



Republika e Kosovës
Republika Kosova - Republic of Kosovo

ZYRA E RREGULLATORIT PËR ENERGJI
REGULATORNI URED ZA ENERGIJU
ENERGY REGULATORY OFFICE



Response to Comments

The Tenth Electricity Tariff Review

ETR10 (2016-2017)

Relevant Year 4 of the ETR7 Regulatory Period

DISCLAIMER

This Response to Comments 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.

31 March 2016



Table of Contents

Price Control Overview	6
1 Introduction	8
2 The structure of this paper.....	8
3 ERO’s response to KEK’s comments	8
3.1 Comments provided by KEK	8
3.2 ERO responses to KEK’s comments.....	10
4 ERO’s response to KOSTT’s comments	11
4.1 Comments provided by KOSTT	11
4.2 ERO responses to KOSTT’s comments.....	11
5 ERO’s response to KEDS’ comments.....	12
5.1 Comments provided by KEDS	12
5.2 ERO responses to KEDS’ comments	13
6 ERO’s response to KESCO’s comments.....	13
6.1 Comments provided by KESCO	13
6.2 ERO’s response to KESCO’s comments	14
7 ERO’s final ETR10 MAR proposals	15
7.1 Proposed MAR allowance for KEK.....	15
7.2 Proposed WHPC allowance	17
7.3 Proposed MAR allowance for KOSTT	18
7.4 Proposed MAR allowance for KEDS	20
7.5 Proposed MAR allowance for PES.....	22



Abstract

The Energy Regulatory Office (ERO) is currently conducting the Regular Adjustment and Annual Update process of the Maximum Allowed Revenue (MAR) of the Regulated Companies in the Electricity Sector on behalf of the Tenth Electricity Tariff Review (ETR10). Under this process, ERO will update the MAR of the Public Electricity Supplier (PES) and will adjust the MAR of the Regulated Generator (KEK), Transmission, System and Market Operator (KOSTT), Distribution System Operator (DSO) based on the figures set on the Periodic Review conducted under ETR7, in order to account for differences between forecast and actual cost values. ERO has set their initial views in the Consultation Papers published for each licensee on 24 February 2016. Stakeholders have been provided with the opportunity to comment on ERO's views. This Document presents ERO's responses to the comments made by stakeholders and represents the final stage of the ETR10 process.

This Document should be read in context of the documents to which it makes reference. A list of some of those documents is provided below.

Related Documents

ERO's initial assessment of KEK Reporting Formats submitted under the Periodic Review process	http://ero-ks.org/Price%20and%20Tariffs/2012/albanian/Vleresimi_fillestar_KEK_shqip.pdf
ERO's provisional assessment of the KEK MAR under the Periodic Review process – Detailed Report	http://ero-ks.org/Tarifat/2012/Vleresim_i_perkoshem_KEK_Gjenerim.pdf
ERO's final assessment of KEK MAR under the Periodic Review Process – Detailed Report	http://ero-ks.org/Tarifat/2013/Proceset%20e%20Shqyrtimit/Vlersimi_perfundimtar_per_Gjenerim_22Mars2013.pdf
The Rule on Regulated Generator Pricing	http://ero-ks.org/Rregullat/Rregullat_2011/English/Generation_Pricing_Rule.pdf
ERO's KEK Consultation Paper issued under ETR9	http://www.ero-ks.org/Tarifat/2015/Gjenerimi_Raport_konsultativ_06_03_2015.pdf
ERO's initial assessment of the KOSTT 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 KOSTT MAR under the Periodic Review process – Detailed Report	http://ero-ks.org/Tarifat/2012/Provisional_Evaluation_KOSTT_eng.pdf
ERO's final assessment of KOSTT 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 and	http://ero-



