

Consultation Paper

The Tenth Electricity Tariff Review

ETR10 (2016-2017)

TSO/MO (KOSTT) 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

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Abstract

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 and by ERO to set regulated retail tariffs.

The base 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 KOSTT. Companion papers provide ERO's assessment of the proposals submitted by KEK, KEDS and KESCO.

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:

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Related Documents

ERO's initial assessment of the TSO/MO Reporting Formats submitted under the Periodic Review process	http://ero-ks.org/Price%20and%20Tariffs/2012/english/Vleresimi_fillestar_per_KOSTT_anglisht.pdf
ERO's provisional assessment of the TSO/MO MAR under the Periodic Review process – Detailed Report	http://ero-ks.org/Tarifat/2012/Provisional_Evaluation_KOSTT_eng.pdf
ERO's final assessment of TSO/MO MAR under the Periodic Review Process – Detailed Report	http://ero-ks.org/Tarifat/2013/Proceset%20e%20Shqyrtimit/eng/Evaluation_KOSTT_22_March_2013.pdf
The Rule on Transmission System Operator and Market Operator Pricing (TSO/MO Pricing Rule)	http://ero-ks.org/Rregullat/Rregullat_2011/English/TSO-MO_Pricing_Rule.pdf
TSO/MO's MAR application submitted under the Regular Adjustment 4 process (ETR10)	http://www.ero-ks.org/2016/Tarifat/Aplikimi_per_MAR_per_vitin_2-16_KOSTT.pdf

1 Price Control Overview

The Energy Regulatory Office (ERO) is the 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 amount of money (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) and set the MAR of the Transmission System Operator and Market Operator (KOSTT) for a five-year period until 2017. The capital expenditures allowed for key projects and the efficiency targets set by ERO during the ETR7 periodic review are summarized in Table 1 below.

Table 1 ETR7 KOSTT MAR at a glance

Transmission System Operator and Market Operator (KOSTT)	
Forecast investments (2013-2017)	€120 million for a five year period.
Key projects	400 kV line between Kosovo and Albania, SCADA/EMS & Telecom upgrades; three 110/10(20) kV substations in Gjilan, Palaj and Prishtina; new 110 kV line from SS Peja 3 to 110/35 kV SS Peja 1.
Efficiency incentives	4% annual efficiency factor applied to all Operating and Maintenance costs of the Regulated Generator over five years. Penalties or rewards depending on whether or not the TSO achieves the electricity loss target incentive set by ERO.

2 Introduction

The Rule on Transmission System Operator and Market Operator Pricing (TSO/MO Pricing Rule) sets the basis and the process for the determination of Maximum Allowed Revenues that may be earned by the Transmission System Operator (“TSO”) and Market Operator (“MO”) in any Relevant Year in order to allow it to recover the reasonable costs of developing, operating, and maintaining the Transmission System and the Electricity Market in accordance with the Law on the Energy Regulator. Following the TSO/MO Pricing Rule, ERO set in the ETR7 Periodic Review in 2013 the forecast Maximum Allowed Revenues of the Transmission System Operator and Market Operator (KOSTT) 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 investment plans and operating and maintenance 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 for KOSTT ERO will:

1. Index the Allowed Operating and Maintenance Costs for the Efficiency Factor which is set during the Periodic Review process and for Annual Inflation which is set using the Harmonized Index of Consumer Prices (HICP) for All Items in the Eurozone;
2. Set the Allowed Cost of Losses (LSSct) for the TSO and update these to include the difference between allowed and actual cost of losses for the previous Regulatory Period, which may have arisen due to changes in wholesale power costs or changes in the flows of electricity in the transmission system;
3. Update TSO/MO MAR to reflect revenues generated through the Inter-TSO Compensation Mechanism;
4. Updated forecasts of allowed cost of ancillary services;
5. Update the TSO/MO MAR to reflect the difference between Allowed and Actual Regulated Revenues in the previous Relevant Year (t-1);

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 5 provides ERO’s proposal for KOSTT’s MAR and reviews KOSTT’s MAR application;

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 KOSTT MAR for the Relevant Year t.

