Rule on Maximum Allowed Revenues of Transmission System Operator and Market Operator
(Rule on TSO/MO Revenues)

January, 2017
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Pursuant to the authority given under Article 9, paragraph 1, subparagraph 1.7 and Article 26 and Article 47 paragraph 1 of the Law on Energy Regulator No. 05/L-084, the Board of Energy Regulatory Office, in its session held on ______ approved the following:

**Rule on Maximum Allowed Revenues of Transmission System Operator and Market Operator**

*(Rule on TSO/MO Revenues)*

**CHAPTER I GENERAL PROVISIONS**

**Article 1**

*Scope and Purposes*

1. This Rule sets:

1.1 The basis for determination of Maximum Allowed Revenues that may be earned by the Transmission System Operator (“TSO”) in any Relevant Year in order to allow it to recover the reasonable costs of developing, operating, and maintaining the Transmission System and making it available to users in accordance with the Law on the Energy Regulator;

1.2 The basis for determination of Maximum Allowed Revenues that may be earned by the Market Operator (“MO”) in any Relevant Year in order to allow it to recover the reasonable costs of operating and maintaining the electricity market in accordance with Law on Energy Regulator;

1.3 The process by which such Maximum Allowed Revenues shall be reviewed and periodically re-determined and regular annual adjustments; and

1.4 The process by which Transmission Network Use of System (“TUOS”) Charges, Connection Charges, System Operator Charges and Market Operator Charges, used to recover the Maximum Allowed Revenues are determined.

**Article 2**

*Definitions and Interpretations*

1. The terms used in this Rule shall have the following meaning:
1.1 “Actual Regulated Revenues” means the revenues recovered by the TSO/MO through charges for the provision of Transmission System Services and Market Operator Services and any other revenue items stipulated by the Regulator, measured on an accruals basis;

1.2 “Ancillary Services” means the services necessary to support Transmission System Services in order to maintain reliable operations of the Transmission System;

1.3 “Allowed Investment Plan” means the programme of capital projects for the Regulatory Period as allowed by the Regulator as part of a Periodic Review;

1.4 “Business Days” means all working days of the week as defined in Kosovo law;

1.5 “Connection Charges” means the charges applied by the TSO for connecting customers to the Transmission System;

1.6 “Economic Asset Lives” means the asset lives used to calculate allowed depreciation on the Regulatory Asset Base;

1.7 “Efficiency Factor” means the efficiency factor defined during Periodic Reviews and applied at Regular Adjustments to determine allowed operating and maintenance costs of the TSO/MO;

1.8 “EURIBOR” means the European Banking Federation Interbank Offer Rate for Euro deposits for a period equal to 3 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, such other service as agreed by the TSO/MO and the Regulator. For avoidance of any doubt, this shall be an annual rate;

1.9 “Excluded Service” means a service provided by the TSO/MO 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 Transmission System, transit and the provision of services at the request of specific third parties;

1.10 “Extraordinary Adjustment” has the meaning given to it in Schedule 8;

1.11 “Extraordinary Event” has the meaning given to it in Schedule 9;

1.12 “Extraordinary Review” has the meaning given to it in Article 7;

1.13 “Force Majeure Event” has the meaning given to it in Schedule 10;

1.14 “Licence Fee” means the amount payable under the terms of the Schedule of Fees issued by the Regulator and amended from time to time;

1.15 “Loss Allowance” has the meaning give to it in Article 12;
1.16 “Loss Sharing Factor” has the meaning given to it in Article 12;

1.17 “Market Operator” or “MO” means the holder of the Market Operator Licence;

1.18 “Market Operator Services” means the services which the MO licensee is authorised to provide under the terms of the Market Operator Licence granted to it by the Regulator;

1.19 “Market Operator Charges” or “MO Charges” means the set of charges applied by the MO for the provision of Market Operator Services;

1.20 “Materiality Threshold” has the meaning given to it in Schedule 8;

1.21 “Maximum Allowed Revenues” or “MAR” means the maximum revenues, as stipulated in Schedule 1 of this Rule, which can be recovered in a Relevant Year by the TSO/MO through TUOS Charges;

1.22 “Maximum Transmission System Demand” means the maximum electricity demand in a year (in MW) metered at entry points onto the TSO’s Transmission System;

1.23 “Metered” means in relation to 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;

1.24 “Net Present Value” means the method of discounting future cash flows;

1.25 “Network Use of System” means the use of the TSO’s Transmission System for the conveyance of electrical energy from points of entry into the system to supply points for delivery to Kosovar customers;

1.26 “Profiling Factor” means the factor defined at Periodic Reviews and applied to allowed operating and maintenance costs, depreciation and return on capital as determined in Article 17.

