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



PRINCIPLES ON DETERMINATION OF DISTRIBUTION USE OF SYSTEM TARIFFS AND CONNECTION TAXES

June 2022



The Board of Energy Regulatory Office, pursuant to authority given under Article 9, paragraph 1, subparagraph 1.7, Article 15, paragraph 1.5, Article 26, paragraph 1, subparagraph 1.1, Article 47, paragraph 3, subparagraph 3.3 of the Law on Energy Regulator (Law No. 05/L-084), in the session held on approved the amendments and supplements of:

PRINCIPLES ON DETERMINATION OF DISTRIBUTION USE OF SYSTEM TARIFFS AND CONNECTION CHARGES

PART I- GENERAL PROVISIONS

Article 1

Scope and Purpose

1. The purpose of approving the amendments and supplements to this Rule is to establish the principles for the preparation of Methodologies by the Distribution System Operator (DSO) on the determination of distribution use of system tariffs and connection taxes (hereinafter "Principles").

1.1 This rule sets:

- a) Principles on which DSO shall compile the proposals for distribution use of system tariffs ("Methodology on Determination of Distribution Use of System Tariffs"), and
 - b) Principles on which DSO shall compile the proposals on determination of connection taxes to the distribution network "Methodology on Determination of Taxes for Connection to Distribution System".
 - c) Principles on how these Methodologies will be submitted to the Regulator for approval.
2. The methodologies submitted for approval shall be in accordance with these principles, as well as in line with the Rule on General Conditions of Energy Supply as well as Rule on Determination of Maximum Revenues of Distribution System.
 3. If the submitted methodologies are not in line with the principles and rules, then the Board of the Regulator shall require a full and detailed justification on such discrepancies, in order to decide regarding the approval of these methodologies.



Article 2

Definitions and interpretation

1. Terms used in this rule have the meaning as set forth in the Law on Energy Regulator, Law on Energy, Law on Electricity as well as Rules and Codes approved by ERO.
 - 1.1 **Applicant**- means a natural or legal person who requests the DSO to provide a new or modify an existing connection to the Distribution System;
 - 1.2 **Shallow connection**- means that the applicant will provide at his own cost or pay only the costs incurred by the establishment of a new connection to the nearest suitable point of the existing distribution system, stipulated by the Distribution System Operator;
 - 1.3 **Deep connection**- means that the applicant will provide at his own cost or pay the costs of the assets required for connection to the nearest suitable point of connection to the existing distribution system plus any indirect costs incurred by the work related to the reinforcement, expansion or reconfiguration of the existing network which are caused as a direct consequence of the operation of the connection point;
 - 1.4 **Simple new connection** - means new connection with simplified technical conditions defined by the DSO;
 - 1.5 **Generator** - means the natural or legal person that produces electricity;
 - 1.6 **Prosumer** - means the customer who consumes electricity from the system but can also produce electricity that enters the system;
 - 1.7 **Effective capacity** means the total capacity at any point in the network which is available for use by users without breaching technical limits of network operation. It may be classified by reference to any relevant technical criteria or applicable standards including, but not limited to, current carrying capacity, short-circuit capacity, voltage limits or stability limits;
 - 1.8 **LV or low voltage** - means a voltage not exceeding 1000 Volts alternating current;
 - 1.9 **HV** - means a distribution voltage greater than 1000 Volts alternating current;
 - 1.10 **Standard Connection Charge** - means a charge levied on an individual connection applicant that has been calculated to reflect the average cost of making comparable connections for that class of applicant
 - 1.11 **User** - has the same meaning as in the Distribution Code.
- 2 All other terms used in this document, have the meaning as in the laws of energy sector.



PART II – COMMON PRINCIPLES

Article 3

Non-discrimination and cost reflectivity

1. In developing the Methodology for determination of connection taxes and methodology for determination of distribution use of system tariffs, referred to in Article 2 above, the DSO should charge or offer to charge prices to any customer for any connection or use of system services that:
 - a. are not discriminatory and different in the material and technical aspect between customers who submit a request for a similar service; and
 - b. Reasonably reflect the contribution made by such person to the overall costs of providing the requested service.
2. Notwithstanding the general criteria for cost-reflectivity in the structure of taxes and tariffs, the DSO may set average or standardized taxes for connection and tariffs for use of system services in respect of any specified class of users where:
 - a) users within the class, by virtue of their demand characteristics, are broadly similar in terms of the costs they impose to the DSO (taking into account relevant volumes, load factors, load shape, conditions of termination, location of premises being served, the date and duration of any use of system agreement and any other relevant information);
 - b) the provision of user-specific pricing within that class would lead to higher administrative costs to the DSO without any material compensating benefit to users in terms of transparency; and
 - c) such average pricing is unlikely to present any barrier to competition.

