



## **Third Electricity Tariff Review (ETR3) 2009**

### **KOSTT j.s.c. Comments on ERO Consultative Report**

13.03.2009

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*This document presents KOSTT j.s.c. views on ERO Consultative Report published on 3<sup>rd</sup> March 2009 and Annex to this report dated 5<sup>th</sup> March 2009*

KOSTT j.s.c. has received this report and appreciates the possibility to respond on this report. KOSTT responses are focused on further explanations on requests presented in the final application and ERO proposals in this Report.

### **1. GENERAL COMMENTS**

#### **KOSTT/KEK Comparison**

Without particular focus on essential elements of the documents (ERO Consultative Report of 3<sup>rd</sup> and 5<sup>th</sup> March 2009) in several points a comparative approach between KEK and KOSTT can be noted, this is considered to leave gaps for misunderstandings. Making best endeavors to be as fair and direct as possible we consider that businesses of these two companies are different and narrative presentation along one another of the matter related to tariffs of these two companies implies comparison and occasionally may infer non realistic overview. Such treatment may create confusions and prejudices about satisfactory or non satisfactory performance of one or other company. Therefore, we emphasize the need to avoid such comparison.

#### **Term TUoS**

We consider that there is a disharmony in use of term or acronym TUoS (Transmission Use of System) in the Consultative Report (in English language). According to Tariff Methodology acronym TUoS implies all charges established by KOSTT for provided services, such include: (1) charges for use of network, (2) charges for system operation, and (3) charges for market operation. According to consultative report TUoS implies only charge for use of network charged to supplier, which is not consistent with Tariff Methodology and use of the term itself.

#### **Technical Comments**

In the table at the end of Consultative Report (in English language), charge for system operation (SO) in the last column of 2008 tariff, which in fact is a charge which is imposed on generators connected to the distribution network, is compared to system operation charge for 2009 for

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generators connected to the transmission network, which is reflected as high increase. In the column “2008 Tariff” charge for system operation for generators in transmission should be inserted, which is comparative to charge for system operation in column “2009 Proposed”.

## 2. TRANSMISSION LOSSES

For the values presented for transmission losses in the KOSTT final application for ETR 3 explanation is provided in the respective annex. KOSTT has reviewed the proposal presented in Consultative Report and is of opinion that proposed value is below the value that derives as result of a additional analyze presented by KOSTT in the attached document related to reasonability of transmission loses during 2009. In the consultative report it is not mentioned if additional loses were taken into consideration as a consequence of specific supply regime during the year 2009, this supply regime that reflects from numerous disconnections during intensive implementation of the projects. KOSTT does not wish to reiterate as in the case of 2008, that loses increase as a consequence of additional loads caused from an increased transmission network operations that is presented as an exemption from the operation in the normal circumstances and these to remain un reconciliated “ex-post”. As a consequence KOSTT requests that the allowed expenditures for loses in 2009 be:

211 GWh x 31.3 € = 6,604.3 € or 12 GWh greater than those proposed in the Consultative Report.

For detailed clarification, please refer to the attachments prepared from KOSTT enclosed to this request.(Annex I).

## 3. MAINTENANCE EXPENDITURES

To clarify the underspendings related with maintenance in 2008, KOSTT wishes to acknowledge that it has endeavored to implement plans and also has conducted analyses in connection to the occurrence of expenditures in the application for tariffs. The analyses show that this process of implementation of the maintenance budget should be viewed from the perspective of the entire period of revenue review and underspendings of the first years to be compensated in the last year. This can be explained with few implications factors such as:

- Procurements processes that take time,
- Budget commitments in dependence for the approval tariff system for each year separately,
- Risk of timely realization of revenues from the clients,
- The fact of experience lacking of a new income regime, accompanied by the fear of entering into deeper obligation other than those that can be covered

#### 4. PERSONNEL EXPENDITURES

As it was stipulated above in relation to the comparisons drawn between KEK and KOSTT, the comparison of personnel expenses implies that the qualifying structure and the participation of personnel expenses in the total revenue is the same in KEK and KOSTT, which does not stand.

Related to this preliminary comparisons have carried out and such are presented in the final application (superior qualification in KOSTT participates with about 50% while in KEK it is 20%). It is also worth to mention personnel expenditures in KOSTT 12-13% are comparable with costs of similar companies in the region and wider, which make 12-25% of overall costs.

