

	<b>APPLICATION FOR TARIFFS</b>	<b>FO-CLRR-032</b>
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20.01.2016

**Annual Update on the Seventh Review of Electric Energy Tariffs**

**Proposal for Allowed Revenues 2016**

January 2016

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## 1.0 INTRODUCTION

Energy Regulatory Office on November 11<sup>th</sup>, 2015 has initiated a process of an annual update for the review of electric energy tariffs for 2016.

Based on the obligation that arise from the TSO/MO Pricing Rule, KOSTT is presenting its expenditure and revenue report for 2015, as well as demand for these positions for 2016.

Reporting for the Results in 2014 was made after the Calendar Year January 1<sup>st</sup>, 2015 – December 31<sup>st</sup>, 2015.

Application for 2016 was made based on the Approved Budget for 2016.

## 2.0 KOSTT'S RESULTS DURING 2015

Continuously throughout the years since KOSTT was established it has continued the trend of positive results, meaning that also in 2015 success was achieved in all areas of operation whilst continuing development in reference to transmissions of European countries as well as becoming a model for those in the region.

Among the results for 2015 requiring a special attention are:

- Completion before the planned deadline of the 400 kV Line Project Kosovo-Albania
- LFC Project Implementation, successful testing KOSTT-TSO
- 110 kV NS Gjakova 1 – NS Gjakova 2 Line Project Implementation
- Signature of Ancillary Services Agreement with Albania
- Signature of Connection Agreement of Kosovo Energy System to the Synchronous Grid of Continental Europe, between KOSTT and ENTSO-E
- Admission of KOSTT into the ITC Mechanism
- Completion and successful approval of the questionnaire derived from the Operational Manual of ENTSO-E related to the evaluation of technical operational Standards Compatibility. Evaluation of these standards was made by the working group of experts from ENSTO-E
- Functionalization of Observational Zone with regional TSO's in the SCADA-EMS system
- Successful testing of the IT Market Platform
- Successful testing of Scheduling and Accounting

- Successful testing of DACF

During 2015, operational performance of KOSTT was quite good and it shows a continuous improvement. Advancements have been made in raising operational functions in monitoring and especially in real time system operation. Infrastructural system SCADA\EMS, Telecom and Commercial Measurements provide much more advanced possibilities for a high security operation, on planed basis and in real time, exchange of data between electro-energetic objects, neighboring TSO's and the Coordination Center of Control Blocks.

Commercial measuring infrastructure has improved considerably the readings of cumulative data for electric energy in all border points of the transmission network through usage of Optical Fiber which is owned by KOSTT-it.

As a result of engagements in this direction, there were no complaints about the tension by consumer, while system deviations were lower.

Providing qualitative and reliable services for the users of the transmission system, undoubtedly is among the duties of KOSTT and it is in line with its strategic objectives. Concerning the execution of this duty, operational performance of the transmission system during 2015 saw an emphasized increase.

Lines and sub-stations have been maintained according to the foreseen plan, by executing the annual maintenance plan for lines and sub-stations. Controls/inspections, remounts, testing protection relays, as well as interventions and preventions of malfunctions have been executed. Besides this other activities have been developed apart from the planned activities, which have influenced in increasing the performance of the transmission operations.

In fulfilling its objectives, one of which is regional integration, KOSTT has continued to face many challenges that arose during the integration process into regional mechanisms, by engaging at a maximum, especially in negotiating the operational agreement between KOSTT and neighboring TSO's. Activities of the working group have also been developed for the connection agreement with ENTSO/E.

Project implementation was initiated which will be financed by KfW within the Sector Program IV and V, amongst which is also the project for installing the second auto-transformer 300 MVA in NS 400/110 kV Ferizaj 2 and NS 400/110 kV Peja 3, etc.

KOSTT has once again proved its dedication to preserve its high financial performance, by completing the External Auditors Report for Auditing Financial Statements 2014, according to international standards without any qualifications.

### **3.0 REVENUES**

Based on the ERO Board Decision, No. V\_717\_2015 date 03.04.2015, Allowed Revenues for the tariff year 2015 for KOSTT were 25,764,270 €.

The table below shows data for attained allowed revenues for 2015.

Table 1. Allowed and Attained Revenues for 2015 2015

Viti Kalendarik 2015	Njësia	Lejuar	Realizuar	Ndryshimi	%
<b>Të Hyrat Totale</b>	<b>€'000</b>	<b>25,764.269</b>	<b>23,860.273</b>	<b>(1,903.996)</b>	<b>93%</b>
<b>TNUOS</b>	<b>€'000</b>	<b>15,499.518</b>	<b>15,225.613</b>	<b>(273.905)</b>	<b>98%</b>
<b>SO</b>	<b>€'000</b>	<b>9,908.467</b>	<b>8,299.706</b>	<b>(1,608.761)</b>	<b>84%</b>
<b>MO</b>	<b>€'000</b>	<b>356.284</b>	<b>334.954</b>	<b>(21.330)</b>	<b>94%</b>

It can be seen that the total attained revenues are 7% lower than the allowed. This was a result of the difference between the tariff year and the calendar year, where in the calendar year revenues for the first quarter are from tariffs of the previous year which were lower than tariffs of 2015. Also a contributing factor are also the flows of energy based on which revenues are collected for SO and MO.

