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

The Fifth Electricity Tariff Review (ETR5) 2011-2012

ERO’s review of comments, response and proposal

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Summary

- Comments on ERO's Consultation Papers have been received from KEK j.s.c., KOSTT j.s.c. and NewCo Ferronikeli Complex l.l.c
- ERO has reviewed all comments received. Following this review, ERO proposes to make the following adjustments to the estimated allowed revenues in its Consultation Paper:
  - Add-back security costs for KEK Supply, increasing KEK's allowed revenues by €0.756 million.
  - Accept the request of KOSTT for other operating costs on condition that expropriation costs are capitalized.
  - Remove ancillary services costs from the allowed revenues for KOSTT, as these are unlikely to be paid, reducing KOSTT's allowed revenues by €1.6 million and increasing those of KEK by the same amount.
  - Adjust difference between allowed and actual import in the amount of €10 million.
- In addition, ERO has updated allowed revenues presented in the Consultation Paper to reflect the level of import subsidies contained in the proposed Kosova Consolidated Budget (KCB) of €27.35 million for 2011 compared to the €33.05 million anticipated in the Consultation Papers.
- Given that expected revenues to KEK from current regulated tariffs are higher than allowed revenues estimated for KEK, ERO continues to propose to make no change to existing regulated retail tariffs. The difference between revenues to be recovered from current regulated tariffs and allowed revenues will be allocated to the Tariff Balancing Account (TBA).
- ERO proposes to reduce KOSTT charges in line with the proposed reduction in allowed revenues.

1 Introduction

The Energy Regulatory Office (ERO) is currently in the process of conducting the Fifth Electricity Tariff Review (ETR5). The review will determine the level of regulated tariffs from Allowed Revenues of the Kosova Energy Corporation j.s.c. (KEK) and the Kosova Transmission, System and Market Operator j.s.c. (KOSTT).

A chronological listing of events related to the ETR5 is given below:

- 30 December 2010 - ERO sends the Principles and Timetable letter
- 06 January 2011 - ERO sends the tariff application templates to KEK and KOSTT
- 28 January 2011 - The licensees submit their applications for Allowed Revenues and Tariffs
- 22 February 2011 – ERO publishes Consultation Papers (separately for KEK and KOSTT).

The Consultation Papers set out ERO's views on the licensees' tariff applications and its proposal for the allowed revenues and tariffs. The purpose of the Consultation Paper was to obtain eventual comments from stakeholders on ERO's views and proposals. The parties that have submitted comments before the deadline are:

1. The Kosova Energy Corporation j.s.c. (KEK)
2. The Kosova Transmission, System and Market Operator j.s.c. (KOSTT)
3. NewCo Ferronikeli Complex l.l.c (Ferronikeli)

The comments received have been published on ERO's website.

This paper sets out ERO's responses on the comments received. These responses will be reflected in the final decisions on regulated tariffs and charges issued by ERO.

The comments received from Ferronikeli were solely related to KEK's proposals on a regulated tariff for supply at 220kV. As KEK also responded to ERO's comments on this proposed tariff, the comments from both Ferronikeli and KEK are dealt with together in this paper.

Subsequent to the publication of the Consultation Papers, the proposed Budget of the Republic of Kosova (BRK) for 2011 has been approved by the Assembly. The import subsidies contained in the BRK approved by the Assembly differ from the assumptions used by ERO in its estimates of allowed revenues contained in the Consultation Papers. These estimates have been updated accordingly.

2 Comments of KEK and ERO responses

In their response, KEK noted their agreement with most of ERO's proposals contained in the Consultation Paper. Nevertheless KEK disputed several adjustments made by ERO, listed below:

- Allowed commercial losses.
- Omission of security costs for KEK Supply.
- Inclusion of ancillary services revenues.
- Adjustment for unspent operating expenditures (opex) north of the Iber River.
- The requirement for a regulated tariff for service at 220 kV. Ferronikeli also provided comments on this tariff.
- The need for the proposed Tariff Balancing Account.