Article 4

Simplicity and Transparency

1. Taxes and tariffs shall be simple, transparent and predictable.



2. Taxes and tariffs shall reflect the need to optimize the use of the network and to reflect costs incurred for connection and use of the system from certain users.
3. Taxes and tariffs should take into account the forthcoming developments in the structure of the power sector and allow more sophisticated arrangements alongside market development.

PART III- METHODOLOGY ON DETERMINATION OF DISTRIBUTION USE OF SYSTEM TARIFFS

Article 5

Tariff Determination Methodology: minimal demands

1. Tariff Determination Methodology should enable users of the system to make a reasonable evaluation of applicable distribution use of system tariffs and should include:
 - a. the basis on which tariffs for use of the distribution system will be calculated;
 - b. the basis on which any separate tariffs for capacity on distribution system circuits will be made;
 - c. the list of any tariffs that may be required for the provision and installation of any meters, including check meters, or any electrical plant at entry or exit points which is ancillary to and necessary for the grant of use of system, and for the maintenance of such meters or systems;
 - d. the criteria on which any decision by the DSO to temporarily refuse access to the system shall be made, which criteria shall be objective and technically and economically justified.

Article 6

Basis of tariff determination

1. In determining the use of system tariffs, in terms of Article 5.1, the DSO should take into account the medium term costs of maintaining a safe, secure and reliable system so as to enhance the predictability, stability and cost-reflectivity of prices in the long term.
2. In developing its Methodology on Determination of the Use of System Tariffs, the DSO should take into account the long-term, marginal, avoided network costs arising from distributed generation and demand-side management measures.

Article 7

Sharing of Use of System Costs

1. The methodology should respect the following principles:



- a) The DSO should recover its fixed costs by a weighting of 0% to generation and 100% to demand (through capacity tariff).
- b) The DSO shall cover the variable costs for use of system through energy tariffs;
- c) The tariffs should be set in a manner so as to reflect the costs of providing and maintaining the distribution system available at different voltage levels;
- d) Users should not be expected to pay for the capital, operating, or maintenance costs related to assets which they do not use.
- e) The tariffs shall reflect the costs which are incurred, or which are evaluated to be incurred to the system from the user or the category of user at the peak time (highest demand) in the system.

Article 8 **Recoverable costs**

1. To the extent that such costs are reasonably attributable to a user (or in the case of average tariffs, to a class of users), use of system tariffs may be set to recover:
 - a) The capital and running cost of maintaining a safe, secure and reliable system in line with nationally applicable standards available for the transport of electricity from the user's point of entry to the user's point of exit, to the extent that those costs are not recovered through any other charge or tariff;
 - b) The costs of maintaining voltage and frequency within nationally applicable limits;
 - c) The justifiable costs of distribution losses (both technical and commercial) in the form of additional supply required to cover those distribution losses (as stipulated by the Regulator);
 - d) The cost of the provision, installation and maintenance of any relevant meters, to the extent that those costs are not recovered through any other tariff; and
 - e) Any other cost which the Regulator may from time to time approve as recoverable through use of system tariffs as defined in Rule on DSO Revenues.



Article 9

Offer of terms for use of system services

1. In the application submitted by any customer, the DSO should offer an agreement for the provision of use of system services.
2. The offer in paragraph 1 should be made no later than thirty [30] calendar days from receipt of the application for connection to the low voltage network and ninety (90) calendar days for connection to the medium voltage network.
3. The offer for making available the use of system services shall stipulate:
 - a. the connection point;
 - b. available capacity;
 - c. all other possible required services; and
 - d. prices to be paid for such services.
4. Any agreement or offer made by the DSO should be in compliance with the laws of Kosovo, the Distribution Code, the license or any other rule issued by the Regulator.



