Rule on Determination of Revenues for Universal Service Supplier (USS Pricing Rule)

27 April 2017
# CONTENTS

<table>
<thead>
<tr>
<th>CHAPTER I</th>
<th>General Provisions</th>
<th>4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Article 1</td>
<td>Scope and Purpose</td>
<td>4</td>
</tr>
<tr>
<td>Article 2</td>
<td>Definitions and Interpretations</td>
<td>4</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CHAPTER II</th>
<th>THE RIGHT FOR UNIVERSAL SERVICE</th>
<th>8</th>
</tr>
</thead>
<tbody>
<tr>
<td>Article 3</td>
<td>Universal Service</td>
<td>8</td>
</tr>
<tr>
<td>Article 4</td>
<td>Determination of Reasonable Price</td>
<td>8</td>
</tr>
<tr>
<td>Article 5</td>
<td>Retail Market Competition Assessment</td>
<td>9</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CHAPTER III</th>
<th>PUBLIC SERVICE OBLIGATION</th>
<th>10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Article 6</td>
<td>Imposition of Public Service Obligation</td>
<td>10</td>
</tr>
<tr>
<td>Article 7</td>
<td>Regulation of Prices for Universal Service Supplier</td>
<td>10</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CHAPTER IV</th>
<th>RETAIL TARIFF FOR UNIVERSAL SERVICE CUSTOMERS</th>
<th>11</th>
</tr>
</thead>
<tbody>
<tr>
<td>Article 8</td>
<td>General Principles</td>
<td>11</td>
</tr>
<tr>
<td>Article 9</td>
<td>Input Values Reviews</td>
<td>11</td>
</tr>
<tr>
<td>Article 10</td>
<td>Adjustments of Regulated Revenues</td>
<td>12</td>
</tr>
<tr>
<td>Article 11</td>
<td>Extraordinary Reviews</td>
<td>12</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CHAPTER V</th>
<th>INPUT VALUES</th>
<th>13</th>
</tr>
</thead>
<tbody>
<tr>
<td>Article 12</td>
<td>Definition of Input Values</td>
<td>13</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CHAPTER VI</th>
<th>UNIVERSAL SERVICE REGULATED REVENUES</th>
<th>14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Article 13</td>
<td>General Principles</td>
<td>14</td>
</tr>
<tr>
<td>Article 14</td>
<td>Allowed Retail Costs</td>
<td>15</td>
</tr>
<tr>
<td>Article 15</td>
<td>Allowed Working Capital Costs</td>
<td>15</td>
</tr>
<tr>
<td>Article 16</td>
<td>Allowed Bad Debt Costs</td>
<td>16</td>
</tr>
<tr>
<td>Article 17</td>
<td>Wholesale Power Purchase Costs</td>
<td>16</td>
</tr>
<tr>
<td>Article 18</td>
<td>Pass-Through Costs</td>
<td>17</td>
</tr>
<tr>
<td>Article 19</td>
<td>Allocation of Costs</td>
<td>17</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CHAPTER VII</th>
<th>TARIFF STRUCTURE METHODOLOGY</th>
<th>19</th>
</tr>
</thead>
<tbody>
<tr>
<td>Article 20</td>
<td>Methodology for Structuring the Retail Tariff for Universal Service Customers</td>
<td>19</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CHAPTER VIII</th>
<th>TRANSITIONAL AND FINAL PROVISIONS</th>
<th>20</th>
</tr>
</thead>
<tbody>
<tr>
<td>Article 21</td>
<td>Amendment</td>
<td>20</td>
</tr>
<tr>
<td>Article 22</td>
<td>Interpretation</td>
<td>20</td>
</tr>
<tr>
<td>Article 23</td>
<td>Repeal</td>
<td>20</td>
</tr>
<tr>
<td>Article 24</td>
<td>Entry into force</td>
<td>20</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>SCHEDULE 1</th>
<th>CALCULATION OF REGULATED REVENUES</th>
<th>21</th>
</tr>
</thead>
<tbody>
<tr>
<td>SCHEDULE 2</td>
<td>INPUT VALUES REVIEW PROCESS</td>
<td>23</td>
</tr>
<tr>
<td>SCHEDULE 3</td>
<td>ANNUAL ADJUSTMENT PROCESS</td>
<td>25</td>
</tr>
<tr>
<td>SCHEDULE 4</td>
<td>EXTRAORDINARY REVIEW PROCESS</td>
<td>27</td>
</tr>
</tbody>
</table>
Pursuant to the authority given under Article 9 paragraph 1, subparagraph 1.7, Article 26, of Law on Energy Regulator No. 05/L-084 and Article 37 of Law on Electricity No.05/L-085, in its session held on 27 April 2017, approved the following:

**Rule on Determination of Revenues for Universal Service Supplier (USS Pricing Rule)**

**CHAPTER I  GENERAL PROVISIONS**

**Article 1  Scope and Purpose**

1 This Rule sets:

1.1 The methodology for determining the Retail Tariff for Universal Service Customers that are entitled to be served by the Universal Service Supplier (“USS”) for the retail supply of electricity;

1.2 The process for reviewing and adjusting the Retail Tariff for Universal Service Customers; and

1.3 How the Regulator may impose a public service obligation on the Universal Service Supplier for customers who are entitled the universal service supply.