2.1 Allowed commercial losses

In its proposals given in the Consultation Paper, ERO had allowed a level of 20% commercial losses (including losses from supply to minority areas and enclaves) for the purpose of calculating Allowed Revenues under ETR5 against KEK's requested 22.4%. In their comments on the Consultation Paper, KEK is requesting ERO to eliminate the "arbitrary and unachievable reduction" of commercial losses and set the allowed loss levels at 18% commercial losses, with supply to areas north of the Iber River being additional to this to give the requested total of 22.4% losses. KEK also argued that ERO had previously (in November 2010) approved the Energy Balance 2011 which provided for losses of 22.4%.

As KEK noted in their comments, the email sent by ERO with respect to the Energy Balance 2011 included the following wording: "*Board of Energy Regulatory Office…has given an approval with remarks…suggesting that commercial losses and the energy in the enclaves not to exceed the value of 20.1% of the input to distribution*". KEK has interpreted this as meaning that the balance was approved as submitted, with the suggestion not being part of the approval.

ERO considers that KEK has misunderstood both ERO's legal position with respect to the Energy Balance and ERO's correspondence on this matter. Approval of the Energy Balance is made by the Ministry responsible for energy (at the time the Ministry for Energy and Mining). ERO's approval was given for the submission of the proposed Energy Balance to the Ministry, accompanied by ERO's suggestion that the value of commercial losses and energy supplied to enclaves in the final approved Balance should total 20.1% of energy entering distribution.

ERO's email, quoted by KEK, does not, therefore, represent an approval by ERO of the Energy Balance nor ERO's agreement with the proposed value for commercial losses included in the draft Energy Balance.

The Ministry subsequently issued its approval of the Energy balance conditional on the inclusion of ERO's suggested value for these losses.

ERO would like to make clear that the value of commercial losses set under ETR5 Allowed Revenue calculation is the same value that has been allowed under all previous tariff reviews, in percentage terms, and includes both commercial losses as defined by KEK and unbilled supplies to minority areas. Although the level of unbilled supplies has been falling, ERO has not adjusted the level of commercial losses to reflect this. Therefore the effective allowed level of commercial losses has been rising. ERO has also not adjusted commercial loss rates (in percentage terms) downwards as volume grows, although it might be expected that rates should decline as volumes increase. Figure 1 shows the allowed levels of commercial losses during the past 3 tariff reviews. As shown in the chart, by allowing the same level of commercial losses every year (20%), ERO has allowed KEK to recover an increase in commercial loss volumes in 2010 of 12.8% compared to 2009.

