



Prishtina, 30 December 2010

From: **Dr. Ali Hamiti**, Chairman of the ERO Board

To: **Mr. Arben Gjukaj**, Managing Director, KEK JSC

Copy: **Mrs. Justina Pula-Shiroka**, Minister of Energy and Mining

**Mr. Ismet Krasniqi**, Secretary - Assembly of Kosova

**Mr. Petrit Pepaj**, Director for Tariffs and Regulatory Affairs, KEK JSC

**Subject: Fifth Electricity Tariff Review (ETR5)**

Dear,

We are writing to inform you about ERO's plan to conduct the Fifth Electricity Tariff Review (ETR5), for new tariffs and charges to take effect from 1 April 2011.

As you are aware, new laws on the energy sector have entered into force on 1 December 2010 and secondary legislation with regard to the implementation of those laws must be completed within nine months. During this period, ERO will identify changes that are required in the secondary legislation as a result of changes in the laws, including legislation governing tariff regulation. This ETR5 will therefore be conducted under the existing secondary legislation.

**The provisional timetable for ETR5 is as follows:**

- 6 January 2011: ERO sends Tariff Application Forms.
- 28 January 2011: Licensees submit Tariff Applications.
- 18 February 2011: Publication of Tariff Applications and ERO's assessment of these, as well as ERO's Proposals on regulated tariffs and charges.
- 4 March 2011: Deadline for submission of comments by stakeholders on ERO's assessments.
- 16 March 2011: Publication of ERO's response on stakeholders' comments.
- 23 March 2011: ERO decision on new tariffs and charges.

**Application guidance**

Your application should take into account the following guidelines:

- Given the transaction of KEDS and the extension under the new Laws of eligibility to all non-household customers, wholesale power supply charges, distribution use-of-system (DUOS) and regulated retail tariffs will need to be separately determined. Licensees should ensure



that their applications contain proposals for each of these individual categories of tariffs and charges.

- For the purposes of ETR5, ERO will continue to determine and approve retail tariffs for all classes of customers. In the meantime, ERO will develop criteria for assessing development of market competition, that will serve as an assessment basis as to whether tariffs for a specific customer category should be regulated or unregulated as required under the new Laws.
- The energy balance submitted as part of the tariff applications should conform to that approved by MEM for the coming year. Any deviations from this approved balance must be fully justified.
- Assumptions on operating (import) subsidies should be consistent with those in the Draft Kosovo Consolidated Budget (KCB) for 2011. The application must also reflect the differences between assumed and actual operating subsidies received in the previous year.
- ERO has requested the Independent Commission on Mines and Minerals (ICMM) to clarify the basis for the decision regarding future lignite royalties and implementation of this decision, issued by its Board on September 2010. Following receipt of clarification from ICCM, ERO will provide guidance to licensees on the treatment of lignite royalties in their tariff application.
- ERO will publish the tariff applications received from licensees alongside its assessment of these. Licensees should, therefore, identify any parts of their application which are considered to be confidential and that should not be published by ERO.

Please feel free to contact us for any additional information.

Yours sincerely,

Dr. Ali Hamiti

Chairman of the ERO Board