

# Consultation Paper

The Ninth Electricity Tariff Review

ETR9 (2015-2016)

KOSTT MAR Calculation (Relevant Year 3)

## DISCLAIMER

This Consultation 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.

9 March 2015

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## 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 Ninth Electricity Tariff Review (ETR9). 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. This Consultation Paper presents ERO's assessment any necessary adjustments to the Maximum Allowed Revenues (MAR) of KOSTT. ERO will publish its assessment of the MAR of the Regulated Generator, DSO and PES alongside this report.

## Stakeholder comments

ERO strongly believes that public consultation is at the heart of effective regulatory policy. ERO hereby presents the Regulated Companies and Consumers with the opportunity to examine the evidence and views presented in this Consultation Paper, with which they may disagree, and to comment on them by correcting a factual error, putting forward counterarguments or providing new data which ERO may not have already considered. Parties who wish to express their opinions on ERO's position are invited to submit their comments in writing to [ero.pricing-tariffs@ero-ks.org](mailto:ero.pricing-tariffs@ero-ks.org) no later than **23 March 2015**. Alternatively, comments can be mailed to:

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## Related Documents

ERO's initial assessment of the KOSTT Reporting Formats submitted under the Periodic Review process	<a href="http://ero-ks.org/Price%20and%20Tariffs/2012/english/Vleresimi_fillestar_per_KOSTT_anglisht.pdf">http://ero-ks.org/Price%20and%20Tariffs/2012/english/Vleresimi_fillestar_per_KOSTT_anglisht.pdf</a>
ERO's provisional assessment of the KOSTT MAR under the Periodic Review process – Detailed Report	<a href="http://ero-ks.org/Tarifat/2012/Provisional_Evaluation_KOSTT_eng.pdf">http://ero-ks.org/Tarifat/2012/Provisional_Evaluation_KOSTT_eng.pdf</a>
ERO's final assessment of KOSTT MAR under the Periodic Review Process – Detailed Report	<a href="http://ero-ks.org/Tarifat/2013/Proceset%20e%20Shqyrtimit/eng/Evaluation_KOSTT_22_March_2013.pdf">http://ero-ks.org/Tarifat/2013/Proceset%20e%20Shqyrtimit/eng/Evaluation_KOSTT_22_March_2013.pdf</a>
The Rule on Transmission, System and Market Operator Pricing (TSO/MO Pricing Rule)	<a href="http://ero-ks.org/Rregullat/Rregullat_2011/English/TSO-MO_Pricing_Rule.pdf">http://ero-ks.org/Rregullat/Rregullat_2011/English/TSO-MO_Pricing_Rule.pdf</a>
KOSTT Regulated MAR application submitted under the Regular Adjustment 3 process (ETR9)	

## 1 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 last Periodic Review was conducted by ERO in 2012/2013(ETR7) and set the MAR of the Transmission, System and Market Operator (KOSTT) for a five-year period until 2017. Understanding the need for intensive capital investment programs required to improve the reliability of supply and to maintain and renew the aging transmission infrastructure, ERO approved the KOSTT's plans to invest over €120 million over the five year period.

**Table 1** ETR7 KOSTT MAR at a glance

Transmission, System and Market Operator (KOSTT)	
Forecast investments (2013-2017)	More than €120 million over a five year period
Key projects	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.
Efficiency incentives	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;

## 2 Introduction

The Periodic Review process, conducted by ERO in 2013, set the Maximum Allowed Revenues of the Transmission, System and Market Operator (KOSTT) for a five-year period until 2017. According to the Rule on Transmission, System and Market Operator Pricing, within each of those five “Relevant Years” between 2013 and 2017, the Energy Regulatory Office undergoes a “Regular Adjustment” process. This process differs from a Periodic Review in that the Regular Adjustment process does not entail a detailed analysis of investment plans and operating and maintenance costs. Instead, the Regular Adjustment uses the results obtained during the Periodic Review process and adjusts the MAR to reflect changes between the costs which were forecasted during the Periodic Review and the actual costs incurred by the licensees due to reasons outside of the control of the licensee. During the Regular Adjustment process of KOSTT ERO will:

