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Republika Kosova - Republic of Kosovo

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



Ero/Rule No.05/2017

Rule on Maximum Allowed Revenues of Distribution System Operator (Rule on DSO Revenues)

16 March 2017



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The Board of Energy Regulatory Office, pursuant to authority given under Law on Energy Regulator No. 05/L-084, namely under Article 9 paragraph 1, subparagraph 1.7, Article 15, paragraph 1, subparagraph 1.5, Article 26, paragraph 1, sub-paragraphs 1.1 and 1.2 and Article 47, paragraph 1, in a session held on 16.03.2017 has adopted the:

Rule on Maximum Allowed Revenues of Distribution System Operator (Rule on DSO Revenues)

CHAPTER I GENERAL PROVISIONS

Article 1

Scope and Purpose

- 1 This Rule sets:
 - 1.1 The basis for determination of Maximum Allowed Revenues that may be earned by the Distribution System Operator (“DSO”) in any Relevant Year in order to allow it to recover the reasonable costs of developing, operating, and maintaining the distribution system in order to make it available to system users, in accordance with Law on Energy Regulator;
 - 1.2 The process by which such Maximum Allowed Revenues shall be reviewed and periodically re-determined as well as regular annual updates;
 - 1.3 The process by which Distribution Use of System (“DUOS”) Tariffs, used to recover the Maximum Allowed Revenues and the Connection Taxes applied by the DSO, are determined; and
 - 1.4 The process by which Connection Taxes and Distribution Use of System Tariffs (DUOS), used to recover Maximum Allowed Revenues, are determined,

Article 2

Definitions and Interpretations

- 1 The terms used in this Rule have the following meaning:
 - 1.1 **“Actual Regulated Revenues”** - the revenues recovered by the DSO through tariffs for the provision of Distribution System Services and any other revenue items stipulated by the Regulator, measured on an actual basis;
 - 1.2 **“Allowed Investment Plan”**- the programme of capital projects for the Regulatory Period as approved by the Regulator as part of a Periodic Review;
 - 1.3 **“Business Days”** - all working days of the week as defined in Kosovo law;



- 1.4 **“Connection Tax”** - the tax applied by the DSO for connecting customers to the Distribution System;
- 1.5 **“Distribution Losses”**- the total energy losses occurring in the Distribution System operated by the DSO consisting of:
 - (a) technical losses as determined by an engineering estimate; and
 - (b) commercial losses defined as energy entering the Distribution System less technical losses less energy billed to final customers;
- 1.6 **Distribution System Operator** or **“DSO”** -a natural or legal person responsible for operating, ensuring the maintenance of and, if necessary, developing the distribution system in a given area and, where applicable, its interconnections with other systems and for ensuring the long-term ability of the system to meet reasonable demands for the distribution of electricity;
- 1.7 **“Distribution System Services”** -the services which the DSO Licensee is authorized to provide under the terms of the Distribution System Operator License granted to it by the Regulator and associated with the making available of a reliable, safe and secure distribution system to persons wishing to use the system;
- 1.8 **“Distribution System”**- a combination of electricity power lines and electricity equipment of medium and low voltage to serve the distribution of electricity;
- 1.9 **“Electricity undertaking”** - any natural or legal person that performs one or more licensed activities in electricity generation, transmission, distribution, supply, trading, market organization and is responsible for commercial, technical or maintenance related to the stated activities, excluding the final consumer;
- 1.10 **“DUOS Tariffs”** means the set of tariffs applied by the DSO for the Distribution Use of System;
- 1.11 **“Economic Asset Lives”** - systematic distribution of the amount of depreciation of an asset during its useful lifespan allowed by Regulatory Asset Base;
- 1.12 **“Efficiency Factor”** -the target of cost reduction defined at Periodic Reviews and applied at Regular Adjustments to determine allowed operating and maintenance costs of the DSO.
- 1.13 **“EURIBOR”** - European Banking Federation Interbank Offer Rate for Euro deposits for a period equal to 12 months which appears on the appropriate page of the Reuters service at or about 11:00 a.m. Central European Time, or in the event that the Reuter’s service, or any successor thereto, no longer provides such information, any other service that the Regulator deems reliable.
- 1.14 **“Excluded Services”** – the services provided by the DSO as part of its licensed activities, the costs of which are excluded from Maximum Allowed Revenues and which include, but are not limited to, the provision of connections to the Distribution System or provision of services to third parties;



- 1.15 **“Extraordinary Event”** - has the meaning given to it in 0;
- 1.16 **“Extraordinary Review”**- has the meaning given to it in Schedule 7;
- 1.17 **“Force Majeure”** - has the meaning given to it in 0;
- 1.18 **“Licence Fee”** - the amount payable under the Schedule of Fees issued by the Regulator;
- 1.19 **“Allowed Losses”** - has the meaning given to it in Article 12;
- 1.20 **“Loss Sharing Factor”** - has the meaning given to it in Article 12;
- 1.21 **“Savings Sharing Factor”**- has the meaning given to it in Article 2;
- 1.22 **“Materiality Threshold”** - has the meaning given to it in 0;
- 1.23 **“Maximum Allowed Revenues”** or **“MAR”**- the maximum revenues as stipulated in Schedule 1 of this Rule that can be recovered in a Relevant Year by the DSO through DUOS Tariffs;
- 1.24 **“Maximum Distribution System Demand”** - the maximum electricity demand in a year (in MW) metered at entry points onto the DSO’s distribution system;
- 1.25 **“Metered”** - any electricity metered quantity, including active energy, reactive energy and demand, as measured by a meter installed for such a purpose under the Metering Code;
- 1.26 **“Net Present Value”** - the method of discounting future cash flows;
- 1.27 **“Profiling Factor”**- the factor defined at Periodic Reviews and applied at Regular Adjustments to allowed operating and maintenance costs, depreciation, and return on capital and is determined as described in 0;
- 1.28 **“Provisional Evaluation”** has the meaning given to it in 0;
- 1.29 **“Supplier”** – an energy undertaking licensed to perform supply activities;
- 1.30 **“Supply”**- sale, including resale of electricity to customers;
- 1.31 **“Periodic Review”** - the review by the Regulator to determine Maximum Allowed Revenues of the DSO for the forthcoming Regulatory Period;
- 1.32 **“Regular Adjustment”** - the mechanical adjustment to Maximum Allowed Revenues undertaken at the end of each Relevant Year;
- 1.33 **“Regulated Units Billed”** - the total amount of electricity units billed to final customers supplied from the Distribution System;
- 1.34 **“Regulated Units Distributed”** - the total amount of electricity units distributed through the Distribution System for delivery to final customers in a Relevant Year metered at exit



