Response to Comments

The Ninth Electricity Tariff Review

ETR9 (2015-2016)

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.

3 April 2015

Table of Contents

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 within of the Ninth Electricity Tariff Review (ETR9). Under this process, ERO will adjust the MAR of Public Electricity Supplier (PES), 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 of any necessary adjustments to the Maximum Allowed Revenues (MAR) of the all licensees ERO is now on the final stage of the Public Consultation process in which it reviews the comments provided by the licensees and provides responses to those comments.

This Document should be read in the 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	hhttp://ero-ks.org/Tarifat/2013/Proceset%20e%20Shqyrtimit/eng/Evaluation_KOSTT_22_March_2013.pdf
The Rule on Transmission, System and Market Operator Pricing (TSO/MO Pricing Rule)	http://ero-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_te_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	http://www.ero-ks.org/Tarifat/2015/Komentet_KOSTT.pdf
KEDS' comments to the ETR9 Consultation Paper	http://www.ero-ks.org/Tarifat/2015/Komentet_KEDS.pdf
KESCO's comments to the ETR9 Consultation Paper	http://www.ero-ks.org/Tarifat/2015/Komentet_KESCO.pdf
Regulated KEK Generator's comments to the ETR9 Consultation Paper	http://www.ero-ks.org/Tarifat/2015/Komentet_KEK.pdf

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

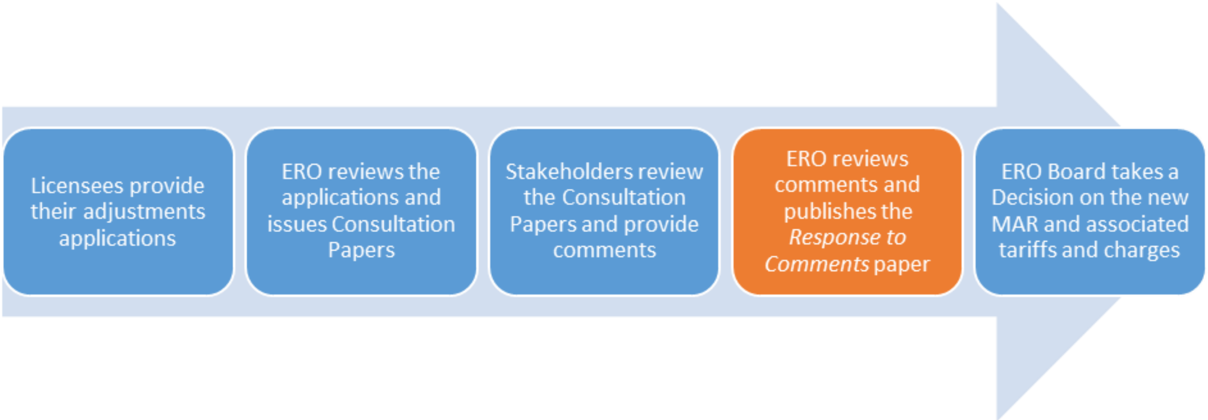
	Mine	Generation	TSO	DSO
Forecast investments (2013-2017)	€127.9 million over 4 years	€156.3 million over 4 years	More than €120 million over 5 years	€107.2 million over 5 years
Key projects	Investments into heavy machinery, repair of two excavators and construction of double-conveyor belts to for the 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 TSO 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

The Energy Regulatory Office (ERO) is currently in the Regular Adjustment process of the Maximum Allowed Revenues (MAR) of the Regulated segments of the Electricity Sector. During the Regular Adjustment process, ERO resets the MARs of the regulated licensees in order to reflect changes between forecast and actual costs which may have been incurred by the licensees and which may have been outside their control.

ERO is now in 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 KEDS' comments;
- Section 4 provides responses to KESCO's comments;
- Section 5 provides responses to KOSTT's comments;
- Section 6 provides responses to KEK's comments.