1. Index the Allowed Operating and Maintenance Costs of all licensees for the Efficiency Factor which is set during the Periodic Review process and for Annual Inflation which is set using the Harmonized Index of Consumer Prices (HICP) for All Items in the Eurozone;
2. Set the Allowed Cost of Losses (LSSCt) for the Transmission System and Market Operator (KOSTT) and update these to include the difference between allowed and actual cost of losses for the previous Regulatory Period, which may have arisen due to changes in wholesale power costs or changes in the flows of electricity in the transmission system;
3. Update TSO MAR to reflect revenues generated through the Inter-TSO Compensation Mechanism;
4. Update TSO MAR to reflect the difference between Allowed and Actual Regulated Revenues in the previous Relevant Year (t-1);

## 3 The structure of this paper

This Consultation Paper is organized as follows:

- Section 4 lays out the Energy Balance assumed by ERO for the second Relevant Year of the Regulatory Period;
- Section 5 reviews KOSTT’s MAR application and provides ERO’s proposal for KOSTT’s MAR;
- Section 6 provides a Summary of ERO’s proposals;

## 4 Energy Balance

The Energy Balance used for the Wholesale Power Costs (WHPC) calculation mainly made reference to the official energy balance approved by the Ministry of Economic Development for 2015<sup>1</sup>. The balance used for the WHPC calculation was built using a bottom-up approach with the level of exports used as a balancing factor between supply and demand in the country:

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<sup>1</sup><http://bit.ly/17YNZn3>

- The balance starts from the expected level of distribution level sales forecast by the Public Electricity Supplier in their application; unlike previous years, when ERO referred to the forecast level of sales in the MED Energy Balance to calculate the ERO Balance, this time ERO refrained from doing so as the MED energy balance foresees an increase in electricity demand of 17.9% which ERO considers highly optimistic. Instead ERO used the forecast sales estimation by PES.
- ERO's allowed level of losses and forecast distribution-embedded generation is added to sum of the total distribution level demand (including losses);
- Total distribution level demand plus transmission level demand is compared against net forecast domestic generation and energy balance imports. The difference is placed on exports.

The Energy Balance used for calculating WHPC is provided below:

**Table 2** Energy Balance used for the calculation of Wholesale Power Costs of the Public Electricity Supplier

Energy Balance		ETR8 Allowed	ETR8 Review	ETR8 Actual	ETR9 Proposed
KEK Generation		5,525.0	5,098.1	4,858.0	5,570.9
Kosovo A	GWh	1,929.0	1,502.1	1,508.9	1,755.6
Kosovo B	GWh	3,595.95	3,595.95	3,349.07	3,864.81
Cogeneration	GWh				-49.49
Other Transmission Connected Generation					
HPP Ujmani	GWh	82.0	82.0	101.5	84.0
Transmission-connected Demand		617.1	617.1	622.9	723.6
Ferronikeli consumption	GWh	526.7	526.7	537.0	632.0
Trepca	GWh	27.1	27.1	85.9	25.9
Sharrcem	GWh	63.3	63.3		65.8
Other Transmission - level consumption		283.1	283.1	227.7	272.1
Mine consumption	GWh	138.0	138.0	112.3	138.0
Kosovo A supply from Transmission	GWh	53.2	53.2	76.5	42.2
Kosovo B supply from Transmisison	GWh	91.9	91.9	39.0	91.9
Transmission Losses					
	%	1.8%	1.8%	1.8%	1.8%
	GWh	109.0	107.0	108.8	110.9
Energy Entering Transmission System		6,057.2	5,942.7	5,916.4	6,162.9
Exports		599.0	486.5	451.9	638.3
Total Production		5,607.0	5,180.1	4,959.5	5,654.9
Imports		450.3	762.7	867.5	508.0
Energy Required to meet Transmission Load		1,608.2	1,493.7	1,411.4	1,744.9
Energy Required to meet Distribution Load		4,449.1	4,449.1	4,504.9	4,418.0
Distribution Generation					
Distribution-embedded generation	GWh	46.3	46.3	49.9	46.6
Wind Power j.s.c.	GWh				
Distribution Consumption		4,495.4	4,495.4	4,554.8	4,464.6
Distribution losses and unbilled energy					
Technical and commercial losses	%	25.6%	25.6%	31.11%	23.1%
	GWh	1,098.2	1,098.2	1,346.2	979.0
Unbilled supplies	%	4.69%	4.69%	4.99%	5.21%
	GWh	211.0	211.0	227.3	232.5
Total losses	GWh	1,309.2	1,309.2	1,573.5	1,211.4
Sales to final customers		3,186.2	3,186.2	2,981.3	3,253.1

#### 4.1 Allowed Transmission Losses

KOSTT has not reported the actual level of losses incurred during Relevant Year 2 in percentage terms. The Allowed Level of Transmission Losses has been set at 1.8% as established during the Periodic Review Process.