**Article 2  Definitions and Interpretations**

1 The following terms used in this Rule have the following meanings:

1.1 **Universal Service Supplier (USS)**- is the supplier who is imposed the Public Service Obligation by the Regulator to ensure the universal service with regulated criteria for household and non-household customers that have an annual turnover of not more than ten (10) million euro and employ no more than fifty (50) employees;

1.2 **Actual Regulated Revenues** - revenues recovered by the Universal Service Supplier by charging the Retail Tariff to universal service customers;

1.3 **Annual Adjustment** - means the adjustment of allowed revenues and regulated retail tariff, realized at the end of each relevant year;
1.4 **Bad Debt Allowance** - has the meaning give to it in 06 paragraph 1;

1.5 **Business Days** - all working days of the week as defined in Kosovo laws;

1.6 **Customer Category** - the classification of different types of customers for the purposes of charging retail tariffs. The classification should have regard to customers’ manner of active energy and capacity measuring, manner of electricity consumption, peak load, supply voltage, and other characteristics that impact on the cost of supply;

1.7 **Distribution System Operator** – 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;

1.8 **Distribution Use of System tariff** - is the regulated tariff, charged by the DSO for distribution of electricity;

1.9 **Economic Asset Lives** - systematic distribution of the amount of depreciation of an asset during its useful lifespan allowed by Regulatory Asset Base;

1.10 **Regulatory Asset Base** - all assets used and useful for provision of services by the regulated undertaking, excluding totally depreciated assets;

1.11 **EURIBOR** – the 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, such other service as agreed by the USS and the Regulator. For the avoidance of doubt it shall be an annual rate;

1.12 **Extraordinary Adjustment** has the meaning given to it in Schedule 4;

1.13 **Extraordinary Event** has the meaning given to it in 0;

1.14 **Extraordinary Review** has the meaning given to it in 012;

1.15 **Final Decision** has the meaning given to it in Schedule 2, paragraph 10;

1.16 **Force Majeure Event** has the meaning given to it in 0;

1.17 **Input Values** has the meaning given to it in Chapter V13;

1.18 **Input Values Review** - review by the Regulator to determine Input Values;

1.19 **Licence Fee** - the amount payable under the Schedule of Fees, issued by the Regulator;
1.20 **Materiality Threshold** has the meaning given to it in Schedule 5;

1.21 **Net Present Value** - the sum of discounted future net cash flows;

1.22 **Pass-Through Costs** means the costs established in accordance with 020;

1.23 **Proposal** has the meaning given to it in Schedule 2 paragraph 5;

1.24 **Provisional Evaluation** has the meaning given to it in Schedule 2 paragraph 8;

1.25 **Universal Service Customer** – all household and non-household customers that have an annual turnover of not more than ten (10) million euro and employ no more than fifty (50) employees;

1.26 **Retail Market Competition Assessment** – an assessment of the effectiveness of retail supply market competition conducted in accordance with 0 of this Rule;

1.27 **Retail Tariff for Universal Service Customers** - the set of prices charged by the USS to Final Customers for providing Standard Service, as determined by the Regulator;

1.28 **Energy Regulatory Office (the Regulator)** - is an independent agency in the energy sector, established by Law on Energy Regulator;

1.29 **Relevant Year** - the period of 12 successive calendar months between Annual Adjustments;

1.30 **Retail Margin** - has the meaning given to it in 03;

1.31 **Public service obligation** – obligation imposed upon an electricity undertaking by law or decision approved by the government or the Energy Regulatory Office, depending on their areas of responsibility may decide on obligations which may relate to security of electricity supply, regularity, quality and price of supplies, energy efficiency, energy from renewable sources, and environmental and climate protection which is non-discriminatory and does not distort competition beyond what is strictly necessary in order to achieve the provision of the public service in question;

1.32 **Universal supply service** – the right of household customers and economic enterprises that employ no more than fifty (50) employees and have an annual turnover of not more than ten (10) million euro to be supplied with electricity of a specified quality at reasonable, clearly comparable, transparent and non-discriminatory prices;

1.33 **Standard Services** - the services provided to customers supplied electricity by the USS as defined in the Public Supply Licence and General Conditions of Electricity Supply;

1.34 **Statement of Financial Impact** - has the meaning given to it in Schedule 4;
1.35 **Transitional Period** - has the meaning given to it in *Error! Reference source not found.*;

1.36 **Transmission System Operator** - 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;