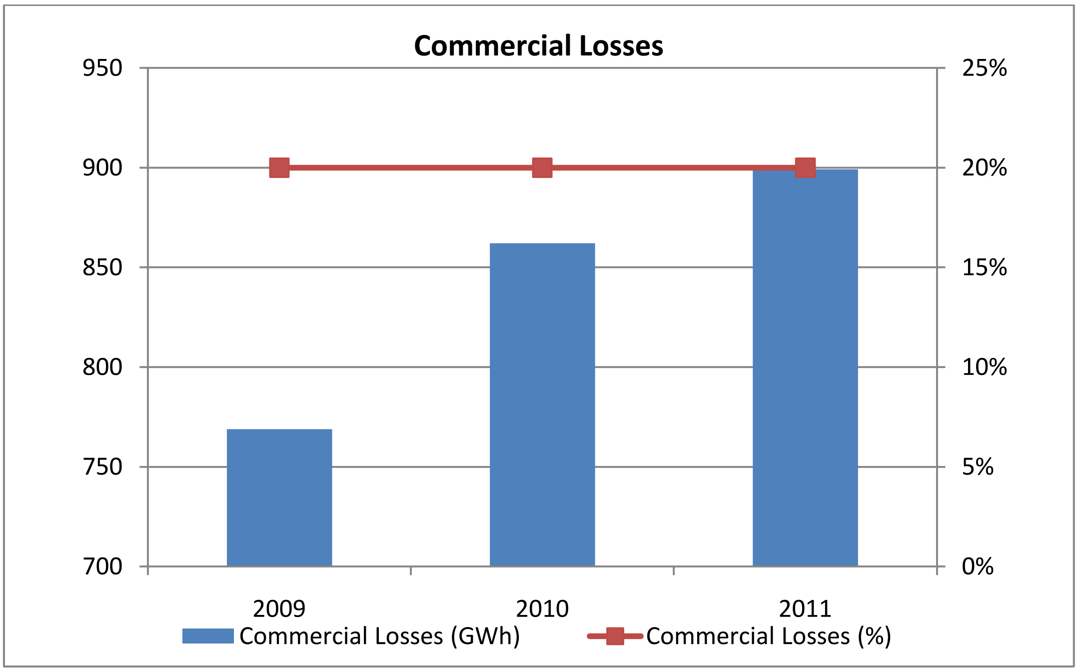

Figure 1: Allowed commercial losses (2009, 2010, 2011)

ERO points out that increasing the allowed loss level would also provide a disincentive for KEK to continue to reduce losses in the distribution network. Therefore, for the purpose of calculating allowed revenues under ETR5, ERO will set the level of total commercial losses including unbilled supplies to minority areas at 20%.

2.2 Omission of security costs for KEK Supply

KEK have drawn ERO's attention to the Supply Division's security costs omission. ERO confirms this was an oversight and that it will increase KEK's Allowed Revenues by €0.7 million.

2.3 Ancillary services revenues

ERO agrees that no payments are expected to be made to KEK for ancillary services during 2011, and that the expected unregulated income for KEK should be adjusted accordingly (see Section 5.5 of this paper). This increases KEK's revenue by €1.6 million and reduces that of KOSTT by an equivalent amount. This adjustment by ERO has no impact in the average electricity tariff.

2.4 Adjustment for unspent opex north of the Iber River

KEK have disputed ERO's decision to claw back €3 million given under ETR4 revenues for not having spent them for the purpose of regularizing supply in the North. KEK's argument is that the level of these revenues is lower that the loss of revenues that could be recovered by regularizing supply in the North and that these expenditures will be incurred in the coming year.

KEK has not provided facts that would convince ERO that these Revenues will be spent in the coming year. ERO also considers that KEK should not be compensated for its failure to regularize supplies. This would amount to other customers paying KEK for its failure to undertake a commitment to regularize all supplies.

KEK's comment has not changed ERO's view on the adjustment for unspent opex presented in the Consultation Paper.

2.5 Approval of the 220kV regulated tariff

Alongside this paper, ERO has published a separate consultation paper on the regulated tariff that will apply for sales by KEK to Ferronikeli, on the assumption that effective competition is not considered to exist and, therefore, that a regulated tariff will apply.

For the purposes of estimating allowed revenues to be recovered from regulated tariffs, as presented in this paper, ERO has made the following assumptions:

- Ferronikeli will be supplied at a regulated tariff.

- The average regulated tariff applicable will be approximately 4.14 €c/kWh[1]

3 The Import Costs Adjustment

ERO sets allowed costs to licensees on an ex-ante basis. Whenever actual costs vary exccessively from allowed costs, ERO makes adjustments to them in the next tariff review.

Under Allowed Revenues on ETR4, ERO had allowed KEK to recover import purchase costs at €59.7 million, assuming that the volume of imported energy would be 859.9 GWh, while the average price of imports would be 69.5 €/MWh. In its tariff application KEK reported that in 2010 it had imported only 684.4 GWh at an average price of 57.9 €/MWh. As a result, the cost of import energy purchase for KEK was about €20 million lower than anticipated cost:

Table 1: Import cost

IMPORT COSTS		ETR4 Allowed	ETR4 Actual	Difference €000s
Average Import Price	€/MWh	69.50	57.91	
Import volumes	GWh	859.90	684.9	
Total	**€000s**	**59,763.05**	**39,664.37**	**20,099**

The average import cost is mainly outside the control of energy enterprises and dependent on the electricity market in the region. However, increasing reliability of local generation capacity has enabled KEK to make long term forecasts for import energy purchase and this may have had an impact on import price decline. ERO will allow KEK to keep half of the diference in Table 1 as an incentive in continuing to reduce import costs, compared to their costs if this energy would be purchased at short term contracts.

