Consultation Paper

The Tenth Electricity Tariff Review

ETR10 (2016-2017)

Public Electricity Supplier (KESCO) Maximum Allowed Revenues Calculation (Relevant Year 4)

DISCLAIMER

This Consultation Paper has been prepared by ERO for the purpose of informing stakeholders. It does not represent a decision by the ERO and should not be interpreted as such.

24 February 2016

Summary

The Energy Regulatory Office (ERO) is currently conducting the Regular Adjustment and Annual Update process for the Maximum Allowed Revenue (MAR) to be recovered by the Regulated Companies. Under this process, ERO will approve an updated MAR for the Regulated Generator (KEK), Transmission System and Market Operator (TSO/MO, KOSTT), Distribution System Operator (DSO, KEDS) and Public Electricity Supplies (PES, KESCO) based on proposals submitted by the Regulated Companies. These will subsequently be used by the Regulated Companies to set their individual charges for the year starting 1 April 2016 by ERO too, to set regulated retail tariffs.

The basic values for the MAR components were set in at a Periodic Review held in 2012 and remain valid for a multi-year period. The current review is limited to confirming that the proposed MAR submitted by the Regulated Companies conforms to those base values and has been correctly calculated in accordance with the requirements of the Generation, TSO/MO, DSO and PES Pricing Rules. This Consultation Paper presents ERO's assessment of the MAR proposal submitted by KESCO. Companion papers provide ERO's assessment of the proposals submitted by KEK, KOSTT and KEDS.

Stakeholder comments

ERO strongly believes that public consultation is at the heart of effective regulatory policy. Stakeholders are invited to examine the evidence and views presented in this Consultation Paper and to comment on them, including correcting factual errors, putting forward counterarguments or providing new data. Parties who wish to express their opinions on ERO's position are invited to submit their comments in writing to ero.pricing-tariffs@ero-ks.org no later than **09 March 2016.** Alternatively, comments can be mailed to:

Zyra e Rregullatorit për Energji
Departamenti për Tarifa dhe Çmime
Rr. Dervish Rozhaja Nr. 12, Prishtinë, 10000, Kosovë

Related Documents

ERO's initial assessment of the PES Reporting Formats submitted under the Periodic Review process	http://ero-ks.org/Price%20and%20Tariffs/2012/english/Vleresimi_fillestar_KEK_anglisht.pdf
ERO's provisional assessment of the PES MAR under the Periodic Review process – Detailed Report	http://ero-ks.org/Tarifat/2012/Provisional_Evaluation_DSO_PES_eng.pdf
ERO's final assessment of PES MAR under the Periodic Review Process – Detailed Report	http://ero-ks.org/Tarifat/2013/Proceset%20e%20Shqyrtimit/eng/Evaluation_DSO_PES_22_March_2013.pdf
The Rule on Public Electricity Supplier Pricing (DSO Pricing Rule)	http://ero-ks.org/Rregullat/Rregullat_2011/English/PES_Pricing_Rule.pdf
PES's MAR application submitted under the Regular Adjustment 4 process (ETR10)	http://www.ero-ks.org/2016/Tarifat/Aplikimi_PER_mar_per_vitin_2016_KESCO_pdf

Table of Contents

Price Control Overview

The Energy Regulatory Office (ERO) is an independent institution which sets price controls for regulated companies which operate in the Kosovo regulated electricity market. Ideally, ERO would only set price controls for those segments of the electricity sector which are natural monopolies (Transmission and Distribution networks). However, as competition in Generation and Supply has not developed to a level which would produce a competitive price, ERO regulates these segments as well by setting tariffs which provide safeguards for customers in respect of prices charged in the absence of competition.

Price Controls are the tools employed by ERO in order to set the Maximum Allowed Revenues - MAR that the Regulated Companies are allowed to recover for providing a regulated service. The MAR is set during Periodic Reviews by thoroughly analyzing the expenditures and investments that the Companies plan to make during the length of the price control. The level of the MAR is set to allow the companies to cover reasonable costs of operating and maintaining their assets and earn a reasonable return if they deliver the investment results approved upfront. Additionally, ERO sets efficiency targets which aim to increase the companies' operating efficiency and provide incentives or penalties if the companies fail to meet these targets.