- points on leaving the Distribution System (or where no such meter is installed as otherwise reasonably calculated in accordance with recognized engineering practices);
- 1.35 **“Balancing”**- entirety of processes, through which the Distribution System Operator operates and maintains the system frequency within the defined limits of its sustainability;
 - 1.36 **Energy Regulatory Office”** -(hereinafter: the Regulator) is an independent agency in the energy sector, established by Law on Energy Regulator;
 - 1.37 **“Regulatory Asset Base”**- all assets used and useful for provision of services by the regulated undertaking, excluding totally depreciated assets;
 - 1.38 **“Regulatory Period”** - has the meaning given to it in Article 5;
 - 1.39 **“Relevant Year”**- means the period of 12 successive calendar months between Regular Adjustments;
 - 1.40 **“Principles on determination of distribution use of system tariffs and connection taxes”**– the principles issued by the Regulator that the DSO’s methodologies for setting the DUOS Tariffs and Connection Taxes must be in accordance with;
 - 1.41 **“Statement of Financial Impact”** - has the meaning given to it in 0;
 - 1.42 **“Use of System”** - the use of the Distribution System for the conveyance of electrical energy from points of entry into the system to supply points for delivery to final customers;
 - 1.43 **“Weighted Average Cost of Capital”** has the meaning given to it in 0;
 - 1.44 **“Electricity Market Referent Prices”**- is the average price of electricity traded in energy markets in different manners at different periods of time;
 - 1.45 **“Capital Grant”**- financial or other means of support without return of investments;
- 2 The other terms in this rule shall have the meanings specified in the Law on the Energy Regulator, Law on Electricity or Law on Energy.



CHAPTER II REGULATION OF DSO REVENUES

Article 3

General Principles

- 1 The DSO shall propose DUOS Tariffs such that within each Relevant Year the revenues that it expects to earn from these tariffs are equal to Maximum Allowed Revenues (Chapter III) approved by the Regulator.
- 2 Maximum Allowed Revenues shall be determined as follows:
 - 2.1 Maximum Allowed Revenues shall be set at Periodic Reviews (0):
 - 2.2 Before the end of each Relevant Year, a Regular Adjustment (0) shall be applied which involves adjustments to Maximum Allowed Revenues to take into consideration the justified changes in costs including the costs that are considered to be outside of DSO's control; and
 - 2.3 Extraordinary Reviews (0), which involve an adjustment to Maximum Allowed Revenues for material changes in costs caused by an Extraordinary Event.

Article 4

Input Values Review

1. Input values are determined during periodic reviews. These values are used for calculation of DSO Maximum Allowed Revenues.
2. An Input Values Review shall be held at the initiation of the Regulator, when changes in circumstances are considered to merit such a review. Changes in input values shall be conducted only to the extent where these changes are reasonable, justifiable and carefully determined.
3. DSO may propose at any time to the Regulator the review of input values. The Regulator is required to respond to such a proposal with written reasons for its decision to initiate or not initiate such a review.
4. The process for undertaking Input Values Reviews is given in Schedule 2.

Article 5

Periodic Reviews and Regulatory Periods

1. At Periodic Reviews Maximum Allowed Revenues of the DSO for the following Regulatory Period shall be set.



2. A Periodic Review shall be initiated prior to each Regulatory Period.
3. Each Regulatory Period shall equal 5 years, except:
 - 3.1 on the mutual agreement of the DSO and the Regulator, a Periodic Period may be shortened or extended.
4. The formulas for calculating Maximum Allowed Revenues at Periodic Reviews are given in Schedule 1.
5. The process for undertaking Periodic Reviews is given in O.

Article 6

Regular Adjustments

1. At Regular Adjustments the permitted change in Maximum Allowed Revenues shall be calculated.
2. A Regular Adjustment shall be held prior to each forthcoming Relevant Year.
3. The change in Maximum Allowed Revenues at each Regular Adjustment shall be calculated based on the following:
 - 3.1 Indexation of allowed operating and maintenance costs to expected efficiency improvements through an Efficiency Factor;
 - 3.2 Indexation of allowed operating and maintenance costs (after application of the Efficiency Factor), allowed depreciation, and allowed return on capital to inflation;
 - 3.3 Update of allowed cost of losses forecast and the License Fee;
 - 3.4 Under or over-recovery of the allowed cost of losses in the current (recently completed) Relevant Year, due to differences between forecast and actual volumes of electricity distributed and referent prices of electricity market, subject to any sharing of such under or over-recoveries between the DSO and users of the Distribution System; and
 - 3.5 Under or over-recovery of Maximum Allowed Revenues in the current (recently completed) Relevant Year, due to differences between forecast and actual electricity distributed on its network and/or differences between forecast and actual Maximum Demand and/or differences between forecast and actual customer number.
4. Whenever the regulator notices (evaluates) that the licensee has not realized the costs with the aim of saving and increasing its profit (especially operational and maintenance expenses), by not improving the quality of services and performance in accordance with standards, the Regulator shall make adjustments of these costs during determination of maximum allowed revenues during regular adjustments or at the next regulatory period.



5. In case the licensee reaches the same objectives (of service quality and performance) with low costs as a result of his efficiency and performance, the Regulator may allow the licensee to keep the difference of these costs as an incentive for improvement of performance. The incentives for such saving are carried out by applying the savings sharing factor.
6. In the event of excess of expenses over the allowed limit, the difference of such costs shall be charged to DSO, excluding expenses which are out of its control.
7. In cases of changes between allowed and realized capital investments in any relevant year, the Regulator may conduct the adjustment of depreciation costs and return costs, which are derived by capital investments. The adjustment of these costs may be carried out during the regular adjustment process or at the next regulatory period.
8. Formulas for calculation of maximum allowed revenues during regular adjustments are given in Schedule 1 whereas the process for carrying out regular adjustments is given in Schedule 7.

Article 7

Extraordinary Reviews

1. Extraordinary Reviews shall be triggered by Extraordinary Events, as defined in 0.
2. At Extraordinary Reviews the impact of the Extraordinary Event on Maximum Allowed Revenues for the remainder of the current Regulatory Period shall be calculated. If the impact is greater than the Materiality Threshold, then the Adjustment of Maximum Allowed Revenues shall be made. The Materiality Threshold shall be over 5% of revenues, unless determined otherwise at Periodic Reviews on the mutual agreement of the DSO and the Regulator.
3. The calculation of the impact on Maximum Allowed Revenues and the associated Extraordinary Adjustment shall not account for any factors that are not directly affected by the Extraordinary Event.
4. The Regulator shall also take account of the on-going impacts of Extraordinary Events (that pass the Materiality Threshold) at future Periodic Reviews.
5. The process for execution of Extraordinary Reviews is given in 0.