1.37 **Transmission Network Use of System Tariff** or TNUOS Tariff - means the regulated charge applied by TSO for transmission of electricity;

1.38 **System Operator Tariffs or SO Tariffs**- tariffs applied by TSO for transmission of electricity;

1.39 **Market Operator**- natural or legal person, licensed by the Energy Regulatory Office, responsible for operation and organization of the electricity market in Kosovo;

1.40 **Market Operator Tariffs or MO Tariffs**- the regulated tariffs which is applied by MO for provision of market operator services;

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 THE RIGHT FOR UNIVERSAL SERVICE

Article 3
Universal Service

1 All household final customers and all non-household final customers with an annual turnover of less than ten (10) million Euros or not more than fifty (50) employees have the right of universal service. Collectively, these customers are referred to as “Universal Service Customers”.

2 A Universal Service Customer shall be supplied with electricity of a specified quality at reasonable, transparent and non-discriminatory prices.

Article 4
Determination of Reasonable Price

1 Prices charged to Universal Service Customers will be considered reasonable if they represent the price that a supplier in an effectively competitive electricity retail supply market would be expected to apply for supply of electricity to customers of this service.

2 Prior to determination of prices for Universal Service Customers, the Regulator will assess the level of competition in retail supply to Universal Service Customers, in line with Article 5 below.

3 When the retail supply market for Universal Service Customers is assessed as being uncompetitive, the Regulator will further assess the reasonability of unregulated prices charged to universal service customers;

4 For the purposes of demonstrating that a price charged to all or any class of Universal Service Customers is reasonable, in accordance with paragraph 3 above, a supply licensee may:

4.1 Demonstrate that the price charged to Universal Service Customers is equal to or less than a regulated price as approved by the Regulator in accordance with this Rule.

4.2 Where no regulated price is in effect for any class of Universal Service Customer, provide convincing information to the Regulator that the price charged to Universal Supply Service Customers represents the outcome of a competitive procurement of wholesale electricity supply, regulated network tariffs (TSO/MO and DSO) and a margin set by the Regulator.

4.3 The costs of purchased electricity shall be executed in a competitive way.

5 When a Universal Service Customer chooses to be supplied by a supply licensee under the terms of a competitive supply contract:
5.1 The terms and conditions of supply are mutually agreed between the supply licensee and the Universal Service Customer and do not represent a Universal Supply Offer.

5.2 The Universal Service Customer retains the right to be supplied by a licensed supplier holding a Universal Service Obligation in accordance with the Universal Service Supply Offer of that supplier so long as he meets the requirements of Article 3, paragraph 1 above.

5.3 A Universal Service Customer switching from the supplier who does not have a Universal Service Obligation to a supplier who has such an obligation, must comply with all requirements set forth in respective legislation.

### Article 5

Retail Market Competition Assessment

1 The Regulator shall conduct an assessment of the effectiveness of competition in the electricity retail market for Universal Service Customers at least every two (2) years.

2 The Retail Market Competition Assessment shall use verifiable and quantifiable indicators of the level of competition on electricity retail supply to all Universal Service Customers and separately to households and commercial customers who have the right to universal service.

3 The Retail Market Competition Assessment shall include:

3.1 An assessment of the level of competition in the electricity retail supply market for Universal Service Customers.

3.2 The Regulator’s evaluation as to whether competition is considered effective or not.

3.3 The Regulator’s evaluation as to whether ineffective competition requires price regulation so as to ensure that Universal Service Customers are supplied at a reasonable price;

3.4 A time-bound action plan for the removal of such price regulation in accordance with Article 38 of the Law on Electricity 05/L-085. This action plan shall be updated each year.
CHAPTER III  PUBLIC SERVICE OBLIGATION

Article 6
Imposition of Public Service Obligation

1 In order to ensure the provision of supply within the universal service, the Regulator may charge the Public Service Obligations to any supplier, obliging the supplier in question to provide electricity supply to customers who are entitled the supply within universal service;

2 The Universal Service Obligation shall be imposed on the Universal Service Supplier and shall be reviewed at least every three (3) years or such lesser period as the Regulator deems reasonable.

3 Prior to the re-imposition of a Universal Service Obligation to the Public Service Supplier, the Regulator shall conduct an assessment of supply criteria, in accordance with the requirements of Article 5 of the Law on Electricity 05/L-085.

Article 7
Regulation of Prices for Universal Service Supplier

1 Following the Retail Market Competition Assessment, conducted in accordance with 0 of this Rule, the Regulator may determine that prices to some or all Universal Service Customers must be regulated to ensure that these are reasonable.

2 When the Regulator makes such a determination, the Universal Service Supplier shall prepare and submit to the Regulator its proposed prices for supply to Universal Service Customers.

3 These proposals shall comply with the terms laid out in this Rule and shall include necessary evidence to support the proposed tariffs.