The last Periodic Review was conducted by ERO in 2013 (ETR7) for allowed revenues to apply from 2013 to 2017. The key elements of the PES MAR decision issued by ERO at the Periodic Review are summarized in **Error! Reference source not found.** below.

Table 1 ETR7 KESCO MAR

Public Electricity Supplier (PES)	
Forecast investments (2013-2017)	€0.395 million over the regulatory period
Efficiency incentives	5% efficiency factor applied for the last two years of the Regulatory Period.

2 Introduction

The Rule on Public Electricity Supplier Pricing (PES Pricing Rule) sets the basis and the process for the determination of Maximum Allowed Revenues that may be earned by the PES (KESCO) in any Relevant Year in order to allow it to recover the reasonable costs of providing public electricity supplies at regulated tariffs. Following the PES Pricing Rule, ERO set in the ETR7 Periodic Review in 2012 the forecast retail costs of the PES for a five-year period until 2017. Within each of those five "Relevant Years" between 2013 and 2017, the Energy Regulatory Office undergoes a "Regular Adjustment" process. This process differs from a Periodic Review in that the Regular Adjustment process does not entail a detailed analysis of costs. Instead, the Regular Adjustment uses the results obtained during the Periodic Review process in ETR7 and adjusts the MAR to reflect changes between the costs which were forecasted during the Periodic Review and the actual costs incurred by the Regulated Companies due to reasons outside of the control of the Regulated Company. During the "Regular Adjustment" process, ERO will:

1. Update the allowed retail costs of the PES;
2. Add the allowed working capital costs, wholesale power purchase costs and pass-through costs calculated in accordance with the formulae specified in the PES Pricing Rule and ERO's decisions on the MAR for KEK, KOSTT and KEDS;
3. Update the PES MAR to reflect the difference between Allowed and Actual Regulated Revenues in the previous Relevant Year (t-1); and
4. Add an allowance for bad debt (defined as revenues billed but not collected).

3 The structure of this paper

This Consultation Paper is organized as follows:

- Section 4 lays out the Energy Balance used in the MAR calculations;
- Section **Error! Reference source not found.** provides ERO's proposal for KESCO's own direct costs and reviews KESCO's MAR application;
- Section 6 provides ERO's proposal for those parts of KESCO's MAR that are dependent on decisions on the MAR for other Regulated Companies, comprising wholesale power purchase, pass-through costs and unregulated revenues.
- Section **Error! Reference source not found.** provides a summary of the total KESCO MAR to be recovered from regulated retail tariffs.

4 Energy Balance

In previous years ERO has used the forecast energy balance approved by the Ministry of Economic Development (MED) for the Relevant Year *t* to calculate the KESCO MAR for the Relevant Year *t*. The forecast balance is used to estimate wholesale power purchase costs which feed into the allowances made for the costs of transmission and distribution losses and the final retail tariff.

4.1 Actual Energy Balance for the Relevant Year t-1 (2015)

The actual energy balance for 2015 is used to adjust for cost differences resulting from differences between actual 2015 volumes and the forecasts used in determining the allowed 2015 MAR values. These differences are considered to be outside the control of the Regulated Companies and, therefore, they should neither be penalized for nor benefit from them.

The applications received from both KOSTT and KESCO contain data on the actual energy balance for 2015. However, these differ. It is not clear why this is so given that both Regulated Companies should be using the same metered volumes and ERO strongly urges KOSTT and KESCO to reconcile these values.

In the interim, ERO has used the following approach to determine the 2015 actual energy balance:

- The actual volumes reported by KOSTT are used to determine generation, transmission and exported energy volumes.
- The actual volumes reported by KESCO are used to determine imported energy and sales to final customers.

This results in a mismatch between energy volumes entering and exiting the transmission system (after allowing for losses). These differences may, in turn, derive from differences in the classification of exchange exports (exported energy provided in exchange for imported energy rather than being exported and paid for under a contract). ERO reiterates that KOSTT and KESCO will need to work together to resolve these differences.