CHAPTER III MAXIMUM ALLOWED REVENUES

Article 8

General Principles

1. Maximum Allowed Revenues shall be set at such a level that enables the DSO to recover the reasonable costs of providing Distribution System Services, to the extent that those costs are justified and prudently asserted.
2. The reasonable costs of the DSO shall comprise:
 - 2.1 Allowed operating and maintenance costs (0), which shall be adjusted for inflation and the Efficiency Factor at Regular Adjustments;
 - 2.2 Allowed depreciation (0), which shall be adjusted for inflation at Regular Adjustments;
 - 2.3 Allowed return on capital (0), which shall be adjusted for inflation at Regular Adjustments;
 - 2.4 Allowed cost of losses (0), which shall be passed-through based on a Loss Allowance and Loss Sharing Factor at Regular Adjustments;
 - 2.5 The License Fee (0), which shall be fully passed-through at Regular Adjustments; and
 - 2.6 The costs of any public service obligations, taxes, liabilities and expenses imposed legally to the DSO that are not recovered through another mechanism.
3. In determining reasonable costs, the Regulator shall refer to, but is not bound by or limited to:
 - 3.1 Past volume, cost and service quality information relating to the DSO;
 - 3.2 Projected volumes, costs and service quality relating to the DSO;
 - 3.3 Comparisons with similar utilities in Kosovo and in countries elsewhere in Europe, taking account of the similarities between the electricity industry in those countries and that of Kosovo; and
 - 3.4 Comparisons with the costs of similar activities in Kosovo and in countries elsewhere in Europe, taking account of the similarities between the electricity industry in those countries and that of Kosovo.

Article 9

Allowed Operating and Maintenance costs

1. In submitting the estimates of fixed and other operating and maintenance costs of DSO required to be recovered through Maximum Allowed Revenues for the forthcoming Regulatory



Period, the DSO shall only seek to recover any portion or element of such costs which can be attributed to the DSO licensee.

2. Allowed operating and maintenance costs shall only include any proportion or element of corporate costs (of any parent entity or any affiliated entity) that can reasonably be attributed to the holder of the DSO license using accounting practices.

3. At each Regular Adjustments the Efficiency Factor and savings sharing factor shall be applied to allowed operating and maintenance costs, as per the formulae given in Schedule 1.

4. The Regulator shall set the Efficiency Factor at Periodic Reviews based on the annual efficiency improvement in the operating and maintenance costs of the DSO that can be reasonably expected.

5. In setting the Efficiency Factor the Regulator shall refer to, but is not bound by or limited to, the factors specified in paragraph 3 of 0.

Article 10

Allowed Depreciation

1. Allowed depreciation costs shall be calculated on a straight-line basis as a function of Economic or Technical Asset Lives and the Regulatory Asset Base for different classes of assets, as described in **Error! Reference source not found.**

2. DSO shall not be allowed to cover the depreciation costs for assets financed using capital grants and customers contributions (except assets included in the Regulatory Asset Base in 2012).

Article 11

Allowed Return on Capital

1. Allowed return on capital costs shall be calculated as a function of the Regulatory Asset Base and the Weighted Average Cost of Capital, described in **Error! Reference source not found.** and 0 respectively.

2. Allowed return on capital shall be calculated based on the value of the Regulatory Asset Base at each Relevant Year (as an average of the opening and closing values of the Regulatory Asset Base).

3. The DSO shall not earn a return on assets financed using capital grants and customers contributions.



Article 12

Allowed Cost of Losses

1. The allowed cost of losses shall be the forecast cost of losses to be recovered from the DSO to compensate for losses on the Distribution System, calculated using the Loss Allowance which shall be set at Periodic Reviews.
2. Distribution System Operator and Closed Distribution System Operator are market participants only for purchase of electricity for recovering the losses in the distribution network; as well as sale and purchase of balancing energy: Distribution System Operator shall provide the electricity for recovering the losses in the distribution network as well as for ancillary services in the distribution network, in accordance with principles of electricity market, transparency and non-discrimination.
3. Maximum Allowed Revenues shall be adjusted for changes in allowed cost of distribution losses at each Regular Adjustment, as per the formulae given in Schedule 1. This adjustment shall:
 - 3.1 Return under or over-recovered allowed costs of losses during the Relevant Year, taking into account the allowed level of losses, realized capacity of electricity entry into distribution network, in accordance with actual reasonable price as determined by the competitive market for purchase of losses;
 - 3.2 Share the difference between the allowed cost of losses and the actual cost of losses incurred by the DSO during the Relevant Year, based on the Loss Sharing Factor which shall be set at Periodic Reviews; and
 - 3.3 Update the forecast allowed cost of losses for the forthcoming Relevant Year, based on the forecast of costs, according to the referent price in the electricity market, used for calculation of the cost of losses.
4. In setting the Loss Allowance the Regulator shall take into account:
 - 4.1 the analysis of losses in the distribution system in annual basis, including the evaluation of technical losses and unauthorized consumption of electricity and progress in implementation of measures for reduction of losses;
 - 4.2 preparation, within the actual year, of distribution losses annual plan for the following year and submission for approval at the Regulator. The annual plan of losses includes the evaluation of technical losses and unauthorized consumption of electricity;
 - 4.3 Any expected loss reduction that may reasonably be expected to be obtained based on the Allowed Investment Plan during the Regulatory Period; and
 - 4.4 The level of Distribution Losses in comparable distribution systems in countries elsewhere in Europe, taking account of the similarities between the electricity industry in those countries and that of Kosovo.



5. The Loss Allowance and Loss Sharing Factor shall be sufficient to encourage the DSO to reduce Distribution Losses but not impose costs on the DSO such that its financial position is threatened.
6. The loss sharing factor in a percentage rate determines the amount of surplus or deficiency of allowed losses is retained by DSO.
7. The methodology used for measuring the outturn level of Distribution Losses can be changed by the mutual agreement of the Regulator and the DSO. In such cases, the Loss Allowance shall be adjusted to be consistent with the changed methodology, so as to leave the level of loss reductions (expressed in percentage points) expected over the Regulatory Period unchanged.