1.27 “Provisional Evaluation” has the meaning given to it in Schedule 6 paragraph 8;

1.28 “Supplier” – an energy undertaking licensed to perform supply activities;

1.29 “Periodic Review” means the review by the Regulator to determine Maximum Allowed Revenues of the TSO/MO for the forthcoming Regulatory Period;

1.30 “Regular Adjustment” means the mechanical adjustment to Maximum Allowed Revenues undertaken at the end of each Relevant Year;

1.31 “Regulated Units Billed” means the total amount of electricity units billed to final customers supplied by transmission system;
1.32 “Regulated Units Transmitted” means the total amount of electricity transmitted through the Transmission System for final customers in a Relevant Year metered at exit points on leaving the Transmission System (or where no such meter is installed as otherwise reasonably calculated in accordance with recognised engineering practices);

1.33 “Regulator” means the Energy Regulatory Office;

1.34 “Regulatory Asset Base” has the meaning given to it in Schedule 3;

1.35 “Regulatory Period” has the meaning given to it in 0;

1.36 “Relevant Year” means the period of 12 successive calendar months between Regular Adjustments;

1.37 “Feed-in Tariff” means a price-based supporting mechanism which is used for RES promotion. It guarantees the sale with priority of electricity from RES producers admitted to the Support Scheme, with a certain price for a certain period of time.

1.38 “Renewable Energy Sources” – or “RES” means the source of renewable, non-fossil energy sources, such as: wind energy, solar energy, geothermal energy, wave energy, hydro energy, biomass, waste landfill gas, wastewater treatment gas and biogases, as defined in the legislation in force for renewable energy sources;

1.39 “Certificate of Origin” – an electronic document issued by the Energy Regulatory Office which has the sole function of providing the proof to a final customer that a given share or quantity of energy was produced from renewable sources;

1.40 “The Support Scheme” means financial incentives for electricity generation from renewable energy sources, in order to attract sufficient capacities to reach RES targets;

1.41 “Renewable Energy Fund” or “REF” means the fund that shall be established and operated by the Market Operator in line with the Rule on Support Scheme for which a Certificate of Origin has been issued. The Renewable Energy Fund shall recover additional costs of purchase of generation from RES admitted to the Support Scheme (the difference between existing tariffs and market price), allowed imbalance costs related to RES generation and additional costs incurred by Market Operator in the management and operation of FER.

1.42 “Renewable Energy Charge” means a special charge at transmission level which covers the costs of the Renewable Energy Fund for which a Certificate of Origin was issued, which can be updated during regular annual reviews. This charge is the ratio of total operation costs of the Renewable Energy Fund towards forecasted consumption of electricity to be charged by Market Operator.

1.43 “Transmission Charging Principles” means principles issued by the Regulator that the TSO’s methodologies for setting the TUOS Charge and Connection Charges must be in accordance with;
1.44 “Report on Financial Impact” has the meaning given to it in Schedule 8;

1.45 “System Operator Charges” or “SO Charges” means the set of charges applied by the TSO for provision of System Operator Services;

1.46 “System Operator Services” means the services which the TSO is authorised to provide under the terms of the System Operator Licence granted to it by the Regulator;

1.47 “TUOS Charges” means the set of charges applied by TSO for providing Network Use of System services;

1.48 “Transmission Losses” means total energy losses occurring in the Transmission System operated by the TSO consisting of

   (1) technical losses as determined by an engineering estimate and

   (2) commercial losses defined as energy entering the Transmission System less technical losses less energy billed to customers;

1.49 “Transmission System Operator” – or “TSO” means a natural or legal person responsible for operating, ensuring the maintenance of and, if necessary, developing the transmission 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 transmission of electricity;

1.50 “Transmission System Services” means the services which the TSO is authorised to provide under the terms of the System Operator Licence granted to it by the Regulator, including both System Operator Services and Use of System services; Transmission System Operator provides the system services in accordance with market principles and contract principles for provision of services. Use of services provided by the provider of ancillary services and balancing services may be conducted upon the request of Transmission System Operator.

1.51 “Transmission System” has the meaning prescribed to it in Law on Electricity;

1.52 “TSO/MO” means the TSO and MO considered as a single entity;

1.53 “Unit transmitted” means a MWh;

1.54 “Weighted Average Cost of Capital” has the meaning given to it in Schedule 4.

2 Other terms in this rule shall have the meanings specified in the Law on the Energy Regulator, in the Law on Electricity, or in the Law on Energy.
CHAPTER II REGULATION OF TSO/MO REVENUES

Article 3
General Principles

1 The TSO/MO shall propose transmission use of system charges (TUOS) (0), system operator Charges (SO) (0) and market operator charges (MO) (0) such that within each Relevant Year the revenues that it expects to earn from these charges 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 (Article 5);

2.2 Before the end of each Relevant Year, a Regular Adjustment (Article 6) shall be applied which involves mechanical adjustments to Maximum Allowed Revenues to take into account the justified changes of costs, including costs out of the control of TSO/MO; and

2.3 Extraordinary Reviews (0 7), which involve an adjustment to Maximum Allowed Revenues for material changes of costs incurred by an extraordinary event.

Article 4
Review of Input Values

1 Input values are determined during periodic reviews. These values are used for calculation of TSO/MO 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 TSO/MO may propose at any time to the Regulator that an Input Values Review be initiated. 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 Maximum Allowed Revenues of the TSO/MO for the following Regulatory Period shall be set at periodic reviews.
A Periodic Review shall be held prior to each Regulatory Period.