3 ERO's response to KEDS' comments

3.1 Comments provided by KEDS

KEDS comments to ERO's consultation paper mainly address three issues:

1. The Energy Balance – Under this section KEDS argues that they are being penalized for the failure of KEK to achieve the Distribution Loss target during ETR6. As the target was not met by KEK (they were only able to reduce losses by 1.1% although they were obliged to achieve 3%) the difference of 1.9% was placed on the next year when the ownership and operation was transferred from KEK to KEDS. According to the comments, this puts KEDS in a more difficult position due to the unbundled environment;

2. The DSO Cost of Losses – Under this section KEDS argues that ERO should have placed a 100% sharing factor. Furthermore, they argue that while the MAR of KEDS includes only the allowed level of losses (and therefore KEDS may only charge the allowed level of losses), the PES invoices the DSO for the actual level of losses and, as a result, KEDS pays to KESCO the total level of losses incurred, including those losses which are above the allowed level of losses, thereby incurring a financial loss.

3. Personnel costs – under this section KEDS states that it faces continuous requests from Labor Unions to increase the salaries of KEDS employees and these were often followed by protests and strikes. These protests have a negative impact on KEDS operation and therefore KEDS was forced to accept a rise of the salaries. KEDS therefore requests that a 5% increase in salaries is included in the KEDS MAR.

3.2 ERO responses to KEDS' comments

Energy Balance

The Energy Balance used for setting the MARs of the sector under ETR9 followed the same calculation principles as applied by ERO in previous tariff reviews. ERO stated in the ETR8 consultation paper that altering the Decision may be interpreted as changing the terms upon which a competitive bidding process was carried out and may therefore lead to complaints by the losing party thereby endangering the transaction process. ERO's current position on the matter is, therefore, that the loss targets should remain unchanged[1].

The DSO Cost of Losses

In ETR8, ERO recovered the difference between actual and allowed losses in the year through the adjustment factors applied in the following year. The argument for this was that:

- In principle, the DSO is charged with the difference between the actual and allowed distribution losses in the year as the PES invoiced the actual costs to the DSO who can only charge the allowed costs to the PES. Therefore, the DSO would have already been penalized for exceeding allowed losses. The PES would have recovered these additional costs by being able to bill actual losses to the DSO. Any residual difference is corrected by the adjustment for differences between actual and allowed power purchase costs in the following year leaving the PES neutral.

[1] ERO's position on the issue was elaborated in more detail under the ETR8 Regular Adjustment Process. A link to the ETR8 DSO Consultation Paper is provided here: http://bit.ly/1GlDNSE

- DSO and PES are owned by the same owner. Therefore, the theoretical financial loss to the DSO due to exceeding allowed electricity loss targets is fully compensated by the increased allowance to the PES to cover the resulting higher power purchase costs. The DSO and PES are, as a combined entity, are thereby left financially-neutral meaning no financial incentives to reduce losses.

- ERO's approach to dealing with this has been to carry-forward the financial loss to the DSO into the PES MAR in the following year, using the loss correction sharing factor. The DSO MAR is adjusted downwards in the following year by the difference in the financial costs of losses attributed to the DSO in the year. In turn, this reduced DSO MAR feeds into a lower PES MAR. The combined DSO+PES, therefore, ends up bearing the financial costs of not meeting the loss target.

ERO acknowledges the argument that the KEDS' and KESCO's MAR should be adjusted to reflect the fact that the KESCO received a higher level of revenues from KEDS due to the fact that a higher level of losses was paid by KEDS. KEDS' and KESCO's MARs have been adjusted to reflect this argument. The adjustment has no effect on the overall MAR of KESCO.

Personnel Costs

The Pricing Rules stipulate that the Allowed levels of Operating and Maintenance Costs (OPMCt) are set during Periodic Reviews and remain unchanged throughout the Regulatory Period. KEDS may place a request to increase the OPMCt allowance during the Periodic Review and ERO will consider the request at that point.

4 ERO's response to KESCO's comments

4.1 Comments provided by KESCO

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

1. The energy balance – KESCO claims that ERO did not take into account the delays in the works on the A4 and A5 generation units. As a result they believe the export value – which was used by ERO as a balancing factor – is overrated because of the unstable operation of the PP Kosovo A units and because of the expected repairs in Kosovo B. KESCO believes they should be allowed to recover an extra 100 GWh for Emergency Imports in order to balance consumption and production during peak hours.