Market Operator Pricing (TSO/MO Pricing Rule)	ks.org/Rregullat/Rregullat_2011/English/TSO-MO_Pricing_Rule.pdf
ERO's KOSTT Consultation Paper issued under ETR9	http://www.ero-ks.org/Tarifat/2015/eng/KOSTT_Raport_Konsultativ_09_03_2015_eng.pdf
ERO's initial assessment of the DSO Reporting Formats submitted under the Periodic Review process	http://ero-ks.org/Price%20and%20Tariffs/2012/english/Vleresimi_fillestar_KEK_anglisht.pdf
ERO's provisional assessment of the DSO MAR under the Periodic Review process – Detailed Report	http://ero-ks.org/Tarifat/2012/Provisional_Evaluation_DSO_PES_eng.pdf
ERO's final assessment of DSO 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 Distribution System Operator Pricing (DSO Pricing Rule)	http://ero-ks.org/Rregullat/Rregullat_2011/English/DSO_Pricing_Rule.pdf
ERO's DSO Consultation Paper issued under ETR9	http://www.ero-ks.org/Tarifat/2015/OSSH_Raport_Konsultativ_09_03_2015.pdf
ERO's final assessment of KEK MAR under the Periodic Review Process – Detailed Report	http://ero-ks.org/Tarifat/2013/Proceset%20e%20Shqyrtimit/Vlersimi_perfundimtar_per_Gjenerim_22Mars2013.pdf
ERO's Wholesale Power Cost Consultation Paper under ETR8	http://ero-ks.org/Tarifat/2014/FPEE_Kalkulimet_e_te_Hyrave_t_e_Lejuara_Maksimale_Raporti_Perfundimtar_SHTE8_final.pdf
ERO's Extraordinary Review Consultation Paper	http://ero-ks.org/Tarifat/2014/Raport_vleresues_shqyrtimi_i_jashtzakonshem_10_8_2014.pdf
ERO's final evaluation of PES MAR under ETR7	http://ero-ks.org/Tarifat/2013/Proceset%20e%20Shqyrtimit/eng/Evaluation_DSO_PES_22_March_2013.pdf
Rule on Public Electricity Supplier Pricing (PES Pricing Rule)	http://ero-ks.org/Rregullat/Rregullat_2011/English/PES_Pricing_Rule.pdf
KOSTT's Regular Adjustments MAR application	http://www.ero-ks.org/Tarifat/2015/Aplikacioni_i_KOSTT_2015.pdf
KEK's Regular Adjustments MAR application	http://www.ero-ks.org/Tarifat/2015/Aplikacioni_i_KEK_ut_2015.pdf



KEDS' Regular Adjustments MAR application	http://www.ero-ks.org/Tarifat/2015/Aplikimi_i_KEDS_2015.pdf
PES' Annual Update WHPC application	http://www.ero-ks.org/Tarifat/2015/Aplikacioni_i_KEDS_Perditsimi_i_WHPC_2015.pdf
KOSTT's comments to the ETR9 Consultation Paper	Link
KEDS' comments to the ETR9 Consultation Paper	Link
KESCO's comments to the ETR9 Consultation Paper	Link
Regulated Generator's comments to the ETR9 Consultation Paper	Link
ERO's ETR9 Response to Comments paper	http://www.ero-ks.org/Tarifat/2015/eng/Pergjigjeje_ndaj_komenteve_03_04_2015_eng.pdf
KEK's ETR10 Regular Adjustments MAR application	http://www.ero-ks.org/2016/Tarifat/Proposal_for_charges_of_the_Public_Generator.pdf
KESCO's ETR10 Regular Adjustments WHPC application	http://www.ero-ks.org/2016/Tarifat/Wholesale_Electricity_Price_Application_2016.pdf
KOSTT's ETR10 Regular Adjustments MAR application	http://www.ero-ks.org/2016/Tarifat/KOSTT_Proposal_for_Allowed_Revenues_2016.pdf
KEDS' ETR10 Regular Adjustments MAR application	http://www.ero-ks.org/2016/Tarifat/Application_for_MAR_2016_KEDS.pdf
ERO's ETR10 KEK MAR Consultation Paper	http://www.ero-ks.org/2016/Tarifat/ETR10_KEK_MAR_Consultation_Paper.pdf
ERO's ETR10 WHPC Consultation Paper	http://www.ero-ks.org/2016/Tarifat/ETR10_WHPC_Consultation_Paper.pdf
ERO's ETR10 TSO/MO MAR Consultation Paper	http://www.ero-ks.org/2016/Tarifat/ETR10_TSO_MO_Consultation_Paper.pdf
ERO's ETR10 DSO MAR Consultation Paper	http://www.ero-ks.org/2016/Tarifat/ETR10_DSO_Consultation_Paper.pdf



ERO's ETR10 PES MAR Consultation Paper	http://www.ero-ks.org/2016/Tarifat/ETR10_PES_Consultation_Paper.pdf
KEK's Comments on ERO's ETR10 KEK MAR Consultation paper	Link
KOSTT's Comments on ERO's ETR10 TSO/MO MAR Consultation Paper	Link
KEDS' Comments on ERO's ETR10 DSO MAR Consultation Paper	Link
KESCO's Comments on ERO's ETR10 PES MAR Consultation Paper	Link



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 plants 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 emphasis of the last Periodic Review was to provide regulatory incentives which enable companies to invest to replace the aging electricity infrastructure and meet future demand growth. ERO also provided strong efficiency incentives in order to improve the operating environment of the regulated companies. An overview of the Periodic Review is provided Table 1.