Each Regulatory Period shall equal 5 years:

3.1 Except on the mutual agreement of the TSO/MO and the Regulator, a Regulatory Period may be shortened or extended.

The formulae for calculating Maximum Allowed Revenues at Periodic Reviews are given in Schedule 1.

The process for undertaking Periodic Reviews is given in Schedule 6.

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 forecast for allowed cost of ancillary services, allowed cost of losses, and the Licence 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 transmitted and electricity market referent prices, subject to any sharing of such under or over-recoveries between the TSO and users of the Transmission System, and

3.5 Under or over-recovery of Maximum Allowed Revenues in the current (recent) Relevant Year, due to differences between forecast and actual electricity transmitted on its network and/or differences between forecast and actual Maximum Demand.

4 Whenever the regulator notices (evaluates) that the licensee has not realized the costs, with the aim of saving and increasing its profit (including operational and maintenance expenses), by not improving the quality of services and performance at the required level, the Regulator shall make adjustments of these costs during determination of maximum allowed revenues during regular adjustments or at the next regulatory period.
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.

In cases of significant 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.

Formulas for calculation of maximum allowed revenues during regular adjustments are given in Schedule 1.

The process for making Regular Adjustments is given in Schedule 7.

Article 7
Extraordinary Reviews

Extraordinary Reviews may be triggered by Extraordinary Events, as defined in Schedule 9.

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 an Extraordinary Adjustment to Maximum Allowed Revenues shall be made. The Material Threshold shall be 5% of revenues, unless determined otherwise at Periodic Reviews on the mutual agreement of the TSO/MO and the Regulator.

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.

Regulator shall also take account of the on-going impacts of Extraordinary Events (that pass the Materiality Threshold) at future Periodic Reviews.

The process for undertaking Extraordinary Reviews is given in Schedule 8.
CHAPTER III  MAXIMUM ALLOWED REVENUES

Article 8
General Principles

1 Maximum Allowed Revenues shall be set at such a level that enables the TSO/MO to recover the reasonable costs of providing Transmission System Services and Market Operator Services, to the extent that those costs are justified and prudently asserted.

2 The reasonable costs of the TSO/MO shall comprise:

2.1 Allowed operating and maintenance costs (Article 9), which shall be adjusted for inflation and the Efficiency Factor at Regular Adjustments;

2.2 Allowed depreciation (Article 10), 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 ancillary services (0), which shall be fully passed-through at Regular Adjustments;

2.5 Allowed cost of losses (0), which shall be passed-through based on a Loss Allowance and Loss Sharing Factor at Regular Adjustments;

2.6 The Licence Fee (0), which shall be fully passed-through at Regular Adjustments; and

2.7 The costs of any public service obligations that are not recovered through another mechanism.

3 In determining the allowed costs, the Regulator shall refer, among other, also to the:

3.1 Existing information of the previous periods related to the volume, cost and service quality of TSO/MO;

3.2 Forecast of volumes, costs and quality of TSO/MO services;

3.3 Comparisons with similar utilities in Kosovo and in countries elsewhere in Europe, taking into account 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.
4 Where the TSO/MO receives revenues under the Compensation mechanism through regional TSOs, such revenues shall be offset against Maximum Allowed Revenues.

5 Allocation of cross-border transmission capacities, in cooperation with transmission system operators from Contracted Parties of the Energy Community, in line with regionally joint procedures for calculation and allocation of proposed capacities by Transmission System Operators concerned and approved by the Regulatory; This right can be transferred to another regional entity established for this purpose

6 Congestion management for all transactions in interconnection lines with neighbouring systems, based on market rules and mechanisms, which are determined and implemented commonly with other operators in the regional electricity market;

Article 9

Allowed Operating and Maintenance Costs

1 Upon submitting its estimates of fixed and other operating and maintenance costs required to be recovered through Maximum Allowed Revenues for any forthcoming Regulatory Period, the TSO/MO shall only seek to recover any portion or element of such costs which can be reasonably attributed to the TSO/MO licensees.

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 TSO/MO licensees using normal and customary accounting practices.

3 At each Regular Adjustments the Efficiency 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 TSO/MO that can be reasonably expected. For the avoidance of doubt, all expected efficiency gains will be captured in the Efficiency Factor and not double-counted in forecasts of operating and maintenance costs.

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 Article 9.

Article 10

Allowed Depreciation

1 Allowed depreciation costs shall be calculated on a straight-line basis as a function of Economic Asset Lives and the Regulatory Asset Base for different classes of assets, as described in Schedule 2.
TSO/MO shall not be allowed to cover the depreciation costs for assets funded by 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 costs of capital shall be calculated as a function of the Regulatory Asset Base and the Weighted Average Cost of Capital, described in Schedule 2 and Schedule 4 respectively.

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

3. The TSO/MO shall not earn a return on assets financed using capital grants or customer contributions.

**Article 12**

**Allowed Cost of Ancillary Services**

1. The allowed cost of ancillary and balancing services for the next Relevant Year shall be proposed by the TSO/MO at each Periodic Review and each Regular Adjustment, using a forecast for required purchases of TSO services in the next Relevant Year and the estimated prices of these purchases.

2. The forecast of requirements and estimated prices shall be supported by required evidence including any ancillary services agreements by TSO.