Additionally, ERO had used the actual energy balance provided by KOSTT for the Relevant Year t-1 to account for the differences between actual and forecasted volumes on the calculations of the previous year KOSTT MAR. The adjustments to account for differences between actual and forecasted volumes on the previous year KOSTT MAR calculations are included in the Relevant Year t KOSTT MAR. The forecast balance is also 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 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.

Meanwhile, 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 updated for KEK Generation availability is used to forecast energy generated from Kosovo-located generators electricity imports.
- 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).

While ERO has used the 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. TSO and DSO will be rewarded in case of reduction of losses beyond the target and will be penalized in case of not achieving the losses target set by ERO. 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. KOSTT claims in its proposal for ETR10 that this level of allowed transmission losses is very low and exposes the company to excessive financial risks. ERO notes that the TSO/MO Pricing Rule provides that the Loss Allowance is set during Periodic Reviews and is not subject to annual updates in order to provide a greater level of certainty and stronger incentives. The current allowance was set after conducting a detailed benchmarking analysis to determine estimate the appropriate level of loss allowance in Kosovo. ERO also notes that KOSTT, in 2015, recorded an actual level of transmission losses (1.75%) which was slightly below the allowed level and, therefore, would have gained financially. Given this, ERO sees no justification or basis for changing the allowed loss level.

The allowed levels of distribution losses were initially established in ETR 6 reducing from 3% (points percentage) during the first three years and then reduced by 2.5% (percentage points) in the last three years annually reflecting expected ongoing improvements in the network and increased efforts to reduce electricity commercial losses¹. 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 Table 2 below.

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

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Table 2 Energy Balance used for the calculation of WHPct and LSSct

Energy Balance		ETR ₉ (2015) Allowed	ETR ₉ (2015) Actual	ETR ₁₀ (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	-38.70
Other Transmission Connected Generation				158.2
HPP Ujmani	GWh	84.0	107.8	95.0
Other (HC Lumbardhi 1, HC belaj, HC Decani)	GWh			63.2
Transmission-connected Demand		723.6	671.8	677.2
Ferronikeli consumption	GWh	632.0	584.3	686.5
Trepca	GWh	25.9	24.0	
Sharrcem	GWh	65.8	63.5	90.7
Other Transmission - level consumption		272.1	240.8	272.9
Mine consumption	GWh	138.0	114.2	121.0
PP Kosova A own consumption		134.1	101.4	115.3
PP Kosova B own consumption	GWh		25.2	36.7
Transmission Losses				
	%	1.8%	1.77%	1.80%
	GWh	110.9	110.0	114.0
Energy Entering Transmission System		6,162.9	6,217.8	6,331.8
Exports		638.3	552.5	1,061.5
Total Production		5,654.9	5,545.9	5,607.2
Imports		508.0	779.9	661.3
Energy Required to meet Transmission Load		1,744.9	1,575.1	2,125.6
Energy Required to meet Distribution Load		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		4,464.6	4,677	4,270.4
Distribution losses and unbilled energy				
Technical and commercial losses	%	23.13%	28.0%	20.6%
	GWh	979.0	1,241.5	830.9
Unbilled supplies	%	5.21%	5.3%	5.7%
	GWh	232.5	246.5	243.3
Total losses	GWh	1,211.4	1,488.0	1,074.2
Sales to final customers		3,253.1	3188.3	3,196.2

5 Maximum Allowed Revenues of KOSTT

Under the TSO/MO Pricing Rule (Schedule 1), the MAR for KOSTT is calculated annually according to the following formula:

$$MAR_t = OPMC_t + DEPC_t + RTNC_t + ACVC_t + LSSC_t + LICC_t - ITCR_t + KREV_t$$

Where

MAR_t is Maximum Allowed Revenues in Relevant Year t

$OPMC_t$ is allowed operating and maintenance costs in Relevant Year t

$DEPC_t$ is allowed depreciation in Relevant Year t

$RTNC_t$ is allowed return on capital in Relevant Year t

$ASVC_t$ is allowed cost of ancillary services in Relevant Year t

$LSSC_t$ is allowed cost of losses in Relevant Year t

$LICC_t$ is the Licence Fee in Relevant Year t

$ITCR_t$ is net revenues to the TSO/MO under the Inter-TSO Compensation Mechanism in Relevant Year t

$KREV_t$ is the revenue correction factor in Relevant Year t

The calculation of each of these components is discussed below.