Table 1 ETR7 Regulatory Period at a glance

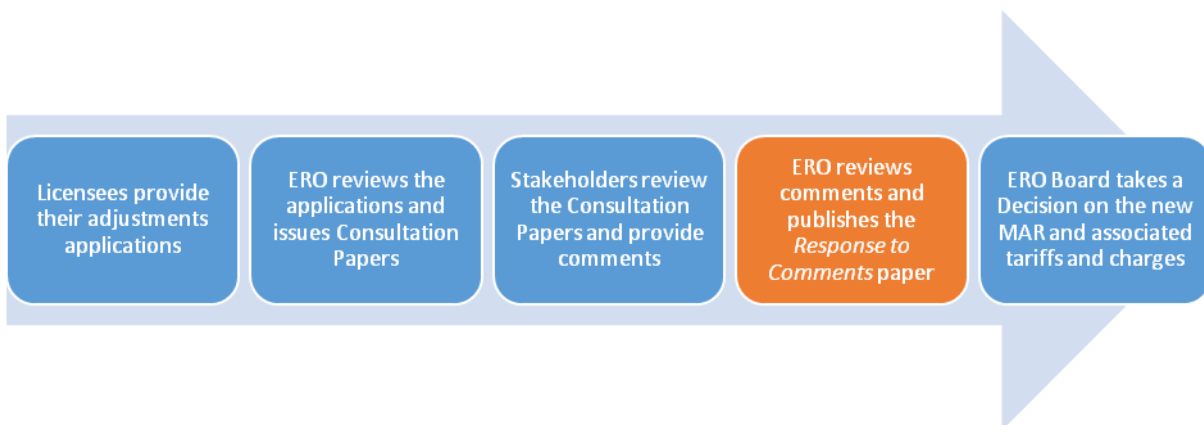
	Mine	Generation	TSO	DSO
Forecast investments (2013-2017)	€105.8 million over 4 years	€102.5 million over 4 years	More than €120 million over 5 years	€107.2 million over 5 years
Key projects	Investments into heavy machinery, repair of two excavators and construction of double-conveyor belts to for the new Sibovc South-West mine	Capital overhaul of the A3, B1 and B2 units, Hydraulic Ash Transport for Kosovo A and a new outer casing for the high pressure turbine in the B1 unit	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.	Reinforcement of the network (replacement of 10 kV and 0.4 kV lines); elimination of the bottlenecks, especially in the 35 kV and 10 kV overloads, Elimination of overhead lines which were considered a risk to the public
Efficiency incentives	4% annual efficiency factor applied to all Operating and Maintenance costs of the Mine over four years	4% annual efficiency factor applied to all Operating and Maintenance costs of the Generation Division over four years	4% annual efficiency factor applied to all Operating and Maintenance costs of the Regulated Generator over five years; Penalty or reward depending on whether or not the TSO achieves the electricity loss target incentive set by ERO;	16.5% (percentage point) loss reduction over 6 years – almost halving the losses by the end of the regulatory period. 5% efficiency factor applied for the last two years of the Regulatory Period.



1 Introduction

ERO is now on the final stages of the ETR9 Regular Adjustment process in which ERO reviews the comments of the stakeholders and provides responses to the issues raised. An overview of the adjustment process is provided in Figure 1, below:

Figure 1 An overview of the Regular Adjustment process



This document provides responses to the comments provided by the licensees. The links to these comments are provided in the “Abstract” section on page 2 of this document.

2 The structure of this paper

This Document is organized as follows (in the chronological order by which the comments were received):

- Section 3 provides responses to KEK’s comments;
- Section 4 provides responses to KOSTT’s comments;
- Section 5 provides responses to KEDS’ comments;
- Section 6 provides responses to KESCO’s comments.