Article 13

Licence Fee Costs

1. The Regulator allows DSO to recover licensing costs.

Article 14

Excluded Costs

1. Maximum Allowed Revenues shall not recover costs for the provision of any service (including the provision of electric lines or electrical plant) deemed to be an Excluded Service in terms of Schedule 5 and which:
 - 1.1 services for the specific benefit of any third party who requests it; and
 - 1.2 Is remunerated under any tariffs other than tariffs for use of the Distribution System.
2. The cost of the provision of Excluded Services shall be recoverable by the DSO in line with **Error! Reference source not found.**
3. In case the Regulator evaluates that DSO cannot execute the forecast of excluded costs for services excluded during tariff review, then the Regulator shall ask DSO to provide data on the actual revenues of excluded services, which shall be subtracted during determination of DSO revenues for the following year.

Article 15

Smoothing of Allowed Revenues

1. At Periodic Reviews, the Regulator may smooth the recovery of allowed depreciation and allowed return on capital, operational and maintenance costs such that they are constant in each Relevant Year of the Regulatory Period. This smoothing shall be achieved by ensuring that the Net Present Values of these costs, smoothed and unsmoothed, (during the Regulatory Period) are equal, using the Weighted Average Cost of Capital as the discount rate.
2. At Periodic Reviews the Regulator may also adjust the profile of Maximum Allowed Revenues during the Regulatory Period to minimize significant step changes between the last year of the



current Regulatory Period and the first year of the forthcoming Regulatory Period. The Regulator shall give careful consideration to the impact that any profiling will have on the cash flows of the DSO and its ability to provide Distribution System Services.

3. This additional profiling shall be done by applying a Profiling Factor, which may vary for each Relevant Year of the Regulatory Period. In setting the Profiling Factor at Periodic Reviews, the Regulator shall ensure that the Net Present Value of forecast Maximum Allowed Revenues (during the Regulatory Period) is unchanged, using the Weighted Average Cost of Capital as the discount rate. The formulae for applying the Profiling Factor are provided in Schedule 1.



CHAPTER IV DISTRIBUTION USE OF SYSTEM TARIFFS

(DUOS TARIFFS)

Article 16

General Principles

1. The DSO shall propose DUOS Tariffs for approval by the Regulator, in order to:
 - 1.1 The DSO recovers its allowed revenues that are not recovered from other tariffs or from Excluded Services; and
 - 1.2 DUOS Tariffs are in accordance with a methodology developed by the DSO and approved by the Regulator. The methodology shall be in accordance with Distribution Tariffs Principles issued by the Regulator.

Article 17

DUOS Tariffs Approval Process

1. The DSO shall submit to the Regulator its methodology for DUOS Tariffs and any subsequent amendments to this methodology at least fifteen (15) Business Days prior to its proposed date of effectiveness.
2. No methodology or amendments to a methodology shall be effective until approved by the Regulator.
3. The DSO shall have the right to propose the DUOS Tariffs for approval by the Regulator, subject to the requirements of 0 above.



CHAPTER V CONNECTION TAXES

Article 18

General Principles

- 1 The DSO shall propose connection taxes for approval by the Regulator; in order to:
 - 1.1 The DSO recovers its connection costs that are not recovered from other tariffs; and
 - 1.2 Connection Taxes are in accordance with a methodology developed by the DSO and approved by the Regulator. The methodology shall be in accordance with Principles on taxes for connection to the distribution system, issued by the Regulator.
- 2 Connection costs shall include the costs of:
 - 2.1 Carrying out of works and provision and installation of electrical plant, lines, meters and other equipment for the purposes of constructing or modifying a connection of an electricity site or customer to the Distribution System in so far as these costs are not otherwise recovered from DUOS Tariffs;
 - 2.2 The cost of removal of electrical plant, lines, meters and other equipment for the purposes of disconnecting an electricity site or customer from the Distribution System that are otherwise not covered by DUOS Tariffs;
 - 2.3 A reasonable rate of return on the capital represented by such cost that are otherwise not covered by DUOS Tariffs; and
 - 2.4 The costs of maintenance of electrical plant, lines, meters and other equipment that are not otherwise recovered from DUOS Tariffs.
- 3 Revenues from Connection Taxes are included in revenues from Excluded Services, as defined in Schedule 5.
- 4 The boundary between those costs to be recovered from Connection Taxes, those to be recovered from DUOS Tariffs and those to be recovered from other tariffs shall be defined in the Methodology on the determination of Connection Taxes.

Article 19

Connection Taxes Approval Process

1. The DSO shall submit to the Regulator its methodology for connection taxes and any subsequent amendments to this methodology at least 15 Business Days prior to its proposed date of effectiveness.
2. No methodology or amendments to a methodology shall be effective until approved by the Regulator.



3. The DSO shall have the right to propose the Connection Taxes for approval by the Regulator subject to the requirements of 0 above.
4. Parties connecting to the Distribution System shall have the rights to refer any dispute over the Connection Taxes applicable to them to the Regulator, as provided for in relevant legislation.



CHAPTER VI TRANSITIONAL AND FINAL PROVISIONS

Article 20

Interpretation

If there is uncertainty about the provisions of this Rule, the Board will issue disclosure information.

Article 21

Amendment

1. ERO retains the right to change or modify any provision of this rule.
2. Procedures for amendment or modification of this rule will be the same as for its approval.

Article 22

Repeal

This Rule repeals the *"Rule on Distribution System Operator Pricing"* (15 December 2011), issued in accordance with Law on Energy Regulator No. 03/L-185.

Article 23

Entry into force

This Rule comes into force upon its adoption by the ERO Board and will be published on the official website of the ERO.

Board of the Energy Regulatory Office:

Krenar Bujupi, Acting-Chairman

Arsim Janova, Member

Besim Sejfičaj, Member



SCHEDULE 1 MAXIMUM ALLOWED REVENUES CALCULATION

- 1 This schedule sets out the formulae for calculating Maximum Allowed Revenues of the DSO. This schedule is intended to complement the principles set out in the main body of the Rule.
- 2 Maximum Allowed Revenues (MAR_t) shall be calculated at Periodic Reviews and Regular Adjustments using the following formula:

$$MAR_t = OPMC_t + DEPC_t + RTNC_t + LSSC_t + LICC_t - NTFR_t + ADJ_t + KREV_t$$

Where

MAR_t is Maximum Allowed Revenues in Relevant Year t

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

$DEPC_t$ is allowed depreciation in Relevant Year t

$RTNC_t$ is allowed return on capital in Relevant Year t

$LSSC_t$ is allowed cost of losses in Relevant Year t

$LICC_t$ is the Licence Fee in Relevant Year t

$NTFR_t$ Non-tariff revenues in relevant year t

ADJ_t Adjustments of costs in relevant year t

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

- 2.1 Allowed operating and maintenance costs ($OPMC_t$) shall be calculated at Regular Adjustments using the following formula:

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

- 2.1.1 Adjustment of operation and maintenance costs (OPEX) by applying the savings sharing factor are carried out according to the following formula:

$$OPMC_{Adj} = (OPMC_{ft-1} - OPMC_{at-1}) * SHF$$

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}	<i>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</i>
E_t	<i>is the Efficiency Factor in Relevant Year t, which is set at Periodic Reviews</i>
P_t	<i>is the Profiling Factor in Relevant Year t, which is set at Periodic Reviews</i>
$OPMC_{ft-1}$	<i>the forecast cost of operating and maintenance cost in Relevant Year t-1</i>
$OPMC_{at-1}$	<i>the actual cost of operating and maintenance cost in Relevant Year t-1</i>
$OPMC_{Adj}$	<i>operating and maintenance cost adjustment</i>
SHF	<i>sharing factor applicable to the savings that exceed Efficiency Factor</i>

2.2 Allowed depreciation ($DEPC_t$) shall be calculated at Regular Adjustments using the following formula:

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

2.2.1 Adjustments of depreciation costs (DEPC) by applying the savings sharing factor are carried out according to the following formula:

$$DEPC_{adj} = (DEPC_{ft-1} - DEPC_{at-1}) * SHF$$

Where

$DEPC_t$	<i>other allowed depreciation in Relevant Year t, which is smoothed such that it is constant over the Regulatory Period</i>
$DEPC_{t-1}$	<i>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</i>
CPI_{t-1}	<i>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</i>



P_t	<i>is the Profiling Factor in Relevant Year t, which is set at Periodic Reviews</i>
$DEPC_{adj}$	<i>Depreciation cost adjustment</i>
$DEPC_{ft-1}$	<i>the forecast of depreciation in Relevant Year t-1</i>
$DEPC_{ot-1}$	<i>the actual depreciation in Relevant Year t-1</i>
SHF	<i>Sharing factor applicable to the savings that exceeds Efficiency Factor</i>

2.3 Allowed return on capital ($RTNC_t$) shall be calculated at Regular Adjustments using the following formula:

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

2.3.1 Adjustments of the costs of return on capital (RTNC) by applying the savings sharing factor are carried out according to the following formula:

$$RTNC_{adj} = (RTNC_{ft-1} - RTNC_{ot-1}) * SHF$$

Where

$RTNC_t$ *is other 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*

$RTNC_{adj}$ *Return cost adjustment*

$RTNC_{ft-1}$ *is the forecast of return on capital in Relevant Year t-1*

$RTNC_{ot-1}$ *is the actual return on capital in Relevant Year t-1*

SHF *Sharing Factor applicable to the savings that exceed Efficiency Factor*



2.4 Allowed cost of losses ($LSSC_t$) shall be calculated at Regular Adjustments using the following formula:

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

Where

$LSSC_t$ is allowed cost of losses in Relevant Year t

$LSSA_t$ is the Loss Allowance, which is a percentage of energy entering the Distribution System, in Relevant Year t

$REUE_t$ is the energy units (in MWh) entering the Distribution System in Relevant Year t

$RWMP_t$ is the referent wholesale market electricity price t (in €/MWh) in Relevant Year t

$LSSCa_{t-1}$ is the actual allowed cost of losses in Relevant Year $t-1$ (calculated using the Loss Allowance)

$LSSCf_{t-1}$ is the forecast cost of losses in Relevant Year $t-1$ (calculated using the Loss Allowance)

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

$LSAC_{t-1}$ is cost of losses actually incurred by the DSO in purchasing energy from the PES as compensation for energy lost on the Distribution System in Relevant Year $t-1$ (not calculated using the Loss Allowance)

$LSSF_t$ is the Loss Sharing Factor in Relevant Year t , which is set at Periodic Reviews

2.5 The revenue adjustment factor ($KREV_t$) shall be calculated at Regular Adjustments using the following formula:

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

Where

AAC_{at-1} is the Actual Allowed Cost as determined in Relevant Year $t-1$

ARR_{t-1} is the Actual Regulated Revenues 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



SCHEDULE 2 INPUT VALUES

1. This Schedule presents input values which are the main parameters used in the calculation of DSO Maximum Allowed Revenues.
2. The following values are specified as fixed values determined in periodic review, which will be applied during relevant years until the review of input values.
3. Input values are comprised of:
 - 3.1 Lifespan of assets;
 - 3.2 Weighted Average Cost of Capital;
 - 3.3 Allowed level of losses;
 - 3.4 Loss Sharing Factor
 - 3.5 Efficiency factor;
 - 3.6 Savings Sharing Factor applicable to the savings that exceed Efficiency Factor; and
 - 3.7 any other input parameter that the Regulator may deem necessary.



SCHEDULE 3 REGULATORY ASSET BASE

- 1 This schedule describes the determination of the Regulatory Asset Base for the purpose of calculating allowed depreciation (0) and allowed return on capital (0).
- 2 The Regulatory Asset Base shall be a regulatory value of the DSO's used and useful fixed assets that are necessary for the provision of Distribution System Services. It shall distinguish between different classes of assets.
- 3 The Regulator defined the opening Regulatory Asset Base (on 1 April 2012) prior to the start of the first Regulatory Period.
4. The Regulatory Asset Base shall be updated at each Periodic Review or during regular adjustments, as follows:
 - 4.1 Allowed depreciation costs during the current Regulatory Period shall be subtracted from the Regulatory Asset Base, and shall be calculated on a straight-line basis using Economic or Technical Asset Lives, depending on the determination by the Regulator;
 - 4.2 Depreciation policies set by ERO in relation to lifespan of assets shall be continuously and consistently implemented and shall not be changed by the licensee for regulatory purposes.
 - 4.3 Sales or disposals of assets during the current Regulatory Period shall be subtracted from the Regulatory Asset Base at their disposal value;
 - 4.4 Regulatory Asset Base shall not include assets funded by grants and customer contributions (except assets included in Regulatory Asset Base until April 2012).
 - 4.5 Allowed capital expenditure during the Regulatory Period shall be added to the Regulatory Asset Base as from the date when the asset is brought into service and at the cost allowed in the Allowed Investment Plan. Interest during construction shall be capitalised. At Periodic Reviews the licensee may request that the actual rather than allowed cost of an investment be added to the Regulatory Asset Base. The Regulator shall accept the request if the licensee can clearly demonstrate that the difference between allowed and actual costs is due to factors outside of the licensee's control and that its best efforts were made to minimise cost increases. The Regulator shall consider justifiable realized costs and comparisons with similar comparable systems at the future Periodic Reviews as a means of forecasting the cost of future investments;
 - 4.6 If a capital project in the Approved Investment Plan is not brought into service in the current Regulatory Period, its allowed cost shall not be added to the Regulatory Asset Base at the next Periodic Review and any revenues earned from the project in the current Regulatory Period shall be deducted from revenues in the following Regulatory Period;



