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MINISTRIA E ENERGJISË DHE MINIERAVE | MINISTRY OF ENERGY AND MINING | MINISTARSTVO ENERGIJE I RUDARSTVA

Criteria and Conditions for Determining the Eligible Customers

- Consultation Paper -

October 2006

1. Introduction

1.1 Energy Community Treaty and law on Electricity

Kosovo is one of the nine countries that have signed the "*Treaty Establishing the Energy Community*". The other countries are Albania, Bulgaria, Romania, Serbia, Montenegro, Bosnia, Herzegovina and Croatia. Under this Treaty each contracting party shall implement the EC Directives No. 2003/54 and 2003/55, and the EC Regulation No. 1228/2003 of 26 June 2003, within twelve months of the entry into force of the Treaty. Also, each contracting party must ensure that all non-household electricity customers may become eligible customers from 1st January 2008, and all customers from 1st January 2015.

Kosovo's Law on Electricity defines "eligible customers" as customers who are free to purchase electricity from the supplier of their choice; this is consistent with the definition in the EU Directives. The Law on Electricity states that the Minister responsible for Energy shall prescribe the conditions for determining eligible customers in an implementing instruction to be adopted no later than January 31 for each year. The criteria shall include the extent of their electricity consumption and the proportion of energy costs to the prices of their products and services.

The Law also states that a customer may obtain the status of eligible customer by responding to a public announcement that the Energy Regulatory Office must launch each year. While eligible customers are normally supplied by independent suppliers in many liberalised electricity markets, eligible customers in Kosovo will have the option to be supplied by the public supplier (KEK) under procedures established by the Energy Regulatory Office (ERO). It is unusual for the public electricity supplier to be allowed supply eligible customers with either negotiated or the normal regulated tariffs; however, this is the situation in Kosovo and is in operation since earlier this year with KEK.

1.2 Comments and Responses Invited

This consultation paper discuses a number of issues and sets out options/proposals for the eligibility criteria for 2007 and beyond. These criteria will form the basis of the next Ministerial Instruction to be issued by the Minister by 31st January 2007.

The Ministry invites specific comment on a number of proposals throughout the paper but also invites comments on any area or issue raised.

Comments and responses to the consultation paper were addressed to **labinot.gashi@ks-gov.net** at the Ministry of Energy and MIning.

1.3 Structure of this Consultation Paper

The paper is laid out in five sections namely, (1) introduction, (2) background, (3) issues and requirements relating to market opening, (4) options for eligibility criteria and (5) conclusions of this paper. There are also three annexes, (1) customer numbers, (2) the legal position and (3) Ministerial Instruction on eligibility criteria issued early 2006.

2. Background

2.1 Objective of Opening the Retail Market

The purpose of defining eligible customers is to facilitate competition in the supply sector of the market. Eligible customers by definition can purchase their electricity from the supplier of their choice. Hence, by seeking supply quotations from a number of suppliers, customers can then select the best deal offered to them. In theory, several suppliers competing to supply eligible customers will exert downward pressure on electricity prices and so customers will be the clear winners. In practice this may not happen for many years until there is a fully functioning market. In fact, there are many examples around the world where liberalised electricity markets have taken several years before competition started to reduce electricity prices.

2.2 Current Position in Kosovo Regarding Eligible Customers

Based on the customer data available currently there are three customers supplied at 220/110 kV and who may seek eligibility. There are 12 customers supplied at 35 kV and 224 supplied at 10 kV. Below this level there are much larger numbers on different tariffs. The total number of customers is estimated at 390,000 and is set out in Annex 1.

2.3 Continuity of Supply

The current power shortages experienced in Kosovo, particularly during winter, require a regime of switching out feeders to localised areas on a rotating basis. This is likely to discourage new supplier entrants into the market, as supplying their customers on a continuous basis is highly uncertain. This is particularly true where an eligible customer is located in an area where there is a bad record of paying electricity bills; this means the locality may be classified as B or C resulting in fairly severe rotating power cuts. If eligible customer were fortunate to be in an area where there was a good record of paying electricity bills or if they had a direct line then continuity of supply would almost be guaranteed. Independent suppliers would likely be more interested in competing for these customers.

Because customers/areas are switched out via a distribution feeder in the local sub-station this means that customers connected directly to the grid (220 kV or 110 kV) are not affected. Hence the present tranche of three (potential) eligible customers are largely immune from the rotating power cuts. In contrast to this, when the next tranche of eligible customers – connected to the distribution network - come on stream continuity of supply will be a real issue. At present it is not clear if customers connected at 35 kV are subject to the same level of power cuts as those supplied at 10 kV and 400V.