As regards the proposal on staff number, for KOSTT to remain in number of staff allowed (230) for year 2008, we would like to emphasize that KOSTT has reached a agreement with KEK for transfer of 11 (eleven) operators from SS Kosova A, starting from March 2009 (five more than in substations of same level in KOSTT, which have been working in this SS), it is required to recruit 6 (six) operators for SS Peja 3, that KOSTT is required to hire a Internal Auditor (according to the Law on Public Enterprises), it is necessary to consider engagement of 6 (six) members of the Board of Directors, as well and recruitment of new staff needed during the year 2009. If this is added to virtual number of 210 employees realized during year 2008, than this reflects the following calculations:

$$210 + 11 + 6 + 1 + 6 = 234$$

Limitation of staff number disables recruitment of young experts by KOSTT, who should be trained in order for KOSTT to be able to met planned objectives in the near future, foreseen in the license issued by ERO. Therefore, we request to review the possibility for a more balanced approach to this matter.

KOSTT assesses that this request should not be subject to the same criteria as KEK request, since this may be treated from aspect of high staff number compared to required standards. Comparisons conducted by KOSTT on number of staff with similar companies with a desirable efficiency, we asses that KOSTT is still below the required number of staff which it should have.

#### 5. CONCLUSIONS

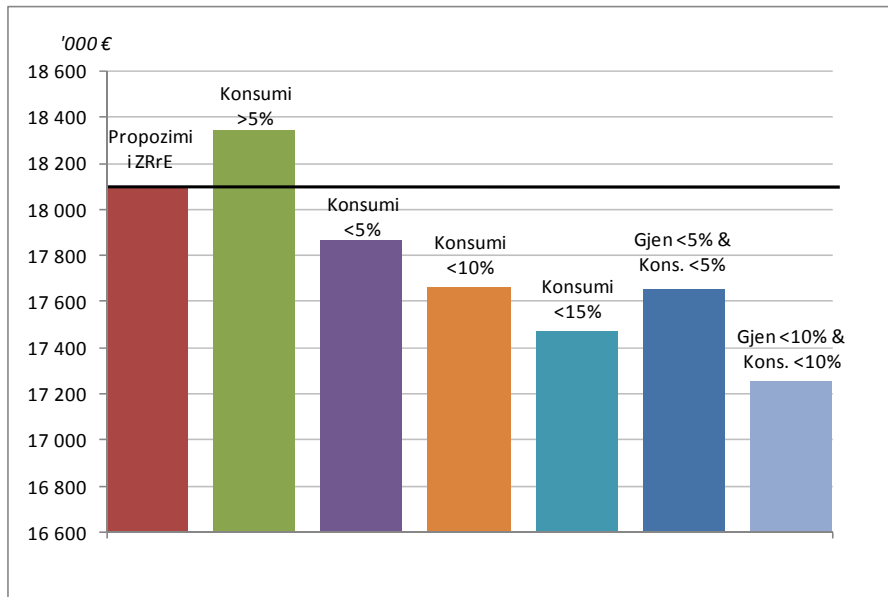
##### Sensitivity Analyses

**We have tested the sensitivity of the proposal in Consultative Report for ETR3 for correction of several expense positions and it shows an increase of risk by decrease of revenues to those requested in the final application.**

From the sensitivity analyses on realization of revenues it can be noted that KOSTT faces an uncontrolled risk, especially taking into account the fact that tariff proposed by ERO enables realization of an amount of revenues which is a minimum of KOSTT needs for secure operation and this is not that relaxing. For instance, according to sensitivity analyses in case of not supplying the demand (non realization of planed consume), failure to realize generation, or both; KOSTT would face a risk of non realization, which could be negatively reflected on its business. Instantly, this risk is not rewarded properly to respond for instance to increase of components which could increase KOSTT revenues, taking into consideration limited generation and importing abilities.

KOSTT is of opinion that is a real risk, which requires an ex-ante management, which implies increase of actual tariff in order to enable more secure and relaxed operation. Whichever is the final verdict, this matter should be part of the decision which ERO might take.

Fig 1 Sensitivity Analyses



In reference as per how your proposal presented in the Consultative Report for ETR3 reflects in short term results and of negative cash flow (negative solvency), very important parameters to be presented to financial institutions which asses crediting abilities of the companies, you may asses this with analyses that KOSTT has carried out specifically for this process of transmission tariff determination.

Please find attached document Annex 2, extracted from KOSTT Financial Model.

## Summary of Requests

KOSTT concludes that:

- KOSTT may agree with the proposed level of losses by adding 12 GWh according to justification provided in the attached document related to this;
- KOSTT would agree to increased number of staff by 4 employees which would determine minimal number of 234 employees;
- KOSTT would agree that discussions on issue raised by KEK for share of costs between SHST and SO, to be developed in the next tariff period, since this implies lower revenues than those proposed, with consequences on KOSTT business.

*(end of document)*