee.
- to KEK on the procurement of a contract for an external audit of KEK's financial statements for 2010. The first attempt to procure a contract failed because of deficiencies in the bids submitted and the second attempt was cancelled due to complaint by a bidder.
- on the proposed amendments to the six loan agreements that KEK has concluded with the Ministry of Economy & Finance in the period 2008-10 for the financing of capital projects; the amendments postpone KEK's payment of interest and re-payment of the principal. After several discussions with Ministry of Economy & Finance, the amendments were signed by Minister Shala in November 2010.
- on the terms of the new maintenance service agreement with Alstom for the distributed control system installed in Kosova B TPP.
- to KEK on its dispute with Turbocare over the purchase of a used transformer for the Kosova A TPP, to include further revisions of documents needed for a possible determination of the dispute using an independent technical expert.
- to KEK on its efforts to regularize electricity service to minority communities in the northern part of Kosovo. In particular, Tt drafted a detailed rebuttal to a legal opinion emanating from the EULEX mission, which discussed property rights pertaining to the electricity system in northern Kosovo. The response drafted by Tt was needed to support KEK's property rights and control over the electricity system in northern Kosovo.

Drafted and finalized:

- the contract for the reconstruction of the Palaj 110/35 kV substation. This contract was signed in November 2010, and the project is expected to be completed by the end of 2011.
- the new KEK Disciplinary Code. The new Code introduces three important reforms to the existing disciplinary process 1) the right of managers to take action against non-performing employees under their supervision (this should be distinguished from a misconduct), 2) abolition of the current practice of establishing three-member commissions to adjudicate upon disciplinary cases, and 3) limitations on the discretion of the adjudicator when determining the applicable disciplinary penalty.
- the contract terms for the external audit of KEK's financial statements for FY 2009.
- the contracts for the supply of spare parts and installation services in connection with Alstom's delivery of two new low-pressure rotors for the Kosova B TPP in April and July 2010.
- the terms of the contract for the provision of security services to KEK. The contract is one part of KEK's new strategy for securing its physical assets, the other part consisting of new hardware and integration with KEK's IS network.
- the contracts for the supply of spare parts and installation services in connection with Alstom's delivery of a new generator rotor, and repair of an existing generator rotor for the Kosova B TPP.
- the contract for the sale of KEK's scrap metal. The contract was concluded based on the new procedure for the sale of moveable property that Tt developed in the 2009.
- the terms of two new credit facility agreements between KEK and the MEF, which will be used to fund capital expenditures in the Kosova B TPP, and in connection with opening of the new Sibovc SW mine.
- a power purchase agreement (PPA) between KEK and a new developer (Wind Power J.S.C) that has erected three wind turbines outside Pristina. New internal KEK procedures were issued in connection with the issuance and monitoring of performance and advance payment guarantees presented by contractors. These procedures were subsequently approved by KEK's Managing Director, and are being implemented.
- new internal KEK procedures in connection with the sale of surplus electricity to wholesale buyers, which were approved by the Board of Directors.
- contract amendment for additional works to be performed by Siemens for refurbishing the water treatment facility at the Kosova B TPP.
- a request to the Public Procurement Agency for approval to contract for additional works to be performed by Thyssenkrupp under their contract for the refurbishment of two bucket wheel excavators, to include drafting a contract amendment and negotiating the terms of the same.
- a legal claim to be submitted at the Special Chamber of the Supreme Court against Trepca mine in connection with over €6 million in unpaid electricity bills. Thereafter, following lengthy discussions with the management of Trepca's facilities in south Mitrovicia, Gracanica and Novo Brdo, Tt assisted KEK with drafting a settlement agreement for the payment by installments of the €4 million of debt incurred by these three facilities.
- amendments to KEK's PPAs with three small hydro plants that were recently placed on concession – the amendments were required in order to comply with the requirements of the ERO.
- the following contracts: 1) supply of new commercial and household metering, 2) supply and installation of new feed pump and auxiliary equipment for the boiler of the Kosova A TPP, 3)

supply of new telescopic drive stations and a hopper car for first coal removal system, and 4) the sale of fly-ash from the Kosova B TPP.

- a new customer supply agreement for Ferronikeli (FN). The draft was provided to FN for comment during Q4. FN sent a letter to KEK requesting, among other things, that the price of electricity be tied to the price of nickel on the London Metal Exchange and that the price be denominated in US dollars since FN's sales are denominated in USD. Tt prepared a formal response to the FN letter, basically stating that KEK is in no position to accept the significant risk inherent in commodity prices or any foreign exchange risk. On 21 December a meeting was held with FN management, KEK management, several members of KEK's Board of Directors, with Tt as chair. At that meeting, FN officials realized that KEK would not accept anything other than a regulated tariff approved by the ERO. The new agreement will come into effect in April 2011 after the existing agreement expires, subject to the pricing approval by ERO as discussed below.
- a new customer supply agreement for Trepca's facilities – this was sent to Trepca for comment on 15 November. Trepca had several comments and questions on the draft, and KEK responded to these in December. It is expected that the agreement will be signed in the first quarter of 2011. The conclusion of a new supply agreement was foreseen in the debt settlement agreement signed by KEK and Trepca (South) in September. In this respect, Trepca (South) continues to honor the terms of this agreement by paying for their current consumption as well as the required monthly debt repayment amount of €40,000.

Worked with:

- UNMIK's legal office to reach a resolution on the legal framework for KEK's use of the Wien Automatic System Planning Package (WASP- IV), which is an essential tool in developing the Least-Cost Generation Plan.
- KEK to develop a document outlining the practical steps required to implement the KEK Redundancy Procedures, together with a set of template forms to be used by KEK's Human Resources Department.

Prepared:

- the tender dossier and draft contract for the tendering of the new Pristina 7 110/20(10) Substation.
- the tender dossier for the procurement of a contract for the supply of parts and services for the major overhaul of Unit B1 turbine of the Kosova B TPP in 2011.
- the tender dossiers and draft contracts for the re-tendering of the new 110/35/20 kV substation in the vicinity of Vaganicë and for the tendering of the new 110/35kV Palaj substation.
- the final tender dossier and draft contract for KEK's procurement of a contract for the repair or replacement of the electrostatic precipitators of Units A3, A4 and A5 of Kosova A TPP. The repair or replacement must result in a reduction of the dust and particulate emissions from the respective units to below 50 mg/Nm^3 in accordance with EU Large Combustion Directive (2001/80/EC).
- the tender dossier for the procurement of a contract for the major overhaul of the turbine and generator of Unit A3 – Kosova A power plant.
- the new internal KEK regulation governing the usage of KEK vehicles and the approvals process for using the vehicles. The regulation was approved by KEK in late October 2010.

Tt provided support to the KEK regulatory staff during 2010 on the following matters:

- The Preliminary 2010 Tariff Application was submitted on 21 December 2009, which included KEK's tariff model and all data elements requested by ERO. Meetings were held with ERO to explain the KEK materials as well as the data provided. Throughout the entire tariff process, Tt focused on the importance of this tariff review process in light of the upcoming privatization of KEK. All tariff materials along with explanatory information were provided to USAID, all Transaction Advisors, and World Bank consultants. On 27 January a detailed presentation was made to them concerning the key issues in the tariff process and the details of the submission to ERO. On 8 February, the Final Tariff Application was submitted to ERO. It contained support for an allowed revenue (revenue requirement) of €181 million, which indicated a need for a 14.6% tariff increase. Given that household tariffs only cover 70% of the cost to serve that class, KEK recommended a 17.9% tariff increase for households and a 10% tariff increase for all other classes of customers.

  Several meetings were held with the ERO staff and comprehensive responses were made to the Consultation Paper issued by ERO. Throughout the entire process, ERO was unwilling to grant any tariff increase to KEK. This was obvious to all the stakeholders and advisors attending a government-sponsored Privatization Committee for DistCo meeting on 22 February. As expected, although KEK submitted a quality tariff application with supporting details and analysis, ERO issued its decision on 24 March indicating that tariffs would not be changed for 2010. Lessons learned in this tariff process include the importance of having fixed tariffs in the early years of privatization to reduce regulatory risk for the investors.

- Tt met with the ERO to discuss comments they had on the Network Development Plan. Based on that meeting, Tt worked with the KEK Network personnel to address issues raised and to revise the report accordingly.

- Tt assisted KEK with their request to ERO for derogations of a number of requirements of the Distribution Code.

- Tt assisted KEK with providing comments to ERO:
  - on draft documents prepared by their consultant concerning Certificates of Origin for renewable energy facilities.
  - on a document prepared by their consultant relating to performance standards. In accordance with the Network and Supply licenses, the licensees are to propose performance standards to ERO for review. The document discussed various options for performance measures.

- On 7 May, KEK submitted a request to ERO for derogation of Article 7 of the Rule on Disconnection which relates to communal (group) disconnection. KEK previously provided extensive justification to ERO and the Government of the need to disconnect 10/0.4 transformers (or the secondary feeds from those transformers) in those areas where payment discipline is very poor (payments less than 30% of amount billed). At their meeting in June, the ERO Board rejected KEK's request for derogation. Tt worked with KEK to determine the way forward on the issue of group disconnections, which are needed to maintain collections at a reasonable level.

- KEK provided the 2009 unbundled financial statements (unaudited) to ERO. The various licenses require KEK to submit audited financial statements to ERO in an unbundled manner for each licensed activity by 31 March of the subsequent year. ERO routinely grants a derogation of this requirement until 30 June. ERO was satisfied to receive the unbundled statements at this time, with the understanding that audited results will be provided as soon as the external auditor completes its work.

- Tt interfaced with two advisors that are currently working with ERO on the topic of regulatory reporting. One is funded by the European Union and the other by USAID. Tt's objective is to minimize the regulatory burden on KEK. It appears that both advisors are focusing on utilizing KEK's basic accounting data to produce reports that ERO needs for monitoring the financial performance of KEK and producing information for the tariff process.

- Tt worked with KEK and ERO to finalize the Connection Charging Methodology. It appears that ERO is receptive to approving the revised submission in the first quarter of 2011.

- Tt provided comments on the Draft Transmission Connection Agreement prepared by KOSTT. The primary comment was that KEK will not pay KOSTT any amounts for transmission services that are not included in KEK's allowed revenues for tariff recovery purposes. KOSTT objected to this and wrote a letter to the ERO asking for a resolution to the dispute.

- KEK received invoices from KOSTT for transmission services during November in the amount of €1.6 million. Based on KEK's prior communications on this issue with KOSTT and ERO (in the last tariff process), KEK informed KOSTT that it would only pay approximately €450,000 since that would result in paying KOSTT the full amount the ERO allowed for recovery in retail tariffs. Tt participated in a meeting with KOSTT and KEK to discuss this issue and explain to KOSTT that the transmission fees are a "pass through" to retail customers and KEK cannot pay KOSTT any more than it bills to retail customers. KOSTT officials did not accept this view and have referred the matter to ERO for resolution of the issue. Tt has also advised KEK not to pay the invoices for December transmission fees.

- The Independent Commission for Mines and Minerals (ICMM), in conjunction with the Ministry of Economy & Finance, proposed a significant increase in the lignite royalty. The current royalty is 26 Euro cents per ton and the ICMM proposed to increase the rate per ton to a level equal to 5% of the retail price of electricity per MWh, which would equate to approximately €2.79 per ton. This is a 1,000% increase in the royalty cost and would require a 13% increase in retail tariffs of €20.2 millio. Tt assisted KEK in filing a tariff application with ERO on 13 October requesting that the amount be recovered by increasing all energy charges by 0.72 Euro cents. ICMM subsequently withdrew its decision, thereby negating the need for this tariff adjustment. The issue of an increase in the royalty may arise again in 2011.

- Significant effort was put forth by Tt to support KEK in its efforts to prepare and support the approval of the 2011 Energy Balance (energy supply and demand forecasts for the year). Several iterations were made based on comments received from ERO, primarily focusing on commercial losses. KEK revised the energy balance several times, eventually reducing the loss estimate to 18%, although the most recent 12-month experience was 20% losses. On 29 December 2010, KEK received an email from KOSTT concerning the 2011 energy balance. Attached to that email was a scanned copy of a 3 December 2010 letter from Ministry of Energy and Mining to KOSTT with the subject: "Approval of Energy Balance for 2011." The letter suggested that distribution commercial losses should be 15.9%, an unrealistic value. Of note is the fact that no one informed KEK of this email for 26 days, considering that KEK is the principal generator, the only distribution licensee, and the only public supplier. On 30 December, KEK received a phone call from KOSTT asking for the energy balance to be revised to show commercial losses of 15.9%. Tt prepared a letter that KEK's managing director sent to Ministry of Energy and Mines (MEM), KOSTT, and ERO stating that KEK will not make such an arbitrary change to the energy balance and will be using the energy balance submitted to ERO on 11 November for all planning and other purposes.