2.4 Third Party Access

Third party access (TPA) is the term used to describe the arrangement by which independent generators or power importers can have their power transported on the transmission and distribution networks for supply to eligible consumers. With the opening of Kosovo's electricity market earlier this year, third party access is already an established fact for the transmission network.

2.5 Cost Reflectivity

A key element in most liberalising electricity markets is the principle of cost reflectivity; this means that all regulated tariffs (wires tariffs and supply tariffs by the public electricity supplier) should reflect the true cost of providing the service or supply. The ERO has indicated in its "Tariff Methodology for the Electricity Sector" that the new tariffs being developed for 2007 will be cost reflective.

2.6 Typical Operation of Independent Market

Eligible customers, when going out to the independent market, normally forecast their total demand and load shape for the following year or two. This forecast is based largely on their historical demand and any planned changes in energy consumption. Suppliers are then invited to submit supply offers, based on the forecasted demand and any special conditions that customers require. Typically these conditions might refer to the method or structure of payments; normally they do not apply to power quality or continuity of supply as these parameters (e.g. frequency, voltage, continuity and restoration of supply) are controlled by the network operator rather than by the supplier.

2.7 Switching Suppliers

When the supply offers are received and analysed by the customer, he/she decides on the best offer; in some cases there may be further negotiation. A supply contract including conditions of supply, price and payment method is then finalised with a commencement date. This is usually dictated by the notice period required for the change of supplier process to take place, typically 10 to 15 working days.

2.8 Particular Problems in Kosovo's Electricity Market

The scarcity of wholesale/bulk power and the absence of market prices are major constraints on the development of competition in Kosovo's electricity supply market. It is likely that electricity prices in Kosovo are well below market prices; however this will not be clear until the ERO publishes the new tariffs for 2007.

Independent suppliers normally purchase bulk power from IPPs (Independent Power Producers) either within their own country or from IPPs abroad and then import the power over an interconnector. In both cases IPPs will only sell at market prices. It is clear that independent suppliers cannot pay market prices if they cannot charge their customers market prices, i.e. if the existing electricity prices/tariffs are below market prices.

It is possible, as some other countries have experienced, to have all the trappings of a competitive market but no competition. This means there can be eligible customers, independent suppliers, unbundled wires charges, appropriate metering etc but no functioning market or competition in the supply sector. If independent suppliers cannot purchase bulk power they cannot offer to supply eligible customers and so there is no competition in the market. In some European countries the energy regulators have required the monopoly generator to sell some bulk power to independent suppliers at regulated prices; this has been done merely to kick-start the eligible customer market and is an interim arrangement only, while IPP power is being developed/sourced elsewhere.

3. Issues and Requirements Relating to Market Opening

There are a number of issues and requirements relating to market opening and the eligibility criteria for customers that can have a profound impact on electricity consumers and the electricity market. It is in this context that the following issues are discussed.

3.1 Timeframe for opening the market

The Energy Community Treaty requires that all non-domestic customers should be eligible by 1 Jan 2008, and that all customers should be eligible by 1 Jan 2015. Meeting the 2008 deadline will pose an enormous challenge for Kosovo as considerable work needs to be done in advance of enabling the potentially 45,000 non-domestic customers to become eligible by that date. The nature and extent of this work, the problems posed if not carried out and the issues arising are discussed below. These relate to issues such as unbundling/separation of the wires charges, tariff rebalancing, metering, risk to the public supplier and constraints on new suppliers entering the market.

There are strong arguments for Kosovo seeking an extension to the timeframe for progressive opening of its non-domestic electricity market; other signatory countries in the Energy Community Treaty may also be considering this. It is understood that over the past year the Government of Albania has proposed an extension of the timeframe for opening its market, with the following progressive steps:

- Customers with annual usage > 50 GWh (2006)
- Other large & medium customers (2008)
- Small industries & water companies (2010)
- Service sector & agricultural sector (2012)
- Domestic customers (2015 as required by the Treaty)

This paper proposes that Kosovo should seek an extension to the timeframe for progressive opening of its electricity market, broadly in line with the Albanian proposals. **Comments were invited on this proposed timeframe, which are detailed in Section 4.7.**

3.2 Unbundling/Separation of Wires Charges

The unit price of electricity is normally comprised of five elements namely generation (energy) cost, transmission wires charge, distribution wires charge, supplier's margin and public service obligation levy. While the generation and supply sectors are competitive, the wires are a monopoly part of the business; for this reason the wires charges are regulated – in Kosovo the Energy Regulatory Office (ERO) will do this. In pre-liberalised electricity markets it is customary to find all of the price elements lumped together so that the cost of individual elements is unclear; this does not present a problem when the whole supply sector is served by one supplier. However, when the market is being liberalised, all suppliers - independent and the public electricity supplier – must pay their fair and equitable share of the monopoly/wires charges. For this reason it is crucial that the wires charges are unbundled or separated out prior to market opening.