PART IV – CONNECTION TO THE SYSTEM

Article 10

Methodology on Determination of Connection Taxes: Minimum Demands

- 1 The Methodology on Determination of Taxes should be prepared in such a way to enable system users to make a reasonable evaluation of the applicable connection taxes.
- 2 The Methodology on Determination of Taxes should include,
 - a) a schedule which includes the required materials for connections and their prices (including the costs of carrying out the works and the provision and installation of electric lines, plants or meters) which may be required for the purpose of connection (at entry or exit points) to the distribution system for which connection taxes may be payable and where practicable including indicative taxes against each item specified in the schedule or (where this is not practicable) the basis on which such taxes will be calculated;
 - b) the basis on which taxes will be calculated in respect to expansion or reinforcement of the distribution system which the DSO reasonably believes to be necessary to provide a connection to an applicant without jeopardizing the stability or security of the system, or the quality of supply of existing users of the system;
 - c) the basis on which taxes will be calculated where the provision of electric lines or system to be installed are of greater capacity than required for the needs of the applicant;
 - d) the basis on which taxes for the maintenance and repair of electric lines, plant or meters installed for the purposes of giving a connection will be calculated;
 - e) the basis on which taxes will be calculated in respect of de-energisation of a customer's connection, disconnection from the DSO's distribution system and the removal of electric lines, system and meters following the disconnection.
 - f) the criteria on which any decision by the DSO to temporarily refuse access to the system shall be made, which shall be objective and technically and economically justified.
3. For the avoidance of doubt, where assets have been paid for by customer contributions towards the cost of connection, the Regulatory Asset Base shall not include customers' contributions.



4. The Methodology should include a list of information required for connection to the Distribution System, including any sample forms which applicants will be required to complete. In case of complex connections, the DSO may require additional information from the applicant.
5. The approved Methodology should be published in the website of DSO and shall be easily accessible, whereas hard copies shall be available at no cost to any applicant who does not have access to electronic media.

Article 11

Connection of generator and the prosumer

- 1 Any natural or legal person, generator/producer or prosumer can apply for a new connection or modification of the existing connection to the Distribution System, in order to supply electricity or generate electricity.
- 2 DSO is allowed to require a charge, according to the Methodology on Connection Taxes, which will be approved by the Regulator, for recovering the costs related to evaluation of the request submitted by the generators for connection to the distribution system.

Article 12

Connection Taxes

1. Connection taxes shall apply to all applicants, without distinction, and their structure will enable the recovery of costs for the work performed by the DSO, both for new connection and for existing modifications.
2. There will be two types of taxes:
 - a. connection service tax;
 - b. taxes for the performance of works, if the works for the construction of the connection are being carried out by DSO.
3. The applicant is entitled to hire a contractor licensed for construction works, under the supervision of the DSO.
4. In case the request for new connection exceeds the available network capacity, then the applicant will pay the connection service tax and the capacity tax but only for the reinforced part.
5. When the request for new connection of the individual household applicant exceeds the available network capacity, but this demand is less than 5 kW, then the applicant should not be charged for its required capacity. In this case, the DSO will increase the capacity of the network and the costs associated with it will be covered through the use of network tariffs.



6. Deep connection taxes will be applied only in cases when the DSO does not have in the development plan the expansion of the network to the point where the customer should be connected.

Article 13

Setting of Connection Taxes

1. The DSO submits its Methodology on Determination of Connection Taxes to the Regulator for approval in line with Rule on DSO Revenues and principles on determination of taxes.
2. Connection tax consists of standard (fixed) tax for connection service, capacity tax and work tax for construction of electrical network (if the work is performed by the DSO).
3. The costs which constitute the connection tax include the examination of the connection request, the preparation of the connection offer as well as the technical solution, the connection project and its implementation, including the costs of connection of assets and the costs for works related to installation, testing and commissioning of connection assets.
4. As soon as practicable following the approval of the Methodology, the DSO should submit a statement of its taxes for connection calculated in line with the Methodology to the Regulator for approval.
5. The DSO should submit a statement of its taxes to the Regulator for approval (whether or not any revision to those taxes is proposed) at least once a year.
6. The taxes shall not become effective until approved by the Regulator. The Regulator shall approve taxes or give reasons for not approving them within 60 days from the date of submission of such taxes to the Regulator.

Article 14

Offer of terms for connection

1. In cases where the DSO has received a formal request for connection with all the necessary information according to the approved Methodology on determination of taxes, it provides a formal offer to connect the applicant within the time limits provided by the Rule on General Conditions of Energy Supply. Within ten (10) calendar days from the request for connection of the Applicant, the DSO may notify the Applicant that additional information is required and in such case the corresponding deadline for preparation of the Connection Offer will be extended for the time period for submission of additional required information. At the request of the customer for a new or modified connection, the DSO must provide an indicative and non-binding pre-account to assist the customer in drafting the budget regarding the financial costs of this project.



2. The formal offer must contain the technical criteria for the performance of the relevant connection, the connection capacity, the costs of the feasibility study (if necessary), the determination of the performance of the works, whether it will be carried out by the DSO or by a licensed contractor, defining of required works depending on the type of connection, relevant permits or authorizations related to the right to use the property, all relevant taxes, such as standard taxes, capacity taxes, or taxes on works performed by the DSO, installation of electrical meters and other equipment for protection and monitoring, technical specification, conditions of transfer of assets between the applicant and the DSO, in cases when this transfer is required, defining of the maximum time period for the work performed by either the DSO or the licensed contractor.
3. If during the consultations between the DSO and the applicant regarding the connection the application is considered to be complex, then the DSO may request a feasibility study in order to analyse more connection options and to have a proper cost evaluation for each option as needed.