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. 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, KOSTT has requested that allowed operating expenditures (OMPC) are further increased due to recent salary increases and that the efficiency factor incorporated in the annual adjustment calculation is not applied. 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 to, 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 Allowed 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 and, therefore, ERO adopted a slightly modified version of the adjustment formula specified in the Pricing Rule. The formula used in previous annual adjustments and applied in ETR10 is shown below:

$$OPMC_t = OPMC_{t-1} * (CPI_{t-1}) * OPMC_{ft}$$

Where

OPMC_t is allowed operating and maintenance costs in Relevant Year *t*

OPMC_{t-1} is allowed operating and maintenance costs 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, 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

OPMC_{ft} is allowed forecast operating and maintenance costs in Relevant Year *t*, which is set at Periodic Reviews This already includes adjustments for assumed improvements in efficiency

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 €6.7 million.

5.3 Allowed Depreciation (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 with the formula adopted in previous years:

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

Where

$DEPC_t$	<i>is allowed depreciation in Relevant Year t</i>
$DEPC_{t-1}$	<i>is allowed depreciation in Relevant Year t-1</i>
CPI_{t-1}	<i>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</i>
$DEPC_{ft}$	<i>is allowed forecast depreciation in Relevant Year t, which is set at Periodic Reviews</i>

The allowed depreciation for ETR10 is set to €7.0 million.

5.4 Allowed Return in Capital (RTNCt)

As in the OPMct and DEPCt components calculation, ERO had not profiled or smoothed the allowed return during the Periodic Review. This component has therefore been calculated by the following formula:

$$RTNC_t = RTNC_{t-1} * (CPI_{t-1}) + RTNC_{ft}$$

Where

$RTNC_t$	<i>is allowed return on capital in Relevant Year t</i>
$RTNC_{t-1}$	<i>is allowed return on capital in Relevant Year t-1</i>
CPI_{t-1}	<i>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</i>
$RTNC_{ft}$	<i>is allowed forecast return on capital in Relevant Year t, which is set at Periodic Reviews</i>

The allowed return of the TSO/MO for ETR10 has been set at €3.3 million.

5.5 Allowed Cost of Ancillary Services (ASVct)

In ETR9 KOSTT has provided estimates of the availability payments associated with procuring secondary and tertiary reserves for the operation of KOSTT as a separate control area (under ENTSO-E rules²) from June 2015. After reviewing KOSTT’s proposal, ERO allowed in the ETR9 KOSTT MAR €3.9 million for the forecasted costs of the reserves contacts. However, the ancillary service costs

² ENTSO-E is the European Network of Transmission System Operators for Electricity (there is a parallel network for natural gas TSOs). Under ENTSO-E rules, each country has a separate TSO and is operated as a separate control area for the purposes of electricity transmission system control. This brings with it a number of obligations such as ensuring adequate provision of ancillary services from resources located within or contracted to that zone. To date, due to the failure to reach agreement on status between Serbia and Kosovo, ENTSO-E has considered Kosovo to be combined with Serbia for this purpose. As part of ongoing status talks, Serbia has agreed to the recognition of Kosovo as a separate control area under KOSTT for ENTSO-E purposes but this has not yet been implemented.

were not realized in 2015, as KOSTT did not start operating as a control area as planned. The operation of KOSTT as a regulatory zone was initially postponed to November 2015 and currently there is uncertainty over the exact date that KOSTT will be able to operate as a control area in its own right.