- 4.7 Where any maintenance cost is or has previously been included in allowed operating and maintenance costs it shall not be capitalised, nor shall it be included in the Regulatory Asset Base; and
- 4.8 The Regulatory Asset Base shall be adjusted to take into account inflation over the previous Regulatory Period or depreciation costs and return on capital may be indexed instead, by using the Harmonised Indices of Consumer Prices - All Items for the Eurozone area as published by Eurostat as the relevant measure.
5. Economic Asset Lives for different classes shall be used to calculate depreciation on the Regulatory Asset Base. Economic Asset Lives shall be determined at Periodic Reviews such that they reflect the technical lives of assets, except where there is demonstrable reason why the technical life of an asset shall vary from the useful economic life of an asset.
6. Allowed capital expenditure shall be determined at Periodic Reviews based on the Approved Investment Plan for the forthcoming Regulatory Period. The Approved Investment Plan shall:
- 6.1 Comprise the capital projects reasonably required to provide Distribution System Services;
 - 6.2 Identify each capital project ranked in priority order;
 - 6.3 Show the benefit to network performance that each capital project is reasonably expected to deliver, with reference where appropriate to the meeting of any relevant Distribution System Security, Planning or Operating Security Standard as may be required by the DSO's licence;
 - 6.4 Have regard to any other relevant investment or development plans for the DSO that have been approved by the Regulator (and any differences between these plans shall be identified by the DSO and explained), including the latest 5 Year Investment Plan prepared by the DSO in line with the license approved by the Regulator; and
 - 6.5 Be developed using an analysis of the discounted costs and benefits of the capital project.
7. The Approved Investment Plan shall be implemented as follows:
- 7.1 The DSO shall make reasonable endeavours to ensure the implementation of the Approved Investment Plan in line with its approved timetable;
 - 7.2 If the DSO fails in implementation of capital projects in accordance with the timetable given in the Approved Investment Plan, it shall notify the Regulator. The DSO shall also detail the reasons for the delay and the revised timetable;



- 7.3 The DSO may at any time apply to the Regulator to substitute an alternative capital project for a capital project in its Approved Investment Plan; so long the alternative project can be shown to be expected to result in the same or greater net benefits to customers (taking account of the expected outcomes and lifetime costs). If the Regulator approves the substitution, the alternative project shall be added to the Regulatory Asset Base at the next Periodic Review; and
- 7.4 If the DSO substitutes an alternative capital project for a capital project in its Approved Investment Plan without the prior approval of the Regulator, the Regulator shall consider whether to approve the substitution at the next Periodic Review but is not bound to do so.



SCHEDULE 4 WEIGHTED AVERAGE COST OF CAPITAL

- 1 The Weighted Average Cost of Capital shall be calculated on a pre-tax basis according to the following formulae:

$$WACC = (1 - g) * (rE) / (1 - t) + g * (rD)$$

Where

WACC is the Weighted Average Cost of Capital

g gearing (debt: debt + equity ratio)

rE real cost of equity (expressed as a %)

rD real cost debt (expressed as a %)

t Kosovo corporate income tax rate

- 2 The gearing (g) shall be a value proposed by the DSO licensee and determined by the Regulator between 0 and 1, and shall represent the share of debt in total financing. The value shall be determined based on a balanced consideration of the current financing mix of the DSO and the financing mix that might be expected to be achievable now and in future taking account of the financing mix of similar utilities internationally.
- 3 The cost of equity (rE) shall be a value proposed by DSO and determined by the Regulator, taking into account the similarities with the local and international companies with similar scope and calculated using the Capital Asset Pricing Model (CAPM) with the following general formula:

$$rEi = rf + \beta i * ERPM$$

rf risk-free rate

ERPM equity risk premium

\beta i covariance between the returns on the individual equity asset and those of the market as a whole (the equity beta)

- 3.1 The risk-free rate (rf) shall represent the cost of non-concessionary sovereign debt in Kosovo, in real terms, and shall be proposed by the DSO licensee and determined by the Regulator using evidence on the cost of non-concessionary sovereign debt for Kosovo and/or, where this is unavailable or insufficient, the cost of non-concessionary sovereign debt for countries considered to have a similar credit status to Kosovo.
- 3.2 The equity risk premium (ERPM) shall be proposed by the DSO licensee and determined by the Regulator using evidence on the equity risk premium internationally.



- 3.3 The beta (β_i) shall be proposed by the DSO licensee and determined by the Regulator using evidence on the beta applicable to similar utilities internationally.
- 4 The cost of debt (r_D) shall be the average interest rate of existing long-term loans (exceeding one year) to the DSO, expressed in real terms and weighted according to the value in Euros of each loan.
 - 4.1 The DSO shall be required to procure commercial (non-concessional) loans through a competitive process, or to demonstrate to the satisfaction of the Regulator that the interest rate of those loans not procured through a competitive process is equal to or less than the prevailing market interest rate at the time the loan agreement was signed.
 - 4.2 Where the Regulator considers that the interest rate of a loan not procured competitively exceeds the prevailing market interest rate then the difference of the loan above the interest rate shall be adjusted and excluded from the calculation of the cost of debt.
 - 4.3 Where the Regulator considers there are insufficient existing loans to provide a reasonable estimate of the actual cost of future debt financing to the DSO, the Regulator may make an adjustment to the actual cost of debt calculated as above. This adjustment shall be made based on:
 - (i) An assessment of the prevailing market interest rate for loans to businesses of similar size, risk and credit status as the DSO.
 - (ii) An assessment of the expected interest rate applied to any future concessional loans to the DSO.
 - (iii) An assessment of the expected mix of commercial (non-concessional) and concessional loans in the debt of the DSO over the coming Regulatory Period.