3.2.1 Unbundling/Separation of Transmission Wires Charges

The charges that must be paid for using the transmission wires charges are normally termed TUoS charges (Transmission Use of System). These are similar to the toll that must be paid by cars when driving along a tolled road or motorway. These TUoS charges recover the costs of common network assets and are generally related to the customer's highest demand (or five highest peaks) in the year. For eligible customers connected to the transmission grid, i.e. at 110kV or above, the TUoS charge is the only wires charge they should pay. Hence, if eligible customers are confined to those connected at 110kV and above, only separation of the transmission wires charges is necessary to ensure these customers pay their fair share. It is arguable that a customer connected at 110kV should pay a higher charge TUoS than a customer connected at 220kV because the former uses the transmission network to a greater extent. However, because there are very few customers connected above 110kV this is rarely an issue.

It is important that customers are charged and pay fairly for the transmission and distribution of the electricity they consume on their premises. If they are under-charged then they are being subsidised by non-eligible customers, who are then required to bear this additional burden in their electricity charges. Similarly if they are being over-charged then they are incurring additional costs in their businesses and thereby affecting their competitiveness.

3.2.2 Unbundling/Separation of Distribution Wires Charges

In contrast to customers connected to the transmission grid, the case of eligible customers connected to the distribution network is quite different, as this is where all but a handful of customers are connected. Furthermore, these customers will be connected at different voltage levels, i.e. 35kV, 10kV, 400V and 230V. Each of these groups of customers will be using the distribution network to a greater or lesser extent depending on their supply voltage, and this must be reflected in their distribution use of system charges (DUoS). The distribution network assets are normally much more extensive than the transmission network assets and hence unbundling/separating out the distribution (DUoS) charges is a significantly bigger task that for the transmission (TUoS) charges.

In order that eligible customers connected to the distribution network pay their fair and equitable wires charges it is prudent that both the TUoS and DUoS relating to them should be in place before they can become eligible. If customers connected to the distribution network become eligible before unbundling of the distribution wires charges they may be under-paying for their use of the network and therefore are being subsidised by non-eligible customers. However, it is equally true that they may be overpaying and therefore are subsidising non-eligible customers.

It is possible that the ERO could unbundle the distribution wires charges in a phased manner, i.e. for the 35kV part of the network, then for the 10kV part and so on. This would allow the market to be progressively opened based on the voltage at which customers are supplied.

This paper proposes that cost reflective tariffs for both TUoS and DUoS should be implemented for any customer group before that group can qualify for eligibility. For example, the 12 customers connected at 35kV should only qualify for eligibility when cost reflective TUoS and DUoS (at least down to 35kV) have been implemented. **Comments were invited on this proposed criterion.**

3.3 Tariff Rebalancing

Tariff rebalancing is the term frequently used to describe the process of bringing existing tariffs into line with new cost-reflective tariffs.

In many countries before electricity markets are liberalised, electricity tariffs develop over many years and may be seriously out of line with their true cost. In some instances, for political reasons, tariffs for large and medium customers are higher than their true cost while those for domestic customers are frequently below their true cost. This arises because large and medium customers are viewed as being better able to afford to pay for electricity and so the charges are increased for them above their true cost.

Currently the ERO is developing cost-reflective tariffs. If these are found to be significantly out of step with the current regulated tariffs then it may not be possible to introduce the new cost-reflective tariffs in 2007 as some customers could experience a serious increase in electricity costs or the public electricity supplier could suffer a significant reduction in revenue. This problem is often overcome by introducing the cost reflective tariffs in a phased manner, say over three or four years. If industrial and commercial tariffs were above the cost reflective tariffs then large and medium-sized customers would experience a substantial reduction in electricity prices; of course KEK would suffer a corresponding loss in revenue whenever these are introduced.