3. The Regulator shall determine the allowed cost of ancillary services considering this proposal, following an assessment of the supporting evidence on need and cost. In making this assessment, the Regulator shall take into consideration whether ancillary services have been procured on a competitive basis or such other evidence as might be provided to show the procurement of these services is made on an economic basis.

**Article 13**

**Allowed Cost of Losses**

1. The allowed cost of losses shall be the forecast cost of losses to be recovered by TSO to compensate for losses on the Transmission System, calculated using the Loss Allowance which shall be set at Periodic Reviews.

2. Transmission System Operator is a market participant only for purchase of electricity for recovering the losses in the distribution network; as well as sale and purchase of balancing energy:
Transmission System Operator shall provide the electricity for recovering the losses in the transmission network, balancing the system and ancillary services in the transmission network, in accordance with principles of electricity market, transparency and non-discrimination.

Maximum Allowed Revenues shall be adjusted for changes in allowed cost of losses at each Regular Adjustment, as per the formulae given in Schedule 1. This adjustment shall:

4.1 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 transmission network, in accordance with actual reasonable price as determined by the competitive market for purchase of losses;

4.2 Share the difference between the allowed cost of losses and the actual cost of losses in a relevant year, based on the Loss Sharing Factor which shall be set at Periodic Reviews; and

4.3 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.

In setting the Loss Allowance the Regulator shall take into account:

5.1 The analysis of losses in the transmission 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;

5.2 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;

5.3 Any expected loss reduction that may expected to occur as a result of the approved investment plan; and

5.4 The level of Transmission Losses in comparable Transmission Systems in countries elsewhere in Europe, taking account of the similarities between the electricity industry in those countries and that of Kosovo.

The Loss Allowance and Loss Sharing Factor shall be sufficient to encourage the TSO to reduce Transmission Losses but not impose costs on the TSO such that its financial position is threatened.

The methodology used for measuring the outturn level of Transmission Losses can be changed by the mutual agreement of the Regulator and the TSO. In such cases, the Loss Allowance shall be adjusted to be consistent with the changed methodology, so as to leave the absolute level of loss reductions (expressed in percentage points) expected over the Regulatory Period unchanged.

Losses in the North of Kosovo shall be incorporated in Transmission Charges, for a period of time, until political barriers are removed.
Article 14
License Fee Costs

The Regulator shall allow TSO/MO to recover licensing costs.

Article 15
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 Is for the specific benefit of any third party who requests it; and

1.2 Is remunerated under any charges other than charges for use of the Transmission System.

2 The cost of the provision of Excluded Services shall be recoverable by the TSO/MO in line with Schedule 5.

3 In case the Regulator evaluates that TSO/MO cannot execute the forecast of excluded costs for services excluded during tariff review, then the Regulator shall ask TSO/MO to provide data on the actual revenues of excluded services, which shall be subtracted during determination of TSO/MO revenues for the following year.

Article 16
Smoothing of Allowed Revenues

1 At Periodic Reviews, the Regulator may smooth the recovery of allowed depreciation and allowed return on capital, operation 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 minimise 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 TSO/MO and its ability to provide Network System Services and Market Operator 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 during 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 formulas for application of profiling factor are given in Schedule 1.
CHAPTER IV  TRANSMISSION USE OF SYSTEM CHARGES  
(TUOS CHARGES)  

Article 17  
General Principles  

1  The TSO/MO shall propose TUOS Charges for approval by the Regulator, such that:  

1.1  The TSO/MO recovers its allowed revenues that are not recovered from other charges; and  

1.2  TUOS Charges are in accordance with a methodology developed by the TSO/MO and approved by the Regulator. The methodology shall be in accordance with Transmission Charging Principles issued by the Regulator.  

Article 18  
TUOS Charges Approval Process  

1  The TSO/MO shall submit to the Regulator its methodology for TUOS Charges and any subsequent amendments to this methodology at least 15 (fifteen) Business Days prior to its proposed date of effectiveness.  

2  The methodology or amendments to the methodology shall not be effective until approved by the Regulator.  

3  The TSO/MO is entitled to propose TUOS Charges, in accordance with requirements of Article 17
CHAPTER V  SYSTEM OPERATOR CHARGES  
(SO CHARGES)

Article 19  
General Principles

1 The TSO/MO shall propose System Operator Charges, for approval by the Regulator, such that:

1.1 The TSO/MO recovers its system operator costs, for the provision of system operator services as authorized under its TSO Licence;

1.2 The allowed costs of losses are included in the system operator costs and recovered from System Operator Charges; and

1.3 System Operator Charges are in accordance with a methodology developed by the TSO/MO and approved by the Regulator. The methodology shall specify how costs are allocated to the system operator function and how these are to be recovered from charges. The methodology shall be in accordance with the Transmission Charging Principles issued by the Regulator.