4.2 Forecast Energy Balance for the Relevant Year *t* (2016)

The forecast energy balance for 2016 is prepared as follows:

- The energy balance approved by the Ministry of Economic Development (MED) is used to forecast energy generated from KEK and other Kosovo-located generators and purchased imports of electricity.
- Retail sales of energy are forecast using the projections provided by KESCO in its application. These show a 1.6% increase in final sales on 2015, consistent with the annual rate of growth in previous years.
- Unbilled supplies to North Kosovo are also forecast using the projections provided by KESCO. In the balance approved by MED, these unbilled supplies are expected to decline by 9.6% from 2015 levels. In ERO's view, such a decline currently appears unlikely.

- Transmission and distribution losses are projected using the percentage loss allowances established by ERO at the most recent periodic review.
- Exports are then adjusted so as to ensure that projected energy volumes entering and exiting the system are in balance (after allowing for energy losses).

ERO considers that, energy balance as approved by MED to forecast output from Kosovo-located generation owned by KEK, there is reason to believe that these volumes may be overly-optimistic. In January 2016, the approved energy balance forecasts net generation from Kosovo A and Kosovo B combined of 537 GWh. The actual net output achieved was only 415 GWh with the difference having to be made up by increased imports. If similar mismatches persist across 2016 then the implication is that actual imports will significantly exceed the forecast levels with corresponding impacts on wholesale supply costs.

4.3 Allowed transmission and distribution losses

ERO has established multi-year targets for the allowed level (in percentage terms) of losses in the transmission and distribution networks. These allowed levels are used to set the costs of losses which the TSO (KOSTT) and DSO (KEDS) are permitted to recover from customers. Where actual losses exceed the allowed levels then the excess cost is borne by the TSO and DSO. Where actual losses are lower the savings are retained by the TSO and DSO. This provides incentives for the two Regulated Companies to reduce losses.

The allowed level of transmission losses has been set at 1.8% as established during the most recent Periodic Review. The allowed level of distribution losses was initially established at ETR6 having a decrease of 3% (points percentage) during the first three years and 2.5% (points percentage) in the last three years due to network expected ongoing improvements and increased efforts to reduce commercial electricity losses[1]. The allowed level of 23.1% in 2015 has, therefore, now been reduced to 20.6%. Unbilled supplies to North Kosovo are not considered to be under the control of the DSO and, therefore, are excluded from these allowed losses and the calculation of actual distribution losses.

The resulting projected energy balance is provided in **Error! Reference source not found.** below.

Table 2 Energy Balance

Energy Balance		ETR9 (2015) Approved	ETR9 (2015) Actual	ETR10 (2016) Proposed
KEK Generation		5,570.9	5,438.1	5,512.2
Kosovo A	GWh	1,755.6	1,905.371	1,983.4
Kosovo B	GWh	3,864.81	3,582.2	3,687.5
Cogeneration	GWh	-49.49	-49.5	-38.7
Other Transmission Connected Generation				158.2
HPP Ujmani	GWh	84.0	107.8	95.0