3.3.1 'Cherry-Picking' and Risk to Public Electricity Supplier

When markets are liberalised and independent suppliers enter the market they immediately look for customers or customer groups where the regulated tariffs are higher than their true cost. The suppliers are then able to undercut the regulated tariffs for these customers and win their business while the public electricity supplier (PES) has no opportunity to vary its regulated tariffs or negotiate with these customers. When this happens it is termed 'cherry-picking'. If this were to happen on a large scale the finances of the public electricity supplier could be severely damaged, and could possibly drive the company close to bankruptcy.

This may not be an issue for KEK Supply due to the following three reasons:

- All the existing tariffs may be below the cost reflective tariffs, and so there would be little or no scope for an independent supplier to poach eligible customers
- There may not be any independent suppliers in Kosovo over the next two or three years and so this situation may not arise
- Also, because KEK is allowed to quote an unregulated price to these customers, when they become eligible, there is a reasonable chance that KEK will retain them.

This paper proposes that cost reflective regulated supply tariffs should be implemented for any customer group before that group can qualify for eligibility. **Comments were invited on this proposed criterion.**

3.4 Metering Requirements

Electricity is unlike any other commodity in that it cannot be readily stored – it must be produced and consumed in the same instant. Because of the inability to store it in any significant quantities the cost of production, and hence its price, vary from minute to minute. However, for practical reasons electricity is priced every 15 minutes, half hour or hour, but the half hour is the predominant time period used in liberalized electricity markets. Because large and medium-sized customers use significant amounts of electricity there is a need to measure their consumption throughout the day/year so that they are charged the correct price. This suggests the need for profile metering with remote reading capability to be installed. Profile metering measures the quantity of electricity consumed in every period (for example every hour or half hour) throughout the year. Also, it measures other important data such as reactive power and peak demand.

The liberalization and restructuring of electricity markets, including Kosovo, require that the transfers of electricity must be properly accounted for at the boundaries between entities so that financial transactions can be settled. Customer metering is a key element of this.

In the Market Rules (version 1.0) published for Kosovo the settlement period is one hour. Therefore, hourly metering is required to support an hourly settlement system. In some markets, smaller eligible customers are not required to install profile metering. Their purchases are charged for on the basis of a load profile that uses a pre-defined pattern of consumption to convert to meter readings, taken say every two months, into hourly or half hourly consumption readings. These transactions can be settled on a daily basis, based on estimated daily consumption. Differences between actual meter readings for these customers and the estimates used in the daily settlement are reconciled on an annual basis.

This paper proposes that all customers connected at 10kV or above (approx 240 in total) should have hourly profile metering with remote reading as a pre-condition for gaining eligibility. In effect, this means that eligible customers switching from the KEK published tariff to a negotiated tariff should have profile metering installed with remote reading capability. **Comments were invited on this proposed criterion.**

3.4.1 Demand Side Response

In addition to helping eliminate cross-subsidisation, profile metering has the advantage of enabling customers to see price signals and to respond appropriately. Profile metering forms a key component of demand side response in many markets. While there is a balance to be reached in terms of the cost versus the benefits arising from this type of metering the trend in many markets is to use this metering as widely as possible. For example, in California and Northern Ireland the adoption of profile metering has been promoted on wider scale than normal. Finally, profile metering enables

customers to conserve and use electricity more efficiently while encouraging suppliers to develop more sophisticated tariffs for their customers.

3.5 Choice of Suppliers in the Market

In many liberalising electricity markets it has taken several years for real competition to develop. It is fair to say that five or six active suppliers are needed in the market before this occurs, though the presence of this number is no guarantee of real competition. For example if there is a scarcity of wholesale or bulk power then suppliers will not be in a position to submit supply offers to eligible customers when their existing supply contracts come up for renewal.

At present only KEK Supply operates in Kosovo's electricity market. Independent suppliers will only enter the market if there are opportunities to make money – this is the essence of business. It is crucial to have wires charges unbundled correctly, i.e. cost reflective, so that all customers are paying their full and fair share. If the wires charges are too high then independent suppliers will be reluctant to enter the market resulting in a lack of competition. There is a tendency in liberalising markets that the vertically integrated utility seeks to have the wires charges (the monopoly sector) as high as possible while keeping generation and supply prices and margins at reasonable levels. This has the effect of maintaining revenue levels and at the same time stifling competition, i.e. with very thin generation and supply margins new entrants are unlikely to enter the market and compete.

3.5.1 Constraints Inhibiting New Suppliers Entering the Market

In Kosovo, where there is a major problem with revenue collection, it is reasonable to assume that new suppliers will be reluctant to enter the market. With a high risk of not having their electricity bills paid, new suppliers are likely to steer clear until the situation improves dramatically. Cost reflective wires unbundling, good revenue collection and market prices for electricity are usually pre-requisites for entry by new suppliers.