#### 4.0 CAPITAL EXPENDITURES

As in previous years, 2015 was also a year of realization of projects that have started in previous years, meaning ongoing projects, preparing Terms of Reference and Technical Specifications for new project, as well as starting with the implementation of new projects.

Capital Expenditures for 2015 were 34,133,618.96€. While for 2016 there are 34,826,206.14€ planned. These data are based on the value of assets.

The following are justifications for new projects which are being implemented or that are foreseen for 2016, these are not part of the Investment Plan, however along the way the need for these investments arose.

##### 4.1 Increasing the value of projects

The projects whose value has changed compared to the Investment Plan 2013-2017 have been listed below.

- **Package Project: LOT 1 “LP 400kV Kosovo – Albania“, foreseen value is 30.500.000,00€ and LOT 2 “Secondary regulation -LFC: Kosovo – Albania” foreseen value 5.500.000€**

At the end of 2013 a contract was signed for **LOT 1, in the amount of 29,255,022.74€** without customs taxes, VAT, interest cost on loans and consultancy services. The project started late because of known reasons which were outside of KOSTT’s hands. After commissioning the project ended officially on 18.12.2015, two months before deadline.

Total Value of investments including customs taxes and consultancy services is **LOT 1 = 33,291,739.48 €**, which is an increase of the value of the project.

- **LOT 2 “Secondary regulation -LFC: Kosovo – Albania”, foreseen value 5.500.000€**

In 2013 a contract was signed for **LOT 2 in the amount of 5.058.112,00€** without customs taxes and VAT. The project has been completed.

Total Value of the Project will be approximately **5,662,964.00€**, which means there was an increase of the value of the project.

Based on the contract and its terms KOSTT had an obligation to also pay a EC guarantee for the portion that would be financed by a Loan for LOT 1 and LOT 2 – as a package.

*Note: Because of the terms of the agreement for financing with loans and donation, it has been foreseen to have a budget for 2016 for both LOT's (LOT 1 and LOT 2).*

- **Land Expropriation for the Kosovo – Albania Line:**

The initial amount of 500.000 € has been increased to a budget of 1,300,000€, because of the easements which were not foreseen at the beginning, this is because of the amendment of the law.

- **Group of project financed by IPA- 2011, 2012 and KfW - Loan:**

1) The new line 110 kV NS Peja 3- NS 110/35 kV Peja 1 and revitalization of NS Peja 1 (GIS); 2) Revitalization of the line 110 kV: L126/2 NS Peja 2- NS Deçan; 3) Replacement of switches for NS Prishtina 4; 4) Instalment of OPGW in interconnection lines 400 & 220kV; 5) Inter OST measurement groups in interconnection points; 6) Installation of the second auto-transformer ATR2, 300 MVA in NS 400/110kV Peja 3 and NS 400/110 kV Ferizaji2; and consultancy services, total planned value 30,850,000€.

The agreement for financing these projects was signed between KfW and KOSTT, EC has given donation for project and the Government of Kosovo has approved the loans for financing these projects in four LOT's:

- **LOT 1 – Substation – Value of project 7,599,902.00 €-**

- Revitalization of NS Peja 1( GIS) ;
- Replacement of switches in NS Prishtina 4 ;
- Inter OST Measurement Groups in interconnection points;
- Transformativ fields 400/110kV for transformers;

- **LOT 2 – Transformers – Value of project 4,443,000.00€**

- Installation of the second auto-transformer ATR2, 300 MVA in NS Peja 3 and NS Ferizaj 2 ;

- **LOT 3 – Transmission line – Value of project 8,532,671.00€**

- New line 110kV double NS Peja 3 - NS Peja 1;
- Revitalization of line 110kV LP 126/2 NS Peja 2- NS Decan
- Installation of OPGW in interconnection lines;

- **LOT 4 - Additional projects – Value of project 10,794,071.00€**

- Rehabilitation of substations NS Viti , NS Lipjan , NS Klinë ;
- Rehabilitation of own expenditures AC/DC in 110kV substations;

- 
- SCADA /EMS in NS KOS B and building of local SCADA in NS Prishtina 5 and NS Podujeva;
  - Second transformer in NS Gjakova 1;

The group of the abovementioned projects has also changed by grouping of inclusions of projects and the total value of the projects; Total Value of signed projects is **31,369,645.00€** (without customs services, ECA – guarantee, expropriation and easement, as well as consultancy services that has a value of approximately **4,407,590.98€**). These have been presented in a tabular form as new projects.

- **Group of Projects financed by EBRD / Loan (Q1 2016 - Q1 2019):**

In the group of Projects for load support:

- Construction of NS 110/10(20) - Mitrovica 2 with transmission lines 110 kV;
- Package Project of NS 110/10(20) kV-Prishtina 6 with underground cable lines 110 kV ;
- Package Project of NS 110/10(20) kV-Fushë Kosovë with transmission line 110 kV; additions are
- Package Project of NS 220/10(20) kV-Drenasi 2 with transmission line 220 kV.
- Revitalization of NS 110/35/10kV Theranda and
- Construction of the new line NS Therandë – NS Rahovec

Year of realization has changed for this group of projects, as well as source of financing, grouping (LOT1, LOT2 and LOT 3) and the addition of projects that has increased the total value of investments for 2013-2017. Total value of planned projects according to grouping for three LOT's is 33,200,000.00€ without customs taxes, expropriations and easements as well as consultancy services:

- **LOT 1 – Substation [110/10(20) kV – Value of project 17,200,000.00€**

- NS Prishtina 6 and 110 kV HIS in NS Prishtina 4;
- NS Fushë Kosova;
- NS Mitrovica 2 ;
- NS 220/10(20) kV - Drenasi 2 and
- Revitalization of TL equipment in NS Theranda

- **LOT2 – transformers of 40MVA power – Total planned value 6,600,000.00€**

- Substations NS Prishtina 6, 2x40 MVA, NS Fushe Kosova, 2x40 MVA, NS Mitrovica 2, and 2x40 MVA in NS Drenasi 2 ;

- **LOT 3 – Transmission lines – Total planned value - 9,400,000.00€**

- Double cable line NS Prishtina 6 - NS Prishtina 4 ;  
Double cable line 110 kV NS Fushe Kosova;  
Double line 220 kV Drenasi 2;
- Double cable line 110 kV Mitrovica2, and
- New single line 110 kV NS Rahoveci - NS Theranda

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The value of **2,479,346.00€** for consultancy services, expropriations and easements as well as customs taxes for EBRD projects have been presented within the new projects in the Investment Plan 2013-2017 table.

## 4.2 New projects in 2015

- **Software NEPLAN for DACF**

KOSTT is trying to fulfill the technical requirements in becoming a member of the ENTSO-E system association of operators.

One the criteria to be fulfilled is sending out 24 value of DACF (Day ahead congestion forecast) about KOSTT through EH. This requirement is an obligation of Policy nr.4 of the Operational Handbook of the ENTSO-E association. It should be emphasized that this requirement is applied for member TSO's and for those TSO's that plan on becoming members such as OST (Albania), TEIAS (Turkey) and a portion of Ukraine which just like KOSTT work in parallel with ENTSO-E headquartered in Switzerland.

Technical description for this project includes technical requirement as: creation of a base model for KOSTT (by finally separating it from the base model included in the base model of EMS of Serbia), populating that base with data on Electro-Energy System which fall under the responsibility of KOSTT, creation of necessary files with data on the total planned exchange for 24 hours, production of generators for 24 hours, network topology (status connected/disconnected) and load factors in consumption hubs.

Implementation of this project means activating the relevant **NEPLAN** software, data population, defining virtual hubs X, training and annual maintenance.

- **Supply with accessories for isolation strings out of polymer.**

This project's goal is to supply these accessories for maintenance purposes for the lines of 110 kV and 220 kV.

A portion of KOSTT transmission lines have had isolation replaced and switched from porcelain isolators to polymer isolators.

Earlier supply was made in these types of isolators and a sufficient amount is stored in the KOSTT's main storage as spare parts, these isolators should be combined with other accessories such as:

- discharge electrodes
- advanced tiles
- field regulation rings
- and other constituent parts of strings.

In order to use the isolators when necessary they need to be installed together with supporting accessories.

- **Supply of spare parts for lines and substation,**

This project enables a supply of elements that are necessary for functioning of the most important assets of the system, these are mainly connection elements and profiles of different types of towers. Realization of this project would enable supply of:

- Different profiles of transmission line towers,
- Bolts and substrates of different types,
- Different clamps for the needs of substation and lines, etc.



- **Update and addition of new modules for MO,**

This project includes the redundancy of the current market IT system, implementation of a testing system as well as maintenance of the IT system.

- ✓ **Redundancy of the system**

Redundancy of the system is part of the project which foresees that the current market IT system has a redundancy system so that operation of the market would have high reliance.

In conditions of a free market of electric energy, the system of market management needs to have high reliance, where protocols and security of exchange of data should be done based on standards and recommendations put forth by ENTSO-E (European Network Transmission System Operator for Electricity).

Market Information Technology enables fulfilling obligations coming out of Market Operator license, Market Rules, Technical Codes as well as requirements derived from the European directives, regulations which KOSTT as Kosovo's TSO is obligated to fulfill. Main requirements that this information technology needs to meet have to do with fulfillment of standards from the operational manual of ENTSO-E.

As a result of developments towards liberalization of the market of electric energy and integration of KOSTT in the region it is necessary that the Information Technology implemented for the Market Operator has an own redundant ("reserve") system so that reliance on the operation of the system is maximum.

Main modules of the current IT system for which redundancy is required are:

- Allocation of interconnection capacities of KOSTT and organizing auctions for capacities.
- Nominating contractual programs of parties in the market and nominating cross border transactions.
- Model of inter-border measuring (UCTE accounting).
- Module of accounting imbalances.
- Financial reconciliation between parties in the electric energy
- Forecast on electric energy consumption.

- ✓ **Testing system**

A portion of this project is also installing a testing system which will be needed for testing different scenarios of the market which is foreseen in developments of the electric energy market in Kosovo and the Region, it will also enable an adequate training of market operators for a successful management of the market. Implementation of the testing system would decrease the operational risk of the Market Operator in the one day before operations (in the period D-1).

- ✓ **System maintenance –**

At a time of dynamic developments as foreseen for the KOSTT position in the region and because of different needs of the system it is necessary that the system has adequate maintenance. Maintenance will include interventions in the system as well as the willingness of its employees. System interventions will be made out of system interventions as well as the willingness of the staff for remote interventions. System interventions will be made according to immediate needs of the electric energy market.