[1] http://ero-ks.org/Vendimet/Shqip/2012/V_399_2012.pdf

Energy Balance		ETR9 (2015) Approved	ETR9 (2015) Actual	ETR10 (2016) Proposed
Other (HC Lumbardhi 1,HC EGU belaj,HC EGU Decani)	GWh			63.2
Transmission-connected Demand		723.6	671.8	677.2
Ferronikeli consumption	GWh	632.0	584.3	586.5
		25.9	24.0	90.7
Trepca	GWh	65.8	63.5	
Other Transmission - level consumption		272.1	240.8	272.9
Mine consumption	GWh	138.0	114.2	121.0
TP Kosova A own consumption	GWh	134.1	101.4	115.3
TP Kosova B own consumption			25.2	36.7
Transmission Losses	%	1.8%	1.77%	1.80%
	GWh	110.9	110.0	114.0
Energy Entering Transmission System	GWh	6,162.9	6217.8	6,331.8
Exports	GWh	638.3	552.5	1,061.5
Total Production	GWh	5,654.9	5,545.9	5,607.2
Imports	GWh	508.0	779.9	661.3
Energy Required to meet Transmission Load	GWh	1,744.9	1575.1	2,125.6
Energy Required to meet Distribution Load	GWh	4,418.0	4,642.7	4,206.2
Distribution Generation				
Distribution-embedded generation	GWh	46.6	33.8	64.2
Wind Power j.s.c.	GWh			
Distribution Consumption	GWh	4,464.6	4677	4,270.4
Distribution losses and unbilled energy				
Technical and commercial losses	%	23.13%	28.0%	20.6%
	GWh	979.0	1241.5	830.9
Unbilled supplies	%	5.21%	5.3%	5.7%
	GWh	232.5	246.5	243.3
Total losses	GWh	1,211.4	1488.0	1,074.2
Sales to final customers	GWh	3,253.1	3,188.5	3,196.2

5 Allowed direct costs of KESCO

Under the PES Pricing Rule (Schedule 1), the MAR for KESCO is calculated annually according to the following formula:

$$MAR_t = (RETR_t + WCLC_t + WHPC_t + PSTC_t - NTFR_t + KREV_t) / (1-BDTA_t)$$

Where

MAR_t	*is Maximum Allowed Revenues in Relevant Year t*
$RETR_t$	*is allowed retail costs in Relevant Year t, which is set at Annual Updates*
$WCLC_t$	*is allowed working capital costs in Relevant Year t*
$WHPC_t$	*is allowed wholesale power costs in Relevant Year t*
$PSTC_t$	*is pass-through costs in Relevant Year t*
$NTFR_t$	*is non-tariff revenues in Relevant Year t*
$KREV_t$	*is the revenue correction factor in Relevant Year t*
$BDTA_t$	*is the Bad Debt Allowance in Relevant Year t, set as a percentage (%) value*

The calculation of the PES-specific allowed retail costs, working capital cost, revenue correction factor and bad debts allowance are described in this Section **Error! Reference source not found.**. The calculation of other elements of the PES MAR which depend on other ERO decisions on the MAR for Regulated Companies, comprising wholesale power purchase costs, pass-through costs and non-tariff revenues, are described in the following Section 6.

Allowed retail costs are calculated as the sum of operating and maintenance expenditures ($OPMC_t$), depreciation ($DEPC_t$) and other costs. Unlike other Regulated Companies, no allowed return is calculated. Instead, the PES receives a retail margin to compensate for the risks it assumes and to allow it to earn a profit from its operations. This margin forms part of the wholesale power purchase costs.

5.1 General comments

The operation of the multi-year tariff has revealed a number of issues related to different understandings of the calculation of adjustments etc. This is to be expected given that the current period is the first in which this multi-year tariff has been applied. During 2016, ahead of the next periodic review (for KEK Generation) ERO intends to issue a new MAR model in order to improve the clarity and mutual understanding of these calculations. For the annual adjustments under ETR10, ERO has continued to apply the approach used in previous annual adjustments for reasons of consistency.

In its proposal, KESCO has requested to increase allowed operating expenditures (OMPC) due to recent salary increases. ERO notes that the multi-year tariff framework was put in place to provide greater certainty to Regulated Companies over future revenues and to create stronger incentives for efficiency improvements. This framework does not envisage ERO making continued annual adjustments, for example, accommodate increased salary costs exceeding growth in inflation (and, conversely, to adjust for unanticipated cost savings).

There are two mechanisms available for licensees to recover such cost changes:

- Within the multi-year period, there is provision for Extraordinary Reviews where licensees experience large cost shocks that are outside their control. These follow a separate review process and do not form part of the annual reviews currently being implemented.
- There is also scope for resetting cost allowances at the Periodic Reviews held at the end of each multi-year period to take account of the impacts of changing costs over time. The first of these resets will take place in 2017 for KEK.

Consequently, ERO does not propose to make any adjustments to the MAR other than those arising from the application of the annual adjustment formulae.