The market price for electricity in a country is that of neighbouring countries with adjustment for interconnection transmission costs. The cost of electricity in Kosovo may well be below market prices and therefore is likely to rise. In effect, this means electricity prices rise to market price and then competition applies downward pressure on prices.

This paper proposes that the criteria for eligibility should take account of the likely impact of each tranche of market opening on the finances of KEK as the public electricity supplier. **Comments were invited on this proposed criterion.**

3.6 Single Site v. Multi-Site

Annual consumption as a threshold is frequently used as one of the criteria for eligibility. This is in line with Kosovo's Law on Electricity which states that "The criteria shall include the extent of their electricity consumption and the proportion of energy costs to the prices of their products and services".

It is possible to set the annual consumption for a single site or for an aggregation of sites as a criterion for eligibility. For example, if the threshold

for eligibility was an annual consumption of 1 million units, a large factory with this consumption would clearly qualify for eligibility whether the criterion was related to single or multi sites. In contrast, if a chain of ten supermarkets has a combined annual consumption of 1 million units they would quality for eligibility if the criterion was for multi sites, but would not qualify if the criterion was on a single site basis.

The single site criterion is considerably easier to administer, as the only qualifying data is the data relating to the single site; issues of ownership or whether the factory is a subsidiary are irrelevant. If multi site criterion is used then the registration of eligible customers is more complex; there may be questions as to whether all the sites belong to the same owner and whether some were recently acquired thereby disqualifying their inclusion. While this criterion applies largely to annual consumption threshold it simplifies matters through having to consider only the conditions (consumption, supply voltage, metering, ownership etc) that exist on each individual site.

This paper proposes that the criteria for eligible customers should be on a single site basis rather than on a multi site basis. This is to minimise costs and administration in implementing the liberalised electricity market. **Comments were invited on this proposed criterion.**

4. Options for Eligibility Criteria

There are several bases by which the electricity retail market can be progressively opened, but the five main bases are:

4.1 Supply Voltage

Here the main criterion would be supply voltage level
e.g. 110kV and above, 35kV and above, 10kV and above, etc

4.2 Annual Consumption

Here the main criterion would be annual consumption
e.g. 20 GWh and above, 1 GWh and above, etc

4.3 Maximum Demand

Here the main criterion would be Maximum Demand
e.g. 1000 kW and above, 100 kW and above, etc

4.4 Industrial sectors

Here the main criterion would be industrial sectors
e.g. mining, cement, pharmaceutical, Government, water

4.5 Customer groups

Here the main criterion would be customer groups
e.g. large, medium, small industrial or commercial

4.6 Proposed Option

While each of the options above has its merits this paper proposes that the option with supply voltage as the main criterion seems the most appropriate in the early stages of market opening. The numbers are manageable and practical for progressive opening of the next two tranches, i.e. those customers supplied at 35kV and 10kV. For non-domestic customers supplied at 400V, annual consumption rather than supply voltage should be the main criterion. This proposed option is in line with the Ministerial Instruction issued for 2006 and is consistent with the Law on Electricity.

4.7 Proposed Timeframe

Proposed Timeframe Approx No. of Customers

- Customers supplied at 110kV and above (2006) ……. 3 customers
- Customers supplied at 35kV (2008) ……12 customers
- Customers supplied at 10kV (2009) …….. 225 customers
- Customers with an annual consumption > X kWh (2010) …..10,000 customers
- Remaining non-domestic customers (2012) ……35,000 customers
- Domestic customers (2015 as required by the Treaty)

Note that the Ministerial Instruction for 2006 already issued by Minister
Note that the annual consumption "X" is to be determined.

5. Conclusions of this Paper

The following are the conclusions of this paper; comment is invited on all of these:

- Kosovo is not ready to meet the deadline of the 1st January 2008 for eligibility for all non-domestic customers (approx 45,000)

- Kosovo should commence the process, at the earliest possible date, of getting the timeframe for non-domestic eligibility extended out to 1st January 2012. There are particular issues such as shortage of bulk power and low levels of revenue collection that require additional time to be addressed

- Cost reflective tariffs for both TUoS and DUoS (transmission and distribution use of system charges) should be implemented for any customer group before that group can qualify for eligibility

- Cost reflective regulated supply tariffs should be implemented for any customer group before that group can qualify for eligibility

- Having profile metering installed with remote reading should be a pre-condition for gaining eligibility for customers supplied at 10kV or above, whether considering switching to KEK on a negotiated tariff or switching to an independent supplier

- The criteria for eligibility should take account of the likely impact of each tranche of market opening on the finances of KEK as the public electricity supplier

- The criteria for eligibility should be on a single site basis rather than on a multi site basis.