Article 15

Obligations and the rights of the applicant

1. If the Applicant accepts the offer of the DSO for connection to the Distribution System, he must accept that offer in accordance with all its criteria, including: the criteria of the technical solution, the possibility for the DSO to implement the new network as well as the possibility of transferring the assets of the DSO Applicant. In case of refusal by the party for the transfer of assets to the DSO, then the metering point will be placed at the connection point of the DSO.
2. Following the receipt of the Connection Offer, the Applicant signs the construction agreement and makes the payment according to the DSO Connection Offer, within thirty (30) days from the submission of the Connection Offer. The construction agreement signed by both parties will establish a legally binding agreement between the Applicant and the DSO.
3. If the Applicant is not satisfied with the criteria provided by the DSO or with the handling of the DSO connection request, the Applicant may initiate a complaint to the DSO in accordance with the Rule on Resolution of Complaints and Disputes in the Energy Sector. If the Applicant is still not satisfied with the actions of the DSO, it is entitled to initiate a complaint to the Regulator.
4. During the period for preparation of the connection offer, the capacity in the distribution system will be considered as a reserved load for the Applicant.

Article 16

Temporary rejection of the request



The DSO may refuse to connect an Applicant temporarily, only if that connection is not in accordance with the provisions of applicable laws, rules and codes. In case of rejection of connection, the DSO issues and sends to the Applicant a written notice and presents the reason for the temporary rejection within a period not exceeding thirty (30) calendar days from the date of submission of the application.

Article 17
Special cases

The DSO, through the connection methodology will determine all aspects related to special cases, depending on the specifics of the application, which could include temporary connections for facilities under construction or connections related to various business facilities, including shopping malls.

Article 18
Priority of connection for the same connection point

The request for connection to the same connection point, when two or more customers require connection to the point where the reserve capacity is insufficient or there are other limitations in the network which prevent the connection of both in the network, then the principle that the first applicant is served applies, whereas for the second applicant the DSO will make a proposal for connection to another point.

Article 19
Cooperation of DSO and TSO for deep connections

In case of connections, which include the expansion of the transmission system, taxes will be applied for both the distribution network and the transmission network, while the TSO and the DSO will coordinate regarding the distribution of costs.



Article 20

The rights of new connection

1. The methodology prepared by the DSO will define all actions related to the rights of the new connection, taking into account the principles outlined in this document, and will take into account the rights of use, servitude and property rights, which will be applied in full in accordance with the relevant provisions of the Law on Energy.
2. Customers who own connection points, including metering devices, can transfer their assets to system operators without any compensation but in good technical condition, as long as power plants, such as lines, poles, transformers, etc. cannot be in private ownership unless used only by one customer. In case of connection of more customers, the assets pass to the DSO without any compensation. The maintenance of the connections is carried out according to the price list approved by ERO, while the maintenance of the deep connection is the responsibility of the TSO and the DSO.

Article 21

Compensation of the first applicant by new applicants

1. The assets which were built before the entry into force of the connection methodology and those built for the supply of collective facilities will not be compensated.
2. The first applicant which has invested in the construction of assets for connection, will be notified by the DSO of the possibility and manner of compensation, as well as the value of their assets at the time of connection to the distribution system.
3. At the time of investments by the first applicant, the DSO will evaluate the invested assets based on current prices approved by ERO.
4. The DSO, through the connection methodology, and based on the principles set herein, will operationalize the aspects of tax application in cases of connection of new applicants to assets which have been paid by the previous applicant, as well as the issues of the transfer of the assets for this purpose.
5. The compensation of the first applicant by other applicants will be carried out through the DSO.
6. The manner and value of compensation will be prepared by DSO and will be part of the Methodology of Connection Taxes.



PART V – GENERAL PROVISIONS

Article 22

Official language

These principles are issued in Albanian language and shall be translated in Serbian and English language. In case of any discrepancy between the versions, the Albanian version shall prevail.

Article 23

Amendments

ERO is entitled to change or modify any provision of these principles, following the public consultation process.

Article 24

Repeal

These principles repeal “Distribution Charging Principles” approved by the Board of Energy Regulatory Office in 2012.

Article 25

Interpretation

If there is uncertainty about the provisions of these Principles, the Board will issue clarifying information.

ERO Board:

Ymer Fejzullahu, Chairman

Izet Rushiti, Member

Selman Hoti, Member

Lutfije Dervishi, Member

Gani Buçaj, Member