4 The Universal Service Supplier shall maintain separate accounts between the regulated activities of Universal Service Supplier and other commercial activities.
CHAPTER IV  RETAIL TARIFF FOR UNIVERSAL SERVICE CUSTOMERS

Article 8
General Principles

1. The Universal Service Supplier shall charge the Universal Service Retail Tariff to Regulated Customers, as approved by the Regulator.

2. The Retail Tariff for Universal Service Customers shall be set and approved at each relevant year, such that:

   2.1 The revenues that the Universal Service Supplier expects to earn from the Retail Tariffs for Universal Service Customers shall cover all costs for provision of universal service (Chapter V); and

   2.2 The Retail Tariff for Universal Service Customers shall be consistent with the principles set in the Tariff Structure Methodology (Chapter VII).

3. USS Regulated Revenues shall be determined as follows:

   3.1 Universal Service Regulated Revenue shall be set each relevant tariff year;

   3.2 The proposal for regulated revenues shall be submitted by USS to the Regulator for approval, prior to each relevant tariff year;

   3.3 The calculation of Universal Service Regulated Revenue shall use Input Values set at Input Values Reviews; and

   3.4 Extraordinary Reviews, which involve an adjustment to Universal Service Regulated Revenue for material changes in costs and/or revenues caused by an Extraordinary Event, shall be made as necessary.

Article 9
Input Values Reviews

1. The Input Values used to calculate Universal Service Regulated Revenues of the USS shall be set at input values review. Changes to Input Values shall only be made to the extent that those changes are reasonable, justified, and prudently asserted.

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.
The USS 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.

The process for undertaking Input Values Reviews is given in Schedule 2.

**Article 10**

**Adjustments of Regulated Revenues**

1. The change in Universal Service Regulated Revenue that may result from the change between allowed revenues and realized costs, shall be conducted during annual adjustments.

2. Adjustments of USS Regulated Revenues shall take into account the changes between the revenues realized and the costs realized for the categories of expenses, which depend directly on the supply level.

3. Annual Adjustments shall be carried out prior to each relevant year, in accordance with the process described in Schedule 4.

4. The formulae for calculating Universal Service Regulated Revenue at Annual Adjustments are given in Error! Reference source not found..

**Article 11**

**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 Universal Service Regulated Revenue for the remainder of regulatory period will be calculated. If the impact is greater than the Materiality Threshold then an Extraordinary Adjustment to Universal Service Regulated Revenue shall be made. The Material Threshold shall be 5% of revenues, unless determined otherwise at Input Values Reviews on the mutual agreement of the USS and the Regulator.

3. The calculation of the impact on Universal Service Regulated Revenue and adjustment of revenues shall not take into 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 Annual Adjustments.

5. The process for undertaking Extraordinary Reviews is given in Schedule 4.
CHAPTER V  INPUT VALUES

Article 12
Definition of Input Values

1 Input Values are key parameters used in the calculation of regulated revenues of Universal Service Supplier.

2 The following values can be specified as fixed or as a table of values, in which case different values for each relevant year will be applied, starting from the current relevant year until the next review of input values.

3 Input Values comprise the following:

   3.1 Economic USS Related Asset Lives;
   3.2 Retail Margin;
   3.3 Bad Debt Allowance;
   3.4 Balancing Sharing Factor;
   3.5 Export Sharing Factor; and
   3.6 Any other input parameter that the regulator may deem necessary.

4 Input values are set for a period of three (3) years.

   4.1 Retail Margin;
   4.2 Bad Debt Allowance;
   4.3 Imbalance Sharing Factor;
CHAPTER VI  UNIVERSAL SERVICE REGULATED REVENUE

Article 13
General Principles

1 Universal Service Regulated Revenue shall equal the reasonable costs of the USS in providing Standard Service to Regulated Customers, to the extent that those costs are justified and prudently incurred.

2 The reasonable costs of the USS shall comprise:
   2.1 Allowed Retail Costs (04);
   2.2 Allowed Working Capital costs (0);
   2.3 Allowed Bad Debt Costs (36);
   2.4 Allowed Wholesale Power Costs (07),
   2.5 Pass-Through Costs including the costs of TSO/MO and DSO network and Licence Fee, which shall be fully passed-through at Annual Adjustments.

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 USS;
   3.2 Projected volumes, costs and service quality relating to the USS;
   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.

4 The reasonable costs shall be allocated to Regulated Customers, as foreseen in 1.520.

5 Any other revenue that is not collected through tariffs, but is related to provision of Standard Services to Regulated Customers shall be deducted from Universal Service Regulated Revenue, including any difference between the disposal value of assets and their regulatory value.
Article 14
Allowed Retail Costs

1 Allowed retail costs include the costs that are related to supplying Regulated Customers:
   1.1 Operating and maintenance costs;
   1.2 Corporate costs;
   1.3 Depreciation costs; and
   1.4 Other costs that are out of USS Control.