- On 6 December, an application was filed by KEK for approval of a tariff for service at 220 kV. The recommended average price is 4.2 Euro cents per kWh, with 50% assessed as a contract demand charge and the remainder assessed as an energy charge. On 15 December a meeting was held with ERO, their consultant, KEK and Tt to discuss the application. ERO indicated general agreement with the average price and the proposed tariff design. At the meeting, the consultant to ERO raised several issues in relation to FN (an "eligible" customer) becoming regulated. The new energy legislation requires that customers be allowed to switch suppliers with only three weeks' notice. ERO realizes that such a provision is not appropriate for a large industrial customer and that a work-around must be found.

1.6 Internal Audit and Anti-corruption

In 2010 the Internal Audit Committee (IAC) engaged in a series of interventions in the day-to-day operations of the Internal Audit Office (IAO), which impacted negatively on the functioning of the Office and sent the wrong signal to the staff of KEK's IAO departments. IAC interference included the demotion of staff, involvement in setting salaries and recruiting staff, all of which violated the Committee's own standard operating policies, which prohibited such interventions. These interventions resulted in several vacancies in the IAO. Despite IAC interference, the IAO was able to complete several audits laid out in the annual plan with Tt's guidance and assistance; a summary of these audits can be found in the section below.

Tt assisted the IAO with preparing the 2010 Internal Audit Plan, which was submitted to the IAC for approval. Activities in the plan included audits of the network and supply divisions' operations and an audit of compliance with the new regulations aimed at cost reduction and increased revenue. The IAC reviewed the progress in IAO staffing and its performance to plan for 2009 and 2010. It was concluded that the financial audit function had finally become fully staffed in 2009, and that the 2009 annual plan had been fully implemented, with the exception of a few financial audit-related tasks.

For 2010, all targets were met and all its audits were completed in accordance with the plan. In this respect, IAC reviewed and evaluated the performance of the IAO staff in 2010 and concluded that, as a whole, the staff met their targets and exceeded expectations. Three-quarter of the auditors received from 25% to 100% bonuses, one auditor was promoted, one was demoted, and one was dismissed.

Tt also assisted IAO with the training of 61 KEK employees on procedures for hard disconnections of problematic customers, commercial and technical loss localization, the identification of commercial losses, and principles of reclaim losses.

Audit of Network and Supply

IAO completed comprehensive audits of the Pristina, Gjilan, Prizren and Ferizaj districts and selective audits in Pristina, Gjakova, Peja, Mitrovica, Gjilan and Ferizaj districts. The results were as follows:

- Low meter reading quality and high number of "zero bills" (17-20%).
- Very low performance in meter reading, including inaccurate reading and data entry.
- Misreporting/falsification and serious underperformance in disconnections.
- Underperformance in commercial loss reduction activities.
- High numbers of unregistered customers connected to the KEK's network
- High numbers of customers without sealed measurement installations – up to 25%, allowing customers to steal electricity without any obstacle and without leaving any evidence of doing so.
- Districts continuously failing to enforce payment discipline. Even in the few cases when disconnections are being performed, reconnection is done following the payment of a very low amount (sometimes only 2-4% of the customer's debt).
- Current transformers with falsified or incorrect ratios, which were causing significant commercial losses.
- Gross neglect of KEK's approved policies and procedures
- Underperformance in commercial loss reduction.
- Gross neglect of KEK's approved policies and procedures
- Districts continuously fail to enforce payment discipline.
- Low level of information about network structure.

All these actions contribute to a significant financial loss to KEK.

Tt took the following actions to address the problems identified:

- Designed a new debt restructuring policy, which was approved and is being implemented under the strict supervision of the IAO.
- Helped the IAO to locate and register all electricity consumers as KEK customers, in an initiative called the implementation of "Regulation 66." Approximately 60% of the already identified unregistered customers were either temporarily or finally registered in the CCP system, thus significantly reducing commercial losses caused by their unauthorized consumption. Implementation of this project from the beginning to the end of 2010 brought more than €10 million in revenue to KEK.
- Developed an action plan for resolving the unsealed meters and irregular measurement installations, which foresees a series of coordinated actions, from launching a media campaign to calculating reclaimed losses for unauthorized consumption.

District Regulations - The most important audit of Network and Supply operations was related to the implementation of the District Regulations. IAO concluded that the performance evaluation of the Network and Supply Division employees was not done in compliance with the District Regulations.

Based on the requirements stipulated in the District Regulations:

1. 7 district managers should have been disciplined for not meeting their targets – none of these measures has been implemented.
2. 44 sub-district coordinators should have been disciplined for not meeting their targets – disciplinary measures have only been implemented against 11.

3. 175 feeder team leaders should have been subject to disciplinary measures – however, only 2 have been disciplined.
4. 625 feeder team specialists should have been disciplined – however, disciplinary measures were only taken in 79 cases.

This flagrant disregard of the District Regulations encourages underperforming employees and further strengthens the perception of impunity. All IAO conclusions and recommendations have been finalized and submitted to the IAC.

HR Recruitment Process Audit
In the second quarter IAO received a request from the Kosovo Police to audit the employee recruitment process for the year 2009. The basis for this request was a complaint from KEK's Labor Union. The audit has discovered significant deficiencies and violations in the abovementioned process:

- Lack of procedures regulating the entire process, from vacancy announcement to evaluation and selection of staff.
- Deficiencies in the application filing and archiving process, which create serious complications and in most cases make it impossible to verify the fairness of the selection.
- Employment of staff who do not meet the announced qualifications and skills requirements.

Procurement Audits
IAO audited the following procurement cases:

- *Supply of gear boxes* – The contract was awarded to Eco Trade. The audit revealed significant violations in the tender evaluation process. IAO presented its findings and recommendations to IAC and subsequently to the Board of Directors.

- *Supply of conveyer belt spare parts* – The contract was awarded to ACDC. During the initiation of the procurement process, the Mining Division had requested to sole source the contract with one company on the basis that only one supplier was able to deliver the goods. Based on that request, the Procurement Department approached the Public Procurement Agency (PPA) and obtained permission to conduct direct negotiations with ACDC. A contract was signed following the negotiations. The audit revealed that approximately 45% of the contracted spare parts could be procured from other sources, which were offering them at prices that were 200% to 800% lower than the prices agreed with ACDC. The case was presented to the IAC and subsequently to the Board. The IAC also decided to dismiss procurement officer and to issue final written warnings to the other KEK employees involved in this procurement.

- *Supply of meter seals* – The contract was awarded to Boxon. The audit discovered serious violations in the tender evaluation criteria and the contract implementation processes. At the request of IAO, the delivery of the contracted seals was suspended. Thereafter, IAO representatives met with Boxon representatives and reached an agreement to change the design of the contracted seals and reduce their price by 25%. The findings and recommendations of the audit were submitted to IAC.

Audit of KEK Procurement Contracts for More than €100,000
In order to assess whether KEK contractors have been fulfilling their contractual obligations and to determine if there have been any actions undertaken by KEK in response to contractual non-

performance, the IAO audited all 164 contracts with individual values in excess of €100,000 that have been signed since 2007; these have a total value of €600 million. It is noteworthy that the majority of these contracts were implemented by a small number (11) of economic operators. Based on the aforementioned audit, IAO ascertained that:

- KEK failed to apply adequate controls over the implementation of these contracts, and maintained little, if any data on the status of these contracts and/or the quality of the products delivered/works performed.
- In a significant number of cases, contractors failed to fulfill their contractual obligations – which resulted in substantial financial damages to KEK. However, in almost all of these cases KEK failed to apply liquidated damages against the contractors for such failures, or take appropriate legal action, which would then enable them to blacklist such companies from future procurements. On the contrary, despite defaulting on their original contracts, many contractors were awarded subsequent contracts by KEK.

Audit of KEKC-08-339-111 Contract – Design, Delivery, Installation and Commissioning of the New Auxiliary Boiler for Power Plant B

Based on a request from KEK management, the IAO performed an audit of the procurement, design and installment of the new auxiliary boiler for power plant B. The contract for project implementation was signed on 13 January 2009 and the contractor was required to complete performance during the first quarter of 2010. Despite its importance and cost (€1.8 million), the auxiliary boiler was installed but remained inoperable. The audit revealed gross violations in all stages of project implementation, including:

- The existing facility study and analyses did not take into account all parameters that could affect the functionality of the auxiliary boiler, such as the condition of supporting machinery

- The tender specification/design was too general and did not describe the specific needs and characteristics of the boiler and the purpose that it would be used for.

- The contract with the economic operator did not envisage specific technical details or the obligations of the contractor.

- The organization and supervision of the project from design to installation was poorly planned and dysfunctional. The project manager and the entire management team had acted negligently, and in gross violation of their duties and obligations.

- The project manager had accepted design works and finally the boiler in a state that was drastically altered from the original design. This altered design did not take into account the existing supporting facilities and to date, the boiler is not operational.

The IAO presented these findings to the IAC and KEK's management. Recommendations from this audit include procedural changes for preventing such occurrences in the future and disciplinary actions against all responsible managers. The IAC agreed with the decision to dismiss the project manager and to issue warnings to the head of the Project Management Department, the chief engineer of generation and the executive director of the Generation Division.

Audit of KEK Employee Electricity Payments
The IAO conducted an audit of payments made by KEK employees for their personal electricity consumption. Since 2007 KEK has automatically deducted the amounts employees owe from their salaries. However, the audit revealed that 2,400 employees are not subject to this deduction. This was partly due to the incomplete and ambiguous declaration form employees were asked to complete in order to initiate payroll deductions and the fact that many employees had not provided updates on changes to their electricity accounts. Accordingly, the applicable records held by the Human Resources Department are unreliable. The IAO drafted recommendations to KEK management that were implemented. The IAO and Field Enforcement Division (FED) performed inspections of KEK employees' electricity consumption and found 23 KEK employees to be guilty of electricity theft and that another 30 had certain irregularities that strongly suggested unauthorized electricity consumption. Those employees found guilty of electricity theft were dismissed from KEK, and 11 of these cases have already been submitted to law enforcement entities for prosecution. The other employees have received final written warnings.

Summary of Audits and Measures Taken to Address the Findings
Tt's assisted KEK's internal audit office to complete 104 audits and investigations during 2010 resulting in:

- *Recommendations:* From 104 cases, the office has submitted 129 recommendations to KEK management and the Internal Audit Committee
- *Disciplinary Actions.* 220 KEK employees were proposed for different forms of disciplinary action including termination.
- *Law Enforcement.* 201 cases were submitted to law enforcement officials for follow-up action.
- *Customers Inspected.* More than 7,500 customers' electric use and metering were inspected
- *System improvements:* 40 recommendations for system improvements of KEK's management, operations and processes were made.
- The action plan for non-registered, drafted and supported by the IAO, has brought more than €10 million in revenue to KEK and the implementation continues.

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

- 983 "problematic" customers were disconnected (with police support where necessary)
- 766 cases of electricity theft were discovered and submitted to the Legal and Supply Departments for processing.
- Through disconnections and loss reclamations in cases of electricity theft, the department raised about €1,000,000 of additional revenue for KEK.
- 3,791 customers were visited for inspections or disconnections.

1.7 Network, Human Resources, Information Services, Communications

Network Division

Network Development Plan - Tt developed the 2010 Network Development Plan, working in close cooperation with the executive director of KEK's Network Division. The Plan was submitted to the ERO in the first quarter of 2010 for approval. Its primary objectives were to address the following issues in order of priority:

- Ensure reliability and quality of electric supply, and support load growth
- Rehabilitate and modernize metering capability
- Comply with operations and performance standards
- Reduce technical losses.

The overall strategy used to meet the above objectives consisted of:

- Opportunistically extend the 110 kV network, replacing the 35 kV network, to address flow constraints, enhance supply quality and reduce losses.
- Add transformers and feeders to alleviate operational flow constraints.
- Replace conductors, poles and 10/0.4 kV transformers to replace damaged equipment, comply with standards and ensure public safety.
- Replace metering equipment and manage metering processes for customer metering as well as energy accounting.
- Deploy SCADA systems, dispatch centers, and related operations and business processes for distribution system monitoring and control.
- Commission studies to investigate options for overall system rehabilitation (accounting for age of facilities, state of repair and performance deterioration), to set the direction for future standards and growth (e.g., changing the distribution voltage level from 10 kV to 20 kV), and to reduce system technical losses.

During the remaining three quarters, Tt worked with KEK staff to address all issues and comments raised by the ERO and resubmit revised versions. Some of the additional information that Tt helped KEK to add to the plan included before/after single line diagrams and performance figures for most of the proposed projects, expected benefits related to the proposed projects. and data on performance improvements as computed by power flow analysis. However, at the end of 2010 ERO had not yet approved the plan.