Article 20  
System Operator Charges Approval Process

1 The TSO/MO shall submit to the Regulator its methodology for System Operator Charges and any subsequent amendments to this methodology at least 30 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 TSO/MO is entitled to propose the System Operator Charges subject to the requirements of Article 19 above.
CHAPTER VI

MARKET OPERATOR CHARGES

(MO CHARGES)

Article 21

General Principles

1 The TSO/MO shall propose Market Operator Charges for approval by the Regulator such that:

1.1 The TSO/MO recovers its market operator costs, for the provision of services as authorized under the Market Operator Licence; and

1.2 Market Operator Charges are in accordance with a methodology developed by the TSO/MO and approved by the Regulator. The methodology shall specify how costs are allocated to the market operator function and how these are to be recovered from charges. The methodology shall be in accordance with Transmission Charging Principles issued by the Regulator.

Article 22

Market Operator Charges Approval Process

1 The TSO/MO shall submit to the Regulator its methodology for Market Operator Charges 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 TSO/MO is entitled to propose the Market Operator Charges subject to the requirements of Article 21 above.

Article 23

Renewable Energy Charge

The charge for the renewable energy fund shall be proportionately covered by all suppliers of the electricity market.
CHAPTER VII   CONNECTION CHARGES

Article 24
General Principles

1 The TSO/MO shall propose Connection Charges for approval by the Regulator, such that:

1.1 The TSO/MO recovers its connection costs that are not recovered from other charges; and

1.2 Connection Charges are in accordance with a methodology developed by the TSO/MO and approved by the Regulator. The methodology shall be in accordance with Transmission Charging Principles issued by the Regulator.

2 Connection costs shall include:

2.1 the cost for execution of works related to 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 Transmission System in so far as these costs are otherwise not recovered from TSO/MO Charges;

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 Transmission System that are otherwise not recovered from TSO/MO Charges;

2.3 A reasonable rate of return on the capital, represented by such costs; that are otherwise not recovered from TSO/MO Charges;

2.4 The costs of maintenance of electrical plant, lines, meters and other equipment that are otherwise not recovered from TSO/MO Charges.

3 Revenues from Connection Charges are included in revenues from Excluded Services, as defined in Schedule 5.

4 The boundary between those costs to be recovered from Connection Charges, those to be recovered from TSO/MO Charges and costs to be recovered from System Operator Charges and those to be recovered from Market Operator Charges or other charges shall be defined in the methodology on the determination of Connection Charges.
Article 24
Connection Charges Approval Process

1 The TSO/MO shall submit to the Regulator its methodology for connection charges and any subsequent amendments to this methodology at least 15 Business Days prior to its proposed date of effectiveness.

1.1 No methodology or amendments to a methodology shall be effective until approved by the Regulator.

1.2 The TSO/MO is entitled to propose the Connection Charges for approval by the Regulator, subject to the requirements of 0 above.

1.3 Parties connecting to the Transmission System shall have the rights to refer any dispute over the Connection Charges applicable to them to the Regulator, as provided for in relevant legislation.
CHAPTER VIII  CHARGES FOR RENEWABLE ENERGY SUPPORT SCHEME

Article 25
General Principles

1. The TSO/MO shall recover the charges for Renewable Energy Support Scheme from users of its transmission system.

2. The Renewable Energy Support Scheme shall be separately identified on the invoices issued by the TSO/MO.

3. The totality of revenues recovered shall be remitted to the account of the Renewable Energy Fund and no deductions from such sums may be retained by the TSO/MO.
CHAPTER IX  GENERAL PROVISIONS

Article 26
Official Language

1 This Rule is issued in the Albanian language and shall be translated into Serbian and English language. In the event of discrepancies between versions, the Albanian version shall prevail.

Article 27
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 28
Interpretation

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

Article 29
Repeal

This Rule repeals previous rule named “Rule on Transmission System Operator and Market Operator Prices” (TSO/MO Pricing Rule), approved on 15 December 2011.

Article 30
Entry into force

This Rule comes into force upon its adoption by the ERO Board and will be published on the official website of ERO.
SCHEDULE 1  MAXIMUM ALLOWED REVENUES CALCULATION

2 This schedule sets out the formulae for calculating Maximum Allowed Revenues of the TSO/MO. This schedule is intended to complement and clarify the application of the principles set out in the main body of the Rules.

3 Maximum Allowed Revenues (MARt) shall be calculated at Periodic Reviews and Regular Adjustments using the following formula:

\[ \text{MAR}_t = \text{OPMC}_t + \text{DEPC}_t + \text{RTNC}_t + \text{ASVC}_t + \text{LSSC}_t + \text{LICC}_t - \text{ITCR}_t - \text{NTFR}_t + \text{KREV}_t \]

Where

\( \text{MAR}_t \) is Maximum Allowed Revenues in Relevant Year \( t \)

\( \text{OPMC}_t \) is allowed operating and maintenance costs in Relevant Year \( t \)

\( \text{DEPC}_t \) is allowed depreciation in Relevant Year \( t \)

\( \text{RTNC}_t \) is allowed return on capital in Relevant Year \( t \)

\( \text{ASVC}_t \) is allowed cost of ancillary services in Relevant Year \( t \)

\( \text{LSSC}_t \) is allowed cost of losses in Relevant Year \( t \)

\( \text{LICC}_t \) is the Licence Fee in Relevant Year \( t \)

\( \text{ITCR}_t \) is net revenues to the TSO/MO under the Inter-TSO Compensation Mechanism in Relevant Year \( t \)