2 Allowed operating and maintenance costs shall not include the costs of advertising and other marketing, and any taxes or duties that are intended to be recovered through the Retail Margin.

3 Allowed corporate costs include costs (or a proportion of total corporate costs where the USS is a subsidiary or affiliate of another entity) that are necessary and attributable to the continued functioning of the USS but, in accordance with international accounting standards, are not directly associated with providing Standard Service to Regulated Customers.

4 Costs of public communications for safety, conservation, encouraging prompt payment and discouraging unauthorised use are allowable costs.

Article 15
Allowed Working Capital Costs

1 Working capital costs shall be calculated as the cost of financing working capital for the USS multiplied by the allowed working capital value.

2 The cost of financing working capital shall be calculated as EURIBOR plus S%, where S is a value to be determined by the Regulator at Annual Adjustments and which reflects the premium payable by the licensee for short-term loans.

3 The allowed working capital value shall be calculated as $1/12$ of the sum of allowed retail costs, allowed wholesale energy costs, allowed wholesale capacity costs and pass-through costs.
Article 16
Allowed Bad Debt Costs

1 Allowed bad debt costs shall be calculated by applying the Bad Debt Allowance as per the formulae given in Error! Reference source not found..

2 The Bad Debt Allowance shall be set by the Regulator during the determination of input values.

Article 17
Wholesale Power Purchase Costs

1 Universal Service Supplier is obliged to procure electricity in a transparent, economical and efficient manner.

2 The Universal Service Supplier is required to demonstrate that the projected prices of electricity to be procured are reasonable. This may include, but is not limited to, demonstrating that:

2.1 Projected prices are in line with historic and projected Kosovo wholesale market prices.

2.2 Projected prices are in line with historic and projected regional wholesale market prices.

2.3 Prices result from a competitive procurement of wholesale electricity supplies.

2.4 Prices are consistent with the regulated tariffs applying to purchases where these are the result of an imposed obligation on the licensees.

3 Wholesale energy costs that are related to supplying regulated customers, are comprised of:

3.1 Costs of energy procured from domestic generation;

3.2 Energy import costs;

3.3 Energy Purchase Retail Margin;

3.4 Net imbalance costs, subject to imbalance sharing factor;

4 Allowed net imbalance costs shall comprise the actual costs incurred less the actual revenues earned (as determined in accordance with the Market Rules) that result from imbalances between actual demand from regulated customers and the nominated supply of energy.

5 The Imbalance Sharing Factor shall be a fixed percentage that is applied to net imbalance costs to determine the sharing of these costs between the USS and regulated customers, where a value of 0% means that all net imbalance costs are allocated to the USS and a value of 100% means that all net imbalance costs are allocated to customers.
In setting the Imbalance Sharing Factor, the Regulator shall take into account the extent to which USS is able to manage imbalances and, especially, the balance between supply from domestic generation and sustainable import, as well as demand fulfilled by USS.

Verification of wholesale energy costs to provide Universal Supply Service shall be conducted in accordance with the principles set out in Schedule 2.

The Retail Margin shall be a fixed percentage that is applied to allowed wholesale energy costs and allowed wholesale capacity costs. It shall be set at such a level such that it:

8.1 Provides the USS with a reasonable profit that compensates it for the risks it assumes in providing the standard service for regulated customers. This shall be calculated with reference to the margins earned by similar utilities in countries elsewhere in Europe, taking account of the similarities between the electricity industry in those countries and that of Kosovo; and

8.2 Provides the USS with a reasonable return on its net fixed assets used in providing Standard Service to Regulated Customers. This shall be calculated with reference to the cost of capital of other licensees in Kosovo.

**Article 18**

**Pass-Through Costs**

1 The USS shall cover the following costs during Annual Adjustments:

1.1 MO costs that are invoiced by the MO and relate to Universal Service Customers;

1.2 SO charges that are invoiced by the TSO and relate to Universal Service Customers;

1.3 TNUOS costs that are invoiced by the TSO and relate to Universal Service Customers;

1.4 Distribution Use of System costs that are invoiced by the DSO and relate to Universal Service Customers; and

1.5 The share of the Licence Fee that relates to Universal Service Customers.

**Article 19**

**Allocation of Costs**

2 The reasonable costs calculated according to this Chapter shall be allocated as follows:

2.1 Allowed retail costs and allowed working capital costs shall be allocated in proportion with the number of customers.
2.2 Procured wholesale energy costs shall be allocated to Universal Service Customers in a way that does not distort competition for unregulated customers.

2.3 Pass-Through Costs shall be allocated to Universal Service Customers in a way that preserves, to the extent possible, the price signals.
CHAPTER VII  TARIFF STRUCTURE METHODOLOGY

Article 20

Methodology for Structuring the Retail Tariff for Universal Service Customers

1. The structure of the Retail Tariff for Universal Service Customers shall be consistent with the methodology set out in this article and in any further guidance issued by the Regulator.