- *Network Division Management* - Tt assisted with the development of the 2010 Network Division Management and Action Plan in close cooperation and consultation with the KEK Network Division's executive director. The purpose of the Plan was to develop and implement a framework within the Network Division, to define clear, realistic, specific, measurable and time-limited statements of action that will enable and ensure the successful achievement of the applicable 2010 Corporate Objectives and Network key performance indicators and to assist the Network Division's management to become accustomed to concepts of accountability, delegation, and performance measurement and reporting. Tt developed a job description and assisted in the selection of a Network Division Management Coordinator, facilitated monthly management meetings, developed draft project plans, formalized project status reporting, developed operations performance reporting templates, and introduced operations performance reporting.

  Tt initially coordinated the implementation of the plan before gradually transitioning the coordination to KEK staff as the efforts for gathering information became more streamlined and KEK began to exhibit a capability to continue these sessions independently. Active participation by KEK management staff has assisted in the identification and management of strategic issues such as budget performance, procurement challenges and effective delegation.

- *Organizational Changes* – Tt was successful in introducing organizational changes within the Network Division to reduce the number of managers directly reporting to the Executive Director in order to allow him to focus on strategic issues while the next level of management handles routine operations, tactical issues and performance improvements.

Tt worked with the Network and Supply Divisions' executive directors to introduce changes to the way in which districts are organized. Districts will now be divided into sub-districts based on network topology in order to facilitate energy accounting, operations and reduction of commercial losses. A sub-district coordinator will assume overall responsibility for each sub-district for both technical and commercial performance. These changes were negotiated and communicated to the districts.

- *Metering Strategy* – Tt facilitated the identification and resolution of several issues related to metering projects. These projects, which will improve customer metering and energy accounting, are ongoing and include:
    - Electronic meters at all unmetered customer sites and selected residential customers
    - 1,500 half-indirect meters with remote read capability at large commercial customers
    - Energy accounting meters with remote read capability at 660 10 kV feeders
    - Improving the business process around the use of automated meter reading (AMR) capability with 3000 meters

  The issues included project management, business process integration, communications, and the involvement of IS in developing the architecture for technical solutions.

  Tt prepared an overall metering strategy that balanced KEK's challenges, budget constraints, and strategic considerations. Based on conditions on the ground and estimated available resources over the next two years, the strategy is focused on strengthening KEK's infrastructure for energy accounting by installing multi-functional remote read meters at all levels (35 kV and 10 kV) down to the 10/0.4 kV transformers at high-consumption customers and by deploying simple electronic meters for residential and commercial customers.

- *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, proper closure and fair and equitable treatment. Examples of such matters include:
    - Reviewed energy consumption at IDP sites and developed recommendations for future actions
    - Supported wind PPA negotiations and prepared relevant documentation
    - Supported KEK negotiations with Iber Lepenc to ensure reliable electricity supply to customers in Besi
    - Supported the gathering of adequate and accurate information when responding to enquiries and complaints related to electric service (new connections, metering & billing, etc.) to minorities.
    - Management support for rerouting electric facilities for the Morine-Merdare Motorway Project
    - Development of annexes for the KOSTT Connection Agreement
    - Repair of facilities at Decani Monastery
    - Support for the development of contracts for large customers (Trepca and Ferronikeli)
    - Implementing energy accounting metering process in Ferizaj District
    - Implementation of a transparent process for outage notifications to customers
    - Development of the 2011 budget for the Network Division

- Developing a design for redundant supply to Gracanica Monastery
  - Resolution of supply issues to 62 customers in Velelince
  - Negotiations with vendors to align project execution with budget availability.

- *Regularization Projects* – Tt identified and defined three projects focused on regularizing KEK customers and supported KEK in the design, planning and execution of these projects:
  - Magura 10 kV Feeder Regularization – This low performing 10 kV feeder was selected and three joint network and supply teams were engaged to regularize the 1,995 customers served by the feeder.
  - Regulation 66 Customer Regularization – The project focused on regularizing several customers in new buildings that were constructed in the recent past without the proper permits and approvals. Some 2,000 customers were registered temporarily under "Regulation 66." The project also included the regularization of electricity consumed by common areas and the detection and removal of illegal taps.
  - Unregistered Customers – This project focused on regularizing or disconnecting the ever increasing number of unregistered customers. Of the 5,061 customers identified at the end of 2010, approximately 1,900 had been regularized.

- *Expert Review and Comment* – Tt reviewed and provided technical input on the following ERO documents:
  - Quality Standards for Electricity Licensees
  - Rule for the Establishment of a System of Certificates of Origin
  - Rule for the Support of Electricity for which a Certificate of Origin has been issued and Procedures for Admission to the Support Scheme.

  Tt also reviewed and provided comments to USAID on KOSTT's generator unit sizing analysis for the additional generation planned for KRPP, and provided feedback to USAID on Evonik's Study for Decommissioning of Kosova A Power Plant.

- *Tendering and Procurement* – Tt helped KEK to invite several meter manufacturers to present their latest solutions and recent trends in remote reading of customer meters, remote disconnect of electric service, tamper-proof meters, indication of tampering and any other related new techniques/functions. Tt then assisted KEK with tendering and procurement processes for:
  - Meter boxes
  - SIM Cards
  - Remote read modems.
  - 40,000 simple electronic meters
  - 8,000 multi-functional remote read meters
  - Meter testing equipment

  Vendor selection was completed and contracts awarded for 10,000 simple electronic meters and 8,000 multi-functional remote read meters.

- *Connection Charging Methodology* – Tt developed a distribution network connection charging methodology and facilitated its review and update by all interested parties in KEK. The methodology was submitted to ERO for comment and approval in the second quarter of 2010. This methodology will formalize the manner in which KEK processes customers' new connections and connection reinforcement requests. Tt then facilitated several meetings with

ERO to respond to their comments and supported KEK in previous additional drafts to address the ERO's comments. To date, ERO has not approved the connection charging methodology.

- *Vaganicë 110/35/20(10) kV Substation* – Tt supported KEK in the technical evaluation of bids for the construction of the Vaganicë 110/35/20(10) kV substation. This substation is required to provide stability of supply for customers in the Mitrovica area and the western part of Kosovo, and also to properly regularize customers who are currently served through the Trepca mining complex. Although some proposals were quite reasonable, none of the bidders qualified. The primary reasons for disqualification were 1) procurement regulations do not provide for reasonable engineering judgments/decisions and 2) a few requirements set unreasonably high expectations. Tt then supported KEK in the development of a revised technical specification and other tender documents. The tender was announced on 5 July 2010. Several companies expressed interest in participating in this tender, which was announced in July. Tt supported KEK in responding to clarification requests from potential bidders. However, due to budgetary constraints, the tender was cancelled.

- *Palaj 110/35 kV Substation* – Working in concert with the KEK engineering team, Tt assisted in the full procurement process for this substation. This substation is pivotal to both the mining and the transport of coal to Kosova A and B generating plants. Tt supported KEK in developing the technical specifications and other documents for the tender, responding to clarification requests, participating in the technical evaluation of the bids as an observer, and communicating with the selected vendor on a variety of issues such as contract negotiations, project management, and engineering design.

- *Pristina 7 110/20(10) Substation* – Tt supported the KEK engineering team in developing technical specifications and other tender documents for the Pristina 7 distribution substation. This substation will be located next to the 220/110 kV Pristina 4 transmission station. According to KEK's analysis, the demand in this area of the city of Pristina is growing rapidly and hence the need for the distribution substation. The tender was announced in September 2010 and Tt continued to support KEK in the technical evaluation of the bids. Although eight bidders participated, only one was fully qualified and therefore according to the Kosovo procurement regulations the project must be re-tendered.

- *Gjilani-5 110/20(10) kV Substation* – The construction of this substation is funded by the Swiss Government to improve the reliability of power supply in the Gjilani area. A Swiss engineering consultancy firm (AF Colenco) is providing overall project management and engineering support. KEK is responsible for engineering and project management inputs at all stages of this project. Tt assisted KEK in the tender evaluation process, and the contract was awarded in quarter 4.

- *Electric Service Redundancy to KEK HQ* – Tt supported KEK in the procurement of a standby diesel generator with an automatic transfer switch for KEK headquarters, which is necessary to provide redundancy of electricity supply to KEK's main data servers that meets N-2/N-3 criteria. Tt prepared the draft technical specifications and participated in the technical evaluation of bids as an observer. The standby generator and automation equipment were installed and successfully tested in October.

- *Least-Cost Generation Plan* – With USAID support, Tt was able to obtain a copy of the Wien Automatic System Planning Package (WASP- IV) software for KEK. WASP- IV is an internationally recognized long-term planning and modeling tool for power systems, which Tt will use for the development of the least-cost generation plan (LCGP). As part of the development of the LCGP, Tt supported KEK in recruiting a candidate to serve as Data Analyst/Long-Term Planner in the Capacity Management Department. Tt prepared the job description, and participated in the interviewing and testing of the applicants. Tt provided extensive on-the-job training to the new hire and the entire KEK's Capacity Planning Department on all aspects related to data analysis and long-term least-cost generation planning. With support from Tt, KEK developed an extensive database for running the WASP-IV model and identifying least-cost solutions. The database includes actual and forecasted demand, existing and potential supply options, fuel cost and financial projections, etc. Tt also supported KEK with data collection and evaluation and with the analysis of initial results and the preparation of a draft report. Tt also developed the revised long-term electricity demand forecast for the Kosovo power.

- *Loss Calculations and Network Modeling* – Tt reviewed the existing Technical Loss Calculation Methodology used by KEK in order to improve the approach, accuracy of input data and models, assumptions, and level of detail of the existing methodology as well as the software (GREDOS) used for computations. Tt developed a new method for loss calculation that increased calculation accuracy. As an initial step, Tt supported KEK in the development of a model for the existing distribution network down to and including the 10/0.4 kV transformers, using PowerFactory 14 by DigSILENT.

- *KEK Distribution Network Single-Line Diagram* – Tt assisted KEK in establishing a process and methodology for updating and developing single-line diagrams. The single-line diagram of the distribution network was revised and approved. The as-built single-line diagrams of distribution substations were revised by districts and submitted to the KEK headquarters for final revision and standardization. Accurate system diagrams are essential for network operations, maintenance and development.

- *Reducing Asymmetrical Lo*ading – Tt developed a procedure to routinely monitor and minimize asymmetrical loading, which will reduce technical losses. This procedure is being implemented and district network managers are submitting regular activity reports to KEK headquarters.

- *Distribution Network Master Development Plan* – Tt prepared a draft work plan for the development of a Distribution Network Master Development Plan. Tt prepared a draft work plan for this Master Plan's development. It frames a scope and tentative schedule for network long-term planning, operations, maintenance, and capital projects.

Information Services

Tt provided the following support to improve information services at KEK during 2010.

- *Fixed Asset Module*

Tt supervised the work of the IS Division on the development , testing, tuning and implementation of the new Fixed Asset Module. This included:

  - Importing data from the old Fixed Assets Module into the new Fixed Asset Module
  - Presenting internal transfers of assets
  - Inputting and maintaining composite financial documents describing asset construction
  - Re-organizing the asset construction period and partial commissioning
  - Calculation of depreciation for tax and regulatory purposes
  - Recording internal transfers of assets

- Filtering of journals and virtual posting of journals into the General Ledger Module
- Recording suppliers
- New reporting tools.

Tt assisted IS in the process of the migration of data from the old to the new Fixed Asset Module for the period 2003-2010. Upon completing the migration, Tt compared the old and the new Asset Databases by division, company and asset category for all months and year-ends in the period 2003-2010, and assisted with the cleaning of the data. Tt assisted with the preparation of a program (with timelines and attendance lists) for training of the Accounting and Financial Departments of KEK on the new Fixed Assets Module.

Tt checked the accounting entries (debits and credits) and the summary reports for the following groups of fixed assets transactions: acquisitions, capitalizations, revaluations, impairments, and depreciation. Tt also verified all accounting journals to be posted to the accounts of the General Ledger Module for the following asset classes:

- Assets in operation
- Written off assets
- Assets transferred internally.

- *Electrical Tree Tools*

Tt designed and developed interface screens for the calculation of the adjustments to the accounts of the General Ledger Module's Tools of Electrical Tree for Kosovo (TETKo)
Tt modified the TETKo software, modified help and presentation files to include the change, and prepared a new software version that was installed in various districts for use by KEK. Tt also added to TETKo's new reports for management purposes. Tt trained 39 persons in 4 districts on using the software.

- *Network and Supply Integrated Database (NASID)*

Tt investigated the ABC, CCP, NCC (new CCP database), AMR (Automated Meter Readings) and PF (Power Factor) databases structures and how to include the main data from those databases in the centralized NASID structure. The new database structure includes modules for network physical structure, technical descriptions and sketching data, metering and tariffs, and financial transactions (bills and payments). Tt supported KEK's design of the following sub-modules of NASID:

- Customers and contracts
- Services and prices
- Double entry accounting
- Organized the relationships between the appropriate sub-modules.