4 The Tariff Balancing Account

KEK agrees with the concept of the Tariff Balancing Account (TBA), which was presented by ERO in the Consultation Paper. However, KEK argues that this is irrelevant for the purposes of this tariff review as KEK's estimates are that revenues under current tariffs are less than allowed revenues and, therefore, that there is no positive difference between expected and allowed revenues to be added to the TBA.

In its estimates, KEK notes that ERO appears to have projected revenues under current tariffs by rolling forward the average allowed revenue for 2010 (5.59 €c/kWh), assuming that this applies for all regulated customers. However, Ferronikeli was previously an unregulated customer and, even as a

[1] The average tariff depends, as for other customers, on assumptions on the load factor (demand relative to active energy) of Ferronikeli.

regulated customer, its average tariff would be less than the average regulated tariff across all customers in 2010. ERO's calculation, therefore, overstates the expected revenues from current tariffs in 2011.

ERO has recalculated expected revenues in 2011 under current tariffs. It has done so according to the following principles:

- The average regulated tariff in 2010, of 5.59 €c/kWh, has been assumed to continue to apply for all customers who were supplied at a regulated tariff in 2010. Revenues from these customers have been calculated using this average tariff and ERO's estimates of the sales to these customers in 2011.
- Revenues from Ferronikeli in 2011 are calculated using an assumed average tariff of 4.14 €c/kWh, and ERO's and KEK's estimate of the sales to Ferronikeli in 2011.

The resulting estimated revenues of KEK in 2011 are €191.3 million. This compares to total allowed revenues (following the adjustments proposed in this paper and the inclusion of future information on import subsidies and removal of allowed imports) of €180.3 million.

The difference of €11.0 million will be allocated to the Tariff Balancing Account (TBA).

The balance of this account will be adjusted to take into account interest, in the same way as other adjustments to date. In the next tariff year, TBA will be available and, according to ERO's evaluation, it can be used to mitigate the immediate increases in tariffs. Any unused portion of the TBA or any addition to TBA, as a result of ERO's decisions, will be carried forward to future tariff years.

Tabela 2: Estimation of Tariff Balancing Account

TARIFF BALANCING ACCOUNT	Average tariff €c/kWh	Sales GWh	Revenues €000s
Existing regulated customers	5.59	2,922	163,266
Ferronikeli	4.14	678	28,078
Total	**5.31**	**3,600**	**191,343**
Allowed revenues			180,328
Tariff Balancing Account			**11,016**

5 KOSTT's Comments

KOSTT's specific comments on ERO's Consultation Paper have focused on the following issues:

- ERO's Proposed revenue-cap
- Transmission losses

- Capitalization of maintenance
- Personnel costs
- Ancillary services costs
- Other overheads
- Capital expenditure financing

5.1 Proposed revenue-cap

For ETR5, ERO has proposed that KOSTT's Allowed Revenues, excluding losses, are set as 'Revenue-Cap", whereby Allowed Revenues for KOSTT would be capped to allowed revenues used to determine the tariff level. Any difference between actual and allowed revenues would be adjusted through adjustments to revenues in subsequent years. This proposal has been made following the disputes that have arisen between KEK and KOSTT in previous years where higher-than-expected volumes transmitted have led to KEK paying amounts to KOSTT that exceeded expected values of allowed revenues.

KOSTT in its application recognized this problem. However, the comments in response to ERO's Consultation Paper make clear that it disagrees with ERO's proposed response. KOSTT makes two arguments:

- The Tariff Methodology already includes a revenue-cap for KOSTT and KEK.
- Actual volumes in 2011 will exceed those projected in the Energy Balance and estimated by ERO for the purposes of setting allowed revenues. Given this, both KEK and KOSTT will recover revenues in excess of the levels set by ERO.