- The option with supply voltage as the main criterion seems the most appropriate in the early stages of market opening. The numbers are manageable and practical for progressive opening of the next two tranches, i.e. those customers supplied at 35kV and 10kV. For non-domestic customers supplied at 400V, annual consumption rather than supply voltage should be the main criterion. This proposed option is in line with the Ministerial Instruction issued for 2006 and is consistent with the Law on Electricity.

Annex 1: Customer Numbers: Original Data from KEK

Supply Voltage Category	No. of Customers
220 kV	1
110 kV	2
35 kV	12
10 kV	224
0.4 kV I	730
0.4 kV II - Two Tariff	23,559
0.4 kV II - One Tariff	19,458
Domestic - Two Tariff	219,357
Domestic - One Tariff	57,417
Flat Rate Public Lighting	10,733
Flat Rate Public Lighting	354
Total	331847

Annex 2: THE LEGAL POSITION

Treaty Establishing the Energy Community
Annex 1 of this Treaty is titled "Timetable for the Implementation of the EC Directives No. 2003/54 and 2003/55, and the EC Regulation No. 1228/2003, of 26 June 2003.

1. Subject to paragraph 2 below and article 25 of this Treaty, each contracting party shall implement the EC Directives No. 2003/54 and 2003/55, and the EC Regulation No. 1228/2003, of 26 June 2003 within twelve months of the entry into force of this Treaty.

2. Each Contracting Party must ensure that the eligible customers are:
   (i) from 1st January 2008, all non-household; and
   (ii) from 1st January 2015, all customers

Law on Electricity
"eligible customer" means a customer who is free to purchase electricity from the supplier of their choice.

Article 22 deals with Supply

22.2 The Minister responsible for Energy shall prescribe the conditions for determining eligible customers in an implementing instruction to be adopted no later than January 31 for each year. The criteria shall include the extent of their electricity consumption and the proportion of energy costs to the prices of their products and services.

22.3 A customer may obtain the status of eligible customer by responding to a public announcement that the Energy Regulatory Office must launch each year.

22.4 Eligible customers shall have the option to be supplied by the public supplier under procedures to be established by the Energy Regulatory Office.

22.5 Eligible customers shall notify the transmission network operator in advance of the contracts it will sign for the supply of electricity, in accordance with the terms and procedures set out in the Trade Code issued by the market operator and approved by the Energy Regulatory Office.

Article 24
24.1 All electricity producers and electricity supply enterprises established in Kosovo shall be able to provide a supply to their own premises, their subsidiaries, and eligible customers through a direct line.

24.2 All eligible customers in Kosovo shall have the right to be supplied through a direct line by a producer and an electricity supply enterprise when technically and economically feasible.

Annex 3: ELIGIBILITY CRITERIA 2006

Implementing Law on Electricity No. 2004/10, on the conditions for determining eligible customers for the year 2006.

Article 1
This Instruction sets forth condition for determining eligible customers for the year 2006.

Article 2
The terms used in this Implementing Instruction shall have the meaning stipulated in the Law on Energy No. 2004/8, the Law on the Energy Regulator No. 2004/9 and the Law on Electricity No. 2004/10.

Article 3
3.1 The following conditions are set for determining eligible customers for the year 2006

Final customers connected directly to the transmission network of high-voltage level at 110 kV and above, and

Metering devices and the corresponding control and communication devices corresponds with condition determined in the Article 33.2 of the Law on Electricity

A customer may maintain its eligible customer status so long as none of the following conditions occur. Should any one of them occur it will result in the immediate revocation of eligible customer status. Eligible status will be revoked if:

KEK's business is negatively affected causing it to fail in its obligations to other customers (Public service Obligations):

Any unreasonable constraints are imposed on the current and planned structure of the industry, KEK or the wholesale or retail electricity markets;

There are present any cross-subsidisation of prices between the eligible and regulated customer sectors; or

KEK suffers aggregate, incremental losses over any rolling twelve month period, which losses impose a direct or indirect requirement for a subsidy from the KCB.

Article 4

This Instruction enters into force the date of its signature.

Pristina _____ Minister for Energy & Mining

Ethem Ceku