#### 4.2 Allowed Distribution Losses

The distribution loss target has been calculated by subtracting 2.5% (percentage points) from the distribution loss target applied to technical and commercial losses set under the ETR8 review. The loss target has been reduced in line with Decision 399<sup>2</sup> of the ERO Board which set the regulatory parameters and incentive inputs for the Regulatory Period and the ETR6 review. The previously allowed target of 25.6% (excluding unbilled supplies) has now been reduced to 23.1%.

### 5 Maximum Allowed Revenues of the Transmission, System and Market Operator of Kosovo (KOSTT)

The Maximum Allowed Revenues of the Kosovo Transmission, System and Market Operator (KOSTT) are set during Periodic Reviews for all of the Relevant Years of the Regulatory Period according to the KOSTT Pricing Rule. ERO uses the allowed operating and maintenance cost and capital investments information approved during the Periodic Review process and updates these to reflect, among others, the allowed inflation.

On each Regular Adjustment, the MAR of KOSTT is reset according to the following formula (Schedule 1 Paragraph 2 of the KOSTT Pricing Rule):

$$MAR_t = OPMC_t + DEPC_t + RTNC_t + ASVC_t + LSSC_t + LICC_t - ITCR_t + KREV_t$$

Where

$MAR_t$	<i>is Maximum Allowed Revenues in Relevant Year t</i>
$OPMC_t$	<i>is allowed operating and maintenance costs in Relevant Year t</i>
$DEPC_t$	<i>is allowed depreciation in Relevant Year t</i>
$RTNC_t$	<i>is allowed return on capital in Relevant Year t</i>
$ASVC_t$	<i>is allowed cost of ancillary services in Relevant Year t</i>
$LSSC_t$	<i>is allowed cost of losses in Relevant Year t</i>
$LICC_t$	<i>is the Licence Fee in Relevant Year t</i>
$ITCR_t$	<i>is net revenues to the TSO/MO under the Inter-TSO Compensation Mechanism in Relevant Year t</i>

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<sup>2</sup> [http://ero-ks.org/Vendimet/Shqip/2012/V\\_399\\_2012.pdf](http://ero-ks.org/Vendimet/Shqip/2012/V_399_2012.pdf)



$KREV_t$  is the revenue correction factor in Relevant Year  $t$

The calculation of each of these MAR components is provided below.

### 5.1 Allowed Operating and Maintenance costs (OPM<sub>Ct</sub>)

Allowed Operating and Maintenance costs are set during each Regular Adjustment through the following formula (Schedule 1 paragraph 2.1 of the TSMO Pricing Rule):

$$OPMC_t = OPMC_{t-1} * (1 + CPI_{t-1}) * (1 - E_t) * (1 - P_t)$$

Where

$OPMC_t$  is allowed operating and maintenance costs in Relevant Year  $t$

$OPMC_{t-1}$  is allowed operating and maintenance costs in Relevant Year  $t-1$ , except for Relevant Year 1 when a value determined by the Regulator at the most recent Periodic Review shall be used

$CPI_{t-1}$  is the actual value of inflation in Relevant Year  $t-1$ , measured using the "Harmonised Indices of Consumer Prices (HICPs) – All Items, for the Eurozone" published by Eurostat, or any other measure of inflation that the Regulator determines is a better measure of the change in operating and maintenance costs over time and is allowed at a Periodic Review

$E_t$  is the Efficiency Factor in Relevant Year  $t$ , which is set at Periodic Reviews

$P_t$  is the Profiling Factor in Relevant Year  $t$ , which is set at Periodic Reviews

The above mentioned formula assumes that ERO will smoothen and profile the OPM<sub>Ct</sub> allowance during the Periodic Review process. As the OPM<sub>Ct</sub> has not been smoothed nor profiled, the allowed Operating and Maintenance Costs for the second relevant year are calculated as the sum of the figure allowed by ERO in the Summary Model multiplied by the rate of inflation plus allowed operating and maintenance costs for the second Relevant Year. ERO has continued to apply the efficiency factor set at Periodic Reviews of 4% per annum and an inflation rate of 0.43%<sup>4</sup> calculated as the Harmonized Index of Consumer Prices for all items in the Eurozone.