3 ERO’s response to KEK’s comments

3.1 Comments provided by KEK

KEK’s comments to ERO’s ETR10 KEK Consultation Paper address the following issues:

1. **Compensation for the loss of revenues due to the 2014 Kosovo A explosion** - KEK refers to ERO’s decision not to compensate KEK for the additional costs related to the accident since



ERO has not been shown that the reasons behind the explosion were outside KEK's control. KEK refer to a request made on 19 February 2016 in which they asked ERO for an approval of an independent assessment of the reasons behind the explosion and use the opportunity to ask ERO to respond to KEK's request;

2. **Efficiency factor applied to Operating and Maintenance Costs** – KEK repeats their concern that the 4% Annual efficiency factor set by ERO during the Periodic Review is difficult to achieve even in strictly commercial circumstances. They mention the fact that they operate with an aging infrastructure and have to bear a social burden. They mention the example of 120 employees which have been hired as a result of the Memorandum of Understanding between KEK and the Ministry of Labor and Social Welfare.
3. **Support to the Obilić Municipality** – KEK claims that these costs cannot be considered as capital investments and that they are obliged to provide support to the local communities by Regulation 04/2011 of the Ministry of Economic Development. They argue that the local communities may become an obstacle to KEK's plans to extend their operations if ERO does not allow KEK to recover these funds.
4. **The Implementation of the Collective Agreement** – KEK does not agree with ERO's proposal that the additional costs stemming from the implementation of the Collective Agreement be revised and accounted for during the next Periodic Review. KEK claims ERO should be consistent among all licensees in applying the principle that all costs which do not trigger an Extraordinary Adjustment be treated during the Periodic Review.
5. **Asset Insurance feasibility study** – KEK does not agree with ERO's position that the costs associated with the asset insurance feasibility study be considered during the Periodic Review. KEK states that the approximate cost of the feasibility study is around €0.3 million whereas the cost of the insurance policy is expected to be around €2 million per year.
6. **Financial obligations charged by the Independent Commission for Mines and Minerals (ICMM)** - KEK does not agree with ERO's position that the matter be resolved once the financial implications of ICMM's decision are clear and once KEK's complaint to ICMM has been resolved. KEK insists that the sector should be ready for ICMM's decision response if this response has an impact on the costs of KEK.
7. **Technical corrections** – KEK proposes that ERO adjusts the Allowed Depreciation (DEPct), Allowed Return (RTNct) and Pass-through Costs (PSTct) ETR10 proposed values in order to account for the fact that KEK has reported these values based on the payments executed within a calendar year whereas ERO has accounted for values billed by operators to KEK.
8. **Regulated Generator risks** – KEK expresses its concern over nominations and the responsibility for managing excess capacity. KEK makes reference to a draft Memorandum of Understanding which they have shared with KESCO for commenting and which, if agreed to, allows for more favorable and balanced nomination conditions. KEK claims that KESCO have



thus far not been interested to discuss or comment the MoU. KEK claim that the full collection of KEK MAR is essential for the stability of the Generating Units.

3.2 ERO responses to KEK's comments

Compensation for the loss of revenues due to the 2014 Kosovo A explosion

ERO continues to stand behind the principle established during the Extraordinary Adjustment that any costs associated with the Kosovo A explosion should not be borne by electricity customers so long as there is no credible conclusion that the reasons behind the explosion were outside of KEK's control. ERO notes it is important to identify the reasons behind the incident however notes that any studies related to it are matters of KEK internal management. ERO will take any additional information on the matter into account.

Efficiency factor applied to Operating and Maintenance Costs

Efficiency factors are set during Periodic Reviews for the length of the Regulatory Period in order to allow regulated companies to make long-term plans and identify areas where efficiency gains can be attained. Electricity customers cannot be expected to pay the price of any social employment schemes in the sector.

Support to the Obiliç Municipality

ERO recognizes that public consultation and agreement with the local community is a critical component for the development of any project. ERO encourages KEK to identify means of cooperation to ensure that the local community supports KEK's technical and commercial operations. ERO refrains from commenting any further as it considers this to be an issue of KEK internal management.

The Implementation of the Collective Agreement

ERO's position is that regulated licensees should be allowed to recover any differences in costs which result from the mandatory implementation of legal amendments. Nevertheless the Pricing Rules establish the principle that cost differences be compensated during Periodic Reviews so long as the magnitude of the cost is not sufficient to trigger an Extraordinary Review process.

Asset Insurance feasibility study

The purpose of the Regular Adjustments process is to undergo a process of automatic compensations for differences between forecast and actual costs which licensees may have reasonably incurred for reasons outside of their control and to index costs to inflation and efficiency factors. As stated in the Consultation Paper, ERO does not believe the issue raised by KEK with regard to the asset insurance feasibility study falls under the scope of the Regular Adjustments process. The reasonableness of costs is established during Periodic Reviews, as stipulated in the Pricing Rules, and ERO refrains from commenting any further in this regard.