Tt prepared a report with structure diagrams of NASID for review and discussions with stakeholders and made a presentation on the NASID structure to KEK's IS Department. Tt also prepared a dictionary of all terms used in NASID Database with appropriate examples of electrical network trees. Tt redesigned the tables used to describe the medium-voltage network based on the comments made during the presentation of NASID database structure. Tt reviewed KEK's newly designed website, recommended a database structure for the storage of all documents on the site, and suggested ways to integrate this document database with the newly designed NASID.

- *Customer Care Package*

Tt made recommendations on the use of the existing CCP database structure in the process of evaluating feeder team performance. Tt designed and developed a new performance checklist for the group of feeders:

  - By custom selection of feeders
  - By selection of feeder specialists.

Tt also designed a format for inputting (modifying) the necessary data in the CCP Database for producing a 10 kV feeders performance checking form.

- *IT Staff*

Tt participated in the interview process for several positions in the Information Services Department to ensure the hiring of qualified professional staff.

Human Resources

Tt provided the following support to improve human resources at KEK during 2010.

Human Resource Department

- Provided supervision of and assistance to, the Human Resources Department on drafting job announcements, job descriptions, interviewing, recruitment, implementing disciplinary measures, and preparing payroll and salary deductions.
- Assisted HR in preparing its action plan for 2010.
- Reviewed and analyzed all recommended disciplinary measures and bonuses to determine compliance with the District Regulations and oversaw the implementation of these recommendations against non-performing employees.
- Analyzed the records of persons on unpaid sick leave, identified who was on sick leave and provided recommendations on how to manage the unpaid sick leave benefit and process.
- Worked with KEK's IS Department to develop modules for a human resources IS application, including deciding on changes to be made to the existing software and design of the new software modules.
- Revised existing HR procedures in order to make them consistent with the new labor law.
- Reviewed on a monthly basis what disciplinary sanctions had been issued to ensure that disciplinary decisions were being implemented.
- Provided support to the HR Department on implementing a process to make KEK unsystemized employees redundant. Identified and received approval from the Board of Directors for the list of employees at KEK to be made redundant and issued redundancy notices to the 61 KEK employees.
- Reviewed and analyzed all recommended disciplinary measures and bonuses to determine compliance with the District Regulations, and oversaw the implementation of these recommendations against non-performing employees.
- Made recommendations and implemented the office reallocation of KEK HQ employees for accurate office planning.
- Prepared and distributed notices on the early retirement scheme for all employees 55 years old and above and disabled KEK employees, in order to survey their interest in participating in the scheme.
- Analyzed the allocation of KEK employees to DistCo after the company's privatization.

Recruitment

- Supervised and made recommendations to KEK management for job postings, interviews and the recruitment process for various positions.
- Conducted initial headhunting for vacant KEK HR positions.
- Drafted new KEK "recruitment guidelines" for the entire recruitment process.
- Worked on a process for creating an applicant tracking system to handle job applications and to manage resume data.
- Supervised all recruitment for district positions.
- 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 done in district operations.
- Supervised the selection process and provided recommendations on the recruitment of the KEK Corporate Environmental Services and Safety Manager.

Support to KEK Divisions

- Finalized and obtained approval for the new organization structure for the Network Division.
- Discussed the reorganization of the Coal Production Division's (CPD) Maintenance Department with HR, CPD and Internal Audit, and prepared a new organizational structure for the department. As a result, 120 employees were identified as redundant. Reviewed the reorganization of payroll, headcount and job descriptions.
- Finalized and obtained approval for the new interim organization structure for the Corporate Services Division of KEK and planned the organization structure for the Corporate Services Division of DistCo. This includes the structural units of Human Resources, Public Relations & Corporate Communications, Transport, Facility, Security, IT, Record Management and Corporate Environmental Services and Safety.
- Reviewed employee lists from the Supply and Customer Care Division, identified those employees who were unassigned, and recommended where they should be assigned within the division.
- Initiated and held monthly meetings between HR and the Supply and Customer Care Division to resolve HR-related issues.
- Provided recommendations for staff optimization in the Kosova A TPP.
- Prepared a new employee database that mapped all district employees against the Network and Supply and Customer Services divisions in order to facilitate division budgeting and payroll.
- Reviewed and analyzed annual leave for Supply and Customer Services Division district employees in order to reconcile the paper and electronic records, and to identify abuse.
- Prepared the new organizational structure for the KEK Operations Department.
- Held meetings with representatives of the Electricity Production Division on its structural reorganization and made recommendations for staff optimization.
- Finalized the new organization structure for KEK's Energy Balance and Trading Department, and prepared job descriptions and payroll details.

District Support

- Assessed the maintenance needs for district facilities and updated all KEK facility drawings and measurements.
- Reviewed and corrected a variety of inaccuracies in the district organization structure and payroll listings.

- Supported the North Mitrovica manager in implementing the District Regulations in connection with the disciplinary measures to be taken against non-performing employees.

Other

- Discussed the follow-up program for the joint KEK-Mercy Corps project, Support for Kosovo's Young Leaders.
- Held meetings with Ministry of Education representatives on how to proceed with the accreditation of KEK's Training Center, to include assisting KEK with preparing and submitting all requisite documents.

Security

In 2010 Tt began providing assistance to KEK on improving the security of its assets. Tt's assistance comprised the following:

- Assessed the current security situation and made recommendations to improve staff working environment, to secure asset management, to streamline transportation and site access, and to clarify the security service provider's (BESA security company) deliverables.
- Visited on a regular basis all KEK districts, the mine pits, key asset depots, warehouses, and workshops to observe the security situation and the execution of security duties.
- Instituted and held regular weekly meetings with BESA and KEK counterparts to address day-to-day security activities.
- Developed and introduced a functional database system for reporting purposes, monitoring vehicle movement control, and analyzing monthly consumption returns and expenditure outcomes in order to streamline existing processes.
- Prepared a policy document and recommendations on building evacuation plans. Appointed floor wardens responsible for the effective execution of the building evacuation plan.
- Began verifying documentation for implementing the KEK security sector upgrading process, involving the installation of monitoring devices in Kosova A and B, and all critical asset warehouses together with re-fencing premises where applicable to secure KEK assets. Tt also conducted regular visits to verify "needs versus plans" and made recommendations for revising procurement and tender documentation.
- Evaluated and discussed with the security service provider, BESA, the current crucial areas of responsibility for safeguarding KEK properties, staff and installations with an emphasis on performance efficiency, upgrading the company image, standardizing employee equipment, and regulating duty rosters.
- Began discussions with the KEK security officer and BESA in connection with creating a database system to monitor, regulate and follow up on KEK employees involved in criminal activities. This will be vital to the HR Division as part of its employment processes.
- Assisted with the development of the Security Manager job description and with the recruitment for that position.
- Revised the KEK vehicles database to allow for greater and easier monitoring of monthly consumption returns, running costs, documentation references and vehicle ageing.
- Completed the electronic specifications for procuring equipment to upgrade security monitoring and the safekeeping of crucial and valuable KEK assets.
- Prepared an 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. This amendment strengthened BESA in the execution of its duties.
- Initiated a program to upgrade the existing visitor identification system and implement the installation of enforced turnstiles for employee control.

- 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.
- Developed and delivered a 6-week training program for KEK's security service provider, BESA Security, during which 23 managers were trained on security and management issues. The training program was broken into 12 sessions; topics included mental awareness, routine daily duties, emergency situations and legal aspects of security as well as self-management, communication, leadership, decision making, etc. The training is intended to improve the level of service that BESA currently provides to KEK with 560 security personnel, thereby enhancing the security of KEK's assets.
- Managed the implementation of the new transportation executive order that clarifies how and when KEK vehicles should be used, stipulates the allocation of vehicles to designated officials and to department/district pools, and clarifies various authorizations and approval processes.
- Initiated and supervised the withdrawal of all written-off/scrap vehicles from KEK districts to be parked at the Coal Division in preparation for the vehicles to be auctioned.

Communications

Tt provided the following support to improve communication at KEK during 2010:

- Held discussions with the heads of the Corporate Services Division and Communications Department to review the communication action plan and activities planned for 2010.
- Met with the Deloitte advisor and the public relations advisors at the DistCo privatization project implementation unit to discuss their strategic communication framework.
- Provided assistance to improve KEK's communication with its various stakeholders by developing press releases for KEK's use on a variety of issues including the election process and the tax situation.
- Reviewed 11 draft protocols that provide guidance on how to undertake the work of the Communications Department.

1.8 Management and Operational issues

- KEK's Board of Directors continued to perform well in 2010 and supported management's actions to improve KEK's performance. However, at times, there was a tendency to micro manage and interfere in KEK's contractual issues (i.e., the Ferronickeli contract). Tt monitored the Board's actions to ensure proper conduct.

- KEK's Managing Director performed well and has been very cooperative since early 2009. He is under strong pressure from both internal and external forces, including the Minister of Energy, to hire individuals, not to disconnect customers, invest in villages tied to politicians, not to terminate poor performing or corrupt employees, reinstate terminated employees, and to influence tenders and their outcome. Fortunately, he understands that he has full support of the advisers and has resisted all of these pressures to a great extent. He has also been told by the Ministers of Economy/Finance and Energy not to listen to his advisers and make his own decisions, consistent with their instructions, which he has refused to do. The Managing Director kept Tt informed on all major issues and asked for advice before taking any action; hence, in general, there has been a good cooperation between him and Tt advisers.

- Tt's relationship with the KEK Chairman has been very positive. He recognized the role and importance of Tt's advisers in improving KEK's performance, and continuously encouraged the cooperation of KEK's Managing Director with the Tt advisers and has recognized him for doing so.

- Lack of support from the GoK, including the Ministry of Energy and Mines (MEM) and MEF, for implementing a comprehensive plan to ensure electricity supply for Kosovo may result in the need to import a large amount of electricity at a cost of over €200 million per year. Given ERO's strategy to not allow any tariff increase, the need for a significant government subsidy until new generation capacity is constructed may adversely affect the privatization efforts. Tt assisted KEK with communicating this concern to all stakeholders in the form of a letter regarding the closure of the Kosova A TPP.

- There is need to reorganize the mines operation and review the staffing level, given that by 2012 the old mines will be depleted and only the SSW mine will be operational. There is significant pushback at all levels of management to make any organizational and staffing changes in the mines. This was manifested during the second quarter when KEK's Coal Production Division sought to evade any redundancies in its Maintenance Department.

- The hydraulic ash transfer project for the A units suffered a setback when the Board of Directors refused to approve €4 million in additional funding to construct ash processing equipment for units A3, A4, and A5. The Board's refusal was predicated on the EU's demand that Kosovo should shut down the A units by 2015. Thus, the Board saw no economic justification to spend the €4 million if the plant has to shut down in two or three years. About 70% of the ash pollution around the power plant stems from transferring the ash by conveyer belts to the ash pile, 3 kilometers away. Accordingly, the Board sought guidance from the GoK on whether to proceed with the project. In late August the GoK finally issued a decision recommending that KEK proceed with this project. Tt assisted KEK in moving this project forward.

- Tt scrutinized the request and proposed cost estimate prepared by KEK's Generation Division for €17 million in capital repairs of Unit A3 in 2011. The review determined that major overhauls for this type of unit usually occur at five-year intervals and since KEK's unit has had only the equivalent of three years of normal operation since the last major overhaul, there was no need for an overhaul at this time. Tt recommended that it would be better to delay the A3 capital repairs until 2012 and instead allocate the available funds to procuring the electrostatic precipitator for Unit A5.

- By the end of 2010, there was no outright winner in December's national election and as a result, Kosovo's 2011 budget had not been approved. The adverse impacts on KEK included lack of law enforcement support, a reduction in the government grant for power purchases in 2010 from €40 to €29 million, uncertainty about GoK financial commitments to KEK for 2011, demands by the Minister of Energy and Mines to build a new distribution network for her constituents, and political pressure from all parties on KEK managers not to disconnect customers before and during the election.

- Tt assessed the failure of the commissioning of a new auxiliary boiler at the Kosova B power plant. The auxiliary boiler provides steam for cold startup of the main generating units. After the new boiler was installed, its commissioning failed because the existing auxiliary systems could not support the needs of the new boiler. The delivered equipment also deviated from the contract's supply and technical requirements. Tt's evaluation included visiting the site to review the installation, collecting pertinent information, analyzing the contractual documents and delivered equipment, and providing an assessment of the circumstances that led to the present problems and conflicts.

- Tt evaluated the work completed to date by Siemens and their subcontractors on the rehabilitation and upgrading of the Kosova B water treatment plant and related chemical process systems. The evaluation also included an identification of the equipment and systems that have not been supplied and/or modified per contract requirements, and the suitability of the training provided to KEK's personnel. The assessment determined that Siemens had not yet completed all the work required by the contract.