ERO will deduct from the ETR10 KOSTT MAR the €3.9 million that were allowed in ETR9 MAR for ancillary service costs that were not realized. The equivalent amount of €3.9 ancillary service costs collected from KOSTT in Relevant Year t-1 is assumed to be €4.4 million in ETR10 after applying the interest rate for the Relevant Year t (used to correct for the time value of money, see Section 5.6 for further detail on the calculation of this adjustment).

KOSTT has assumed that the ancillary service costs for the Relevant Year t will be similar to the previous year ancillary service costs. Therefore, ERO has allowed for €3.9 million to be recovered in ETR10 for ancillary service costs associated with KOSTT beginning to operate as a separate control area.

5.6 Allowed Cost of Losses (LSSCt)

Allowed Cost of Losses for the TSO is set during each Regular Adjustment through the following formula (Schedule 1 paragraph 2.4 of the TSO/MO Pricing Rule):

$$LSSC_t = LSSA_t * REUE_t * WHEA_t + (LSSCa_{t-1} - LSSCf_{t-1}) * (1 + I_t) + (LSSCa_{t-1} - LSAC_{t-1}) * LSSF_t$$

Where

$LSSC_t$ is allowed cost of losses in Relevant Year t

$LSSA_t$ is the Loss Allowance, which is a percentage of energy entering the Transmission System, in Relevant Year t

$REUE_t$ is the energy units (in MWh) entering the Transmission System in Relevant Year t

$WHEA_t$ is the average wholesale energy cost (in €/MWh) as determined using the allowed wholesale energy cost for the PES in Relevant Year t

$LSSCa_{t-1}$ is the actual allowed cost of losses in Relevant Year t-1 (calculated using the Loss Allowance)

$LSSCf_{t-1}$ is the forecast cost of losses in Relevant Year t-1 (calculated using the Loss Allowance)

I_t 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

$LSAC_{t-1}$ is cost of losses actually incurred by the TSO in purchasing energy from the PES as compensation for energy lost on the Distribution System in Relevant Year t-1 (not calculated using the Loss Allowance)

$LSSF_t$ is the Loss Sharing Factor in Relevant Year t , which is set at Periodic Reviews

The interest rate used to calculate the compensation between actual and allowed costs in the previous Relevant Year has been calculated using the S-premium set by ERO during the Periodic Review (15.0%) plus the current one year EURIBOR rate (-0.13%³). The resulting interest rate used for adjustments has therefore been set to 14.87%. The Loss Sharing Factor in Relevant Year t is set to 50% similarly to previous years. The allowed loss target under ETR10 is 1.80%. The calculation is summarized in the following table.

The wholesale electricity cost used in this calculation (WHEA_t) is not yet final as this is dependent on final decisions on the estimated costs of generation and imports into Kosovo for 2016. Therefore, the values shown here may be subject to some amendment prior to ERO's final decision depending on these accompanying decisions.

Table 3 Calculation of the Allowed Cost of Losses of the TSO

KOSTT MAR		ETR ₉ (2015) Allowed	ETR ₉ (2015) Actual	ETR ₁₀ (2016) Proposed
Indexation parameters				
Loss sharing factor	%	50.00%		50.00%
Euribor	%	0.25%		-0.13%
S-factor	%	15.00%		15.00%
It	%	15.25%		14.87%
Allowed Losses (LSSCt)				
Allowed Losses				
LSSAt	%	1.80%	1.74%	1.80%
REUEt	GWh	6,162.9	6,313.4	6,331.8
WHEAt	€/MWh	28.24	30.3	32.7
LSSCat-1	€m		3.2	
LSSCft-1	€m	3.1		3.7
LSACt-1	€m		3.1	
LSSCt	€m	3.0		3.9

The resulting allowed cost of losses for KOSTT under ETR10 is €3.9 million.