KOSTT has not given any reason for the assertion that the actual volumes of electricity in 2011 will exceed those projected in the Energy Balance. KOSTT's claim is unexpected when taking into account the fact that it is KOSTT's responsibility to prepare the Energy Balance and that only 3 months from the entire calendar year have passed since they compiled their comments. If the values in Energy Balance are underestimated, then this will result in higher charges since the revenues are being divided by a smaller denominator. Furthermore, KOSTT would be able to collect higher revenues due to higher flows in the same year. In order to prevent overcompensation of revenues and to keep costs within allowed limits, it is reasonable to apply a cap to the maximum revenues that can be collected by KOSTT.

ERO considers a cap on KOSTT's revenues recovered, equal to allowed revenues, should be applied in the current tariff review. This cap will be applied by making adjustments to allowed revenues in subsequent years.

KOSTT's Comments

5.2 Transmission losses

KOSTT argue that the percentage rate of allowed losses for the transmission network in 2011 should not be set to equal levels with the level of actual losses in 2010. KOSTT's argument is that the level of allowed losses should not be reduced by the full amount of the difference between allowed and actual levels in 2010, in order to reward KOSTT for the reductions achieved in 2010 and, thereby, provide incentives for KOSTT to further reduce losses in future. KOSTT claims that this argument is based in the "incentive based regulation" principle which is set in the Tariff Methodology.

ERO emphasizes that the level of losses in the transmission system have fallen significantly over the past few years, partly due to improved measurements, partly due to effective and intensive investment programs paid for by customers.

ERO provides incentives for continued reductions by allowing KOSTT to retain the benefit of these reductions. Where losses fall or rise due to changes in volumes from those expected at the time of setting regulated charges, ERO adjusts revenues in subsequent years to recover the resulting difference between allowed and actual costs of transmission losses. This means that KOSTT does not benefit or lose out from changes in the cost of losses where these change for reasons outside its control. However, ERO does not make any adjustment where the actual cost of losses differs from allowed levels due to changes in the percentage rate of losses, which is considered to be within KOSTT's control. Therefore, KOSTT retains the benefit of reducing losses (the difference between allowed costs of losses and actual costs) in the year where this is due to changes in the percentage rate of losses.

This incentive does not impact on the level of losses allowed for the current tariff year, after such reductions have occurred. That level is set by ERO on the basis of its assessment of what levels of losses are achievable. The actual 2010 loss rate is a level that should also be achievable by KOSTT in the subsequent year.

KOSTT's comment has not changed ERO's views on the allowed level of losses under ETR5.

5.3 Capitalization of maintenance

KOSTT claim that ERO has been inconsistent between tariff reviews in its treatment of capitalized maintenance. KOSTT claims that the value of €5.1 million of capitalized maintenance in 2009 remains unsolved to this day and asks ERO to include this value in the capital expenditures for 2011.

ERO would like to make clear that it does not intend to allow KOSTT to be compensated twice for the same cost category. Maintenance costs are recovered once through allowed opex. If they are then included in the Regulated Asset Base (RAB), that would mean that these costs will be recovered again through depreciation costs and allowed return. However, ERO also recognizes that it is appropriate that some renewals expenditures, currently considered as maintenance, are capitalized as they have the effect of extending asset lives and increasing their capacity. In such instances, ERO should make corrections for the amount that has been transferred to RAB in the subsequent tariff review.

In 2009, KOST's actual reported maintenance costs were significantly less than those allowed by ERO. KOSTT explained that the difference had been capitalized. If ERO had made no adjustment for this, customers would have paid twice for these costs—once through the regulated charges for 2009 which included them as opex and again in 2010 and subsequent years through the RAB.

As KOSTT only clarified this situation after the event, ERO had to decide whether the adjustment should be made through adjustments to opex or the RAB (and associated depreciation allowance and return). Given the significant cashflow implications for KOSTT of making the adjustment through opex (ie, deducting the full amount of the capitalized maintenance from allowed revenues in 2010), ERO chose instead to apply the adjustment through the RAB (by removing the capitalized maintenance from the RAB).

