



KORPORATA ENERGETIKE E KOSOVËS sh.a.
KOSOVO ENERGY CORPORATION J.S.C.
ENERGETSKA KORPORACIJA KOSOVA D.D.

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I Nr. 85 Dt. 20.03.2008
PRISHTINË-A

To: **Dr. Ali Hamiti**
Chairman of Energy Regulatory Office of Kosovo ("ERO")

From: **Remzi Shahini,**
Managing Director KEK J.S.C.

CC: **Nagip Krasniqi**
Chief Financial Officer KEK J.S.C.

Fadil Ismajli – KOSTT

Date: March 20.2008

**Note: KEK J.S.C. Comments to the ERO's Consultation Paper,
Regarding the Review of Electricity Tariff for 2008**

Dear Dr. Hamiti,

In accordance with the Energy Regulatory Office, Kosovo Energy Corporation (KEK J.S.C.) submits the Comments to the ERO's Consultation Paper of Electricity Tariff Review 2008

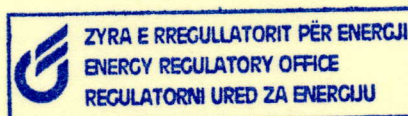
Please, find attached our comments.

Sincerely


Driton Rrustemaj
Director of Regulatory Affairs




Remzi Shahini
Managing Director KEK J.S.C.



Nr. 265/08
Data. 20.03.08 EBO AEO

KEK RESPONSES TO ERO CONSULTATION PAPER

The Consultation Paper "Electricity Tariff Review 2008" issued by the Energy Regulatory Office (ERO) on 10 March 2008 invited comments from stakeholders. The Kosovo Energy Company (KEK) has differing opinions on many of the ERO's proposals and submits these comments with substantive responses.

The revenue and tariff model (RTM) was used to calculate the Allowed Revenues by using the data from KEK as well as other inputs from the previous version used in last year's tariff process. KEK's assessment is that the model, as it is presented, appears to be conceptually correct. However it is a very complex and cumbersome Excel spreadsheet program with many worksheets (42) and hundreds of linkages between cells in the worksheets; a less experienced tariff analyst would have extreme difficulty in evaluating the correctness of the model outputs. KEK would like to point out that in many cases, input data, such as the coincident load data for each tariff category, is estimated and the model uses other data that is undocumented. Therefore, KEK has not been able to evaluate whether the assumptions for the data are reasonable.

Throughout the Consultation paper, there are numerous comparisons with the 2007 Allowed Revenues and the actual revenues collected by KEK. While this information may be useful for some purposes, the Tariff Application is based on a calendar year of 2008, as agreed between the ERO and KEK. This was recognized in the Consultation paper (page 4) by the ERO which states that the "comparisons of allowed and actual costs for 2007 are in large part misleading". Therefore KEK is puzzled by all of the comparisons between the two years and does not believe that they provide an accurate picture of the changes anticipated for 2008. Also, during one consultation meeting of the ERO and KEK, it was decided that the tariffs should be based solely on the costs and revenues for 2008.

Allowed Revenues

KEK submitted its Tariff Application with the budget Capital Expenditures (CAPEX) and Operating Expenditures (OPEX) approved by the Board of Directors. The Consultation paper recommendations have reduced the capital expenditures because "funding is committed". The result in the calculation of the Allowed Revenues is a decrease in the amount of depreciation expenses and return allowed. KEK would like to point out that the KCB has been approved for 79 million € in loans and 38 million € in grants.

KEK would like to point out that it did not reduce its request for the amount of Allowed Revenues, as suggested in the paper; the adjustments shown are made by the ERO.

Tariff Model is a "tops-down" approach and is based on the Energy Balance which was developed by KEK and KOSTT. The ERO has reduced the amount of distribution commercial losses and has indicated that these losses would become sales to KEK's distribution customers. KEK does not agree with the reduction of "commercial losses", which includes a large amount of energy that KEK is required to provide to minority areas (which represent approximately 9% of available energy). The effect of this in the calculation of the prices is to reduce the prices since the amount of Allowed Revenues are spread over more kWh sales. While this may appear to be the appropriate method to handle this, KEK would like to point out that changing the amount of allowed losses for distribution will not automatically lead to increased sales. In fact, it is more likely that KEK would reduce the high-cost imports.

Cost-Reflective Tariffs

KEK supports the ERO's proposal for proper tariffs for reactive power provided to large customers. However, the costs need to be better evaluated in the future and tariffs developed that reflect the costs that are determined from a proper reliable study.

ERO accepted most of KEK's recommendations on the Standing Customer charge for the large customers but has not accepted the same for the low-use customer categories. This policy is not consistent with moving towards cost-reflective tariffs that was proposed by KEK in its Tariff Application.

The ERO has recommended across-the-board increases in the energy prices, thus there is no movement towards cost-reflective tariffs. KEK believes that cost-reflective prices are appropriate since they provide the proper economic signal to consumers of electricity. Without this price signal, consumers are likely to make choices that are incorrect and lead to inefficient use of a valuable resource in Kosovo.

KEK does not agree with the ERO that "Bad Debt" expenses be excluded from the calculation of the Allowed Revenues. This is a cost of doing business that is recognized by most, if not all, regulators throughout the international community. KEK is unaware of any utility in the world (or any other business for that matter) that does not have a small amount of bad debt that is ultimately paid for by other customers.

Tariff Structures

Continuation of the Time-of-Day (TOD) tariff will lead to continued abuse and with no benefit to KEK as far as lowering costs. According the ERO Tariff Model, the current tariff category 5 customers consume 56.8% of the total retail sales of KEK. With such a high percentage of the overall system sales it would seem appropriate that the system load shape and the group 5 category load shape be quite similar. However, the percentage of billing kWh is not proportionate with the system loads. This table shows the 2006 system energy loads compared to the Group 5 customer use as provided in the ERO Tariff Model.

<u>Pricing Period</u>	<u>kWh</u>	
	<u>Group 5</u>	<u>System</u>
Summer Low	52.95%	29.44%
Summer High	<u>47.05%</u>	<u>70.56%</u>
Total	100.00%	100.00%
Winter Low	52.86%	34.72%
Winter High	<u>47.14%</u>	<u>65.28%</u>
Total	100.00%	100.00%

As indicated in the table, there is not the expected correlation between the system energy for peak (high) and off-peak (low) and the billing kWh for these time periods. For example, during the summer, the system loads during the low period represent less than 30% of the overall energy use. However, during the same pricing period, the billing kWh of the Group 5 consumers is over 52 %, nearly twice the amount of the system. KEK has pointed out to the ERO on several occasions that the time clocks on the meters have no battery backup and therefore due to load shedding are not set for the proper time. This results in the meter recording electricity usage that is not congruent with the actual time during each day. The ERO has indicated that this problem could be overcome with new meters, which may be true except that the costs for acquiring and installing new meters would be exorbitant.

Maintaining the current block tariff will not provide benefits for the vulnerable customers as discussed in KEK's Tariff Application. KEK would like to clarify the statement (page 13) in the Consultation paper that implies that KEK proposed to eliminate the block tariff; KEK proposed modifying the structure and making a two-block tariff instead of the current three-block tariff. While KEK agrees with the ERO that the criteria for eligibility has not been defined, this is not a good reason to reject the proposal of KEK and begin moving towards a tariff policy that provides for more vulnerable customers and disallows those who are not vulnerable from the benefits of the lower first block.