\( \text{NTFR}_t \) Non-tariff revenues in Relevant Year \( t \)

\( \text{KREV}_t \) is the revenue correction factor in Relevant Year \( t \)

2.1 Allowed operating and maintenance costs \( (\text{OPMC}_t) \) shall be calculated at Regular Adjustments using the following formula:

\[ \text{OPMC}_t = \text{OPMC}_{t-1} \times (1 + \text{CPIt-1}) \times (1 - \text{Et}) - (\text{OPEXft-1} - \text{OPEXat-1}) \times (1 - \text{Pt}) \]

Where

\( \text{OPMC}_t \) is allowed operating and maintenance costs in Relevant Year \( t \)
OPMC<sub>t-1</sub> 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<sub>t-1</sub> is the actual value of inflation in Relevant Year t-1, measured using the “Harmonised Indices of Consumer Prices (HICPs) – All Items, for the Eurozone” published by Eurostat, or any other measure of inflation that the Regulator determines is a better measure of the change in operating and maintenance costs over time and is allowed at a Periodic Review.

Et is the Efficiency Factor in Relevant Year t, which is set at Periodic Reviews.

OPEX<sub>f-t-1</sub> is the forecast cost of operating and maintenance cost in Relevant Year t-1.

OPEX<sub>a-t-1</sub> is the actual cost of operating and maintenance cost in Relevant Year t-1.

Pt is the Profiling Factor in Relevant Year t, which is set at Periodic Reviews.

2.2 Allowed depreciation (DEPC<sub>t</sub>) shall be calculated at Regular Adjustments using the following formula:

\[
DEPC_t = DEPC_{t-1} \times (1 + CPI_{t-1}) - (DEPC_{f-t-1} - DEPC_{a-t-1}) \times (1 - Pt)
\]

Where:

DEPC<sub>t</sub> is other allowed depreciation in Relevant Year t, which is smoothed such that it is constant over the Regulatory Period.

DEPC<sub>t-1</sub> is allowed depreciation in Relevant Year t-1, except for Relevant Year 1 when a value determined by the Regulator at the most recent Periodic Review shall be used, which is smoothed such that it is constant over the Regulatory Period.

CPI<sub>t-1</sub> 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.

DEPC<sub>f-t-1</sub> is the forecast of depreciation in Relevant Year t-1.

DEPC<sub>a-t-1</sub> is the actual depreciation in Relevant Year t-1.

Pt is the Profiling Factor in Relevant Year t, which is set at Periodic Reviews.
2.3 Cost of allowed return on capital (RTNCt) shall be calculated at Regular Adjustments using the following formula:

\[ RTNCt = RTNCt-1 \times (1 + CPIt-1) - (RTNCft-1 - RTNCat-1) \times (1 - Pt) \]

Where:

- **RTNCt** is allowed return on capital in Relevant Year t, which is smoothed such that it is constant over the Regulatory Period
- **RTNCt-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
- **CPIt-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
- **RTNCft-1** the forecast of return on capital in Relevant Year t-1
- **RTNCat-1** the actual return on capital in Relevant Year t-1
- **Pt** is the Profiling Factor in Relevant Year t, which is set at Periodic Reviews

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

\[ LSSCt = LSSAt \times RWMP \times WHEAt + (LSSCat-1 - LSSCft-1) \times (1 + It) + (LSSCat-1 - LSACt-1) \times LSSFt \]

Where:

- **LSSCt** is allowed cost of losses in Relevant Year t
- **LSSAt** is the Loss Allowance, which is a percentage of energy entering the Transmission System, in Relevant Year t
- **RWMP** the referent wholesale market electricity price (in €/MWh) in Relevant Year t
- **WHEAt** is the average wholesale energy cost (in €/MWh) as determined using the allowed wholesale energy cost for the PES in Relevant Year t
- **LSSCat-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)

It 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 TSO in purchasing energy as compensation for energy lost on the Transmission System in Relevant Year t-1 (not calculated using the Loss Allowance)

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

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

\[ KREVt = (AACat-1 - ARRt-1) \times (1 + It) \]

Where

AACat-1 Actual Allowed Cost as determined in Relevant Year t-1

ARRt-1 is the Actual Regulated Revenues in Relevant Year t-1

It 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
1 This Schedule presents input values which are the main parameters used in the calculation of TSO/MO 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; and

   3.6 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 (Article 10) and allowed return on capital (Article 11).

2. The Regulatory Asset Base shall be a regulatory value of the TSO/MO’s used and useful fixed assets that are necessary for the provision of Transmission System Services and Market Operator Services. The Regulatory Asset Base shall distinguish between different classes of assets.

3. The Regulator has 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, calculated on a straight-line basis using Economic Asset Lives;

   4.2 Asset sales or disposals during the current Regulatory Period shall be subtracted from the Regulatory Asset Base at their disposal value;

   4.3 Regulatory Asset Base shall not include assets funded by grants and customer contributions (except assets included in Regulatory Asset Base until April 2012).