For ETR5, KOSTT has clarified in advance its intention to capitalize some of the allowed maintenance. ERO is, therefore, able to make appropriate adjustments on an ex-ante basis. Recognising that renewals expenditures are appropriately capitalized, ERO has deducted its estimate of these expenditures from opex and added them to RAB. ERO's estimate of these renewals expenditures is the difference between KOSTT's proposed opex for 2011 and the actual opex reported for 2010.

ERO would also like to declare that, although it has moved to a more practical approach of adjusting for these costs this year around, the principle and the aim has always been the same – avoid double counting and over-compensation.

ERO has been unable to understand how KOSTT has obtained its €5.1 million figure for capitalized maintenance in 2009. In that year, KOSTT's proposed allowed maintenance expenditures were €3.9 million and its actual expenditures were reported as €0.9 million and the remaining was capitalized.

ERO, therefore, does not propose to make any adjustment to the proposed allowed revenues for KOSTT as regards capitalized maintenance.

5.4 Personnel costs

In the Consultation Paper, ERO had proposed to not accept KOSTT's request for increasing personnel costs under ETR5. Moreover, ERO had proposed that KOSTT's current personnel costs should be reduced by 10% to approach cost levels of other personnel with similar professional profiles employed in the Kosova energy sector.

KOSTT claim that it is not possible to compare KOSTT's personnel expenses with those of other sectors because the structure of the employees between KOSTT's staff and other utilities differs significantly. KOSTT claim that 50% of the staff they employ have superior qualifications, while for other utilities, such as KEK, the proportion of employees with such qualifications is around 10%.

KOSTT's Comments

KOSTT have also compared the ratio of their personnel expense against total revenues is the lowest in the region at 16.5%. Additionally, KOSTT cites a part of the Tariff Methodology which states that ERO will not be involved in micro-managing KOSTT.

ERO notes that, in making its proposal in the consultation paper, it had compared KOSTT's personnel costs with companies of comparable profiles of employees. ERO agrees that KOSTT has a valid reason to have average personnel costs that are higher than those of KEK, due to different profiles of employees. This does not mean, however, that KOSTT should have higher average personnel costs than other operators with same responsibilities in the region. Figure 2 below compares average personnel costs of KOSTT compared to the TSOs of the Republic of Macedonia (MEPSO) and that of the Republic of Albania (OST).

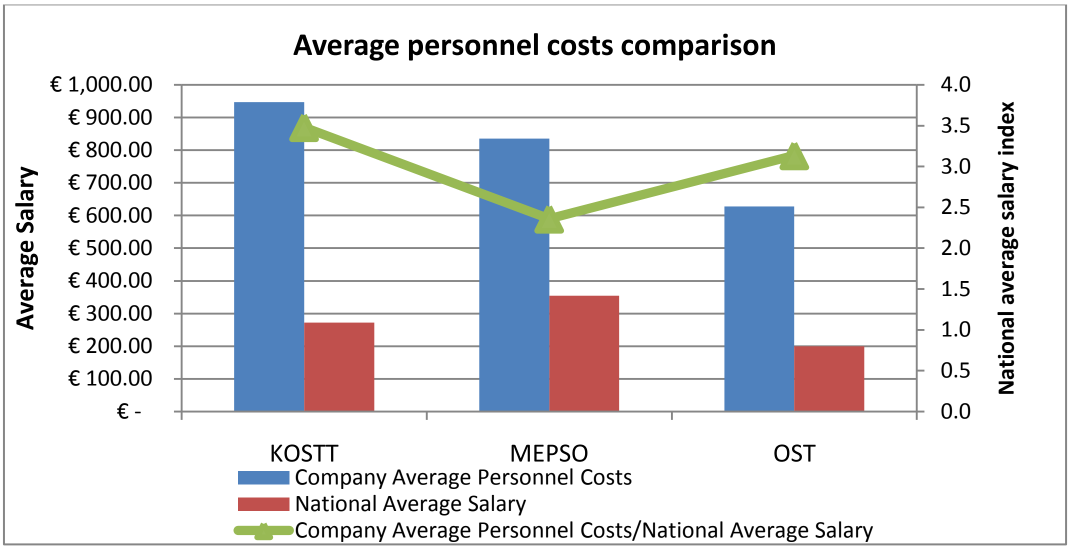

Figure 3: Comparison of average personnel costs between different TSMO's in the region