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### 4.3 New projects for 2016

- **Realization of the mutual observation of transmission network KOSTT and CGES “Adaptation of hardware SCADA/EMS in fulfilling the requirements of ENTSO-E” and “Supply with meter data collection”**

The project “Realization of the mutual observation of transmission network KOSTT and CGES has come as a necessity in fulfilling requirements of ENTSO-E in order to sign an agreement on Inter-TSO as well as exchange data in real time between TSO’s that have a signed agreement. Signed agreements Inter-TSO were a previous condition to initiate negotiations between KOSTT and ENTSO-E for signing a connection agreement for KOSTT into the ENTSO-E network. Same agreements have been signed with EMS, MEPSO and OST. Exchange of data for observation in accordance with Policies 1 through 6 of the OH (Operational Handbook) of ENTSO-E including Policy 6 as well as Inter-TSO agreements KOSTT-EMS and KOSTT-MEPSO have been completed during 2015. **“Realization of mutual observation of transmission network KOSTT and CGES (project of 2015)”** started being realized during last year (2015) and 95% of works have been realized however because of malfunction of one ICCP server in CGES it was not possible to complete it. It is expected that during this year CGES observation will be completed. TSO observation is being finalized these days and has been part of the project for realizing the line 400 kV Kosovo – Albania.

- **Adaptation of hardware SCADA/EMS in fulfilling the requirements of ENTSO – E**

This project also deals with fulfilling obligations that KOSTT has taken upon itself from ENTSO-E as part of a road-map for membership into this organization. This has to do with addition of hardware into the existing platform of the SCADA/EMS system in order to fulfill technical requirements for a safe and reliable exchange of information between KOSTT-it and ENTSO-E including data in real time but also data stored as a process of real time. Placements are planned for Routers, Firewalls, Switches in accordance with technical norms of ENTSO-E (Policy 6) as well as real time data storage – requirements from Policy 1 – Operation with LFC and other requirements from other policies of OH.

- **Supply with meter data collection (20 pieces)**

This project is about fulfilling the requirements of Policy 1 which is related to the quality of measurements in the interconnection lines as well as creation of backup measurements for a functioning LFC-AGC. While maintaining measurement group as well as increasing reliability and performance of the operational system in KOSTT as well as requirements and new obligation that arose from LFC project and ENTSO-E related to the linking of analogue measurements each 1 min for SCADA, which need to have an accuracy at a minimum of 1.5%, the need arose to do preparations for functionalization of these requirements by linking existing measurements from meters of 20 (twenty) distribution substations into the existing system of SCADA in KCS through the communication protocol IEC 870-5-104 with a condition that the linking with other substations will be done next year.

To enable the linking of measurements from meters and support/follow up of data from meters for the SCADA system according to IEC 870-5-104 protocol, it is necessary to install special equipment which would enable a link of meters with SCADA system.

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Equipment that enables this link of meters with the SCADA system are called “**Meter Data Collection**”.

The equipment “Meter Data Collection – MDC” is used as a converter of the DLMS protocol of existing meters to IEC 870-5-104 protocol suitable for SCADA.

Reasons for selecting these equipment is because they are suitable with the existing infrastructure already installed in KOSTT and because communication and transmission of data from meter into the SCADA system is done directly through the IEC 870-5-104 protocol, without any need for additional equipment. The quantity needed to include all meters for these equipment is 20 **(10+1)** pieces, meaning one such equipment for each substation and one as a spare.

These equipment will be installed by the Measurement Sector staff in cooperation with SCADA/EMS Sector into the existing meter enclosures.

- **Installation of surveillance cameras in NS Prizren 2, NS Ferizaj 2 and NS Peja 3 –**

This is a project with an objective of increasing security of buildings and operation of equipment in substations. The project is a continuation of previous realized projects being used in NS Kosova B on 2014, NS Prishtina 4, and NS Kosova A in 2015. The request for 2016 is for NS Prizreni 2, NS Ferizaj 2, and NS Peja 3.

- **Supply with hardware equipment for market needs**

This is an important project:

- Because of everyday duties related to scheduling, accounting, daily/monthly and annual auctions, intraday, access to SEE CAO data and platform, access to TO data and platform etc.
- Because of the need to have backup computers if for some reason desktop computers do not function, especially during weekend days, Saturday and Sunday, during holidays and during evenings and out of working hours when one of the abovementioned duties are required to be executed.
- To be able to access different data from anywhere either through the internet or through files stored in personal laptops.
- To do the necessary presentations through Power Point in conferences, workshops, trainings etc.

## **5.0 OPERATIONAL EXPENDITURES**

For the five-year period of price control, KOSTT has been allowed 38,568,009.94€. Revenues for Operational Expenditures include Operations and Maintenance Expenditure, Staff Expenditure, Utilities Services Expenditures and Other Operational Expenditures. After applying the efficiency factor these expenditures are lowered to 34,210,988.94€, meaning that KOSTT because of the efficiency factor has lower revenues for 4,357,021.00€. KOSTT estimated that reaching this level of efficiency is practically impossible because of the limited nature of actions where efficiency can be achieved.

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For 2015 in particular, KOSTT was allowed 7,733,808€, this values after applying the efficiency factor has dropped to 6,884,474€, which has been included into maximum allowed revenues. Total Realized Expenditures for 2015 are 7,402,488€.

For 2016 the request for operational expenditures is 7,923,600 €.

The following are reports, clarifications and requests separately for each category of Operational Expenditures.