2. A single set of prices shall apply to any Customer Group.

3. The Retail Tariff for Universal Service Customers shall not include any cross subsidisation between Customer Groups.

4. The Retail Tariff for Universal Service Customers shall take into account environmental concerns.

5. Block tariffs may be used to encourage efficient consumption of electricity. They may also be used for social reasons, but only in the circumstance where the Regulator is not satisfied, on the basis of the available evidence, that other subsidy mechanisms are adequately protecting vulnerable customers.

6. The Retail Tariff for Universal Service Customers may include day-night tariffs to encourage efficient consumption of electricity, so long as metering is adequate for this purpose and if it is warranted by the load profile of the customer.

7. The Retail Tariff for Universal Service Customers shall vary based on the seasonal cost of service to encourage efficient consumption of electricity.

8. The Regulated Retail Tariff shall reflect the costs of supplying different Customer Groups and shall be set so as to:

   8.1  Accurately preserve the tariff signals of the transmission and distribution network and the Licence Fee, to the allowed extent;

   8.2  Recover the retail costs and working capital costs associated with supplying each different customer categories; and

   8.3  Reflect the costs of supplying different customer categories during different seasons and times of the day;
CHAPTER VIII  TRANSITIONAL AND FINAL PROVISIONS

Article 21
Amendment

1. ERO is entitled to change or modify any provision of this Rule.

2. Procedure for amendment or modification of this Rule will be the same as for its approval.

Article 22
Interpretation

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

Article 23
Repeal

This Rule repeals the previous “Rule on Public Electricity Supplier Pricing” (PES Pricing Rule), approved by the Board of the Regulator in 2011.

Article 24
Entry into force

This Rule comes into force in the day of adoption by the Regulator’s Board and will be published on the official website of the Regulator.

The Board of Energy Regulatory Office

Krenar Bujupi, Acting Chairman

Arsim Janova, Member

Besim Sejfijaj, Member
SCHEDULE 1  CALCULATION OF REGULATED REVENUES

1  This schedule sets out the formulae for calculating Universal Service Supplier Regulated Revenues and complements the principles set out in the main body of the Rule.

2  USS Regulated Revenues shall be calculated at Annual Adjustments using the following formula:

\[
USRR_t = \frac{(RETR_t + WCLC_t + WHPC_t + PSTC_t - NTFR_t + ADJ_t)}{(1 - BDTA_t)}
\]

Where

- \( USRR_t \)  Universal Service Supplier Regulated Revenues in Relevant Year \( t \)
- \( RETR_t \)  Retail Costs in Relevant Year \( t \), which are set at Annual Adjustments
- \( WCLC_t \)  Working Capital Costs in Relevant Year \( t \)
- \( WHPC_t \)  Wholesale Power Costs for the provision of Universal Supply Service in Relevant Year \( t \)
- \( PSTC_t \)  Pass-Through Costs in Relevant Year \( t \)
- \( NTFR_t \)  Non-tariff revenues in Relevant Year \( t \)
- \( ADJ_t \)  Revenue Correction factor in Relevant Year \( t \)
- \( BDTA_t \)  Bad Debt Allowance in Relevant Year \( t \)

2.1  Allowed working capital costs (WCLCt) shall be calculated using the following formula:

\[
WCLC = \frac{1}{12} * I_t * (RETR_t + WHPC_t + PSTC_t - NTFR_t)
\]

Where

- \( I_t \)  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 Annual Adjustments and which reflects the premium payable by the licensee for short-term loans
- \( RETR_t \)  is Allowed Retail Costs in Relevant Year \( t \)
2.2 Allowed Wholesale Power Costs (WHPC<sub>t</sub>) shall be calculated using the following formula:

\[
WHPC_{t} = (GENC_{t} + IMPC_{t} + IMBC_{t} \times IMBF_{t}) * (1 + RETM_{t})
\]

Where

- **GENC<sub>t</sub>** = Allowed costs of purchases from domestic generation in Relevant Year <i>t</i>
- **IMPC<sub>t</sub>** = Allowed energy import costs in Relevant Year <i>t</i>
- **IMBC<sub>t</sub>** = Allowed net imbalance costs in Relevant Year <i>t</i>
- **IMBF<sub>t</sub>** = Imbalance Sharing Factor in Relevant Year <i>t</i>
- **RETM<sub>t</sub>** = Retail Margin in Relevant Year <i>t</i>

2.3 The revenue adjustment factor (KREV<sub>t</sub>) shall be calculated using the following formula:

\[
ADJ_{t} = \left( AAC_{t-1} - ARR_{t-1} \right) \times (1 + I_{t})
\]

Where

- **AAC<sub>t-1</sub>** = Allowed actual USS costs in Relevant Year <i>t</i>
- **ARR<sub>t-1</sub>** = Actual Regulated Revenues in Relevant Year <i>t</i>-1
- **I<sub>t</sub>** = is defined above
SCHEDULE 2  INPUT VALUES REVIEW PROCESS

1 The Regulator shall, in order to promote transparency, publish all submissions, comments, and other documentation received from the USS or other interested parties in relation to the Input Values Review on its official website, excluding any information that the Regulator acknowledges as being commercially confidential.