ERO has therefore calculated the OPM<sub>Ct</sub> allowance for the Second Relevant Year of KOSTT with the following formula:

$$OPMC = OPMC_{t-1} * (CPI_{t-1}) * (1 - E_t) + OPMC_t$$

The allowed level of OPM<sub>Ct</sub> is €6.9 million.

### 5.2 Allowed Depreciation (DEP<sub>Ct</sub>)

The permitted change in Allowed Depreciation is set during each Regular Adjustment through the following formula (Schedule 1 paragraph 2.2 of the TSMO Pricing Rule):

$$DEPC_t = DEPC_{t-1} * (1 + CPI_{t-1}) * (1 - P_t)$$

Where

$DEPC_t$  is other allowed depreciation in Relevant Year t, which is smoothed such that it is constant over the Regulatory Period

$DEPC_{t-1}$  is allowed depreciation in Relevant Year t-1, except for Relevant Year 1 when a value determined by the Regulator at the most recent Periodic Review shall be used, which is smoothed such that it is constant over the Regulatory Period

$CPI_{t-1}$  is the actual value of inflation in Relevant Year t-1, measured using the “Harmonised Indices of Consumer Prices (HICPs) – All Items, for the Eurozone” published by Eurostat

$P_t$  is the Profiling Factor in Relevant Year t, which is set at Periodic Reviews

The formula, as set in the Pricing Rule, again assumes that the depreciation allowances are smoothed and profiled over the regulatory period. Since no smoothing was applied during the Periodic Review process, applying the formula strictly as in the Pricing Rule would not match the intended  $DEPC_t$  allowance for the second Relevant Year. ERO has therefore adopted the following formula:

$$DEPC = DEPC_{t-1} * (CPI_{t-1}) + DEPC_t$$

The allowed Depreciation costs for Relevant Year 3 are set to €6.2 million.

### 5.3 Allowed Return (RTNC<sub>t</sub>)

The indexation of the Allowed Return component to inflation is calculated with the following formula (Schedule 1 paragraph 2.3 of the TSMO Pricing Rule):

$$RTNC_t = RTNC_{t-1} * (1 + CPI_{t-1}) * (1 - P_t)$$

Where

$RTNC_t$  is allowed return on capital in Relevant Year t, which is smoothed such that it is constant over the Regulatory Period

$RTNC_{t-1}$  is allowed return on capital in Relevant Year t-1, except for Relevant Year 1 when a value determined by the Regulator at the most recent Periodic Review shall be used, which is smoothed such that it is constant over the Regulatory Period

$CPI_{t-1}$  is the actual value of inflation in Relevant Year t-1, measured using the “Harmonised Indices of Consumer Prices (HICPs) – All Items, for the Eurozone” published by Eurostat

$P_t$  is the Profiling Factor in Relevant Year t, which is set at Periodic Reviews

As in the OPMcT and DEPCt components calculation, ERO had not profiled or smoothed the Allowed Return during the Periodic Review. The formula above assumes that the allowed return component has been profiled and therefore applying it strictly leads to a situation where the TSMO does not recover the full allowed return. This component has therefore been calculated by the following formula:

$$RTNC = RTNC_{t-1} * (CPI_{t-1}) + (RTNC_t)$$

The allowed return of the TSMO for the second Relevant Year has been set at €2.7 million.

#### **5.4 Allowed Cost of Ancillary Services (ASVcT)**

Starting from April 2015, KOSTT expects to enter into contracts for the provision of secondary and tertiary reserve. Providing for these reserves is an obligation for membership of the European Network of Transmission System Operators for Electricity (ENTSO-E) , which KOSTT has now joined. Details of the different types of reserves requirements can be obtained from ENTSO-E or KOSTT's websites.

These contracts will have two charges. The first is an availability fee, equivalent to a capacity charge for generators, which compensates the provider for the costs of holding available sufficient capacity to meet the reserve requirements. The second is a utilization fee, paid when the reserves are actually required by Kosovo. This is essentially the energy market marginal price in the relevant period, which represents the cost of procuring additional energy to make up for shortfalls. The availability and utilization fees are related—in peak hours the energy market price and, therefore, utilization fee will be higher. This expected higher revenue from the utilization fee means the availability fee required by the provider can be lower while still allowing them to recover their costs in full.