Financial obligations charged by the Independent Commission for Mines and Minerals (ICMM)



ERO's position is that regulated licensees should be allowed to recover any differences in costs which result from the mandatory implementation of legal amendments. The Pricing Rules establish the principle that cost differences be compensated during Periodic Reviews so long as the magnitude of the cost is not sufficient to trigger an Extraordinary Review process. ERO refrains from commenting any further as KEK has not provided ERO with sufficient information on the cost impact of ICMM's decision.

Technical corrections

ERO has modified KEK MAR to reflect adjustments in MAR from technical corrections. KEK MAR after adjustments is € 147.5 million.

Regulated Generator risks

ERO recognizes the difficulties KEK faces due to some of the provisions of the Bulk Supply Agreement. ERO notes that the Procedure for calculating Capacity Charges assumes that KEK recovers all of their revenues based on the Availability of the Regulated Generator, as defined in the Rule on Regulated Generator Pricing, which is part of ERO's secondary legislation.

4 ERO's response to KOSTT's comments

4.1 Comments provided by KOSTT

KOSTT's comments on the Consultation Paper address the following issues:

1. Operating and Maintenance costs – KOSTT suggests that the value allowed by ERO should be the value allowed during the Periodic Review process of €6.6 million indexed for inflation and efficiency factor.
2. Efficiency Factor – KOSTT expresses their concern that the efficiency factor of 4% applied by ERO has posed difficulties since its first application during Relevant Year 1. KOSTT claims it is practically impossible to achieve this efficiency factor.
3. Personnel expenses– KOSTT claims that personnel expenses should be increased to match additional costs stemming from the Collective Agreement and to reflect additional payments due to the work experience.
4. Ancillary Services costs – KOSTT does not agree with the €0.5 million interest payment deduction which has been made by ERO for AS funds allowed but not spent by KOSTT. The justification is that these expenses were not made for known political reasons which were largely outside KOSTT's control.

4.2 ERO responses to KOSTT's comments

Operating and Maintenance costs



ERO agrees with KOSTT and will make the necessary adjustments. The resulting OPMc allowance has been increased by €0.3 million with a final value of €6.6 million.

Efficiency Factor

Efficiency factors are set during Periodic Reviews for the length of the Regulatory Period in order to allow regulated companies to make long-term plans and identify areas where efficiency gains can be attained.

Personnel expenses

ERO's position is that regulated licensees should be allowed to recover any differences in costs which result from the mandatory implementation of legal amendments. The Pricing Rules establish the principle that cost differences be compensated during Periodic Reviews so long as the magnitude of the cost is not sufficient to trigger an Extraordinary Review process.

Ancillary Services costs

ERO recognizes Ancillary Services costs were not incurred for reasons outside of KOSTT's control. Nevertheless the interest adjustment has strictly been applied to compensate customers for the opportunity cost of the forecast Ancillary Services costs in a single Relevant Year.

5 ERO's response to KEDS' comments

5.1 Comments provided by KEDS

1. Energy Balance – KEDS argues that the Energy Balance should be updated to allow KEDS to recover for the difference between actual allowed losses by KEK and the target set by ERO before KEDS' privatization. KEDS considers ERO should allow the recovery of the difference of 1.8%.
2. Application of the Efficiency Factor to all O&M costs – KEDS does not agree with ERO's application of a 5% efficiency factor to all Operating and Maintenance costs and suggest that those costs which were not part of the periodic review – such as health insurance costs, asset insurance costs and unbundled costs – should not be subject to the efficiency factor.
3. ERO's approach towards excluded costs – KEDS does not agree with ERO's position on costs related to excluded services. While KEDS agree with ERO's approach towards reducing Opex costs in line with revenues recovered by customers related to these services, they consider that Capex costs should be treated in accordance with the asset life of the related investments.
4. ERO's approach towards revenues reclaimed from losses – KEDS does not agree with ERO's position on revenues obtained by KEDS for reclaimed losses. The main arguments are that customers can claim these revenues at ERO or also in Courts and, as a result, the energy



billed is subject to the allowance of these institutions. Secondly, Only a part of this value, which according to KEDS is around 20%, will be collected.

5.2 ERO responses to KEDS' comments

Energy Balance

ERO recognizes the fact that KEK was not successful in achieving the loss target before the takeover from KEDS. ERO already provided a detailed response on the matter in the ETR8 DSO MAR calculation Consultation Paper published on 24 June 2014 and can confirm that ERO's position on the matter has not changed.¹

The Loss Allowance calculation under the DSO and PES MAR has been allocated based on the principle that differences between allowed and actual losses should be borne by the DSO in order to provide an incentive to the DSO to earn a profit, if Actual losses are lower than Allowed, or otherwise incur a loss.