## **5.1 Staff Expenditures – Confidential**

Realized expenditure for staff for 2015 are 5,030,004 €. Those planned for 2016 are 5,177,600 €, including expenditure for wages, taxes and contributions; contracts on works, wages for the Board of Directors; performance expenditures. Requested increase compared to 2015 is a reflection of including the risk criteria for jobs into basic wage in harmony with the Law on estimating the risk of jobs. A contributing factor is also the implementation of provisions from the Collective Agreement which have to do with payment of work experience according to years of experience from 0,3% to 0,5% .

For the company to be able to motivate its staff for further efficiency, to present itself in the labor market as a competitive employer as it is a competitive company in the region and further, develop the staff versus new requirements in the energy sector, so that it is at an average level in the region and not the lowest, KOSTT requests the approval of the staff budget for 2016.

It should be emphasized that KOSTT in one part of its activities is considered as one of the companies that falls under the highest job risk.

KOSTT would like to stress that in the last years, besides the cutting of the staff budget executed in 2011, never was it allowed an increase regardless of the global crisis, increase in prices, increase in inflation etc. KOSTT in order to be able to keep the current level of efficiency at work and its deserved place as the most successful public company in Kosovo, asks ERO to approve this request.

Heaving in mind that KOSTT is one of the most efficient TSO's in the region, where we can mention one of the measurable indicators the level of transmission losses which is lowest compared to all regional TSO's, operational performance of the system is one of the highest in the region, therefore KOSTT expects that the average wage for its staff is close to the average wage of regional TSO's.

## **5.2 Maintenance Expenditures**

Realized Maintenance Expenditures for 2015 are 597,064 €, while the allowed one was 1,490,539€. There are 908,000 € planned for 2016.

In this category KOSTT has achieved a high level of efficiency and the remainder of this amount was reallocated and spent in other operational categories.

### 5.3 Other Operational Expenditures

Other Operational Expenditure for 2015 have been realized together with utility services 1,775,430€ while the allowed amount according to the five-year period for this category was 1,853,413€. There are 1,838,000 € planned for 2016.

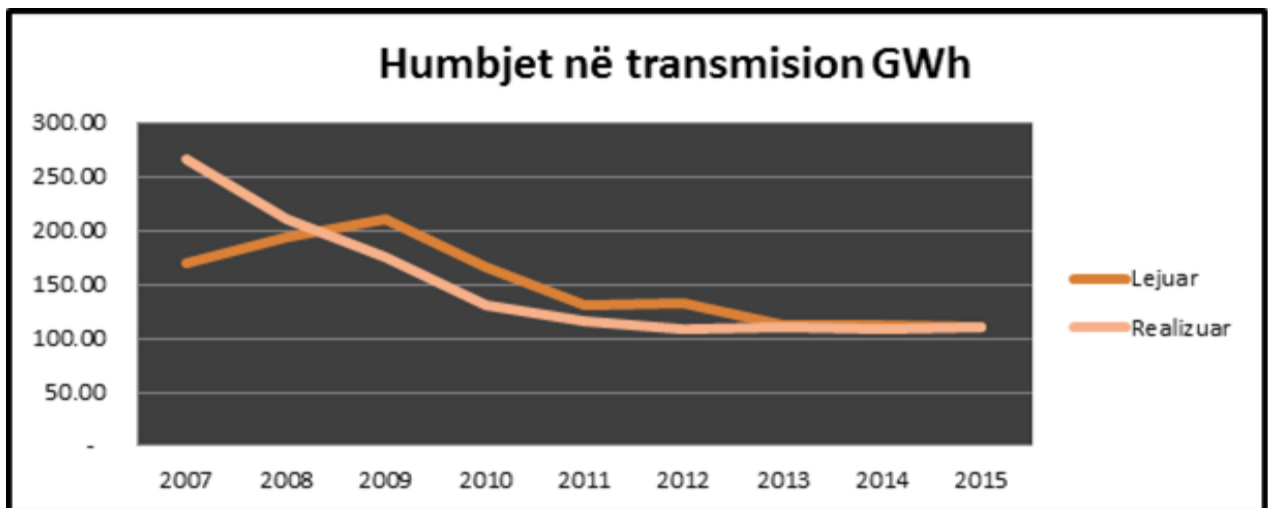
### 5.4 Transmission Losses Expenditures

The Allowed Level of Transmission Losses for 2015 was 1.80% of the transmitted energy intended for Kosovo consumption. This transformed into absolute values according to forecasted energy flows was 110.9 GWh. With a losses price of 28.25 €/MWh, allowed revenues for transmission losses for 2015 were 3,132,471€.

The current situation concerning transmission losses cost is as follows. Realized level of transmission losses (according to measurements) is 110.012 GWh, or 3,075,667 €.