2 The Review of Input Values shall commence no later than 120 Business Days prior to commencement of the next Relevant Tariff Year.

3 The Regulator shall initiate the Input Values Review by notification to the USS of:
   3.1 The years for which actual, estimated forecast data is required;
   3.2 The format in which the data is required to be submitted;
   3.3 The timetable for submission of the USS’s Proposal for revisions to Input Values.

4 The USS’ Proposal shall contain the following information and address the following matters (without limitation):
   4.1 Actual Regulated Revenues earned from the Retail Tariffs for Universal Service Customers during the current Relevant Year (using a reasonable estimate for the remaining months where necessary);
   4.2 Actual costs of providing services to regulated customers during the current Relevant Year, in line with the definition of costs that was used for calculating Universal Service Regulated Revenue;
   4.3 The annual report and audited financial statements for each financial year that ended in the current Relevant Year when these are available as required by the reporting requirements contained in the USS’s licence;
   4.4 Electricity consumption during the most recent 12-month period;
   4.5 Forecast electricity consumption for the Relevant Year;
   4.6 Actual number of Regulated and Unregulated Customers during the current Relevant Year;
   4.7 Forecast number of Regulated and Unregulated Customers for the forthcoming Relevant Year;
   4.8 Forecast Universal Service Regulated Revenue, reporting each of the allowed cost components separately, for the forthcoming Relevant Year;
4.9 Actual billing determinants for the most recent 12-month period and forecast billing determinants for the forthcoming Relevant Year, based on forecast demand, energy and number of customers for each Customer Group;

4.10 The proposed Input Values for the forthcoming Relevant Year; and

4.11 Any studies commissioned by the USS relating to any of the matters to be contained in the USS’s Proposal; and

4.12 Any other additional material that the Regulator reasonably considers should be included in the USS’s proposal.

5 The USS shall, to the fullest extent possible, apply the principles set out in this Rule in preparing its Proposal. It 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.

6 Upon receiving the USS’s Proposal, the Regulator shall determine its accuracy, relevance and reasonableness, including determining whether:

6.1 The proposal for Input Values reflects the reasonable costs of providing services to Regulated Customers; and

6.2 The proposed regulated retail tariff shall reflect a fair balance between the interests of the USS and of Regulated Customers.

7 The Regulator shall prepare a Provisional Evaluation within a reasonable time (set forth in the paragraph 3 of this Schedule) before the start of the forthcoming Relevant Year, after reviewing the submission of the USS and then consulting with the USS.

8 The Provisional Evaluation shall set out the Regulator’s proposals on the Input Values and the justification for these. The Regulator, in preparing its Provisional Evaluation, may amend, remove or replace any part of the USS’s Proposal as it considers appropriate provided that it shall identify such amendments, removals or replacements and provide justification for these.

9 Following the determination of the Provisional Evaluation, the Regulator shall notify USS and launch a public consultation on its Provisional Evaluation, in accordance with the Law on the Energy Regulator.

10 Following completion of the public consultation within a reasonable time (set forth in paragraph 3 of this Schedule) before the start of the forthcoming Relevant Year, the Regulator shall make its Final Decision on Input Values. Such decision shall be consistent with this Rule.

11 The USS may dispute or appeal any decision by the Regulator in accordance with applicable legislation.
SCHEDULE 3  ANNUAL ADJUSTMENT PROCESS

1  The Annual Adjustment process for the USS comprises three phases:

1.1  Phase 1: Determination of Wholesale Power Purchase Costs;

1.2  Phase 2: Determination of Retail Costs.

1.3  Phase 3: Determination of Maximum Allowed Revenues and Regulated Retail Tariff.

2  Phase 1: Determination of Wholesale Power Purchase Costs:

2.1  The USS shall submit the proposed wholesale power purchase costs to be included in the calculation of regulated revenues for the forthcoming Relevant Year to the Regulator at least 80 Business Days before the start of the forthcoming Relevant Year. The USS shall also include in its submission all relevant documents and evidence.

2.2  The Regulator shall advise the USS at least 60 Business Days before the start of the forthcoming Relevant Year whether or not it approves the USS’s proposed wholesale power purchase costs.

2.3  If the Regulator does not approve the proposed wholesale power purchase costs, it shall provide an alternative value for the costs to be included in the calculation of Energy Costs for the forthcoming Relevant Year. Reasons and evidence for the alternative value shall be provided in accordance with this Rule.