The availability fee will be included in TUOS charges and, therefore, the costs of availability payments will form part of the KOSTT MAR. It is appropriate to socialize these costs as they represent the cost of ensuring reserves are available when needed—which is a social benefit.

The costs of utilizing the reserves (the utilization fee) will be recovered through the balancing market. Where, for example, a generator is short (generates less than nominated), KOSTT may use contracted reserves to make up the resulting shortfall in supply. It will have to pay a utilization fee for doing so. The costs of this payment will be charged to the generator causing the imbalance. This provides the incentive for participants to remain in balance. These costs, therefore, do not form part of the KOSTT MAR as they are not recovered from TUOS charges but are allocated, when incurred, to the party creating the need to utilize reserves.

KOSTT has provided estimates of the availability payments associated with procuring secondary and tertiary reserves. ERO has reviewed these and adjusted them as follows:

- KOSTT has estimated payments on a monthly basis. It has then summed these and multiplied the resulting total by 0.75 to adjust for the expected start of contract part-way through the year. However, this understates the impacts of not contracting from January to March as reserves requirements are higher in these months (due to higher demand). ERO

has, instead, deducted the estimated costs of reserves in January, February and March to obtain the total cost to be recovered from TUOS charges.

- KOSTT has assumed that tertiary reserves will only be required during peak hours but has applied an availability fee applicable for all hours to calculate the costs of these reserves. As discussed above, energy market prices and, therefore, utilization fees will be higher in peak hours and the corresponding availability fee will be lower. ERO has corrected for this by recalculating reserves costs assuming an availability fee consistent with peak hour contracts.

The impacts of these adjustment are to reduce the estimated costs of reserves contracts to be included in KOSTT's MAR from the original proposal of €5.45 million to €3.86 million.

## 5.5 Allowed Cost of Losses (LSSCt)

Allowed Cost of Losses for the TSO have been calculated by using the allowed loss target under ETR8 by using the following formula (Schedule 1 paragraph 2.4 of the TSMO Pricing Rule):

$$LSSC_t = LSSA_t * REUE_t * WHEA_t + (LSSCa_{t-1} - LSSCf_{t-1}) * (1 + I_t) + (LSSCa_{t-1} - LSAC_{t-1}) * LSSF_t$$

Where

<i>LSSC<sub>t</sub></i>	<i>is allowed cost of losses in Relevant Year t</i>
<i>LSSA<sub>t</sub></i>	<i>is the Loss Allowance, which is a percentage of energy entering the Transmission System, in Relevant Year t</i>
<i>REUE<sub>t</sub></i>	<i>is the energy units (in MWh) entering the Transmission System in Relevant Year t</i>
<i>WHEA<sub>t</sub></i>	<i>is the average wholesale energy cost (in €/MWh) as determined using the allowed wholesale energy cost for the PES in Relevant Year t</i>
<i>LSSCa<sub>t-1</sub></i>	<i>is the actual allowed cost of losses in Relevant Year t-1 (calculated using the Loss Allowance)</i>
<i>LSSCf<sub>t-1</sub></i>	<i>is the forecast cost of losses in Relevant Year t-1 (calculated using the Loss Allowance)</i>
<i>I<sub>t</sub></i>	<i>is the interest rate for the Relevant Year t calculated based on EURIBOR plus S%, where S is a value to be determined by the Regulator at Periodic Reviews and which reflects the premium payable by the licensee for short-term loans above the EURIBOR rate</i>
<i>LSAC<sub>t-1</sub></i>	<i>is cost of losses actually incurred by the TSO in purchasing energy from the PES as compensation for energy lost on the Transmission System in Relevant Year t-1 (not calculated using the Loss Allowance)</i>
<i>LSSF<sub>t</sub></i>	<i>is the Loss Sharing Factor in Relevant Year t, which is set at Periodic Review.</i>

The interest rate used to calculate the compensation between actual and allowed costs in the previous Relevant Year has been calculated using the S-premium set by ERO during the Periodic Review (15.0%) plus the current one year EURIBOR rate (0.25%<sup>5</sup>). The resulting interest rate used for adjustments has therefore been set to 15.25%.