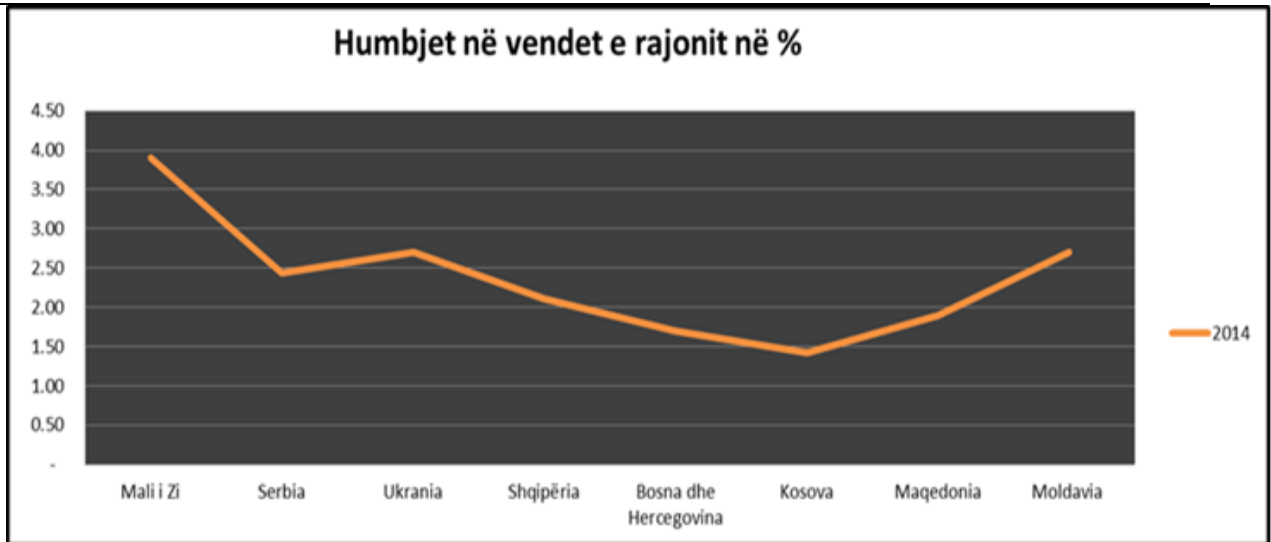
Based on the Annual Electric Energy Approved Balance, forecasted losses for 2016 will be 113.9 GWh.

Fig. 1. Allowed and Realized Losses 2007 – 2015 in GWh



Category of losses is the most efficient segment where KOSTT has shown a high performance. If we look at the losses trend it can be noticed that losses have decreased from 266.6GWh in 2007 to 110GWh. However transmission losses are at a minimum and there is no expectation that the decreasing trend will continue because of the physical aspect.

Fig 2. Transmission Losses in the Region and further



As we have stressed many times that the efficiency of KOSTT in transmission losses is extraordinary is also shown in Fig. 2, derived from data received from the Energy Community Secretariat Report. (Percentage calculated for Kosovo also includes transit of energy.)

The published report on transmission losses by the National Grid of the United Kingdom shows losses for years 2014/2015 where their realized level was 1.84%, meaning that transmission losses in Kosovo are at a much more favorable level. While in the Annual Report of 2014 published by ELES in Slovenia it can be seen that the cost of transmission losses makes up 23% of total revenues, while in KOSTT according to allowed values for 2015 makes up around 12%.

All of the above attest the KOSTT's claim that the level of allowed transmission losses is very low.

KOSTT has also explained last year that this level of allowed losses is a risk for the company heaving in mind that the transmission loss level has technically approached the extreme level of the lowest losses, further decrease is almost impossible. The trend of decreasing losses that existed until now has changed with changing the network configuration. Losses trend as can be seen has started to increase and will continue to do so in the following years. This is due to many factors which are unpredictable, such as increase in demand and peak, also there is a set of projects that will be developed to improve security in the system and to fulfill condition N-1 as well as unpredictable factors as the one from last year with the explosion in PP Kosova A.

KOSTT does not wish for this low level of losses to remain as such which would hold the company at continuous financial risk by factors that are not under its control.

## 5.5 Ancillary Services Expenditures

With the goal of a stable and reliable operation of the electro-energy system, KOSTT is obligated to procure necessary ancillary services for the electro-energy system. Ancillary services include services for procuring secondary and tertiary reserves.

1. Secondary reserve (regulation power - frequency)

The goal of Secondary Regulation Reserve is to return the frequency and inter-border exchange into fixed referable values and to free Primary Regulation.

According to ENTSO-E<sup>1</sup> each TSO should procure at least the Secondary Regulation Reserve calculated as follows:

$$R = \sqrt{a L_{\max} + b^2} - b$$

R – Minimum Secondary Regulation Value

Lmax – Peak load in the regulation field

a = 10 MW ; b = 150 MW

Secondary Regulation should only be used to correct ACE.

KOSTT will request to procure the same capacity for increasing regulation and decreasing regulation and this will be a set amount for each month.

Table 2. Planned Values for Secondary Regulation Reserves for KOSTT during 2016<sup>2</sup> :

2016	January	February	March	April	May	June	July	August	September	October	November	December
Lmax (MW)	1129	1029	997	937	718	697	707	707	738	868	966	1125
Rs (±) (MW)	34	31	30	29	22	22	22	22	23	27	29	34

In the Agreement for Ancillary Services signed with TSO from Albania on December 17<sup>th</sup>, 2015, the contracted amount for Secondary Regulation Reserve is (±) 25 MW. Implementation of this Agreement will be initiated once KOSTT starts operating as an independent zone. According to this agreement the cost for secondary reserve in the amount of (±) 25 MW will be the same with the cost that will be paid by OST to procure this reserve from generating sources in Albania.