3  Phase 2: Determination of Retail Costs

3.1  The USS shall submit the proposal for retail costs to be included in the calculation of Universal Service Regulated Revenues for the forthcoming Relevant Year to the Regulator at least 50 Business Days before the start of the forthcoming Relevant Year. The USS shall also include in its submission all relevant documents and evidence.

3.2  The Regulator shall advise the USS at least 40 Business Days before the start of the forthcoming Relevant Year whether or not it approves the USS’s proposed retail costs.

3.3  If the Regulator does not approve the proposed retail costs, it shall provide an alternative value for retail costs to be included in the calculation of Regulated Revenues for the forthcoming relevant year. Reasons and evidence for the alternative value shall be provided in accordance with this Rule.
Phase 3: Determination of Universal Service Regulated Revenues and Regulated Retail Tariff

4.1 The USS shall submit the proposed new Universal Service Regulated Revenues and associated adjustment to the Regulated Retail Tariff for the forthcoming Relevant Year to the Regulator at least 20 Business Days before the start of the forthcoming Relevant Year. The USS shall also include in its submission all relevant documents and evidence including the values relating to all the components of the Annual Adjustment formulae given in Error! Reference source not found. and any other information required by the Regulator.

4.2 The Regulator may reasonably require the USS to further explain its method of calculating the proposed Universal Service Regulated Revenues or the Regulated Retail Tariff, and if so required, the USS shall promptly provide to the Regulator any further information or explanations sought.

4.3 The Regulator shall inform the USS before the start of the forthcoming Relevant Year whether or not it approves the USS’s calculation of the proposed Universal Service Regulated Revenues and Regulated Retail Tariff.

4.4 If the Regulator does not approve the proposed Universal Service Regulated Revenues and Regulated Retail Tariff, it shall provide reasons and evidence why, in accordance with this Rule. The Regulated Retail Tariff shall not be adjusted until the Regulator approves an alternative proposal.

4.5 Any difference in revenues that arises from incorrect calculations, misreporting of Actual Regulated Revenues, or disputes relating to Annual Adjustments shall be recovered in subsequent Relevant Years.

4.6 The USS may dispute or appeal any decision by the Regulator in accordance with applicable legislation.
SCHEDULE 4 EXTRAORDINARY REVIEW PROCESS

1 If an Extraordinary Event has occurred, the USS may request an Extraordinary Review.

2 An Extraordinary Review cannot be launched within three months of an Input Values 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 USS 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 USS’s business;

   4.3 An estimate of the change in the USS’s costs of providing services to Regulated Customers in each year from the date that the Extraordinary Event occurred (or began) to the end of the current Relevant Year;

   4.4 An estimate of the change in forecast revenues from the Regulated Retail Tariff resulting from the Extraordinary Event, in each year from the date that the Extraordinary Event occurred (or began) to the end of the current Relevant Year;

   4.5 A calculation of the financial impact of the Extraordinary Event on the USS, calculated as the sum of the change in the USS’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.

5 If the USS 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 Universal Service Regulated Revenues and Regulated Retail Tariff. The proposed Extraordinary Adjustment shall meet the following conditions:

   5.1 The Extraordinary Adjustment shall change Universal Service Regulated Revenues and the Regulated Retail Tariff in such a manner that the forecast change is equal to the financial impact of the Extraordinary Event;

   5.2 The new Regulated Retail Tariff shall be consistent with the Tariff Structure Methodology and, where possible, is consistent with the tariff structure in place before the Extraordinary Event occurred; and
5.3 The timing and manner of the Extraordinary Adjustment shall, where possible, reduce the immediate increase of tariffs for customer categories (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 USS. If so, the Regulator shall notify the USS and include a description of the Extraordinary Event and a summary of its expected impact. The USS shall then prepare a Statement of Financial Impact as per the process described above.

7 The Regulator may reasonably require the USS to further explain its method of calculating the Statement of Financial Impact and Extraordinary Adjustment. If so required, the USS shall promptly provide to the Regulator any further information or explanations sought.

8 The Regulator shall notify the USS within 20 Business Days of receiving the Statement of Financial Impact whether or not it approves the USS’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 Regulated Retail Tariff 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. The Regulated Retail Tariff shall not be adjusted until the Regulator approves a proposal.

11 The USS may dispute or appeal any decision by the Regulator, in accordance with applicable legislation.
SCHEDULE 5       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 USS that shall not be fully recovered through Annual 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 USS;
   (ii) Shall not be fully recovered through Annual Adjustments; and
   (iii) Shall significantly change the revenues and/or costs of the USS over any 12-month period, such that it seems reasonable that the Materiality Threshold (described in Schedule 4) may be breached.

2 The occurrence of an Extraordinary Event is sufficient to trigger an Extraordinary Review, however as described in Schedule 4, the event must still breach the Materiality Threshold before Universal Service Regulated Revenues and Regulated Retail Tariff shall be adjusted.
SCHEDULE 6  

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.