5.2 S-factor and Interest Rate Adjustments

According to Schedule 1 Article 2.1 of the PES Pricing Rule, the interest rate applicable to adjustments to the MAR of PES in any Relevant Year resulting from differences between actual and approved values for the preceding year is calculated based on EURIBOR plus S% where S is a value determined by the Regulator at Annual Updates which reflects the premium payable by the licensee for short term loans. This is different from the principle applied in the other Pricing Rules[2] where the S value is set during Periodic Reviews and is kept constant throughout the Regulatory Period.

ERO has reset the S value for adjustments of the Public Electricity Supplier as follows:

The Kosovo Lending Rate has been obtained from the Kosovo Central Bank's Monthly Statistics Bulletin Table 14.2 (ODC Effective Interest Rates – loan interest rates)[3]. The value obtained is the investment business loan rate for loans up to 1 year from which the S-factor is calculated as 9.27%.

The final interest rate for adjustments is then calculated as the sum of -0.131%[4], EURIBOR with a quarter maturity for December 2015 and this S-factor to give an interest rate for adjustments of 9.14%.

5.3 Retail Allowed Costs (RETRt)

Retail costs are calculated as the sum of allowed operating and maintenance costs (OPMCt), depreciation (DEPCt) and license fees (LCICt).

5.3.1 Operating and maintenance costs (OPMCt)

The Pricing Rule envisaged that allowed operating and maintenance costs would be profiled or smoothed over the multi-year period. In practice, this did not happen. Additionally, in 2015, KEDS and KESCO were required to unbundle their activities leading to a requirement to separate the costs of shared services, such as headquarters operations between them. KEDS and KESCO also incurred various restructuring costs associated with the unbundling. Consequently, the projected operating

[2]Namely the Generation, Transmission and Distribution Pricing Rule

[3]http://bqk-kos.org/repository/docs/2015/BQK-BMS%20nr%20160.pdf

[4] http://www.euribor-rates.eu/euribor-rate-12-months.asp

expenditures for the combined DSO-PES (KEDS and KESCO) business set at the Periodic Review are no longer applicable.

Recognizing this, ERO has decided to roll-forward the unbundled operating and maintenance costs for the two entities, as established in 2015, using the following formula:

$$OPMCt = OPMCt\text{-}1 * (1 + CPIt\text{-}1) * (1 - Et)$$

Where

OPMCt	*is allowed operating and maintenance costs in Relevant Year t*
OPMCt-1	*is allowed operating and maintenance costs in Relevant Year t-1*
CPIt-1	*is the actual value of inflation in Relevant Year t-1, measured using the "Harmonised Indices of Consumer Prices (HICPs) – All Items, for the Eurozone" published by Eurostat, or any other measure of inflation that the Regulator determines is a better measure of the change in operating and maintenance costs over time and is allowed at a Periodic Review*
Et	*is the Efficiency Factor in Relevant Year t, which is set at Periodic Reviews*

ERO has applied a 5% efficiency factor as set in the Periodic Review to apply in 2016 and two other following years. The applied inflation rate is 0.20% and has been calculated from the Harmonized Index of Consumer Prices for all items in the Eurozone.

The allowed level for operating and maintenance costs for ETR10 is €6.5 million.

5.3.2 Depreciation costs (DEPCt)

The Pricing Rule again assumes that the depreciation allowances are smoothed and profiled over the Regulatory Period. Since no smoothing has been applied in practice, ERO has used the following adjustment formula, which is the same as the formula adopted in previous years and compensates for the impacts of inflation on asset values:

$$DEPC_t = DEPC_{t-1} * (CPI_{t-1}) + DEPC_{ft}$$

Where

$DEPC_t$	*is allowed depreciation in Relevant Year t*
$DEPC_{t-1}$	*is allowed depreciation in Relevant Year t-1*
CPI_{t-1}	*is the actual value of inflation in Relevant Year t-1, measured using the "Harmonised Indices of Consumer Prices (HICPs) – All Items, for the Eurozone" published by Eurostat*
$DEPC_{ft}$	*is the allowed depreciation set for Relevant Year t at the most recent Periodic Review*

The allowed depreciation for ETR10 is set to €0.4 million.