The first component of the LSSCt formula ( $LSSAt * REUEt * WHEAt$ ) has been calculated as the product of the allowed level of losses (1.8%) multiplied with the units of energy entering the transmission system (6,162.9 GWh) and the forecast Weighted Average Power Purchase Costs of 28.2 €/MWh. The actual cost of losses (LSSCat-1) using the loss percentage allowed by ERO and the WHEA allowed by ERO €2.9 million whereas the actual value allowed by ERO (LSSCft-1) in Relevant Year 1 MAR is €3.0 million. The difference between LSSCat-1 and LSSCft-1 has been returned to KOSTT with interest. In resetting the allowed losses for the second Relevant Year (LSSCt) ERO also added the difference between LSSCat-1 and LSAct-1. The final loss allowance of the TSO for the second Relevant Year is, therefore, €3.0 million.

## 5.6 Allowed Cost of Licence Fees (LICCt)

The licence fee allowance has been set to zero in line with expected licence fee costs for the second Relevant Year.

## 5.7 Allowed Revenues for the Inter-TSO Compensation Mechanism (ITCRt)

No revenues have been deducted for the Inter-TSO Compensation Mechanism (ICT) in line with expected revenues under this mechanism for the second Relevant Year.

## 5.8 KREVt

The difference between the Maximum Allowed Revenues (MAR) allowed by ERO for the second Relevant Year and the Actual Regulated Revenues collected by KOSTT during the same period was calculated according to the following formula (Schedule 2 paragraph 2.5 of the TSO/MO Pricing Rule):

$$KREV_t = (MAR_{t-1} - ARR_{t-1}) * (1 + I_t)$$

Where

$ARR_{t-1}$  is the Actual Regulated Revenues in Relevant Year t-1

$MAR_{t-1}$  is Maximum Allowed Revenues as determined in Relevant Year t-1

$I_t$  is the interest rate for the Relevant Year t calculated based on EURIBOR plus S%, where S is a value to be determined by the Regulator at Periodic Reviews and which reflects the premium payable by the licensee for short-term loans above the EURIBOR rate

The difference between the MAR allowed by ERO of €20.2 million and the ARR collected by KOSTT of €18.8 million was returned to the KOSTT MAR with interest.

## 6 KOSTT MAR Summary

The overall level of KOSTT MAR allowed for the second Relevant Year is €25.9 million as summarized in the following table.

**Table 3** KOSTT Relevant Year 3 MAR summary proposal

KOSTT MAR		ETR8 Allowed	ETR8 Review	ETR9 proposed
<b>Indexation parameters</b>				
Efficiency Factor	%	4.00%	4.00%	4.00%
Profiling Factor		0.00	0.00	0.00
HICP	%	0.70%	0.70%	0.97%
Euribor	%	0.58%	0.58%	0.25%
S-factor	%	15.00%	15.00%	15.00%
It	%	15.58%	15.58%	15.25%
<b>Operating and Maintenance Costs (OPMCt)</b>				
$OPMC_t = OPMC_{t-1} * (1 + CPI_{t-1}) * (1 - E_t) * (1 - P_t)$	€m	7.1	7.1	6.9
<b>Allowed Depreciation (DEPCt)</b>				
$DEPC_t = DEPC_{t-1} * (1 + CPI_{t-1}) * (1 - P_t)$	€m	6.6	6.6	7.0
<b>Allowed Return (RTNCt)</b>				
$RTNC_t = RTNC_{t-1} * (1 + CPI_{t-1}) * (1 - P_t)$	€m	3.3	3.3	3.6
<b>Ancillary Services</b>				
Ancillary Services	€m			3.9
<b>Allowed Losses (LSSCt)</b>				
Allowed Losses				
LSSAt	%	1.8%	1.8%	1.8%
REUEt	GWh	6,057.2	5,942.7	6,162.9
WHEAt	€/MWh	27.3	29.5	28.2
LSSCat-1				
LSSCft-1		3.0		3.0
LSACT-1	€m			

LSSCt	€m	3.3	3.5	3.0
Reward for achieving the loss target				

### KREV

	€m	-0.2	-0.2	1.5
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### KOSTT MAR

Adjustment	€m			
	€m	20.2	20.4	25.8