KORPORATA ENERGJETIKE E KOSOVËS Sh.a.
KOSOVO ENERGY CORPORATION J.S.C.
ENERGETSKA KORPORACIJA KOSOVA D.D.

Supplemental Tariff Application - KEK Supply

- Final -

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Prishtina

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1 Introduction

On 07 May 2007, the ERO Board issued Decision No. D_47_2007 in which it decided to reconsider Decision No. D_29_2006 concerning the level of Allowed Revenues for KEK.

On 25 April 2007, KEK requested ERO to review the level of Allowed Revenues to be included in tariffs as follows:

Allowed Revenues approved 21 Dec 2006	€ 141.9 million
Proposed Reductions	€ 6.9 million
Revised Allowed Revenues	€ 135.0 million

The purpose of this submission is to propose a tariff design for each customer class that will recover the Revised Allowed Revenues.

This application is to be considered a supplement to the original application filed by KEK on 19 February 2007 in which there were significant issues raised concerning tariff design in the context of KEK's efforts to become a more commercially oriented enterprise and improve metering, billing, and collection. Accordingly, and insofar as this Supplemental Application does not address certain issues concerning tariff design and other issues, ERO should also refer to KEK's original application filed on 19 February 2007.

2 Allocation of Allowed Revenues to Customer Classes

The tariffs must conform to the Law on the Energy Regulator and the Tariff Methodology, in particular the requirements on cost-reflectiveness and non-discrimination as required in that methodology. In addition it is required to analyze the determination of the existing charges especially the relation between the relative charges of the different customer categories and the cost of supplying these customers.

The current tariffs of KEK were approved 1 July 2000 and calculated for the integrated utility without eligible customers. The tariffs proposed herein are primarily based around voltage and can be broken down into a standing (demand) charge, active energy charge, and reactive energy charge with many of the tariffs are based on seasons and, for other than residential customers the time of day (see section 4 of this application).

With six years without updating and changing the tariff structure a revision of the tariffs is needed in order to fulfill the requirements of the new tariff methodology for Kosovo as issued by ERO 15 December 2005.

ERO has developed a Tariff Model which can be used to implement the tariff methodology and allocate the Allowed Revenues to customer classes. ERO input the Allowed Revenue in the model and determined that the appropriate allocation to customer classes (incorporating cost reflectiveness and the need to reduce cross subsidies) is as follows:

	Category	Allowed Revenue (€000)
0	110 KV	4,424
1	35 KV	1,338
2	10 KV	9,897
3	Comm'l Large	8,020
4	Comm'l Small	27,000
5	Household - TOU	67,274
6	Household - 1 Meter	12,279
7	Household Unmetered	3,933
8	Public Lighting	817
	TOTAL	**134,982**

KEK recognizes that ERO devoted significant resources to develop and implement this model and accepts the results of the allocation of Allowed Revenue to customer classes in accordance with the Tariff Methodology.

The above amounts were utilized to design tariffs by class as discussed in Section 3.

3 Tariff Design

Once the Allowed Revenue is determined and allocated to customer classes, the next step is to design tariffs to recover those revenues.

For transparency, KEK utilized the ERO model to design tariffs. This facilitates keeping costs by tariff class separate and allows the Board to easily examine the manner in which costs are recovered.

The Tariff Methodology and Pricing Rule discuss the determination of Allowed Revenue by licensed activity (unbundled) and the manner in which Allowed Revenue is to be allocated to customer classes in order to be cost reflective and minimize cross subsidies. There is very little guidance, however, as far as the design of individual tariffs (demand component, energy component, etc.).

KEK has utilized the tariff model in order to design tariffs in a manner that we feel will allow the company to recover Allowed Revenue in a reasonable manner considering the business, financial, and operational conditions it faces.

Following is a discussion of the tariff design, focusing primarily on significant changes from the existing design:

Tariff Group 0 – 110 KV

The demand charge which previously varied by season was simplified to a lower level of € 7.50 per KW for the entire year. Energy charges were increased to reflect the lower demand component and to more appropriately reflect the increasingly higher cost of imported power in the winter.

Tariff Group 1 – 35 KV

The demand charge which previously varied by season was simplified to a lower level of € 7.00 per KW for the entire year. Energy charges were increased to reflect the lower demand component and to more appropriately reflect the increasingly higher cost of imported power in the winter.

Tariff Group 2 – 10 KV

The demand charge which previously varied by season was simplified to a lower level of € 6.00 per KW for the entire year. Energy charges were increased to reflect the lower demand component and to more appropriately reflect the increasingly higher cost of imported power in the winter.

Tariff Group 3 – Large Commercial (0.4 KV)

The demand charge which previously varied by season was simplified to a lower level of € 5.00 per KW for the entire year. Energy charges were increased to reflect the lower demand component and to more appropriately reflect the increasingly higher cost of imported power in the winter.

Tariff Group 4 – Small Commercial (0.4 KV)

These customers do not have demand meters. The existing tariffs utilize the concept of an "imputed" demand based on energy consumed in the peak period. This was confusing to customers and the proposed tariffs eliminate the demand charge and instead increase the energy charge in the peak period.

Tariff Groups 5 and 6 –Domestic

These customers do not have demand meters. The existing tariffs utilize the concept of an "imputed" demand based on energy consumed in the peak period. This was confusing to customers and the proposed tariffs eliminate the demand charge which averaged approximately € 3.60 per month per customer.