2. Export levels - KESCO also argue that they are playing a balancing role with regard to the energy available in the system and they provide examples in which the unreliability of the generating units has resulted in a financial loss for the company. Moreover KESCO argues that most of the electricity which is exported is done during off-peak hours which implies significantly low export prices. They are therefore requesting from ERO to provide an incentive to KESCO to optimize export efforts by resetting the Export Sharing Factor to 50%-50%.

3. Adjustments for the cost of losses under ETR 8 – As in the KEDS comments, KESCO raised the issue of the Distribution Loss target which was not achieved by KEK on the first year in which the target was applied. KESCO argue that they were unfairly burdened with achieving a 5% loss reduction target which they were not requested to do during the negotiations for the conclusion of the privatization transaction. As a result, they claim that KEDS was already penalized for the underperformance of KEK during 2013. KESCO state that they may be placed in an unfavorable financial position since KESCO now functions as a separate company in a legally unbundled environment.

4. Personnel costs – KESCO claims that they are continuously facing requests from Labor Unions to increase employees' salaries, which are often followed by protests and strikes. They state that ERO has never acknowledge the constant request of KEDS to have a 5% increase in salaries and are requesting from ERO to allow them to recover the cost of the salary increase for 2015 which they estimate is €0.085 million.

4.2 ERO responses to KESCO's comments

Energy Balance and the Imports allowance

ERO will monitor the implementation and imports plan closely throughout the Relevant Year. The Wholesale Power Cost formula allows for a compensation of differences between allowed and actual costs and ERO will make these adjustments if it turns out that the actual imports are higher than the value allowed by ERO.

Export levels and the export sharing factor

The forecast export level has been reduced in line with the confirmed delay in bringing the Kosovo A units back online.

The Export Sharing Factor is set during an Input Values Review[2]. The Pricing Rules stipulate that an Input Values Review is held at the initiation of the Regulator or at the request of the PES (Article 4 of the PES Pricing Rule) however this has to be done at least 120 Business Days prior to the start of the next Relevant Year (Schedule 3 Paragraph 2 of the PES Pricing Rule). The PES may therefore make a request to ERO to initiate an Input Values Review for the next Relevant Year.

Adjustments for the cost of losses for ETR8

ERO recognizes the fact that KEK underperformed with respect to achieving the loss target before the takeover by KEDS. ERO has already provided a detailed response and can confirm that, as of now, ERO's position on the matter has not changed.

The Loss Allowance calculation under the DSO and PES MAR has followed the principle that any differences between the allowed losses and the actual losses are borne by the DSO. This is set as an incentive to the DSO to earn a profit if they exceed the target or incur a loss if they are not able to reach the target.

[2] Input Values are determined by the Multi Year Tariff for 5 years for DSO and TSO, and 4 years for Generators

Personnel costs

The Pricing Rules stipulate that the Allowed levels of Operating and Maintenance Costs (OPMCt) are set during Input Values reviews and remain unchanged until another Input Values Review is initiated. KESCO may place a request to increase the OPMCt allowance during the next Input Values Review and ERO will consider the request at that point.

5 ERO's response to KOSTT's comments

5.1 Comments provided by KOSTT

KOSTT raised the following concerns:

1. Efficiency factor - The Operating and Maintenance costs allowed by ERO are not sufficient to cover the actual operating expenses of the company. KOSTT have also raised their concerns that the 4% efficiency factor set by ERO has put them in a position to seek other funds since they cannot cover the actual O&M costs through the current transmission charges.

2. Transmission losses - KOSTT states that ERO should consider the fact that the transmission losses are at the lowest technical level that can be achieved and applying the target set by ERO may cause financial problem for KOSTT during short-term, especially in long-term basis.

5.2 ERO responses to KOSTT's comments

Efficiency factor

ERO can confirm that the position on the efficiency factor has not changed. We encourage KOSTT to seek ways of improving their operative efficiency and delivering value to customers.

Transmission losses

ERO has continued to apply the same loss target for KOSTT as there are no dramatic changes in the energy balance which would seem to justify KOSTT's argument that the transmission losses are on an upward trend.

