



Third Electricity Tariff Review 2009 – Consultation Paper KOSTT Supplement

5 March 2009

DISCLAIMER

This Consultation Paper Supplement has been prepared by ERO in order to obtain comments and views from stakeholders. It is not a decision document and should not be considered to represent a decision by ERO.

1 Introduction

The Energy Regulatory Office (ERO) is currently conducting its third review of retail electricity tariffs to be charged by KEK JSC¹ and transmission charges applied by KOSTT JSC from 1st April 2009. ERO received final tariff applications from KEK and KOSTT on 18th February 2009. This paper is a supplement to the Consultation Paper issued by ERO on 3rd March 2009, setting out initial proposals on allowed revenues and retail tariffs. It describes the implications of these proposals for KOSTT's charges. Comments on these proposals will be accepted until 13th March 2009 and should be sent either by email to ero.pricing-tariffs@ero-ks.org, with the subject line "ETR₃ Comments", or in written form to the address below, marked for the attention of "Pricing and Tariffs Department".

2 Allowed revenues for KOSTT

2.1 Allowed revenues excluding transmission loss allowance

As set out in the main Consultation Paper, ERO proposes that KOSTT is permitted to recover €11.8 million in allowed costs, excluding the costs of transmission losses, in 2009.

2.2 Purpose of the transmission loss allowance

KOSTT is required to purchase the actual costs of transmission losses incurred in serving customers within Kosovo from KEK's Supply business. It is able to recover these costs up to a reasonable level, as determined by ERO, as part of its allowed revenues.

The costs of losses are not included in the proposed allowed revenues for KOSTT set out in the Consultation Paper. In determining KOSTT's allowed charges, these costs of losses need to be added to the revenues to be recovered from these charges. In turn, a corresponding additional revenue allowance is added to the allowed revenues of KEK Supply, matched by a corresponding increase in expected unregulated revenues (so that the net impact on KEK Supply's costs and on retail tariff is zero).

2.3 Proposed transmission loss allowance for 2009

ERO has proposed that the allowed transmission loss factor (TLF) applied in 2009 should equal that of 1.041 applied in 2008, rather than being increased as proposed by KOSTT. Based on information submitted by KEK, ERO expects that total volumes transmitted (defined as imports and transmission-connected generation less exports) by KOSTT will be 5,059 GWh. Together, this gives an expected volume of transmission losses of 199 GWh in 2009.

The cost of purchasing these losses is set at the average cost of power purchases at the transmission level, which is the average of the allowed revenues of KEK's Generation and Mining businesses, plus the allowed costs of power purchases from non-KEK transmission-connected generators and from imports divided by the total power purchases to meet Kosovan demand. This is equal to €31.3/MWh under ERO's proposals as set out in the Consultation Paper. The total allowed losses allowance for KOSTT would, therefore, be €6.2 million.

The total allowed revenues for KOSTT proposed by ERO for 2009 are, therefore, €18 million including allowed losses.

Table 1: Allowed revenues summary

| | | 2009 Proposed |
|---|--------------|------------------|
| Allowed revenues excluding ancillary services and transmission losses | €0 005 | 10,237 |
| Ancillary services purchase allowance | €0 005 | 1,591 |
| Allowed revenues excluding transmission losses | €0005 | 11,828 |
| Transmission losses purchase allowance | €0 005 | 6,228 |
| Total allowed revenues | €0005 | 18,056 |

3 Proposed transmission charges

KOSTT is permitted to apply three sets of transmission charges:

- Transmission Use of System (TUoS) charges, set to recover KOSTT’s costs as Transmission Network Owner (TNO). These are the costs of investing in and maintaining the network.
- System Operator (SO) charges. These recover KOSTT’s costs as the transmission SO and include the costs of purchasing ancillary services and transmission losses.
- Market Operator (MO) charges. These recover KOSTT’s direct costs as the operator of the wholesale electricity market in Kosovo.

In their application, KEK have suggested some small changes to the split of costs between TUoS and SO charges from those applied in 2008, as shown in Table 2, below, which means some changes in relative charges. These have not been explained in the application. ERO intends to review these changes with KOSTT before reaching a final view on them.

Table 2: Split of costs between charges

| | 2008 Allowed | 2009 Proposed |
|--|-----------------|------------------|
| TNO costs (recovered from TUoS charges) | | |
| 400/220kV | 40.3% | 43.1% |
| 110kV | 42.8% | 42.3% |
| SO direct costs (excluding costs of losses and ancillary services) | 15.6% | 12.9% |
| MO costs | 1.3% | 1.8% |

Costs of losses and ancillary services are allocated to SO charges

ERO expects chargeable demand at the 400/220kV level to decline in 2009, due to reduced demand from Feronikeli. ERO considers it would be inappropriate for this temporary change to result in large increases in TUoS charges at this voltage level (which would unfairly penalize customers at this level)². Instead, ERO proposes that TUoS charges at both voltage levels are adjusted upwards by the same percentage amount. This has been applied in calculating the proposed charges below. Chargeable demand for SO and MO charges is, as in 2008, calculated as the sum of energy entering the transmission system from generators located in Kosovo and exiting the transmission system to serve customers in Kosovo³. ERO will review and confirm these estimated demand figures prior to a decision on the final charges to apply for 2009.

² TUoS charges are calculated as total revenues from TUoS charges allocated to each voltage level divided by demand at that voltage level.

³ TUoS charges only apply to demand. SO and MO charges apply to both generators and demand.

Table 3: Calculation of proposed transmission charges

| | | 2008 | 2009 |
|--|------------------|--------|---------------|
| | | Tariff | Proposed |
| Total TNO costs | €0 00s | | 8,739 |
| Chargeable demand (400/220kV + 110kV) | MW | | 887 |
| TUoS charge 400/220kV | €/kW/year | 3.618 | 4.636 |
| Chargeable demand (110kV) | MW | | 848 |
| Unit charge 110kV | €/kW/year | 4.260 | 5.458 |
| TUoS charge 110kV (includes 4,00/220kV TUoS charge) | €/kW/year | 7.878 | 10.094 |
| Total TUoS charge revenue | €0 00s | | 8,739 |
| SO direct costs | €0 00s | | 1,317 |
| Costs of losses | €0 00s | | 6,228 |
| Costs of ancillary services | €0 00s | | 1,591 |
| Total SO costs | €0 00s | | 9,136 |
| Chargeable demand | GWh | | 9,714 |
| SO charge | €/MWh | 0.289 | 0.941 |
| Total MO costs | €0 00s | | 180 |
| Chargeable demand | GWh | | 9,714 |
| MO charge | €/MWh | 0.013 | 0.019 |
| Total KOSTT allowed revenues | €0 00s | | 18,056 |