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

2.1 KEK Unbundling Documentation

Tt developed two draft documents to support KEK's unbundling:

- Draft deed transferring assets and liabilities from KEK to DistCo.
- Draft Legal Unbundling Agreement.

Tt shared the documents with 1) the KEK Distribution Company (DistCo) Transaction Advisor – the International Finance Corporation (IFC), and 2) the Kosova e Re Power Plant (KRPP) Transaction Advisory team led by Price Waterhouse Coopers.

2.2 Draft Agreements

Tt developed the following draft documents:

- Draft Regulated Power Sales Agreement, which could be used for the interim period between the legal unbundling of KEK, and the privatization of either its generation and/or distribution business.

- Briefing Paper, which explains the rationale for transferring ownership of Kosovo's 110 kV system to DistCo/KEK.

- Draft Full Requirements Electricity Service Agreement between DistCo and the new KRPP investor.

- Draft Regulatory Statement that would be included in the transaction documents for the sale of DistCo, and would cover the five years post-privatization.

- Draft Collection Agreement between DistCo and GoK/MEF, which outlines the post-privatization arrangements for the collection of old receivables by DistCo for the GoK/MEF in return for a fee.

- Draft DistCo Privatization Law – a transaction-specific law that addresses many issues that need to be resolved as part of the privatization process.

Tt shared the documents with 1) the KEK Distribution Company (DistCo) Transaction Advisor – the International Finance Corporation (IFC), and 2) the Kosova e Re Power Plant (KRPP) Transaction Advisory team led by Price Waterhouse Coopers.

2.3 Legal/Regulatory

Tt developed a draft regulatory statement that should form an integral part of the transaction documents for the sale of the DistCo. Importantly, the statement provided a clear explanation on the treatment of electricity tariffs for up to five years post-privatization. The draft statement was shared with representatives from the IFC and also the KRPP Transaction Advisory Team.

Tt worked with Deloitte, a USAID implementing partner and the legal advisors to the KRPP Transaction on amendments to the three energy laws. Tt has been particularly focused on those amendments that aim to provide legal certainty and clarity to KEK and KOSTT's property rights over the assets that comprise Kosovo's energy system, and new provisions that will explicitly make electricity theft a criminal offence. These objectives are seen as an essential step in preparing KEK for privatization, and providing sufficient comfort to potential investors. These elements were incorporated into the new Laws on Energy and Electricity, which were promulgated in the fourth quarter.

Tt provided all tariff materials along with explanatory information to the Transaction Advisors and World Bank consultants. On 27 January Tt made a detailed presentation to them on the key issues in the tariff process, and the consequences of lack of action by ERO on privatization. Tt has identified ERO's policies, practices and philosophy as a major barrier to the privatization of KEK.

Tt met with an EU-sponsored consultant to ERO concerning regulatory accounting and reporting, focusing on the upcoming unbundled environment. The consultant was introduced to KEK accounting personnel so he could see firsthand the system and procedures KEK has in place at this time.

Tt met with, and provided information and data to, IFC technical advisors who have been tasked with proposing changes to the tariff methodology

Tt began the process of reviewing the key legal issues report that was originally drafted by Deloitte (with assistance from Tt) earlier in 2010.

2.4 Investor Due Diligence

In preparation for investor due diligence, the following steps have been taken:

- Tt compiled an index to the documents collected in the DistCo data room and provided a copy to the IFC for their review and comment.
- Tt facilitated the provision of various documents requested by IFC and the DistCo privatization project implementation unit. Tt attended meetings with KEK and the IFC's

newly appointed technical advisors (Mott MacDonald) to discuss financial matters and technical issues related to KEK's distribution network. Tt also prepared an initial response to Mott MacDonald's Request for Distribution Network Technical Asset Information. This included data on transformer and system operations. Additional information on substations, switchgear, lines and cables is being gathered to be provided to Mott MacDonald. In accordance with Tt's recommendation, a new KEK coordinator for the DistCo privatization was appointed by KEK's managing director in November.

- Tt prepared materials for the loss study (for AEAI), which included energy accounting reports, loss calculation procedures, network facilities information, etc. This included data on substations, transformers, transmission lines, switchgear and system operations.

Subtask 3: Provide Advisory Support to the Privatization Process

3.1 Tender Process Responses

The tendering process for the sale of the DistCo formally began in 2010 with the solicitation of expressions of interest. In response, five bidders/consortia indicated an interest in the transaction.

Tt met with representatives from the IFC on several occasions to provide advice and materials on a number of pertinent issues, including the level of electricity tariffs post-privatization. Tt also provided further input to the IFC on its Key Issues Paper, which was presented to the DistCo Ministerial Privatization Committee during the first quarter of 2010.

In November 2010, an investor's conference was held in Pristina for entities/consortia that had shown an interest in the DistCo transaction. Tt drafted a power point presentation for KEK's managing director to present at the conference. Tt also participated and led discussions with the interested parties, during which it outlined the current status at KEK and explained the investment opportunities presented by the DistCo transaction.

3.2 Bid Submission, Evaluation and Award

There were no actions to report for 2010.

Subtask 4: Strengthen Skills and Technical Capacity of Counterparts

4.1 Distribution Company Staff Coaching

Tt continued to provide extensive coaching in its day-to-day activities to the staff of KEK. Some highlights included:

- Tt spent considerable time in coaching and capacity building with the newly appointed head of the Regulatory Department. He had not been previously involved in tariff matters and Tt worked closely with him during each step of the tariff process.

- Tt actively supported the Network Division's management staff by assisting with the implementation of the Management and Action Plan. Tt also supported routine daily operations of the Network Division by 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. Tt also provided extensive coaching during its half-day Network Division monthly management meeting, coaching 15 managers on the following issues:

- Accountability, Communication and Delegation
- Measuring, Tracking and Improving Operations
- Measuring, Tracking and Improving Project Execution
- Working as a team and helping to "keep each other honest."

- Tt provided advisory support to the district staff on a daily basis, in line with the District Regulations. Tt also continued to coach the managers and staff on how to hold meetings, meeting deadlines, communicating expectations, employee motivation and reward, development of the 2010 Action Plan for Supply and Network, and monthly performance monitoring.

4.2 Coaching on Billing, Managing Customer Accounts and Collection

In 2010, Tt trained:

- 105 KEK district employees on readings, zero bills, disconnections, transformer performance analyses and billing analyses. The employees were mainly from the districts of Mitrovica, Gjilani and Ferizaj
- 10 KEK employees on how to combat commercial losses.
- 82 KEK employees with the objectives of ensuring a better understanding of the District Regulations and how to determine accurate energy accounting balances.
- 35 KEK employees on the District Regulations
- 33 KEK employees on the identification of commercial losses, principles of reclaimed losses, and understanding the procedures for and performing hard disconnections of problematic customers.

4.3 Training on Management Principles, Customer Service

Tt conducted the following training during 2010

- Six training courses on internal customer service and communication were delivered during 2010. Two were delivered on 21-22 January to 21 employees of the Corporate Services Division (finance, legal and IT) and the Network and Supply Divisions. Another two were delivered on 10 and 13 March to 26 employees, and a final two were delivered to 38 Serbian employees on 15-16 March. All the training sessions were well received. All participants were fully engaged, learned new material and practiced new skills during six training exercises. Several participants said they would like additional training sessions on a similar topic (and of longer duration) and have training performed on a more frequent basis.

- A workshop on leadership and management was modified and finalized to better target the audience: several topics were added, training exercises were developed and group handouts were prepared. The workshop was delivered to 12 employees in KEK's middle management on 28 January and to an additional 11 employees on 11 March. These people had been identified by the KEK's top management as the individuals with leadership potential. This was also a very successful training event: all course attendees actively participated in the training exercises, asked questions, and shared their opinions and experiences regarding various management and leadership issues. The participants also rated themselves highly on the desire to lead (each of them completed a short self-assessment survey).

- The course on critical thinking was delivered to the 12 mid-level managers on 18 March. The participants learned about bottom-up and top-down thinking, inductive and deductive reasoning, nd used a new structure for organizing their thoughts (SCQA: Situation, Complication, Question and Answer). They recommended that every manager in the KEK should take this training course.

- Tt developed and delivered a 6-week training program for KEK's security service provider, BESA Security, Twenty three managers were trained on security and management issues.

4.4 Privatization Process Workshops

Tt worked with USAID, its implementing partners and the National Association of Regulatory Utility Commissioners (NARUC) in holding a high-level forum in Pristina entitled "Public Forum on KEK Electricity Distribution and Supply Privatization: Enhancing the Security of Supply in Kosovo for Economic Growth." Tt delivered a presentation on sustainable commercial operations and provided input and comments on the presentations made by the others. Tt also participated in the workshops that followed the high-level forum, which focused on market design and tariff reform in the context of the DistCo privatization and the KRPP Transaction.

4.5 Training of Trainers

No actions to report for 2010.

Subtask 5: Support Management Post-Privatization

As the tendering process for DistCo 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 TPP Kosova B Investment Requirement and Rehabilitation Feasibility Study

A team of Tt power plant engineering and financial experts traveled to Kosovo in the first quarter and began the development of the Thermal Power Plant Kosova B Investment Requirement and Rehabilitation Feasibility Study. While in country, they performed the following tasks:

- Prepared a work plan for financial analysis of the feasibility study.

- Assessed the steam generators' and instrumentation and control systems for operating capability and potential life extension for operating the Kosova B units while meeting the EU's 2017 efficiency targets as well as environmental compliance.
- Assessed the operation and maintenance of the Kosova B units and recommended improvements.
- Assessed plant facilities (structures), use and condition.
- Assessed environmental, health and safety of operations and identified improvements.
- Assessed plant emissions in the context of the EU Directive on Large Combustion Plants and identified improvements.
- Gathered data on the condition and performance of turbines, generators, and all auxiliary equipment.
- Gathered data for all electrical components.
- Assessed the condition of all lubrications and cooling systems.
- Evaluated the flood history and threat at the Kosova B generating units.

A first draft of the study was produced in June and circulated for comment to KEK, USAID and the KRPP Transaction Advisory Team. Upon receipt of comments, a final draft of the Thermal Power Plant Kosova B Investment Requirement and Rehabilitation Feasibility Study was circulated at the end of August 2010. The final version was approved by USAID in September 2010 and circulated to stakeholders and the KRPP Transaction Advisory Team. The final version maintains that it is feasible, both technically and financially, to rehabilitate the B units at less than half the cost of constructing a new unit.

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

7.1 Documentation for Data Room

Tt supported the appointment of a designated KEK employee to act as the main contact point/coordinator for documentation requested by the KRPP project implementation unit, and the KRPP Transaction Advisors. Tt provided support and advice to the coordinator.
In particular, Tt:

- attended meetings with PWC to discuss the production of corporate and financial data for the data room.
- drafted a response to a request submitted by the KRPP's legal advisory team (Hunton & Williams) for the production of legal documentation related to KEK's mining and generation businesses.
- assisted KEK with providing input to the KRPP transaction advisors on 1) the division of assets between the four companies that will exist post-privatization: DistCo, GenCo, MineCo, and KEK, and 2) the allocation of existing KEK staff to the aforementioned companies.
- attended follow up meetings with Price Waterhouse Coopers (PwC) and Hunton & Williams to discuss the division of assets and allocation of employees.

7.2 Asset Sale/Lease and Power Purchase Agreements

- Tt provided significant assistance to KEK in its review of draft Term Sheets provided by Hunton & Williams, which encompassed over 12 contracts that are foreseen for the KRPP transaction. We also advised and supported KEK in its presentation in January to the KRPP Transaction Advisors of its comments on the Term Sheets and its vision of the transaction structure, from a contractual perspective.

- As reported above, Tt also developed two draft power purchase agreements for the sale of Kosova B TPP's output, namely a Regulated Power Sales Agreement and a Full Requirements Electricity Service Agreement between DistCo and the new KRPP investor.

- Tt attended meetings with PwC, PB Power and KEK personnel at the Kosova B TPP to discuss the proposed terms of the power purchase agreement that will be introduced after this plant is transferred to the new investor.

- Tt reviewed the contractual documentation included in the draft RFP, which was prepared by PwC, PB Power and Hunton & Williams, and circulated to the shortlisted bidders in August 2010. Feedback was provided to PwC specifically on the future status of Sitnica mine, and the delivery point under the lignite supply agreement between the future MineCo and Kosova A TPP. The shortlisted bidders have now provided feedback on the draft RFP, and Tt expects to have another opportunity to review the contracts prior to their inclusion in the final tender package.

7.3 Responses to Tender Process Issues

Tt provided limited input on the minimum qualification criteria for the new request for expressions of interest, which was published in January 2010.