SCHEDULE 5 EXCLUDED SERVICES

- 1 The DSO may levy a tariff in respect of the provision of any Excluded Service, which may include (but not be limited to):
 - 1.1 The carrying out of works the cost of which is required to be reimbursed by a user of the system or a third party (including any necessary reinforcement works or diversionary works) for the purposes of connecting a user to the Distribution System (but only to the extent that the service is not already remunerated under use of system tariffs described in this Rule);
 - 1.2 The relocating of any electric line or electrical plant (including the carrying out of any associated works) pursuant to any statutory obligation other than one imposed on the DSO under Law on Electricity, the Law on Energy or the Law on the Energy Regulator.
 - 1.3 The moving of any electric line, electrical plant, or metering equipment that forms part of the Distribution System to accommodate the extension, redesign, or redevelopment of any premises on which the asset in question is located or to which it is connected, the cost of which is to be borne by a user of the system or the party requesting the relocation;
 - 1.4 The provision of electric lines and electrical plant to the extent required by any user of the Distribution System to provide a higher degree of security than is required for the purposes of complying with paragraph 2 of Article 10 of the DSO's licence (Distribution System Security and Planning Standards); and
 - 1.5 The provision of any service that is not already remunerated under any other tariff in respect of an Excluded Service; and
 - 1.6 Any other unregulated revenue (revenues from lease of assets, revenues from different economic operators, sale of assets, different services to customers, etc.)
- 2 Tariffs for such Excluded Services shall be set at a level that shall allow the DSO to recover:
 - 2.1 Its reasonable costs incurred in providing the service; and
 - 2.2 A reasonable rate of return on the capital outlay represented by any expenditure incurred by the DSO during the period before payment is received of any amounts due by the person requiring the service in question.
- 3 Where applicable, such tariffs shall be determined in accordance with the approved methodology for Connection Taxes.
- 4 In providing a quotation to the person applying for the provision of the Excluded Service, the DSO shall provide such detailed costing as the applicant could reasonably require in order to determine whether the tariff is justified.
- 5 The quotation shall make reference to the role of the Regulator as set out in the Law on the Energy Regulator.



- 6 Following the end of each Relevant Year, The DSO shall provide to the Regulator details of services provided as part of the Distribution Business and treated as excluded services by the DSO during the course of such year and stating the revenue derived in respect of such services.
- 7 Where the Regulator considers, in accordance with the principles set forth in paragraphs above, that a service claimed by the DSO to be an excluded service is not such a service, then the Regulator shall issue a direction to the effect that the service is no longer considered to be an exclusive service since the date of issue of this direction or any other date that may be specified in the directive.



SCHEDULE 6 PERIODIC REVIEW PROCESS

- 1 The Regulator shall, in order to promote transparency, publish all submissions, comments, and other documentation received from the DSO or other interested parties in relation to the Periodic Review on its official website within a reasonable time of its receipt. The Regulator shall disclose all material information submitted to it by the DSO, excluding any information that the Regulator acknowledges as being commercially confidential.
- 2 The Regulator shall initiate the Periodic Review no later than 120 Business Days prior to the start of the forthcoming Regulatory Period.
- 3 The timetable for the overall review process shall be submitted to ERO during the initiation of the review process.
- 4 The Regulator shall initiate the Periodic Review by notification to the DSO of:
 - 4.1 Data for actual and forecast years, as required;
 - 4.2 The format in which the data is required to be submitted;
 - 4.3 The timetable for submission of the Proposal by DSO for its Maximum Allowed Revenues for the forthcoming Regulatory Review.
- 5 The DSO's Proposal shall contain the following information and address the following matters (without limitation):
 - 5.1 Actual Regulated Revenues earned during the current Regulatory Period (using a reasonable estimate for the remaining months where necessary);
 - 5.2 Actual costs of providing Distribution System Services during the current Regulatory Period, in line with the definition of costs that was used for calculating Maximum Allowed Revenues;
 - 5.3 The annual audit report and audited financial statements for each financial year that ended in the current Regulatory Period when these are available as required by the reporting requirements contained in the DSO's licence;
 - 5.4 Actual Maximum Distribution System Demand, capacity of delivered energy and the number of customers during the current Regulatory Period;
 - 5.5 Forecast Maximum Distribution System Demand, capacity of delivered energy, and the number of customers for the forthcoming Regulatory Period;
 - 5.6 Actual Distribution Losses during the current Regulatory Period and forecast Distribution Losses for the forthcoming Regulatory Period;



- 5.7 Proposed Weighted Average Cost of Capital to be applied in forecasting Maximum Allowed Revenues for the forthcoming Regulatory Period;
 - 5.8 Forecast Maximum Allowed Revenues, reporting each of the allowed cost components separately, for the forthcoming Regulatory Period;
 - 5.9 Any studies commissioned by the DSO relating to any of the matters to be contained in the DSO's Proposal; and
 - 5.10 Any other additional material that the Regulator reasonably considers should be included in the DSO's proposal, so long as the Regulator has notified the DSO at a reasonable time prior to the deadline for the DSO's proposal.
- 6 During the preparation of its proposal, the DSO shall apply the principles and formulae set out in this Rule.
 - 7 In the case when DSO has not applied principles and formula in accordance with this Rule, DSO shall declare all the places where they have not been applied, the reasons for not applying them, the reasons that support the alternative approach and assessment of the impact of using alternative approach.
 - 8 The Proposal shall use the most recent available information, for the referent market price to be applied for calculating the allowed cost of losses.
 - 9 Upon receiving the DSO's Proposal, the Regulator shall determine its accuracy, relevance and reasonableness by applying the methodology set out in this Rule, including determining whether the proposed Maximum Allowed Revenues reflect the reasonable costs of providing Distribution System Services.
 - 10 The Regulator shall prepare a Provisional Evaluation within a reasonable time (set forth in the paragraph 3 of this Schedule) on the DSO's Proposal before the start of the forthcoming Regulatory Period, after consulting with the DSO as necessary. The Provisional Evaluation shall set out the Regulator's proposals on the Maximum Allowed Revenues to be recovered by the DSO during the Regulatory Period and the justification for these. The Regulator, in preparing its Provisional Evaluation, may amend, remove or replace any part of the DSO's Proposal as it considers appropriate provided that it shall identify such amendments, removals or replacements and provide justification for these.
 - 11 Following decision on the Provisional Evaluation, the Regulator shall notify DSO and launch a public consultation on its Provisional Evaluation, in accordance with the Law on the Energy Regulator.
 - 12 Following completion of the public consultation within a reasonable time (set forth in the paragraph 3 of this Schedule) before the start of the forthcoming Regulatory Period, the Regulator shall make its Final Decision on Maximum Allowed Revenues for the forthcoming Regulatory Period. Its decision shall be consistent with this Rule. Maximum Allowed Revenues stipulated in the final Decision of the Regulator shall start to be applied at the date of commencement of the next regulatory period.



- 13 The DSO may dispute or appeal any decision by the Regulator in accordance with applicable legislation.