Application of the Efficiency Factor to all O&M costs

The Rule on Distribution System Operator Pricing states that the efficiency factor is applied to all Operating and Maintenance Costs. The costs mentioned by KEDS can be classified under Operating and Maintenance costs therefore ERO has applied a 5% efficiency factor on those as well.

ERO's approach towards revenues reclaimed from losses

ERO notes that all costs related to bad debts should be recoverable through the Bad Debt allowance (BDTA). No further MAR adjustments are necessary as a result of this comment.

6 ERO's response to KESCO's comments

6.1 Comments provided by KESCO

KESCO's comments on the Consultation Paper address the following issues:

1. Energy Balance – KESCO restate their request that KEDS should be allowed to recover the difference between allowed and actual losses incurred by KEK before KEDS' privatization took place. KESCO claim that as a result of KEK's inability to meet ERO's loss target, KEDS was responsible for reducing losses by almost 5% during their first year which, in their view, is unreal and unachievable. KESCO therefore propose recalculating the Energy Balance to reflect the difference of 1.8%.
2. WHPC and Export Values – While KESCO agrees with ERO's principle in calculating wholesale costs, they express the concern that forecast export levels are overestimated. They consider

¹ http://ero-ks.org/Tarifat/2014/Pergjigjet_ndaj_komenteve_KEDS.pdf



that delays, unstable operations of the units of Kosovo A, expected repairs and off-peak exports are factors which should be taken into account in the export assessment. They further claim that ERO should take into account the low price of exports during the night. They consider KESCO should be provided with an incentive, such as an export sharing factor, to export excess energy from KEK.

3. Application of the Efficiency factor to all Opex costs – KESCO considers that the efficiency factor should not be applied to all costs such as depreciation costs and that the Opex value for KESCO should be updated to the allowed value of €6.1 million.
4. KREV calculation – KESCO does not agree with ERO's approach towards treating revenues reclaimed from losses as additional revenues to KESCO. The main arguments are that customers can claim these revenues at ERO or also in Courts and, as a result, the energy billed is subject to the allowance of these institutions. Secondly, only a part of this value, which according to KEDS is around 20%, will be collected.

6.2 ERO's response to KESCO's comments

Energy Balance

ERO recognizes the fact that KEK was not successful in achieving the loss target before the takeover from KEDS. ERO already provided a detailed response on the matter in the ETR8 DSO MAR calculation Consultation Paper published on 24 June 2014 and can confirm that ERO's position on the matter has not changed.²

The Loss Allowance calculation under the DSO and PES MAR has been allocated based on the principle that differences between allowed and actual losses should be borne by the DSO in order to provide an incentive to the DSO to earn a profit, if Actual losses are lower than Allowed, or otherwise incur a loss.

WHPC and export values

The value of exports was used as a balancing factor in ERO's bottom-up approach, which includes forecast electricity generation and forecast maintenance schedules. ERO notes the importance of staying consistent in the principles of calculating the energy balance. Differences between forecast and actual values will be automatically updated through the WHPC application in the next Annual Update process.

KESCO's export sharing factor was set at 0% during the most recent Input Values Review under ETR7. According to the Pricing Rules an Input Values review may commence either at the initiation of the Regulator or at the request of the Public Electricity Supplier (Article 4 of the PES Pricing Rule), at least 120 Business Days prior to the start of the next Relevant Year (Schedule 3 Paragraph 2 of the PES Pricing Rule). As the Regular Adjustments process is not an Input Values review, ERO refrains from

² http://ero-ks.org/Tarifat/2014/Pergjigjet_ndaj_komenteve_KEDS.pdf



commenting on the value of the Export Sharing Factor and ERO's position on the matter has not changed.

Application of the Efficiency Factor to all O&M costs

ERO can confirm that no efficiency factor was applied to allowed Depreciation costs therefore no further adjustments are necessary.

KREV calculation

Consistent with previous practice, ERO applies all MAR adjustments according to the value billed to customers while issues related to collection are reversed through the Bad Debt Allowance. No further MAR adjustments are necessary as a result of this comment.

7 ERO's final ETR10 MAR proposals

This section of the report summarizes ERO's MAR proposals for the Regulated Licensees as a result of the ETR10 Regular Adjustment and Annual Review process.