5.3.3 Cost of licence fees (LICCt)

The License Fee allowance has been calculated at the approved rate of €0.22/MWh applied to imported volumes only. The allowance for ETR10 is set at €0.1 million.

5.4 Working Capital Costs (WCLCt)

Allowed working capital costs are calculated as the interest costs of borrowing on a short-term basis funds equivalent to one month's worth of cash outflows. The interest rate used is that applied for adjustments (see Section **Error! Reference source not found.**). The allowed working capital cost for ETR10 is set to €1.7 million.

5.5 Revenues Adjustment (KREVt)

KESCO is compensated for differences between its actual and allowed costs in the previous year. This ensures that it is not penalized where it has to pay other Regulated Companies in full but its sales are less than forecast. The formula for this adjustment is shown below:

$$KREV_t = (MAR_{t-1} - ARR_{t-1}) * (1 + I_t)$$

Where

ARRt-1	*is the Actual Regulated Revenues in Relevant Year t-1*
MARt-1	*is Maximum Allowed Revenues as determined in Relevant Year t-1*
It	*is the interest rate for the Relevant Year t calculated based on EURIBOR plus S%, where S is a value to be determined by the Regulator at Periodic Reviews and which reflects the premium payable by the licensee for short-term loans above the EURIBOR rate*

The value of revenue corrections paid to the TSO (KOSTT) and DSO (KEDS) are deducted from this to give the final amount to be collected by KESCO under this adjustment.

The net value of this adjustment for 2016 (due to differences between actual and allowed revenues in 2015, after deducting revenue correction payments to KOSTT and KEDS) is zero. This compares to a positive adjustment in 2015 of €28.9 million which resulted from the large increase in costs and, therefore, allowed revenues for KESCO in 2014 following the extended outage of TP Kosovo A and the need to import energy to replace the lost generation.

5.6 Bad Debts Allowance (BDTAt)

The allowed bad debts cost compensates KESCO for the expected level of bad debts resulting from customers who do not pay their bills and meet the criteria to be considered bed debts. The bad debts cost is calculated assuming a non-collection rate of 4% (ie, 96% of all billed amounts are paid for). This represents an allowed cost of €9.7 million for ETR10.

6 External costs

The external costs of KESCO are those that depend on decision on the MAR applicable to other Regulated Companies. These are the costs of wholesale power purchases (WHPCt), pass-through costs from KOSTT and KEDS (PSTCt) and non-tariff revenues (NTFRt) which largely arise from the sale of energy to KOSTT and KEDS to cover transmission and distribution losses respectively.

6.1 Wholesale Power Purchase Costs (WHPCt)

Wholesale power purchase costs are calculated as the sum of the costs of purchases from the Regulated Generator (KEK), from other generators in Kosovo and of imports, less revenues earned from exports. The derivation of these costs is described in a separate consultation paper issued by ERO. To obtain the final allowance to be included in the PES MAR, a retail margin is added and an adjustment factor compensating for differences between allowed and actual costs in the preceding year. The retail margin used is 3% as in previous years.

The allowed wholesale power purchase costs for ETR10 are €172.2 million. This represents a substantial increase on those approved for ETR9 of €149.6 million. The lower ETR9 figure largely comes from a reduction in payments to KEK due to the unavailability of Kosovo A after the accident in 2014 .

6.2 Pass-Through Costs (PSTCt)

Pass-through costs are the payments to be made to KOSTT as the TSO/MO and KEDS as the DSO. These are equal to the MAR for each entity less the revenues earned by KOSTT from charges paid by generators. The derivation of the MAR for each of KOSTT and KEDS is described in separate consultation papers issued by ERO.

For ETR10, these pass-through costs are set at €92.6 million.