Tertiary reserve gas more than one requirement:

<sup>1</sup> Operation Handbook – Policy 1 B-D 5.1

<sup>2</sup> Annual Electric Energy Balance 2016

- Replacement of secondary reserve after around 15 minutes to enable the provider of secondary reserve to return the previous state of disposition; this requirement stands for both increasing and decreasing regulation.
- Replacement of power supply after failure of one of the bigger generating units – this is a requirement only for increasing regulation;
- Balancing of the system in the day of a realization caused by a bad forecast of consumption or because of the unforeseen changes in production of wind – this element of the service can also be provided through the balancing mechanism and it is a requirement for both increasing and decreasing regulation;
- Decreasing regulation for balancing the system during the night because of excess of basic energy (this should not happen in a fully functional market where participants should contract selling of energy excess and not push it into the system).

*Table 3. Planned Values for Tertiary Regulation Reserve for KOSTT during 2016 (the value for tertiary reserve was taken from the power available of the biggest generating unit)<sup>3</sup>:*

2016	January	February	March	April	May	June	July	August	September	October	November	December
Rs (±) (MW)	264	264	264	264	264	264	264	264	264	264	264	264

KOSTT will ask for procuring sufficient increasing regulation to replace the failure of a generating unit, not in its foreseen entirety of 264MW but only the amount in the capacity of 150MW for 4 hours.

Lacking any other input for prices of these services, as a result accounting these cost as a total, KOSTT continues to rely on the presented study "Ancillary Services Revenues and Costs" prepared by the consultants ECA, December 2014, according to which the cost for 2015 was forecasted.

Revenues of KOSTT for 2015 include revenues of 3,865,000.00 € for forecasted cost of ancillary services. During 2015 there was no expenditure therefore these costs have not been realized.

The reason for not realizing these costs is the inability of KOSTT to start operating as a regulatory area. According to the agreement with ENTSO-E, KOSTT should have started operating as a regulatory area since June 2015, but because of obstructions enacted by EMS and the political influence of Serbia operation of KOSTT as a regulatory zone has been postponed initially to 29.11.2015 and it still continues. Implementation of secondary regulation services with TSO is possible only if KOSTT starts operating as a regulation area/block.

Realization of these costs was outside of the competencies and influencing factors of KOSTT therefore responsibility does not fall with the company.

<sup>3</sup> Annul Electric Energy Balance 2016



Since still there is no historic data on the cost of these services and the reference from the Kosovo Market then the value of the forecast for the cost of these services for 2016 would remain the same with those of 2015 which were based on the study mentioned above.

Heaving in mind all information given above on the impossibility of realizing the cost for ancillary services, KOSTT addresses ERO with the request to keep the revenues from last year.

## 5.6 Efficiency Factor

Every year starting from the five-year period of price control in 2013, KOSTT has presented many facts and justification that the determined level of this efficiency factor of 4% is very high and the company cannot keep up with it, heaving in mind different influencing factors, such as foreign, internal, technical, political, financial and other factors.

During the entire 2015 KOSTT has undertaken measures in cutting down expenditures, reviewed expenditure positions, savings in category, reallocation of expenditures and other measures but still it was not able to achieve the target of 4%.

Negative financial effect presented during this year as a result of this factor is 190,010 €.

We again request to review this factor and place it within realistic parameters.

Table 4. Efficiency Factor and its impact

	2013	2014	2015	2016	2017	TOTAL
<b>TOTAL SHPENZIMET OPERATIVE TË PARASHIKUARA</b>	7,523.29	7,633.60	7,733.81	7,798.61	7,878.71	38,568.01
<b>TOTAL SHPENZIMET OPERATIVE TË LEJUARA PAS FAKTORIT TË EFIKASITETIT</b>	7,222.36	7,039.36	6,853.99	6,642.04	6,453.25	34,210.99
<b>EFICIENCA QË DUHET TË ZBATOHET NDAJ KËTYRE SHPENZIMEVE 4 %</b>	300.93	594.24	879.82	1,156.57	1,425.46	4,357.02
<i>Shpenzimet e realizuara</i>	7,487.15	7,577.36	7,402.49	7,923.60	7,923.60	38,314.19
<i>Mungesa/Teprica</i>	(264.79)	(538.00)	(548.50)	(1,281.56)	(1,470.35)	(4,103.20)
<b>Shpenzimet pas faktorit te supozuar te efikasitetit 1% nga KOSTT</b>	7,448.06	7,482.03	7,504.90	7,491.72	7,493.03	37,419.73
<b>Efiçenca e supozuar 1%</b>	75.23	151.57	228.91	306.89	385.68	1,148.28
<i>Mungesa/Teprica</i>	(39.09)	(95.33)	102.41	(431.88)	(430.57)	(894.46)

KOSTT based on all mentioned facts as well as the financial and technical position during 2013, 2014, and 2015, would like to address again to the ERO to decrease the **Efficiency Factor to 1%**, even though this level of the factor will result in a negative for cash, it would be somewhat manageable by using other sources for coverage.

## 6.0 INTER-TSO COMPENSATION MECHANISM – ITC MECHANISM

Since 01.01.2016 KOSTT is part of the ITC mechanism. KOSTT was informed by ENTSO-E that it has been admitted into the ITC mechanism and KOSTT has signed a multilateral agreement – MLA of ITC. ITC administrator starting from 01.01.2016 will account for KOSTT contributions that have to be paid into the ITC fund for NEF (Net Export Flow) and NIF (Net Import Flow) and the compensation that KOSTT will receive, transit of electric energy into the horizontal transmission network. KOSTT with this mechanism will receive revenues in the name of transit and losses in the Kosovo network and will pay in the name of caused losses and transit into horizontal network of other TSO's for import and export of energy. As a result of approximate calculations and depending on flow of transit and NEF and NIF, KOSTT for certain months can be net positive (receive revenues from ITC fund) or net negative (pay into the ITC fund))

Based on the approximate calculations the table below shows net position of KOSTT for 2011 to 2014 based on ACER reports.