7.1 Proposed MAR allowance for KEK

MAR Categories		Proposed 2015	Proposed 2016
Operating and Maintenance Costs(O&M)	Euro	20,053,450	18,989,612
Allowed Depreciation	Euro	23,368,054	24,145,433
Allowed return	Euro	9,316,341	9,649,205
Allowed Lignite Supply Costs	Euro	81,381,890	86,363,354
Forecast Lignite Supply costs	Euro		
Actual Lignite Supply Costs	Euro		
Allowed Other Fuel Costs	Euro	4,408,532	4,479,591
Forecast Other Fuel Costs	Euro		
Actual Other Fuel Costs	Euro		
Allowed Pass-through costs	Euro	3,590,180	4,977,391
Forecast Pass-through costs	Euro		
Actual Pass-through costs	Euro		
Ash income	Euro	-168,340	-264,201
Health insurance 2016	Euro		435,433
Health insurance 2015	Euro		-103,000
Steam income	Euro	-1,178,977	-166,535
Metallic waste income	Euro	-920,485	-62,030
Cogeneration income	Euro		-993,958
Health insurance 2013	Euro		



Additional costs Wind Power	Euro		45,429
License adjustments	Euro	-323,330	
Other	Euro		
Health Insurance 2016	Euro	702,637	
Total Allowed MAR	Euro	140,277	147,495,725



7.2 Proposed WHPC allowance

Wholesale Power Purchase Costs		ETR ₉ Proposed	ETR ₉ Actual	ETR ₁₀ Proposed
Domestic generation				
KEK Generation	€/MWh	26.47	26.33	28.15
	€000s	140,277	136,835	147,496
HPP Ujmani and other RES in TSO	€/MWh	27.5	27.5	41.8
	€000s	2,310	2,663	6,614
Distribution-connected generation (average)	€/MWh	43.8	43.8	57.5
	€000s	2,041	1,432.277	3,695
Imports				
Contracted imports	GWh	508.0	684.31	661.3
	€/MWh	55.0	51.76	51.8
	€000s	27,938	35,416.74	34,226
Exports				
Contracted exports	GWh	638.3	552.520	1,061.5
	€/MWh	30.8	33.31	28.12
	€000s	19,661	18,406	29,849
Power purchase costs				
KEK Generation	€000s	140,277	136,834.542	147,496
Other domestic generation	€000s	4,351	4,095	10,308
Imports	€000s	27,938	35,417	34,226
Total power purchase costs	€000s	172,565	176,347	192,030
Exports	€000s	-19,661	-18,406	-29,849
Subsidies	€000s	0	0	0
WHEC + WHCC	€000s	152,905	157,940	162,147
Retail Margin				
Retail Margin	%	3%	3%	3%
Retail Margin costs	€000s	4,587	4,738	4,864
WHPC				
WHPCat-1 - WHPCft-1	€000s	-6,944.8	0	5,186.7
It	%	10.72%	0.00%	9.14%
(WHPCat-1 - WHPCft-1)*(1+It)	€000s	-7,857.4	0.0	5,660.6
WHPCf	€000s	149,634	162,679	172,672



Weighted Average Power Purchase Cost (WHEA)	€/MWh	28.24	29.23	34.1
--	-------	--------------	--------------	-------------

7.3 Proposed MAR allowance for KOSTT

KOSTT MAR		ETR ₉ proposed	ETR ₉ Actual	ETR ₁₀ proposed
Indexation parameters				
Efficiency Factor	%	4.00%	4.00%	4.00%
Profiling Factor		0.00	0.00	0.00
HICP	%	0.43%	0.21%	0.21%
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	6.9		6.7
Allowed Depreciation (DEPC_t)				
$DEPC_t = DEPC_{t-1} * (1 + CPI_{t-1}) * (1 - P_t)$	€m	7.0		7.0
Allowed Return (RTNC_t)				
$RTNC_t = RTNC_{t-1} * (1 + CPI_{t-1}) * (1 - P_t)$	€m	3.6		3.3
Ancillary Services				
Ancillary Services	€m	3.9		-0.6
Allowed Losses (LSSC_t)				
Allowed Losses				
LSSA _t	%	1.8%	1.8%	1.8%
REUE _t	GWh	6,162.9	6,217.8	6,331.8
WHEA _t	€/MWh	28.2	29.2	34.1
LSSCat-1			3.16	
LSSCft-1		3.132		3.88