Transmission loss adjustment

Upon reviewing the transmission losses calculations under ETR8, ERO notes the following adjustments which should be made:

- Under ETR7, KOSTT were allowed a transmission loss level of €3.5 million. Under the same year, the PES would have billed KOSTT for the actual level of losses (€3.3 million). Since KOSTT met a lower than allowed loss target, they would have retained the difference of €0.2 million.

- In order to share the benefits between customers and KOSTT (according to the Loss Sharing Factor which was set at 50%) ERO should have deducted 50% of the earnings (50% of €0.2 million) from the KOSTT MAR under ETR8. Instead, in calculating the LSSCt allowance under ETR8, ERO added 50% of the difference to KOSTT's MAR. ERO therefore overcompensated

KOSTT by €0.2 million (rather than deducting €0.1 million, ERO added €0.1 million therefore the difference is an overcompensation of the KOSTT MAR by €0.2 million).

Under ETR9, KOSTT's MAR has therefore been adjusted downwards for the difference of €0.2 million which has been deducted with interest.

6 ERO's response to KEK's comments

6.1 Comments provided by KEK

1. Efficiency factor – KEK argue that the efficiency factor of 4% set by ERO is unachievable due to the old age of the assets. The efficiency factor is linked to a company's ability to implement new investments which can improve the operative efficiency.

2. ERO's approach to the Extraordinary Review – KEK are requesting from ERO to allow them to recover all of the costs associated to the electrolysis accident in Kosovo A PP.

3. Summary of KEK Generation MAR – KEK point out a technical error in the summary of KEK's MAR related to the "Ash income" line.

4. Generator availability – KEK note that the expected level of output will be reduced due to the delay in bringing the Kosovo A units back online (A3 is expected to be back in operation on 30 March whereas A5 is expected back on 10 May).

5. Secondary regulation – KEK note that they will inevitably have to make a capital investment in order to be able to provide secondary regulation services to KOSTT. KEK therefore requests that ERO allow the necessary investments into KEK's MAR.

6.2 ERO responses to KEK's comments

Efficiency factor

ERO's position on the Efficiency Factor has not changed as this factor is set based on a Public Consultation phase during the Periodic Review. ERO encourages KEK to seek ways to improve the operating efficiency and environment of the utility.

ERO's approach to the extraordinary review

ERO's position on the KEK adjustments for the extraordinary review has not changed. As elaborated in the Extraordinary Review Consultation Paper, ERO has yet to receive convincing arguments that the Extraordinary Event which triggered the review was beyond KEK's control.

Summary of the generation MAR

ERO acknowledges the fact that the summary contains a technical error in the representation of Ash Income and confirms that the error did not have an effect on the calculations.

Generator Availability

ERO has partially acknowledged the delay in implementation of the generator availability in the Consultation Paper. ERO would have to receive detailed evidence for the reasons behind this delay in order to consider any further changes to the availability factor.

Secondary regulation investments

The investment plan for the Regulatory Period has already been included in KEK's MAR. If KEK did not envisage the investments during the Periodic Review application phase then they are encouraged to follow the procedure under Schedule 2 of the Regulated Generator Pricing Rule and submit a request for an allowance of an investment to ERO. ERO will then review the size and appropriateness of the investments and notify the Regulated Generator about the value of the investment which will be allowed to be recovered under the Regulated Generator MAR.

7 ERO's final MAR proposals

This section of the report summarizes ERO's MAR proposals for the Regulated Licensees as a result of the ETR9 Regular Adjustment and Annual Review process.