Tt continued to provide input to the KRPP Transaction Advisory team and the World Bank representatives on what assets it believes should be included in the KRPP transaction: all of KEK's existing generation and mining assets, to include the Kosova A TPP either under a lease/ownership or under an operation and management arrangement. In this respect, while the draft RFP circulated to prequalified bidders in August 2010 included the majority of existing KEK mining and generation assets, it unfortunately omitted the Kosova A TPP and operations in the Sitnica mine. This is an issue that will merit further discussion before the final transaction package is approved. In preparation for this, Tt developed a draft operations and management agreement for the Kosova A TPP.

Tt advised KEK on the most appropriate division of assets and allocation of employees from an operational perspective, and based on economies of scale.

Subtask 8. Strengthen Skills and Technical Capacity of Counterparts

8.1 Training on Feasibility Study Methodology

Tt held a training session on the Kosovo B feasibility study methodology on 7 June, during which the methodology and draft results were presented to four KEK employees. Subsequently, Tt requested feedback on the content of the report from the participants.

8.2 TPP Kosova B Privatization Round Table Discussions

There were no actions to report for 2010.

3 Summary of Results Achieved

Appendix A shows the project's progress against its planned results under a performance-based management system (PBMS). The results are reported according to key indicators.

Appendix B shows the project's progress under a PBMS, reporting results according to milestones. This appendix also shows the project's training activities disaggregated by gender and project contextual indicators.

The table below shows the key indicator targets and results for 2010. Appendix B contains a more extensive version of this chart.

No.	Definition of Indicator and Unit of Measure	2010 Target	2010 Actual
1	Reduce commercial losses as compared with previous year (ratio of commercial losses vs. energy available for sale)	15%	22%
2	Reduce technical losses (ratio of technical losses vs. energy delivered to distribution)	16.4%	17.1%
3	Ratio of energy billed vs. energy available for sale	85%	78.5%
4	Ratio of revenue collected versus billed	86%	87.8%
5	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]	73%	68.9%
6	Collected revenue in Euros	€155 M	€178 M

4 Problems Encountered and Actions Taken

4.1 Continuing Barriers

The following barriers impeded the project's implementation during 2010.

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 major development of concern is that the December elections and the new government may replace part or the entire KEK Board.

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 DistCo from the provisions of the public procurement law. The amendments also introduce additional, more flexible procedures that KEK can utilize even before privatization – this is helpful. However, KEK remains largely subject to PPA supervision on key issues, such as obtaining approval for conducting negotiations without competition, and proceeding with a procurement that has only two responsive bids.

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 during in the fourth quarter, 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 has become more evident during the recent general election. Similarly, the new Disciplinary Code provides adequate tools to discipline and dismiss non-performing employees, and those found to be guilty of misconduct. However, it is too early to tell whether these provisions will be properly implemented.

Stakeholder Interference
This was one of the barriers to KEK's progress identified in earlier reports. Stakeholder interference in KEK's operations, coal production strategy, loan for the SSW mine opening, procurement of the new excavators, and many other areas has made the team's task much more difficult. In 2010, the GoK proclaimed its opposition to KEK's practice of collectively disconnecting customers for non-payment on feeders that have less than 30% payment, and proceeded to instruct the Ministry of Energy & Mines to intervene in KEK's operational policies on this issue. Also, in the context of the expropriation of land near Hade village, the Ministry of Economy & Finance and Ministry of Environment & Spatial Planning have been exerting considerable pressure on KEK to employ 20 or more individuals who live in Hade in order to complete the expropriation process. Such requirements are not foreseen by the Law on Expropriation. Furthermore, it would establish a worrying precedent for future expropriations of land that will be required for the Sibovc lignite field. Continued USAID support and leadership are appreciated and needed to ensure that stakeholder involvement and interest in KEK can be managed properly.

Union Interference
During the first quarter of 2010, the KEK union for employees in its distribution business continued its assault on KEK management orchestrated by various political parties, demanding the termination of KEK's managing director and executive director of supply, pay raises, stoppage of any employee termination, shorter working hours, involvement in management decisions, and a halt to privatization activities. The opposition is growing both internally and externally as Tt's efforts are making it harder for non-performing employees to remain in KEK, and commercial facilities owned by influential individuals are disconnected for debt and non-payment. The GoK's support of KEK's management actions is a must if KEK's performance is to continue improving.

4.1 Solutions Pursued

Tt pursued solutions to several problems encountered during 2010.

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

Solution: Tt helped KEK's IS team to introduce improvements to the existing modules (which is very difficult because KEK does not own the source code) and to develop and implement new modules (designed by Tt) that meet all business requirements. Tt designed an integrated data warehouse that will store and process all the information currently stored and processed by CCP and CAS.

Trepca – Unpaid Electricity Debts
Problem: Over the past seven years, the Trepca mining complex has accrued significant debts to KEK arising from its failure to pay its electricity bills. KEK has been effectively barred from issuing a claim against Trepca for debts accrued prior to 9 March 2006, owing to the Moratorium Decision

No. SCR-05001 of the same date, which was issued by the Special Chamber of the Supreme Court of Kosovo and which placed Trepca in protective bankruptcy. However, KEK can issue a claim against Trepca for debts accrued after 9 March 2006.

Proposed solution: Tt helped KEK to prepare a claim that was filed with the Special Chamber of the Supreme Court for the outstanding debt, which is approximately €6 million. This prompted the management of Trepca's facilities in southern Kosovo to approach KEK and request a resolution to the matter. Consequently, during the third quarter, KEK concluded a settlement agreement with Trepca's southern facilities that included 1) an acknowledgement of their debt incurred to date and 2) an undertaking by Trepca to pay for their future electricity consumption, and a portion of their old debt. As at the end of 2010, Trepca is honoring its commitments under the agreement.

Hydraulic Transfer of Ash from the Kosova A TPP

Problem: In late March 2010 KEK management submitted a request to the Board of Directors for additional funding for the installation of a hydraulic handling system for wet ash from the Kosova A TPP. Specifically, the KEK Board was asked to approve an increase in funding for the project of approximately €4 million in 2010 and up to another €4 million in 2011, with these costs to be borne entirely by KEK from its own funds. The World Bank is also co-funding this project and the benefits of the project were outlined clearly in a letter from World Bank dated 15 April 2010. The project will not only bring operational benefits to KEK, but will also produce tangible benefits to the inhabitants of Kastriot, Fushë Kosova, and Pristina by reducing air pollution. However, KEK's Board was concerned as to whether this investment was advisable given ongoing Government of Kosovo discussions relating to the date for the closure of Kosova A.

Proposed solution: Tt drafted a letter for KEK to send to the POE Unit of the Ministry of Economy and Finance asking the shareholder to confirm that KEK should proceed with this project. After several delays and follow-up meetings by Tt, the GoK provided a formal response, which advised KEK to move forward with the project.

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's 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. Tt 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: Tt is pressing for the Minister of Economy and Finance to issue a ruling to stipulate that bad debt for corporate tax purposes shall be calculated and recognized in the same way it is calculated and recognized for VAT purposes. However, he appears reluctant to intercede pending the outcome of the appeal. In these circumstances, KEK is now pressing for the Independent Appeals Board to expedite their review of KEK's appeal so that a final resolution can be reached – if the Independent Appeals 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 the Independent Appeals Board assesses that KEK's corporate tax liability exceeds €1,000,000, KEK will press the Minister 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 Economy & Finance to KEK.

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, in conjunction with other stakeholders – notably KEK, the Municipality of Obiliq, and the Ministry of Economy & Finance – formed a Working Group/Committee to implement the terms of the decision.

Given that it has been over 18 months since the decision, Tt 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 12 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 power plants. KEK cannot afford any further delays in this process.

Proposed solution: Tt 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. Tt is also pressing the Minister of Economy and Finance to impress 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, the hiatus caused by the recent general election has added to the delay.

Lack of Progress in Addressing the Issues in Northern Kosovo

Problem: There has been no 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 insist on 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 DistCo privatization process and plans are to have prequalified investors on board in Q1 2011. 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 discussions among the EU, US, Serbia, and Kosovo in order to enforce KEK's ownership and control over the assets in the north. Otherwise, either the DistCo privatization would fail or only the assets in the south will be privatized.

5 Coordination with Other USAID Implementing Partners and Other Donors

TheTt team engaged in considerable coordination-related activities with other USAID partners, especially Deloitte and AEAI. Tt maintained regular contact with the World Bank, the International Monetary Fund, KfW, European Union, UNMIK, EULEX, OSCE, KFOR and other stakeholders, and has been responsive to their requests. Below is a summary of specific instances of that coordination for 2010.

Donor/ Counterpart	Activity	Q1	Q2	Q3	Q4
AEAI	Provided data to AEAI advisors on a variety of regulatory issues including regulatory reporting and the Independent Loss Study.		x	x	x
Checchi Consulting	Worked with Checchi in connection with drafting a new Memorandum of Understanding among KEK, PTK and the Kosovo Judicial Council that is intended to facilitate the enforcement of debt claims and reduce the backlog of cases.	x	x		x
Deloitte Touche	Continued to coordinate with Deloitte advisors on issues regarding the privatization of DistCo and the KRPP Project. Draft documents were shared with Deloitte for comment before their submission as final.	x	x	x	x
	Worked with Deloitte advisors on the issue of the significant increase in the lignite royalty.			x	x
	Continued to liaise with Deloitte advisors at the Tax Administration on various issues, including KEK's corporate tax and VAT liability.	x	x	x	x
	Cooperated with Deloitte advisors at the MEF in connection with the level of import subsidies and loan monies available to KEK				x
	Cooperated with Deloitte advisors at the MEF in connection with the securing of new credit facility agreements for KEK and assessing KEK's input for the Mid-Term Expenditure Framework (2010-2013).	x	x	x	
	Met to discuss cooperation on the public relations program for privatization.	x			
ERO	Met with the EU Advisor to the ERO concerning regulatory reporting as well as the USAID advisor working on the same topic.			x	x
EU	Met with EU advisors to the Water Regulator and shared with them information and know-how regarding improvements in billing and collections, and customer databases.			x	
EULEX	Maintained communications on the issue of minority area policies, including internally displaced persons	x	x	x	x
GTZ	Cooperated on a roundtable discussion on property rights in Kosovo, particularly in connection with the privatization of publicly owned enterprises.	x			
IFC	Cooperated and shared information with the IFC (and its technical advisors) as the transaction advisor for the DistCo privatization, and also	x	x	x	x

Donor/ Counterpart	Activity	Q1	Q2	Q3	Q4
	with the KRPP transaction Advisory Team.				
KFOR	Maintained communications with Swedish KFOR, Irish KFOR and US KFOR on the issue of minority area policies, including internally displaced persons.	x	x	x	x
	Made a presentation on 22 October to the US KFOR Colonel providing an overview of KEK, the issues it faces, and the specifics of its relations with minority areas.				x
	Met with the Swedish KFOR Liaison Monitoring Team (LMT) at their new facility in Gracanica. After a meeting with one of the Minority Area community leaders, Tt briefed the LMT personnel on KEK in general and on issues with minority areas in particular.				x
	On 22 November, 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.				x
Mott MacDonald	Prepared a response to Mott MacDonald's Request for Distribution Network Technical Asset Information. This included data on transformer, system operations, substations, switchgear, lines and cables.				x
OSCE	Maintained communications on the issue of minority area policies, including internally displaced persons	x	x	x	x
UNMIK	Maintained communications on the issue of minority area policies, including internally displaced persons				x
USAID	Worked with the USAID/Kosovo Private Enterprise Program in connection with finalizing a Memorandum of Understanding with KEK for the accreditation of its training center.	x			
	Worked with USAID, USAID implementing partners and the National Association of Regulatory Utility Commissioners in holding a high-level forum in Pristina entitled Public Forum on KEK Electricity Distribution and Supply Privatization: Enhancing the Security of Supply in Kosovo for Economic Growth. Tt delivered a presentation on sustainable commercial operations and provided input and comments on the presentations made by the others. Tt also participated in the workshops that followed the high-level forum, which focused on market design and tariff reform in the context of the DistCo privatization and the KRPP Transaction.		x		
NCSC	Continued to maintain regular contact with the USAID Justice Reform Team (NCSCS) to discuss efforts to improve judicial processes for the execution of debt cases.	x	x		

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 the KEK disciplinary code, instructions regarding zero and negative bills, a new internal KEK procedure for the sale of surplus electricity to wholesale buyers, an addendum to the Redundancy Rules and Procedures, revisions to the KEK Vehicles Regulation, and a new policy and procedure on disconnecting customers and payment of debt. Tt assisted KEK's Accounting Methodology Department in the development of policies and procedures for the recording and reporting of deferred taxes and policies, and the disclosure of financial information in accordance with the requirements of International Financial Reporting Standard #7. Tt assisted the Network Division in developing network maintenance procedures that will guide KEK's network operations and network maintenance, and outlined Distribution System Operator standard practices which were subsequently approved and adopted by KEK

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
1.2	Support business planning and budgeting.	Ongoing	Tt assisted KEK with the preparation of the performance to plan report for the fourth quarter of 2009, the first quarter of 2010, the first six months of 2010, and first nine months of 2010; supervised the execution of KEK's 2010 expenditure budget; monitored the implementation of KEK's business plan for 2010; and revised KEK's funding from the Kosovo Central Budget for 2010-2011. Tt assisted KEK to develop detailed business plans for 2010 and 2011.
1.3	Recommend improvements to billing and collection and monitor their implementation in the field on a daily basis.	Ongoing	Collections for 2010 were higher (€18 million or 11%) than in 2009, due to the increased amount of energy delivered to the distribution system (6%) and a higher collection rate, which was partially offset by higher commercial losses. For 2010, the billing rate was 78% and the collection rate was 88%. Thus, overall performance (collection of delivered energy) was 69%. For 2009, the billing rate was 79%, the collection rate 81%, and overall performance was 64%.
1.4	Provide support to accounting and financing.	Ongoing	Tt assisted with the approval of the 2009 consolidated and unbundled financial statements by the external auditors, made recommendations for changes to the management representation letter, and supervised the implementation of a new asset register.