³ Euribor Rate for 19 February 2015 <http://www.euribor-rates.eu/euribor-rate-12-months.asp>

5.7 Allowed Cost of Licence Fees (LICct)

The Licence Fee allowance has been set to zero in line with expected Licence Fee costs for 2016.

5.8 Allowed Revenues for the Inter-TSO Compensation Mechanism (ITCRt)

No revenues have been deducted for the Inter-TSO Compensation Mechanism (ITC) as no revenues have been earned by KOSTT under this mechanism during 2015⁴.

5.9 Revenue Correction (KREVt)

It is assumed that KOSTT's costs are largely fixed but its revenues are dependent on volumes transmitted and peak demand. To correct for this discrepancy, KOSTT is permitted to recover the difference between the Maximum Allowed Revenues (MAR) allowed by ERO for the preceding Relevant Year and the Actual Regulated Revenues collected during t-1 period. The formula for this adjustment is shown below:

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

Where

ARR_{t-1} is the Actual Regulated Revenues in Relevant Year t-1

MAR_{t-1} is Maximum Allowed Revenues as determined in Relevant Year t-1

I_t is the interest rate for the Relevant Year t calculated based on EURIBOR plus 5%, where 5 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 difference between the MAR allowed by ERO of €25.8 million and the ARR collected by the TSO/MO of € 23.9 million is returned to the TSO/MO MAR with an interest adjustment.

5.10 KOSTT Total Maximum Allowed Revenues

The total MAR for KOSTT for 2016 is €22.3 million.

The calculation of this value is shown below.

This represents a decrease of €3.7 million or 14% on the approved MAR for 2015 (under ETR9). This decrease is primarily attributable to the claw-back of the allowance for ancillary services costs provided in 2015 which was not utilized (equivalent to a reduction in the 2016 MAR of €4.4 million after an interest rate adjustment is applied).

As the volume of transmitted energy is expected to increase between 2015 and 2016 by approximately 3%, the change in average transmission charges will be greater than the change in allowed revenues.

⁴ KOSTT will only earn revenues under the ITC mechanism once it becomes a separate control area under ENTSO-E rules.

Table 4 KOSTT MAR proposal

KOSTT MAR		ETR ₉ (2015) Allowed	ETR ₉ (2015) Actual	ETR ₁₀ (2016) Proposed
Indexation parameters				
Efficiency Factor	%	4.00%	4.00%	4.00%
Profiling Factor	%	0.00	0.00	0.00
HICP	%	0.43%	0.21%	0.20%
Euribor	%	0.25%	-0.13%	-0.13%
S-factor	%	15.00%	15.00%	15.00%
It	%	15.25%	14.87%	14.87%
Operating and Maintenance Costs (OPMC_t)				
$OPMC_t = OPMC_{t-1} * (1 + CPI_{t-1}) * (1 - E_t) * (1 - P_t)$	€m	6.88		6.39
Allowed Depreciation (DEPC_t)				
$DEPC_t = DEPC_{t-1} * (1 + CPI_{t-1}) * (1 - P_t)$	€m	7.01		6.97
Allowed Return (RTNC_t)				
$RTNC_t = RTNC_{t-1} * (1 + CPI_{t-1}) * (1 - P_t)$	€m	3.57		3.26
Ancillary Services				
Ancillary Services	€m	3.87		-0.57
Allowed Losses (LSSC_t)				
LSSA _t	%	1.80%	1.77%	1.80%
REUE _t	GWh	6,162.86	6,217.77	6,331.76
WHEA _t	€/MWh	28.24	29.23	34.01
LSSCA _{t-1}	€m		3.16	
LSSCft ₋₁	€m	3.13		3.18
LSAC _{t-1}	€m		3.11	
LSSC _t	€m	3.02		3.88
KREV				
	€m	1.54		2.17

KOSTT MAR		ETR ₉ (2015) Allowed	ETR ₉ (2015) Actual	ETR ₁₀ (2016) Proposed
KOSTT MAR				
Adjustment	€m	-0.2		
MAR _t	€m	25.76	23.87	22.09

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