Since there are no historical data and it is difficult to forecast transit and losses in transit, then handling these revenues/costs is proposed to be done during the next process of adjustments, where KOSTT will inform ERO for net position at the end of the year.

## 7.0 SUMMARY

KOSTT is one of the most efficient TSO's of the region as far as efficiency in loss and operational performance are concerned while its average tariff is amongst the lowest in the region.

The following is an analysis of trends development for transmission tariffs development of assets and expenditures.

Fig.3. Development Trends of Transmission Tariffs, assets and expenditures 2007 – 2015

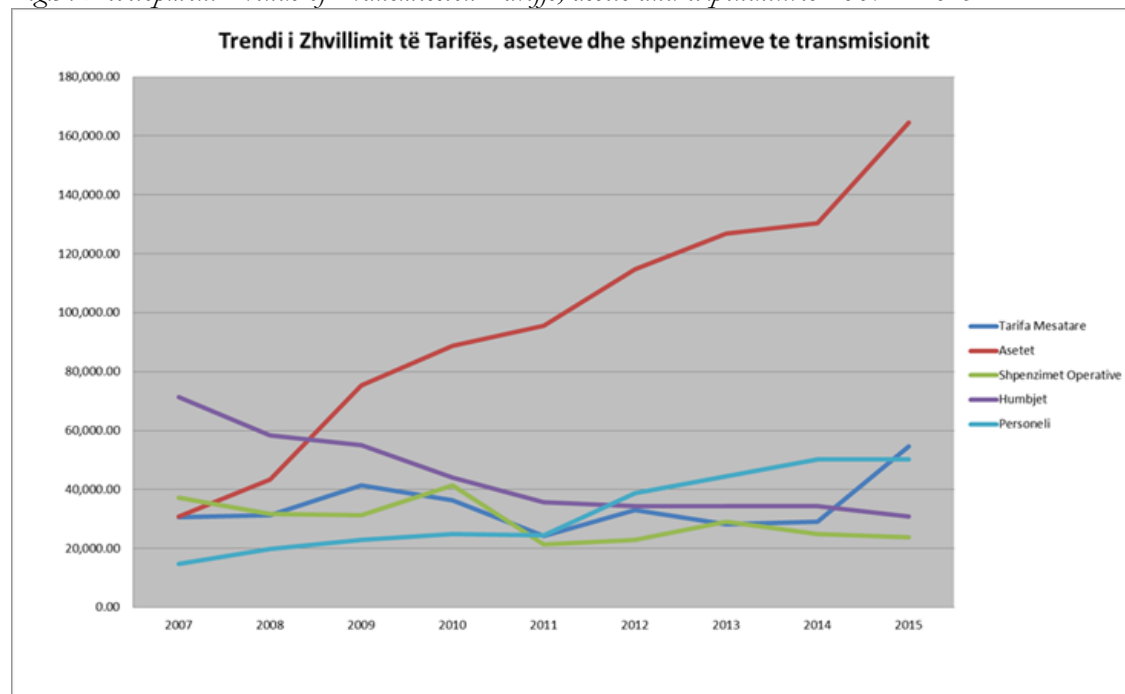


Table 3. Development Trends of Transmission Lines, assets and expenditures 2007 – 2015

			2007	2008	2009	2010	2011	2012	2013	2014	2015
Tarifa Merata	10 <sup>-4</sup>	€/kWh	30,694.30	31,324.60	41,476.40	34,310.60	24,312.30	32,980.90	28,161.80	28,977.50	54,602.00
Asetat	10 <sup>10</sup>	€/000	30,731.00	43,356.00	75,241.00	88,827.00	95,559.00	114,693.00	126,871.00	150,421.00	164,554.62
Sipenzumet Operativ	10 <sup>-1</sup>	€/000	37,217.00	31,622.50	31,208.50	41,454.70	21,457.60	22,846.90	29,105.50	24,820.00	23,724.84
Humbiet	10 <sup>-1</sup>	€/000	71,442.80	38,295.90	55,090.00	44,161.50	35,789.40	34,334.30	34,269.90	34,280.90	30,756.67
Personal	10 <sup>-1</sup>	€/000	14,710.00	19,826.00	22,830.00	24,885.30	24,441.20	38,713.70	44,485.10	50,141.30	50,300.04

\* With the goal that the report between compared segments is more visible in the diagram values have been indexed according to need.

The presented diagram is a very clear summary of the efficiency of KOSTT. Development of assets has gone proportionally with the decrease of losses up to the lowest technically possible point which did not happen with other licensed entities. Staff expenditures have been developed with a slight increase year after year **excluding 2012 where the immediate increase represents the transfer from KEK to KOSTT**. Other operational expenditures since 2010 have shown a decrease.

During all this period with development in assets for more than 500% compared to 2007, increase in the number of staff for 100% achieving excellent technical and operational performance, average transmission tariff has remained almost the same with small changes of up and down, during the years.

Heaving in mind all these presented facts, KOSTT believes that the approval of presented requests in necessary.

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