6.3 Non-Tariff Revenues (NTFRt)

Non-tariff revenues are revenues earned by KESCO from sources other than the sale of electricity to final customers. There are two sources of these revenues. The first is from the sale of energy to KOSTT (as TSO) and KEDS to cover transmission and distribution losses. The second is from the cash received by KESCO as penalty payments for stolen electricity that is subsequently identified.

6.3.1 Sales of energy to cover losses

The value of energy sold to cover losses is set equal to the allowance for this in each of the MAR determined for KOSTT and KEDS. The derivation of these values is described in the separate consultation papers describing the MAR calculation for these two entities.

For ETR10, the total value of these sales is set at €30.9 million.

6.3.2 Penalty payments for losses recovery

Where KEDS identifies that a customer has stolen electricity (ie, has consumed this but has not been billed for it) then it is entitled to impute the volumes consumed. These are then charged at the highest tariff applicable to that customer class. KEDS will calculate the total penalty due and

communicate this to KESCO who is then responsible for invoicing the customer concerned for this amount and collecting it.

Under current regulations, it is unclear how these penalty payments are allocated. Given this, in determining MAR, ERO has made the following assumptions:

- A sum equivalent to the amount that KEDS would have previously paid to cover the costs of purchasing energy to cover these stolen volumes (which were recorded as commercial losses for which KEDS must purchase compensating energy from KESCO) is returned to KEDS.
- The remaining amount of the penalty payments is returned to customers by treating this as non-tariff revenue for KESCO.

For 2015, the volume of stolen energy for which penalty charges were levied was 66 GWh. The resulting penalty payments were equivalent to €4.6 million. The estimated cost of purchases of energy by KEDS to cover this volume is €2 million. The difference of €2.6 million is treated as additional non-tariff revenues for KESCO.

7 PES Maximal Allowed Revenues (KESCO)

The resulting proposed total MAR for KESCO for 2016 is €243.5 million. This represents the amount to be recovered from regulated retail tariffs.

The proposed value represents a decrease of €13 million or approximately 5% on that approved under ETR9 for 2015. This reduction is primarily due to the ending of the one-off adjustment made in 2015 to compensate KESCO for the additional power purchase costs it incurred in 2014 as a result of the extended outage of TP Kosovo A. Most other components of MAR have either remained at levels similar to those approved for 2015 or slightly increased.

PES MAR		ETR9 Allowed	ETR9 Actual	ETR1010 Proposed
Indexing Parameters				
Efficiency facor	%	0.00%	5.00%	5.00%
Profiling factor	%	0.00	0.00	0.00
HICP	%	0.43%	0.21%	0.21%
Euribor	%	0.25%	-0.13%	-0.13%
S-factor	%	10.47%	9.27%	9.27%
It	%	10.72%	9.14%	9.14%
Retail Purchase Costs (RETRt - Article 10 PES Pricing Rule)				
$OPMC_t = OPMC_{t-1} * (1 + CPI_{t-1}) * (1 – E_t) * (1 – P_t)$	€m	6.7		6.5
DEPCt = DEPCt-1 * (1 + CPIt-1) * (1 – Pt)	€m	0.3		0.4
Pass – through costs (PSTCt)				
KOSTT charges	€m	22.7		17.8
DSO charges	€m	75.6		74.9
Revenues by purchase of losses in TSO and DSO				

TSO revenues (Relevant year t)	€m	3.132		3.88
TSO revenues (Relevant year t-1)		0.112		-0.005
DSO revenues (relevant year t)	€m	27.6		28.3
DSO revenues (Relevant Year t-1)		4.9		4.635
Working Capital Costs (WCLCt)				
WCLC= (1 / 12) * It * (RETRt + WHPCt + PSTCt - NTFRt)	€m	1.9		1.7
Wholesale power purchase cost (WHPC)				
WHPC	€m	149.6		172.2
Bad Debts (BDTA)				
BDTA	%	5%		4%
BDTA	€m	13.1		9.7
KREVt				
FPEE KREVt	€m	33.7		3.7
OSSH KREVt	€m	3.1		4.1
KOST KREVt	€m	1.5		2.2
FPEE MAR				
FPEE MAR	€m	256.5	253.1	243.4