SCHEDULE 7 REGULAR ADJUSTMENT PROCESS

- 1 The DSO shall submit the proposed new Maximum Allowed Revenues for the forthcoming Relevant Year to the Regulator at least 50 Business Days before the start of the forthcoming Relevant Year. The DSO shall also include in its submission all relevant documents and evidence including the values relating to all the components of the Regular Adjustment formulae given in Schedule 1 and any other items notified by the Regulator.

- 2 The Regulator may reasonably require the DSO to further explain its method of calculating the proposed Maximum Allowed Revenues, and if so required, the DSO shall provide to the Regulator any further information or explanations in the time-limit defined by the Regulator..

- 3 The Regulator shall advise the DSO at least 40 Business Days before the start of the forthcoming Relevant Year whether or not it approves the DSO's calculation of the proposed Maximum Allowed Revenues.

- 4 If the Regulator approves the proposed Maximum Allowed Revenues, they shall become the Maximum Allowed Revenues for the forthcoming Relevant Year.

- 5 If the Regulator does not approve the proposed Maximum Allowed Revenues, it shall provide reasons and evidence why, in accordance with this Rule. The Maximum Allowed Revenue shall not be adjusted until the Regulator approves a proposal or provides its own calculation of Maximum Allowed Revenues.

- 6 Any difference in revenues that arises from incorrect calculations, misreporting of Actual Regulated Revenue, or disputes relating to Regular Adjustment shall be recovered in subsequent Relevant Years.

- 7 The DSO shall calculate and notify the resulting DUOS Tariffs at least fifteen (15) Business Days before the start of the forthcoming Relevant Year.

- 8 The DSO may dispute or appeal any decision by the Regulator in accordance with applicable legislation.



SCHEDULE 8 EXTRAORDINARY REVIEW PROCESS

- 1 If an Extraordinary Event has occurred, the DSO may request an Extraordinary Review.
- 2 An Extraordinary Review cannot be launched undertaken within 6 [six months] of a Periodic Review or the completion of a previous Extraordinary Review.
- 3 An Extraordinary Review may relate to more than one Extraordinary Event, in which case this schedule addresses the cumulative financial effect of those events.
- 4 Within 20 Business Days of the DSO requesting an Extraordinary Review, it shall submit to the Regulator a Statement of Financial Impact that includes the following matters:
 - 4.1 A description of the Extraordinary Event that is the reason for requesting the Extraordinary Review;
 - 4.2 A summary of the impact of the Extraordinary Event on the DSO's business;
 - 4.3 The evaluation of the change in the DSO's costs in each year from the date that the Extraordinary Event occurred (or began) to the end of the current Regulatory Period;
 - 4.4 The evaluation of the change in forecast revenues resulting from the Extraordinary Event, in each year from the date that the Extraordinary Event occurred (or began) to the end of the current Regulatory Period;
 - 4.5 The calculation of the financial impact on the DSO of the Extraordinary Event in each year, calculated as the sum of the change in the DSO's costs and revenues above. Revenues shall be treated as positive numbers and costs treated as negative numbers; and
 - 4.6 The calculation of whether the financial impact is expected to be greater than the Materiality Threshold multiplied by the revenues received by the DSO (in the year before the Extraordinary Event) multiplied by the number of years between the date of the Extraordinary Event and the end of the Regulatory Period.
- 5 If the DSO determines that the financial impact is greater than the Materiality Threshold, it shall include in its Statement of Financial Impact a proposed Extraordinary Adjustment to Maximum Allowed Revenues. The proposed Extraordinary Adjustment shall meet the following conditions:
 - 5.1 The Extraordinary Adjustment shall change Maximum Allowed Revenues in such a manner that the Net Present Value of the forecast change is equal to the Net Present Value of the financial impact of the Extraordinary Event, using the Weighted Average Cost of Capital as the discount rate;
 - 5.2 The timing and structure of the Extraordinary Adjustment shall, where possible, reduce the tariff shock to customers (for example by smoothing the effect of the Extraordinary Adjustment over a number of years).



- 6 The Regulator may also launch an Extraordinary Review without the request of the DSO. If so, the Regulator shall notify the DSO and include a description of the Extraordinary Event and a summary of its expected impact. The DSO shall then prepare a Statement of Financial Impact as per the process described above.
- 7 The Regulator may reasonably require the DSO to further explain its method of calculating the Statement of Financial Impact and Extraordinary Adjustment, and if so required, the DSO shall promptly provide to the Regulator any further information or explanations sought.
- 8 The Regulator shall advise the DSO within 20 Business Days of receiving the Statement of Financial Impact whether or not it approves the DSO's proposed Extraordinary Adjustment. The Regulator shall approve the proposal if it:
 - 8.1 Meets the conditions provided above in this Schedule;
 - 8.2 Is calculated correctly; and
 - 8.3 Takes into account all material information reasonably available at the time.
- 9 If the Regulator approves the proposed Extraordinary Adjustment, the new Maximum Allowed Revenues shall become effective immediately.
- 10 If the Regulator does not approve the proposed Extraordinary Adjustment, it shall provide reasons and evidence why, in accordance with this Rule. Maximum Allowed Revenues shall not be adjusted until the Regulator approves a proposal.
- 11 The DSO may dispute or appeal any decision by the Regulator in accordance with applicable legislation.



SCHEDULE 9 EXTRAORDINARY EVENTS

- 1 An Extraordinary Event shall be the occurrence of any one of the following:
 - 1.1 Any change in the tax rate applicable to the DSO and shall not be fully recovered through Regular Adjustments;
 - 1.2 Any force majeure events as defined in 0;
 - 1.3 Any other event, which meets all of the following conditions:
 - (i) Was not reasonably under the control of the DSO;
 - (ii) Shall not be fully recovered through Regular Adjustments; and
 - (iii) Shall significantly change the revenues and/or costs of the DSO over any 12 month period, such that it seems reasonable that the Materiality Threshold (described in 0) may be breached.
- 2 The occurrence of an Extraordinary Event is sufficient to trigger an Extraordinary Review, however as described in 0, the event must still breach the Materiality Threshold before Maximum Allowed Revenues shall be adjusted.



SCHEDULE 10 FORCE MAJEURE EVENTS

Force majeure – is an act or natural or social event, such as earthquakes, lightning, cyclones, floods, volcanic eruptions, fires or wars, armed conflicts, rebellion, terrorist or military acts, which prevent the licensee to comply with its obligations under the license, as well as other acts or events that are beyond the reasonable control and that did not happen as a fault of the licensee and the licensee has been unable to avoid such act or event through the exercise of will, effort, skill and his reasonable care;