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	Tt continued to provide legal advice to KEK senior management and various project managers on a number of discrete issues during 2010, as summarized in this report. Assistance in regulatory affairs during 2010 included 1) connection charging methodology, 2) interface with ERO advisors on regulatory reporting, 3) application for the recovery of increased coal royalty fees in retail tariffs, 4) development and filing of a 220 kV tariff application, 5) development of a distribution use of the system tariff, and 6) issues related to transmission fees.
1.6	Provide active support to Internal Audit and Anti-corruption.	Ongoing	Tt assisted the IAO in completing KEK's 104 audits and investigations during 2010. As a result, 220 KEK employees were proposed for different forms of disciplinary action including termination, 201 cases were submitted to law enforcement officials for follow-up action, 7,500 customers' electric use and metering were inspected, and improvements were made. Tt also assisted the FED to disconnect "problematic" customers, to submit 766 cases of electricity theft to the Legal and Supply Departments for processing, to raise €1,000,000 of additional income for KEK through disconnections and loss reclamations in cases of electricity theft, and to visit 3,791 customers for inspections or disconnections.

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, Security and Communications.	Ongoing	Tt assisted the KEK staff in preparing the 2010 Network Development Plan and a distribution network connection charging methodology for submission to ERO. Tt assisted KEK with procurement for the Palaj 110/35 kV Substation and the Gjilani-5 110/20(10) kV Substation. Tt assisted with the migration of all fixed asset data for the period 2003 – 2010 from the old to the new fixed asset module and helped clean the data. Tt provided supervision of and assistance to, the Human Resources Department on drafting job announcements, job descriptions, interviewing, recruitment, implementing disciplinary measures, preparation of payroll and salary deductions, and the reorganization of various KEK departments. Tt assessed the current security situation and made recommendations to improve staff working environment, to secure asset management, to streamline transportation and site access, and to clarify the security service provider's deliverables. Tt developed and delivered a 6-week training program for KEK's security service provider, BESA Security, during which 23 managers were trained on security and management issues. Tt developing press releases for KEK's use on a variety of issues, including the election process and the tax situation.

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
1.8	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 mine, 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 DistCo Privatization Law 4) New wording for the draft Energy Law, to address property rights of DistCo/KEK 5) New wording for the draft Electricity Law, to address the theft of electricity.

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
2.4	Assist KEK to prepare data for the Investor Due Diligence.	Per TA's Request	Tt compiled an index to the documents collected in the DistCo data room, provided a copy to the IFC for their review and comment, and facilitated the provision of various documents requested by IFC and the DistCo privatization project implementation unit. Tt is in the process of reviewing and updating the index.

Nr.	Subtask 3: Provide Advisory Support In Privatization Process Specific Objectives / Accomplishments	Completion Date (End-of-month)	Major Activities Completed/ Status of Deliverables
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	Met with the transaction advisor several times and provided requested information on KEK.

Nr.	Subtask 4: Strengthen Skills And Technical Capacity Of Counterparts Specific Objectives / Accomplishments	Completion Date (End-of-month)	Major Activities Completed/ Status of Deliverables
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 and coached the Regulatory Department, Network Division's management and district staff.
4.2	Provide day-to-day coaching on billing, managing customer accounts, and collection.	Ongoing	Tt trained 265 KEK employees.
4.3	Conduct training on management principles, customer service and other areas as deemed necessary.	Ongoing	Tt trained 143 KEK employees in 10 classroom-style training courses.
4.4	Convene round table discussions and workshops on important topics to support the privatization process.	Ongoing	No action at this stage.
4.5	Identify potential trainers and train them to deliver all training courses developed and offered by the Tt team.	Ongoing	No action at this stage.

Nr.	Subtask 5: Support Management Post-Privatization Specific Objectives / Accomplishments	Completion Date (End-of-month)	Major Activities Completed/ Status of Deliverables
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

Nr.	Subtask 5: Support Management Post-Privatization Specific Objectives / Accomplishments	Completion Date (End-of-month)	Major Activities Completed/ Status of Deliverables
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 the DistCo and 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 the DistCo and 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 the DistCo and 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 the DistCo and incoming private sector investor

Nr.	Subtask 6: Prepare A Thermal Power Plant Kosova B Investment Requirement And Rehabilitation Feasibility Study Specific Objectives / Accomplishments	Completion Date (End-of-month)	Major Activities Completed/ Status of Deliverables
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 the third quarter.

Nr.	Subtask 7: Prepare Technical And Contractual Documentation For Investor Due Diligence Specific Objectives / Accomplishments	Completion Date (End-of-month)	Major Activities Completed/ Status of Deliverables
7.1	Assist KEK and Transaction Advisors with collating documentation for the data room.	Upon request	Tt 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	Tt 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	Tt provided input to the KRPP Transaction Advisory Team and the World Bank representatives on what assets it believes should be included in the KRPP transaction.

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	Tt held a training session on the Kosova B feasibility study methodology on 7 June, during which the methodology and draft results were presented to four KEK employees.

Nr.	Subtask 8: Strengthen Skills And Technical Capacity Of Counterparts Specific Objectives / Accomplishments	Completion Date (End-of-month)	Major Activities Completed/ Status of Deliverables
8.2	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.

Appendix B. Performance-Based Management System Results

1. 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 Target	2008 Actual	2009 Target	2009 Actual	2010 Target	Year 2010 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%	25%	20%	10%	21%	15%	22%
2	1, 2, 3	1	Reduce technical losses (ratio of technical losses vs. energy delivered to distribution)	18.2%	17.4%	17%	16.6%	16.5%	17.7%	16.4%	17.1%
3	1, 2, 3	1	Ratio of energy billed vs. energy available for sale	69.1%	69.9%	75%	79.8%	90.0%	79.3%	85%	78.5%
4	1, 2, 3	1	Ratio of revenue collected versus billed	74.2%	76.6%	80.0%	75.6%	89.0%	81.4%	86%	87.8%
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%	60.3%	80.0%	64.5%	73%	68.9%
6	1, 2, 3	1	Collected revenue in Euros	€96 M	€110.8 M	€116 M	€135 M	€140 M	€160.3 M	€155 M	€178 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.

Subtask	Description	Milestones	Reporting Frequency	Status
2	Prepare Technical and Contractual Documentation for Investor Due Diligence	Draft legal unbundling agreement Draft KEK/DistCo (DistCo regulated power sales agreement Draft KEK/DistCo, deed transferring assets & liabilities from KEK to DistCo Briefing paper - transfer of 110 kV system to DistCo/KEK Draft full requirements electricity service agreement between DistCo and New Mine/Generation Co. Draft regulatory statement Draft collection agreement between DistCoand GoK/MEF Draft DistCo Privatization Law Draft share purchase agreement between GoK/investor Draft index of data room documentation. Create DistCo asset registers and compile asset ownership documentation	Quarterly	Completed 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.
4	Strengthen Skills and Technical Capacity of Counterparts	Per training indicators	Quarterly	See training indicators

Subtask	Description	Milestones	Reporting Frequency	Status
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)

<table>
<tr><th>No.</th><th>Task Order Objective Reference</th><th>Definition of Indicator & Unit of Measure</th><th>2006 Actual/ Calculation</th><th>2007 Actual</th><th>2008 Target <u>Actual</u></th><th>2009 Target <u>Actual</u></th><th>2010 Target <u>Actual</u></th><th>2010 Actual</th></tr>
<tr><td>1.</td><td>1, 2 &3</td><td>Number of people who received training in technical energy field</td><td>0</td><td>231</td><td>Target 60
(M=42 and W=18)
<u>Actual 54</u>
(M=54 and W=0)</td><td>Target 60
(M=48 and W=12)
<u>Actual 36</u>
(M=32and W=4)</td><td>Target 40
(M=35 and W=5)
<u>Actual 425</u>
(M=399and W=26)</td><td>
<table>
<tr><th></th><th>Men</th><th>Women</th><th>Total</th></tr>
<tr><td>Q1 2010</td><td>131</td><td>13</td><td>144</td></tr>
<tr><td>Q2 2010</td><td>92</td><td>11</td><td>103</td></tr>
<tr><td>Q3 2010</td><td>110</td><td>0</td><td>110</td></tr>
<tr><td>Q4 2010</td><td>66</td><td>2</td><td>68</td></tr>
<tr><td>Total Year 2010</td><td>399</td><td>26</td><td>425</td></tr>
</table>
</td></tr>
<tr><th>No.</th><th>Task Order Objective Reference</th><th>Definition of Indicator & Unit of Measure</th><th>2006 Actual/ Calculation</th><th>2007 Actual</th><th>2008 Target <u>Actual</u></th><th>2009 Target <u>Actual</u></th><th>2010 Target <u>Actual</u></th><th>2010 Actual</th></tr>
<tr><td>2.</td><td>1, 2 &3</td><td>Number of people who received training in energy-related business management field</td><td>0</td><td>149</td><td>Target 100
(M= 70 and W=30)
<u>Actual 69</u>
(M=61 and W=8)</td><td>Target 60
(M=30 and W=30)
<u>Actual 261</u>
(M = 196 and W =65)</td><td>Target 200
(M=150 and W=50)
<u>Actual 141</u>
(M=112and W=29)</td><td>
<table>
<tr><th></th><th>Men</th><th>Women</th><th>Total</th></tr>
<tr><td>Q1 2010</td><td>61</td><td>24</td><td>85</td></tr>
<tr><td>Q2 2010</td><td>17</td><td>1</td><td>18</td></tr>
<tr><td>Q3 2010</td><td>11</td><td>4</td><td>15</td></tr>
<tr><td>Q4 2010</td><td>23</td><td>0</td><td>23</td></tr>
<tr><td>Total Year 2010</td><td>112</td><td>29</td><td>141</td></tr>
</table>
</td></tr>
</table>

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 Target	FY 2010 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%	10.72 %	3.53%

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 – 2010

ENERGY FLOWS - THROUGH TRANSMISSION

January - December 2010

(All flows in MWH)

Flows Into KOSTT:

A&B Generation		
Gross	5,480,956	C
Aux (on-site only)	470,536	C
Net	5,010,421	
HPP Ujmani	113,860	C
Kosova Coal	0	C
Interconnections In	3,583,178	C
Total In:	8,707,459	

PP Kosova A	
Gross	1,908,159
Aux (on-site only)	168,343
Aux at PP Kos. A in excess of Net	72,512
PP Kosova B	
Gross	3,572,798
Aux (on-site only)	302,192
Aux at PP Kos. B in excess of Net	75,736
Coal production	7,958,090
Overburden production	7,754,033
Net Import (In-Out)	469,922
Losses	131,043
(% of Flow In)	1.50%

Flows Out Of KOSTT:

	700,618	C
KOSTT delivery to Direct Customers (3)	700,618	
KOSTT delivery to LOMAG	253,002	C
Total	253,002	
KOSTT Delivery to 7 Districts 52 mtrs @ 22 s/s	4,509,540	C
Interconnections Out	3,113,256	C
Total Out:	8,576,416	

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

ENERGY FLOWS - DSO including 220 and 110 kV
January - December 2010
(All flows in MWH)

Flows In To KEK (Gross)

Delivery From KOSTT

KOSTT delivery to Direct Customers (3)	700,618	*S
KOSTT delivery to LOMAG	253,002	N
KOSTT Delivery to 7 Districts	4,509,540	N
Total	5,463,160	

Small HPP Connected in Distribution

Lumbardh	36,080	N
HPP Dikance+HPP Radavc+WP Golesh	6,120	N
Total	42,201	

Total In to KEK (Gross)	5,505,361

Flow Through non 110 kV

Delivery to 7 Districts and LOMAG	4,762,541
Small Hydro Inflow	42,201
Total	4,804,742

Allocation of Losses N

	MWH	Euro (000)
Technical Losses		
110 kV Xfrmer to 10 kV	349,425	11,475
0.4 kV from ESTAP	432,257	14,239
Total	781,682	25,715
% of Total Technical Losses	16.27%	
% of Technical Losses at 7 Districts	17.12%	
Unaccounted for Energy Losses	926,151	50,036
(Energy component of commercial losses)	19.28%	
Total	1,707,833	75,750
(% Flow Thru Non 110 kV)	35.54%	

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

Losses Total	1,707,833

Flows Out Of KEK Distribution

Customer Billing (by CCP)

Residential	1,872,803	S
Commercial	539,317	S
Industrial (35&10KV)	251,253	S
Public Lighting	9,949	S
Total	2,673,322	

KOSTT delivery to Direct Customers (Billed but not in CCP)	700,618	*S

KEK Internal Use:

KEK Mines	83,638	S
Aux for Gen in excess of Net	148,225	S
Distribution (Self Consumption)	6,392	S
Total	238,255	

Minorities

N. Mitrovice (Unbillable)	185,332	N
Total	185,332	

Total Out:	3,797,528

Note:
1) Cost of purcheased losses is 33.7 (Euro/MWH) from April 2010 as per ERO tariffs order.