A Customer Charge was introduced in accordance with the Tariff Methodology to recover the cost of meter reading, billing, collection, and other customer related costs. This was determined by ERO to be approximately 20 to 24 Euros per customer per year. KEK feels that it is important to also recover a portion of its other fixed costs in this Customer Charge (similar to the demand component in the existing tariff). We, therefore, include a € 5 per month fixed component of the tariff which may be referred to as a Per Meter Charge in order to recover a portion of the fixed costs. This will also help dissuade customers from abusing the block tariff structure. The remainder of costs are recovered in the energy charge.

KEK proposes to continue a 2 block structure but the blocks have been redefined as follows:

0 – 600 kWh per month

Above 600 kWh per month

Since the ERO model utilized a 3 block structure while we propose a 2 block structure, we priced the first 2 blocks (which cover up to 600 kWh) at the same values.

The Proposed tariffs are shown in the table along with a comparison to the existing tariffs.

KEK is proposing these tariffs to ERO. In the event ERO decides to impose a different tariff design, KEK will require an additional 60 – 90 days to implement program changes and procedures to put a new scheme in effect. In the interim, the existing tariffs would be in effect.

Tariff Group	Voltage level of supply	Tariff elements	Unit	Time-of-day (a)	Previous		KEK Proposal	
					High season 1 October - 31 March	Low season 1 April - 30 September	High season 1 October - 31 March	Low season 1 April - 30 September
0	110kV	Standing (customer) charge	€/customer/year				34.00	
		Standing (demand) charge	€c/kW		1,150.00	895.00	750.00	750.00
		Active energy (P), of which:	€c/kWh	High tariff	2.68	2.11	4.25	1.75
			€c/kWh	Low tariff	1.34	1.09	2.00	1.40
		Reactive energy (Q)	€c/kVArh		1.41	1.15		
1	35kV	Standing (customer) charge	€/customer/year				30.00	
		Standing (demand) charge	€c/kW		1,278.00	959.00	700.00	700.00
		Active energy (P), of which:	€c/kWh	High tariff	3.20	2.56	5.50	2.70
			€c/kWh	Low tariff	1.60	1.28	2.50	2.40
		Reactive energy (Q)	€c/kVArh		1.28	0.96	0.04	0.04
2	10kV	Standing (customer) charge	€/customer/year				34.00	
		Standing (demand) charge	€c/kW		1,278.00	959.00	600.00	600.00
		Active energy (P), of which:	€c/kWh	High tariff	3.52	2.81	6.20	3.00
			€c/kWh	Low tariff	1.76	1.41	3.10	2.75
		Reactive energy (Q)	€c/kVArh		1.28	0.96	0.32	0.32
3	0.4kV Category I (large reactive power	Standing (customer) charge	€/customer/year				29.00	
		Standing (demand) charge	€c/kW		852.00	631.00	500.00	500.00
		Active energy (P), of which:	€c/kWh	High tariff	5.11	3.83	7.50	4.00
			€c/kWh	Low tariff	2.56	1.92	3.25	2.40
		Reactive energy (Q)	€c/kVArh		1.28	0.96	1.53	1.53
4	0.4kV Category II	Standing (customer) charge	€/customer/year				34.00	
		Standing (demand) charge	€c/kW		253.00	189.00		
		Active energy (P)	€c/kWh	Single tariff	7.57	5.68	9.73	6.23
		Active energy (P), of which:	€c/kWh	High tariff	9.47	6.94	11.05	6.35
			€c/kWh	Low tariff	5.05	3.79	7.14	6.01
5	0.4kV (domestic 2-rate meter) (c)	Standing (customer) charge	€ /customer /month				5.00	
		Standing (demand) charge of which: (b)						
		<800 kWh/month	€c/kWh		144.00	115.00		
		>800 kWh/month	€c/kWh		192.00	144.00		
		Active energy (P), for consumption:						
		<200kWh/month (First Block) of which:	€c/kWh	High tariff	4.80	3.83	4.20	3.10
			€c/kWh	Low tariff	2.40	1.92	2.10	1.55
		200-600 kWh/month (Second Block) of w	€c/kWh	High tariff	4.80	3.83	4.20	3.10
			€c/kWh	Low tariff	2.40	1.92	2.10	1.55
		>600 kWh/month (Third Block) of which:	€c/kWh	High tariff	5.11	3.83	8.50	6.32
			€c/kWh	Low tariff	2.56	1.92	4.25	3.17
6	0.4kV (domestic, 1-rate meter) (c)	Standing (customer) charge	€ /customer /month				5.00	
		Standing (demand) charge of which: (b)						
		<800 kWh/month	€c/kWh		144.00	115.00		
		>800 kWh/month	€c/kWh		192.00	144.00		
		Active energy (P), for consumption:						
		<200kWh/month (First Block) of which:	€c/kWh	Single tariff	3.99	3.20	2.99	2.11
		200-600 kWh/month (Second Block) of w	€c/kWh	Single tariff	3.99	3.20	2.98	2.11
		>600 kWh/month (Third Block) of which:	€c/kWh	Single tariff	6.39	4.80	7.77	3.53
7	0.4kV (domestic unmetered)	Estimated consumption <400kWh/month	€/customer/month		20.00	20.00	20.00	
		Estimated consumption 400-800kWh/mon	€/customer/month		36.00	36.00	36.00	
		Estimated consumption >800kWh/month	€/customer/month		61.00	61.00	61.00	
8	Public lighting	Standing (customer) charge	€ /customer /month				34.00	
		>800 kWh/month	€c/kWh	Single tariff	8.21	6.31	7.82	7.82