7.1 Summary of KEK's MAR

Category	Unit	2015
Allowed operating and maintenance costs in Relevant Year t	OPMCt	**19,945,326**
Actual value of inflation in Relevant Year t-1	CPIt-1	0.043%
Efficiency Factor in Relevant Year t	Et	4%
Allowed depreciation in Relevant Year t	DEPCt	**23,247,841**
Actual value of inflation in Relevant Year t-1	CPIt-1	0.43%
Allowed return on capital in Relevant Year t	RTNCt	**9,269,086**
Actual value of inflation in Relevant Year t-1	CPIt-1	0.43%
Allowed lignite supply costs in Relevant Year t	LGSCt	**81,245,989**
Forecast allowed lignite supply costs in Relevant Year t	LGSCft	79,312,873
Actual allowed lignite supply costs in Relevant Year t-1	LGSCat-1	74,870,926
Forecast allowed lignite supply costs in Relevant Year t-1	LGSCft-1	73,197,043
Interest rate for the Relevant Year t	It	15.49%
Allowed other fuel supply costs in Relevant Year t	OTFCt	**4,410,799**
Forecast allowed other fuel supply costs in Relevant Year t	OTFCft	8,261,669
Actual allowed other fuel supply costs in Relevant Year t-1	OTFCat-1	4,288,866
Forecast allowed other fuel supply costs in Relevant Year t-1	OTFCft-1	7,623,328
Interest rate for the Relevant Year t	It	15.49%
Pass-Through Costs in Relevant Year t	PSTCt	**3,590,495**
Forecast Pass-Through Costs in Relevant Year t	PSTCft	4,125,819
Actual Pass-Through Costs in Relevant Year t-1	PSTCat-1	3,165,433
Forecast Pass-Through Costs in Relevant Year t-1	PSTCft-1	3,628,968
Interest rate for the Relevant Year t	It	15.49%
Cogeneration income		-1,178,977.37
Ash sales income TC B		-194,410.00
Income from sales of metallic waste TC A		-1,063,039
Health insurance adjustment		702,637.
Cost Alocation for HQ for TP A &B		300,995
Maximum Allowed Revenues in Relevant Year t	MARt	**140,276,741**

7.2 Summary of KOSTT's MAR

KOSTT MAR		ETR8 Allowed	ETR8 Review	ETR9 proposed
Indexation parameters				
Efficiency Factor	%	4.00%	4.00%	4.00%
Profiling Factor		0.00	0.00	0.00
HICP	%	0.70%	0.70%	0.43%
Euribor	%	0.58%	0.58%	0.25%
S-factor	%	15.00%	15.00%	15.00%
It	%	15.58%	15.58%	15.25%
Operating and Maintenance Costs (OPMCt)				
$OPMC_t = OPMC_{t-1} * (1 + CPI_{t-1}) * (1 - E_t) * (1 - P_t)$	€m	7.1	7.1	6.9
Allowed Depreciation (DEPCt)				
$DEPC_t = DEPC_{t-1} * (1 + CPI_{t-1}) * (1 - P_t)$	€m	6.6	6.6	7.0
Allowed Return (RTNCt)				
$RTNC_t = RTNC_{t-1} * (1 + CPI_{t-1}) * (1 - P_t)$	€m	3.3	3.3	3.6
Ancillary Services				
Ancillary Services	€m			3.9
Allowed Losses (LSSCt)				
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		3.1
LSACt-1	€m			
LSSCt	€m	3.3	3.5	3.0
KREV				
	€m	-0.2	-0.2	1.5
KOSTT MAR				
Adjustment	€m			-0.2
KOSTT MAR	€m	20.2	20.4	25.8