   4.4 Allowed capital expenditure during the current Regulatory Period shall be added to the Regulatory Asset Base starting 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. Regulator shall not make any retroactive reduction in revenues earned during the current (recently completed) Regulatory Period to account for differences between the allowed and actual costs. 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;

   4.5 If a capital project in the Allowed 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;

   4.6 Where any maintenance cost is or has previously been included in allowed operating costs it shall not be capitalised, nor shall it be included in the Regulatory Asset Base; and
4.7 The Regulatory Asset Base shall be adjusted to take into account inflation over the previous Regulatory Period, 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 asset 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 Allowed Investment Plan for the forthcoming Regulatory Period. The Allowed Investment Plan shall:

6.1 Comprise the capital projects reasonably required to provide Transmission System Services and Market Operator 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 Transmission System Security, Planning or Operating Security Standard as may be required by the TSO’s licence and MO’s licence;

6.4 Have regard to any other relevant investment or development plans for the TSO/MO that have been approved by the Regulator (and any differences between these plans shall be identified by the TSO/MO and explained), including the latest 5 Year Allowed Investment Plan prepared by the TSO in line with and 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 Allowed Investment Plan shall be implemented as follows:

7.1 The TSO/MO shall make all reasonable endeavours to ensure the implementation of the Allowed Investment Plan in line with its allowed timetable;

7.2 If the TSO/MO shall be or is unable to, for reasons beyond its control, undertake a capital project in accordance with the timetable given in the Allowed Investment Plan, it shall notify the Regulator. The TSO/MO shall also detail the reasons for the delay and the revised timetable;

7.3 The TSO/MO may at any time apply to the Regulator to substitute an alternative capital project with another capital project in its Allowed 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 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 TSO/MO substitutes an alternative capital project with a capital project in its Allowed 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:

\[ WACC = (1 - g) \times (rE) / (1 - t) + g \times (rD) \]

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 TSO/MO 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 TSO/MO 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 the TSO/MO 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:

\[ rEi = rf + \beta i \times ERPm \]

- \( rf \) risk-free rate
- \( ERPm \) equity risk premium applicable to the market as a whole
- \( \beta i \) 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 TSO/MO 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 TSO/MO and determined by the Regulator using evidence on the equity risk premium internationally.

3.3 The beta ($\beta_i$) shall be proposed by the TSO/MO 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 1 year) to the TSO/MO, expressed in real terms and weighted according to the value in Euros of each loan.

4.1 The TSO/MO 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, that loan shall be 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 TSO/MO, 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 TSO/MO.

   (ii) An assessment of the expected interest rate applied to any future concessional loans to the TSO/MO.

   (iii) An assessment of the expected mix of commercial (non-concessional) and concessional loans in the debt of the TSO/MO over the coming Regulatory Period.
SCHEDULE 5  EXCLUDED SERVICES

1 The TSO/MO may levy a charge 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 Transmission System (but only to the extent that the service is not already remunerated under other charges 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 TSO/MO under the 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 form part of the Transmission 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 a party requesting the relocation;

1.4 The provision of electric lines and electrical plant to the extent required by any user of the Transmission System to provide a higher degree of security than is required for the purposes of complying with paragraph 2 of Article 11 of the license of TSO/MO (Transmission System Security and Planning Standards); and

1.5 The provision of other services that are not already remunerated under any other charge in respect of an Excluded Service.

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 Charges for such Excluded Services shall be set at a level that shall allow the TSO/MO 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 TSO/MO during the period before payment is received of any amounts due by the person requiring the service in question.

3 Where applicable, such charges shall be determined in accordance with the approved methodology for Connection Charges.
4 In providing a quotation to the person applying for the provision of the Excluded Service, the TSO/MO shall provide such detailed costing as the applicant could reasonably require in order to determine whether the charge 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 The TSO/MO shall following the end of each Relevant Year provide to the Regulator details of services provided as part of the Transmission Business and treated as Excluded Services by the TSO/MO during the course of such year and stating the revenue derived in respect of such services.

7 Where the Regulator is satisfied that in the light of the principles set out in the foregoing paragraphs any service treated by the TSO/MO as an Excluded Service should not be so treated, the Regulator shall issue directions to that effect, and the service or services specified in the directions shall cease to be treated as Excluded Services from the date of issue of the directions or such other date as may be specified in the directions.
SCHEDULE 6  PERIODIC REVIEW PROCESS

1 The Regulator shall, in order to promote transparency, publish all submissions, comments, and other documentation received from the TSO/MO or other interested parties in relation to the Periodic Review on its official website and the Regulator shall disclose all material information submitted to it by the TSO/MO, 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 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 TSO/MO of:

4.1 Data on 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 TSO/MO’s Proposal for its Maximum Allowed Revenue for the forthcoming Regulatory Period.

5 The TSO/MO’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 Transmission System Services and Market Operator Services during the current Regulatory Period, in line with the definition of costs that was used for calculating Maximum Allowed Revenues;

5.3 The 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 TSO/MO’s licences;

5.4 Actual Maximum Transmission System Demand, volume of transmitted energy, and Customer Numbers during the current Regulatory Period;

5.5 Forecast Maximum Transmission System Demand, volume of transmitted energy and Customer Numbers for the forthcoming Regulatory Period;

5.6 Actual Transmission Losses during the current Regulatory Period and forecast Transmission 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 TSO/MO relating to any of the matters to be contained in the TSO/MO’s Proposal; and

5.10 Any other additional material that the Regulator reasonably considers should be included in the TSO/MO’s proposal, so long as the Regulator has notified the TSO/MO a reasonable time prior to the deadline for the TSO/MO’s proposal.