LSACt-1 €m

	3.11	
--	------	--

LSSCt €m

3.021		3.89
-------	--	------

Reward for achieving the loss target

KREV

€m

1.5		2.2
-----	--	-----

KOSTT MAR

Adjustment €m

-0.23031	0.012	
----------	-------	--

€m

25.7643	23.873	22.4
---------	--------	------



7.4 Proposed MAR allowance for KEDS

DSO MAR		ETR ₉ Proposed	ETR ₉ Actual	ETR ₁₀ Proposed
Indexation parameters				
Efficiency Factor	%	0.00%	5.00%	5%
Profiling Factor		0.00	0.00	0.00
HICP	%	0.43%	0.21%	0.21%
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 (OPM_t)				
OPM _t = OPM _{t-1} * (1 + CPI _{t-1}) * (1 - E _t) * (1 - P _t)	€m	26.2083		25.09
<i>Pervoja e punes</i>				
Allowed Depreciation (DEPC_t)				
DEPC _t = DEPC _{t-1} * (1 + CPI _{t-1}) * (1 - P _t)	€m	8.0		8.8
Allowed Return (RTNC_t)				
RTNC _t = RTNC _{t-1} * (1 + CPI _{t-1}) * (1 - P _t)	€m	12.4		14.2
Allowed Losses (LSSC_t)				
Allowed Losses				
LSSA _t	%	23.1%	28.0%	20.6%
REUE _t	GWh	4,232.1	4,430.0	4,027.1
WHEA _t	€/MWh	28.2	29.2	34.1
LSSCA _{t-1}			28.9	
LSSCf _{t-1}		27.6		28.3
LSAC _{t-1}			35.1	
LSSC _t		22.8		23.71
Adjustments				
Adjustments (HQ allocation)	€m			



Adjustments (Insurance)	€m			
Adjustments (Asset Insurance)	€m			
Unregulated Revenues	€m	-2.0		-5.33

KREV

KREV	€m	3.1		4.1
------	----	-----	--	-----

MAR

	€m	75.59	71.46	76.5
--	----	-------	-------	------

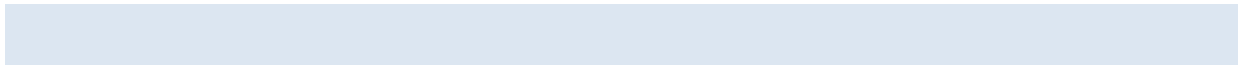


7.5 Proposed MAR allowance for PES

PES MAR		ETR ₉ Proposed	ETR ₉ Actual	ETR ₁₀ Proposed
Indexation parameters				
Efficiency Factor	%	0.00%	5.00%	5.00%
Profiling Factor	%	0.00	0.00	0.00
HICP	%	0.43%	0.21%	0.21%
Euribor	%	0.25%	-0.13%	-0.13%
S-factor	%	10.47%	9.27%	9.27%
It	%	10.72%	9.14%	9.14%
Allowed Retail Costs (RETR_t - Article 10 PES Pricing Rule)				
OPMC _t = OPMC _{t-1} * (1 + CPI _{t-1}) * (1 - E _t) * (1 - P _t)	€m	6.7		6.5
DEPC _t = DEPC _{t-1} * (1 + CPI _{t-1}) * (1 - P _t)	€m	0.3		0.4
Licence allowance	€m	0.1	0.1	0.1
Pass-through Costs (PSTC_t)				
KOSTT fees	€m	22.7		17.8
DSO fees	€m	75.6		75.0
Revenues from Sales of Losses to TSO and DSO				
TSO Revenues (Relevant year t)	€m	3.132		3.9
TSO Revenues (Relevant year t-1)		0.112		0.0
DSO Revenues (Relevant year t)	€m	27.6		28.3
DSO Revenues (Relevant year t-1)		4.9		4.6
Working Capital Costs (WCLC_t)				
WCLC = (1 / 12) * It * (RETR _t + WHPC _t + PSTC _t - NTFR _t)	€m	1.9		1.7
Wholesale Power Costs (WHPC)				
WHPC	€m	149.6		172.7



--	--	--



--	--	--

Bad Debt Allowance (BDTA)

BDTA	%	5%		4%
BDTA	€m	13.1		9.8

KREVt

PES KREVt	€m	33.7		3.7
DSO KREVt	€m	3.1		4.1
TSMO KREVt	€m	1.5		2.2

Other Adjustments

ETR8 DSO losses adjustment	€m	-6.1		
ETR8 TSO losses adjustment	€m	0.3		

PES MAR

PES MAR	€m	256.5	253.1	244.1
---------	----	-------	-------	-------