7.3 Summary of KEDS' MAR

DSO MAR		ETR8 Allowed	ETR8 Reviewed	ETR9 Proposed
Indexation parameters				
Efficiency Factor	%	0.00%	0.00%	4.00%
Profiling Factor		0.00	0.00	0.00
HICP	%	0.70%	0.70%	0.43%
Euribor	%	0.58%	0.58%	0.25%
S-factor	%	15.00%	15.00%	15.00%
It	%	15.58%	15.58%	15.25%
Operating and Maintenance Costs (OPMCt)				
$OPMC_t = OPMC_{t-1} * (1 + CPI_{t-1}) * (1 – E_t) * (1 – P_t)$	€m	18.6	18.6	26.2
Adjusted OPEXwithout HQ	€m			14.8
Health Insurance	€m	0.2	0.2	0.4
Asset Insurance	€m	0.8	0.8	0.8
HQ Allocation	€m	1.1	1.1	3.0
DSO-PES Personnel transfer	€m			7.6
Intercompany charge	€m			-0.3
HQ adjustment	€m			-0.2
Allowed Depreciation (DEPCt)				
$DEPC_t = DEPC_{t-1} * (1 + CPI_{t-1}) * (1 – P_t)$	€m	7.3	7.3	8.0
Allowed Return (RTNCt)				
$RTNC_t = RTNC_{t-1} * (1 + CPI_{t-1}) * (1 – P_t)$	€m	10.5	10.5	12.4
Allowed Losses (LSSCt)				
Allowed Losses				
LSSAt	%	25.6%	25.6%	23.1%
REUEt	GWh	4,284.4	4,284.4	4,232.1
WHEAt	€/MWh	27.3	29.5	28.2
LSSCat-1				
LSSCft-1		29.9		27.6
LSACt-1				
LSSCt		23.8	26.3	22.8
Adjustments				
Adjustments (HQ allocation)	€m	1.1	1.1	
Adjustments (Insurance)	€m	0.2	0.2	
Adjustments (Asset Insurance)	€m	0.5	0.5	
Unregulated Revenues	€m	1.2	1.2	-2.0
KREV				
KREV	€m	3.0	3.0	3.1
MAR				
MAR	€m	63.9	66.4	75.6

7.4 Summary of PES' MAR

PES MAR		ETR8 Allowed	ETR8 Reviewed	ETR9 Proposed
Indexation parameters				
Efficiency Factor	%	0.00%	0.00%	0.00%
Profiling Factor	%	0.00	0.00	0.00
HICP	%	0.70%	0.70%	0.43%
Euribor	%	0.60%	0.60%	0.25%
S-factor	%	12.54%	12.54%	10.47%
It	%	13.14%	13.14%	10.72%
Allowed Retail Costs (RETRt)				
$OPMC_t = OPMC_{t-1} * (1 + CPI_{t-1}) * (1 - E_t) * (1 - P_t)$	€m	12.4	12.4	6.7
Adjusted OPEX without HQ	€m			10.7
DEPCt = DEPCt-1 * (1 + CPIt-1) * (1 – Pt)	€m	0.20	0.2	0.3
Health Insurance Allowance	€m	0.2	0.2	0.0
HQ Reallocation Allowance	€m	1.3	1.3	2.9
Licence allowance	€m	0.1	0.1	0.1
PES-DSO Personnel Transfer	€m	0.0	0.0	-7.6
Inter-company charge	€m			0.3
Pass-through Costs (PSTCt)				
KOSTT fees	€m	17.8	18.0	22.7
DSO fees	€m	63.9	66.4	75.6
Revenues from Sales of Losses to TSO and DSO				
TSO Revenues (Relevant year t)	€m	3.3	3.5	3.1
TSO Revenues (Relevant year t-1)				0.1
DSO Revenues (Relevant year t)	€m	23.8	26.3	27.6
DSO Revenues (Relevant year t-1)				4.9
Working Capital Costs (WCLCt)				
WCLC= (1 / 12) * It * (RETRt + WHPCt + PSTCt - NTFRt)	€m	2.2	2.3	1.9
Wholesale Power Costs (WHPC)				
WHPC	€m	142.3	154.0	149.6
Retail Margin	€m			
Retail Margin Adjustment	€m	0.0	0.0	
Licence fee				
Licence fee	€m	0.0	0.0	0.0
Non-Tariff Revenues (NTFR)				
Non-tariff Revenues (NTFRt)	€m			0.0
Bad Debt Allowance (BDTA)				
BDTA	%	5%	5%	5%
BDTA	€m	12.0	12.6	13.1
BDTA Adjustment	€m	0.3	0.3	
KREVt				
PES KREVt	€m	15.4	15.4	33.7

DSO KREVt	€m	3.0	3.0	3.1
TSMO KREVt	€m	-0.2	-0.2	1.5
Other Adjustments				
Uncontrolled costs adjustment (Insurance)	€m	0.2	0.2	
Uncontrolled costs adjustments (HQ reallocation)	€m	1.3	1.3	
Licence fee (Imports)	€m	0.0	0.0	
ETR8 DSO losses adjustment	€m			-6.1
ETR8 TSO losses adjustment	€m			0.3
PES MAR				
PES MAR	€m	240.0	252.4	256.5