6 In preparing its proposal, the TSO/MO shall, to the fullest extent possible, apply the principles and formulae set out in this Rule.

7 In the cases when TSO/MO did not apply the principles and formulas, in accordance with this Rule, TSO/MO shall disclose any areas where it has not applied these, the reason for not applying them, the reasons supporting the alternative approach, and provide an estimate of the impact of using the alternative approach.

8 This Proposal shall use the most recent available information on the referent market price which shall be applied for calculation of the cost of losses.

9 Upon receiving the TSO/MO’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 reflects the reasonable costs of providing Transmission System Services and Market Operator Services.

10 The Regulator shall prepare a Provisional Evaluation of the TSO/MO’s Proposal within a reasonable time (set forth in the paragraph 3 of this Schedule) after reviewing the proposals of the TSO/MO and consultation with the TSO/MO. The Provisional Evaluation shall set out the Regulator’s proposals on the Maximum Allowed Revenues to be recovered by the TSO/MO 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 TSO/MO’s Proposal as it considers appropriate provided that it shall identify such amendments, removals or replacements and provide justification for these.

11 Following notification of the TSO/MO of its Provisional Evaluation, the Regulator shall launch a public consultation on its Provisional Evaluation, in accordance with the Law on the Energy Regulator.

12 Following the 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 as provided in
the Regulator’s Final Decision shall apply from the start date of the forthcoming Regulatory Period.

13 The TSO/MO may dispute or appeal any decision by the Regulator in accordance with applicable legislation.
SCHEDULE 7  REGULAR ADJUSTMENT PROCESS

1 The TSO/MO 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 TSO/MO 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 TSO/MO to further explain its method of calculating the proposed Maximum Allowed Revenues, and if so required, the TSO/MO shall promptly provide to the Regulator any further information or explanations sought, on time-limits required by the Regulator.

3 The Regulator shall advise the TSO/MO at least 40 Business Days before the start of the forthcoming Relevant Year whether or not it approves the TSO/MO’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 TSO/MO shall calculate and notify the results on TSO/MO Charges at least 15 Business Days before the start of the forthcoming Relevant Year.

8 The TSO/MO may dispute or appeal any decision by the Regulator in accordance with applicable legislation.
1. If an Extraordinary Event has occurred, the TSO/MO may request an Extraordinary Review.

2. An Extraordinary Review cannot be launched within 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 TSO/MO requesting an Extraordinary Review, it shall submit to the Regulator a Report 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 TSO/MO’s business;
   
   4.3 An estimate of the change in the TSO/MO’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 An estimate 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 A calculation of the financial impact on the TSO/MO of the Extraordinary Event in each year, calculated as the sum of the change in the TSO/MO’s costs and revenues above. Revenues shall be treated as positive numbers and costs treated as negative numbers; and
   
   4.6 A calculation of whether the financial impact is expected to be greater than the Materiality Threshold multiplied by the revenues received by the TSO/MO (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 TSO/MO determines that the financial impact is greater than the Materiality Threshold, it shall include in its Report 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 (but opposite sign) to the Net Present Value of the financial impact of the Extraordinary Event, using the Weighted Average Cost of Capital as the discount rate; and
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 TSO/MO. If so, the Regulator shall notify the TSO/MO and include a description of the Extraordinary Event and a summary its expected impact. The TSO/MO shall then prepare a Report of Financial Impact as per the process described above.

7 The Regulator may reasonably require the TSO/MO to further explain its method of calculating the Report of Financial Impact and Extraordinary Adjustment, and if so required, the TSO/MO shall promptly provide to the Regulator any further information or explanations sought.

8 The Regulator shall advise the TSO/MO within 20 Business Days of receiving the Report of Financial Impact whether or not it approves the TSO/MO’s proposed Extraordinary Adjustment. The Regulator shall approve the proposal if it:

8.1 Meets the conditions provided above;

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 TSO/MO 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 TSO/MO that shall not be fully recovered through Regular Adjustments;

1.2 Force majeure events as defined in Schedule 10;

1.3 Any other event, which meets all of the following conditions:

   (i) Was not reasonably under the control of the TSO/MO;

   (ii) Shall not be fully recovered through Regular Adjustments; and

   (iii) Shall significantly change the revenues and/or costs of the TSO/MO over any 12 month period, such that it seems reasonable that the Materiality Threshold (described in Schedule 8) may be breached.

2  The occurrence of an Extraordinary Event is sufficient to trigger an Extraordinary Review, however as described in Schedule 8, 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.
SCHEDULE 11  TRANSITIONAL PROVISIONS

1  Losses in the north of Kosovo shall be incorporated in Transmission Charges.

2  Criteria of paragraph 1 of this Article shall apply until political barriers are removed.

Board of the Energy Regulatory Office:

____________________________________
Krenar Bujupi, Acting- Chairman

____________________________________
Arsim Janova, Member

____________________________________
Besim Sejfijaj, Member