RESULTS BY DISTRICT

January - December 2010

(Energy flows in MWH, Monetary amounts in 000 €)

						Energy Billed			**Indicators Based on January-December 2010 Data**			
	Input to KEK	Technical Losses	KEK Internal Use:	Minorities Unbillable & Uncollectable	Energy Available For Sale (EAFS)	MWH	€(000)	Collections € (000)	Billed as % of EAFS	Collection As % of Billed	% Collected Versus EAFS	% Energy Accoun. Versus Input to DSO.
Responsible Area	N	N	S	N/S	Calculated	S	S	S	Calculated	Calculated	Calculated	Calculated
Prishtinë	1,392,456	217,082	3,180	0	1,172,193	852,705	57,486	52,128	72.74%	90.68%	65.96%	77.06%
Prizren	638,532	135,643	211	0	502,679	413,863	26,389	23,652	82.33%	89.63%	73.79%	86.09%
Pejë	521,655	96,225	771	0	424,660	296,105	19,674	17,193	69.73%	87.39%	60.94%	75.36%
Ferizaj	575,067	108,695	358	0	466,015	355,780	22,969	18,679	76.35%	81.32%	62.09%	80.83%
Gjilan	394,676	58,566	725	0	335,385	290,885	17,964	15,091	86.73%	84.01%	72.86%	88.73%
Mitrovicë	619,483	88,121	489	185,332	345,541	212,934	13,689	9,871	61.62%	72.11%	44.44%	78.59%
Gjakovë	417,169	76,340	658	0	340,171	251,049	15,894	13,763	73.80%	86.59%	63.91%	78.64%
Sub TOTAL	4,559,038	780,672	6,391	185,332	3,586,643	2,673,322	174,065	150,377	74.54%	86.39%	64.39%	79.97%
% of Technical Losses at 7 Districts		17.12%										
Land of Mines & Generation (Energy delivered and billed to tariff customers is included in PR Dis.)	245,705	1,010	231,863	0	12,832				0.00%	#DIV/0!	#DIV/0!	94.78%
Sub TOTAL	4,804,743	781,682	238,253	185,332	3,599,475	2,673,322	174,065	150,377	74.27%	86.39%	64.16%	80.72%
% of Total Technical Losses		16.27%										
Direct Customers billed but not in CCP	700,618				700,618	700,618	28,379	27,460	100.00%	96.76%	96.76%	100.00%
TOTAL	5,505,361				4,300,094	3,373,941	202,444	177,837	78.46%	87.85%	68.93%	
7 Districts + 3 Direct Customers	5,259,656				4,287,262	3,373,941	202,444	177,837	78.70%	87.85%	69.13%	

Customer Billing	January - December 2010									
	Energy Billed				**Collection**		**Customer Debt per month €(000')**			
	MWH	**%**	**EURO**	**%**	**EURO**	**%**	**January**	380,804	**July**	346,646
Household	1,872,803	**56%**	103,662	**51%**	84,013	**47%**	**February**	384,508	**August**	347,808
Commercial	539,317	**16%**	51,238	**25%**	51,302	**29%**	**March**	388,157	**September**	347,121
Industrial & Others	261,202	**8%**	19,168	**9%**	15,062	**8%**	**April**	384,826	**October**	353,931
(3) Direct Customers	700,618	**21%**	28,379	**14%**	27,461	**15%**	**May**	384,686	**November**	357,804
Total	**3,373,941**	100%	**202,446**	100%	**177,838**	100%	**June**	384,758	**December**	362,209

Notice: 1) Indicators are determined by relating EAFS, billing and collection data for January-December 2010. (See worksheet 'KPI_LAGGED_YTD' for KPI's used to measure internal performance)

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) In the month of July 2010 Customer Debt Balances were reduced by €38,291,000.00 due to the transfer of unpaid Public Broadcast fees to RTK.
4) We are adding new field, row 36 - '7 Districts + 3 Direct Customers' that indicate total sum of MWh and Euros only for 7 Districts + 3 Direct Customers.
5) Column P 'Collections €(000)' might be subject to changes because of later adjustments due to payments done through bank accounts (including Kos Giro).

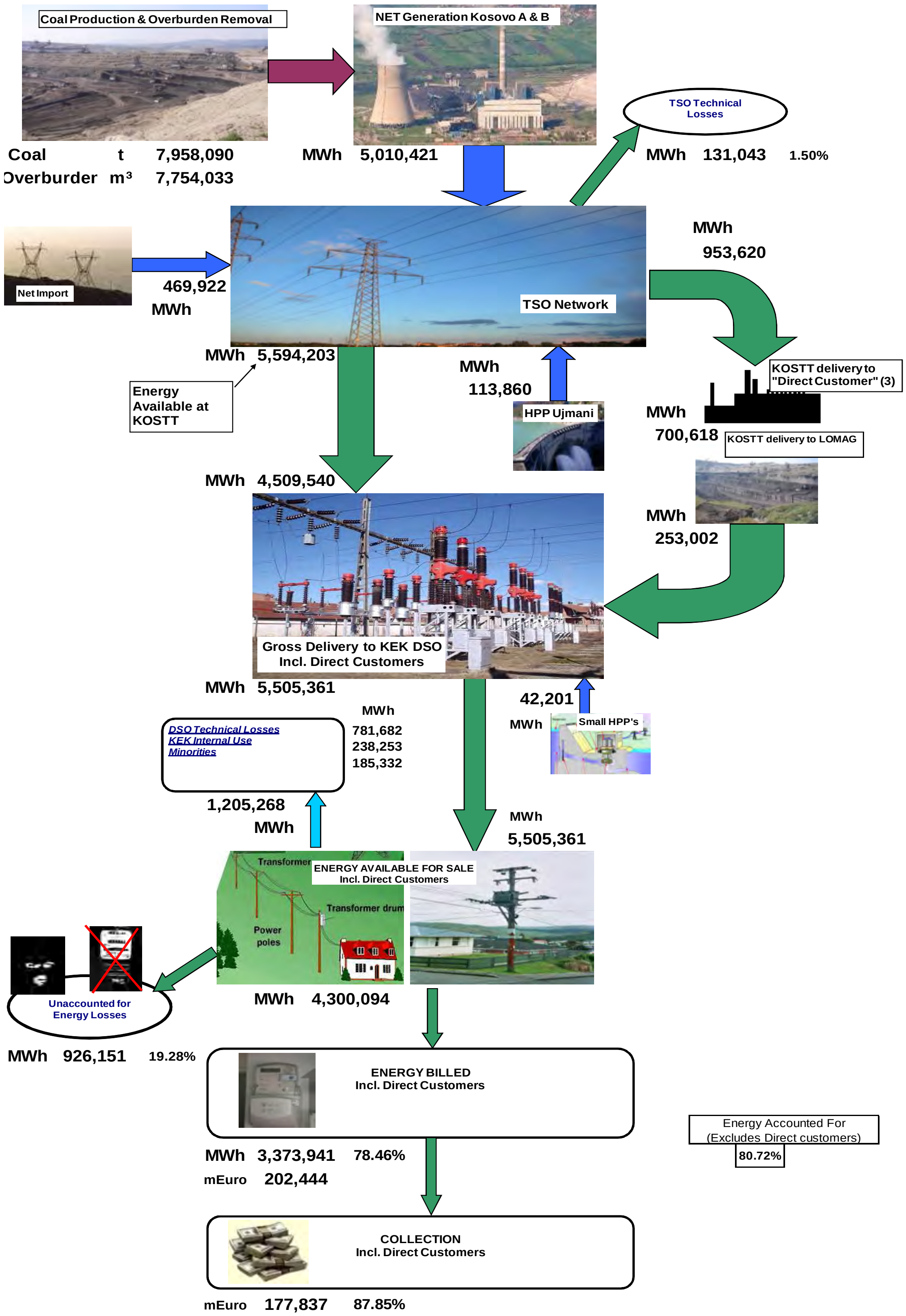
NOTE CONCERNING ENERGY ACCOUNTING REPORT – RESULTS BY DISTRICT

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

January - December 2010



Notice: 1) Indicators are determined by relating EAFS, billing and collection data for the current month.

Unserved Demand Report – 2010

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

	2007			2008									USAID Fiscal Year PUD	
[MWh]	10	11	12	1	2	3	4	5	6	7	8	9		
Served demand (Gross Consumption)	388,862	467,904	522,047	523,803	459,772	452,343	395,009	353,191	294,128	318,943	321,106	379,584	SubTot.	4,876,692
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
			1,378,813			1,435,918			1,042,328			1,019,633		
			260,560			286,284			159,005			134,557		
Quarterly PUD			15.89%			16.62%			13.24%			11.66%		
											PUD = UD / (UD + SD) * 100%			14.70%

Calendar Year PUD
Q1+Q2+Q3+Q4 2008
4,922,366
724,855
12.84%

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

	2008			2009									USAID Fiscal Year PUD	
[MWh]	10	11	12	1	2	3	4	5	6	7	8	9		
Served demand (Gross Consumption)	424,452	461,502	538,533	575,293	522,811	526,077	386,131	351,686	321,742	352,011	369,665	352,296	SubTot.	5,182,199
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
			1,424,487			1,624,181	113.1%		1,059,559	101.7%		1,073,972	105.3%	
			145,009			156,647	45.3%		82,488	48.1%		99,894	25.8%	
Quarterly PUD			9.24%			8.80%			7.22%			8.51%		
											PUD = UD / (UD + SD) * 100%			8.54%

Calendar Year PUD
Q1+Q2+Q3+Q4 2009
5,280,788
389,202
6.86%

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

	2009			2010									USAID Fiscal Year PUD	
[MWh]	10	11	12	1	2	3	4	5	6	7	8	9		
Served demand (Gross Consumption)	447,956	506,950	568,170	599,918	524,740	529,168	428,294	388,455	351,084	364,140	379,175	369,713	SubTot.	5,457,763
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
			1,523,076	106.9%		1,653,826	101.8%		1,167,833	110.2%		1,113,028	103.6%	
			50,173	65.4%		70,859	54.8%		55,572	32.6%		23,388	76.6%	
Quarterly PUD			3.19%			4.11%			4.54%			2.06%		
											PUD = UD / (UD + SD) * 100%			3.53%

Calendar Year PUD
Q1+Q2+Q3+Q4 2010
5,466,607
194,911
3.44%

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

	2010			2011									USAID Fiscal Year PUD	
[MWh]	10	11	12	1	2	3	4	5	6	7	8	9		
Served demand (Gross Consumption)	468,007	480,994	582,919										SubTot.	1,531,920
Un-served demand (Load shedding)	22,604	12,313	10,175										SubTot.	45,092
			1,531,920	100.6%										
			45,092	10.1%										
Quarterly PUD			2.86%											
											PUD = UD / (UD + SD) * 100%			2.86%

Unserved Demand is 2.86% in Q4 2010 compared to 3.19% in Q4 2009.

Table notes:

1) The data for above table are provided by the KEK Capacity Management Department.
2) Consumption is defined to be "Input to Distribution + Trepca + Newco FeronikeliProduction + 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 Distriution TOTAL" from the Energy Accoutning Reports to the KEK Baord of Directors.
3) Consumpiton in the future is based on the energy forecast that KEK has already prepared as part of the KEK business plan process.
4) Data not available is indicated as "n/a" in the cell.
5) The data are arranged based on USAID Fiscal Year (that is FY 2009 starts on 1 October 2008 and ends on 30 September 2009)
6) The Consumed Energy includes the transmission losses of KOSTT (which are a little over 2%).