As the figure shows, not only are KOSTT's average personnel costs higher than those of MEPSO or TSO in absolute terms, but they are also higher in relative terms compared to the national average salaries of their respective countries. The green markers are indexes comparing the ratio of the Operator's personnel costs to national average salaries. It shows that KOSTT's personnel costs are approximately 3.5 times greater than the national average salaries, while those of MEPSO and OST are 2.5 and 3.15 respectively. These comparisons are taking into account the current actual values of KOSTT's personnel expense. Had ERO approved KOSTT's request of increasing personnel expenses, it would move even further away from what would be reasonable average personnel costs.

ERO will therefore not change its view on personnel costs given in the Consultation Paper. By intervening in personnel costs, ERO is not getting involved in KOSTT's micro-managing issues, it is rather fulfilling its mandate of allowing utilities to recover those costs which are reasonable and justifiable.

KOSTT's Comments

5.5 Ancillary services costs

In its proposal set in the Consultation Paper, ERO had declared that it would allow KOSTT to recover €1.6 million for ancillary services costs it is supposed to pay to KEK, under the condition that KOSTT provides ERO with further justification of these costs ahead of ERO's final determination of Allowed Revenues under this tariff review.

In their comments KOSTT argues that ancillary services costs are due to EMS and will be offset against the unrealized inter-TSO compensation. Nevertheless, under ETR4, KOSTT claimed that they will not pay EMS but will rather contract with KEK for the same amount.

Since KOSTT did not actually pay KEK in 2010 and do not have a signed contract with KEK for such services[2], ERO proposes not to allow €1.6 million requested for ancillary services. Since KEK generation was supposed to be the recipient of this revenue as unregulated income, ERO will increase KEK's allowed revenues by the same amount. This will result in a reduction of €1.6 million in KOSTT's allowed revenues, an addition of the same amount to KEK's allowed revenues, however the net effect on average tariffs is zero.

5.6 Other overheads

In its responses, KOSTT has provided justifications for the large proposed increases in other overheads included in opex for 2011. ERO accepts these justifications, while noting that it would generally expect that compensation for land expropriation and damage to third parites, which will be capitalized by ERO as they are expenditures that are related to capital investment.

ERO proposes to increase the allowance for other overheads to opex by €0.73 million as requested by KOSTT and to capitalize into RAB compensation expenditures of €0.184 million for damage to third parties.

5.7 Capital expenditure financing

KOSTT has commented that allocations from the draft BRK to KOSTT in 2011 will be insufficient to cover planned capital expenditures. KOSTT does not make any proposal as to how this might impact on its allowed revenues and charges, but draws ERO's attention to this matter.

ERO notes that KOSTT in previous years has failed to meet its planned levels of capital expenditures due to delays in funds being allocated fromBRK and in procurement processes. Given this, it is unclear to ERO whether KOSTT would be able to make the full planned capital expenditures.

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[2] ERO understands a draft contract for the provision of ancillary services was discussed between KEK and KOSTT but has not yet been signed, and that KEK has indicated that it does not intend to sign the contract.

ERO is also unable to reconcile the information provided by KOSTT on this potential shortfall with that previously provided to support its tariff application. The table below shows the information on planned capital expenditures for 2011 provided by KOSTT as part of its initial tariff application and that provided in KOSTT's response to the Consultation Paper.

Table 3: KOSTT investment

Project	KCB allocation (€)	Planned in 2011 (€)		Allocation less Planned (€)	
		Tariff application	Responses	Tariff application	Responses
SCADA/EMS & Telecom	1,524,050	600,800	2,370,237	923,250	(846,187)
Packet project 400/110kV – Peja 3	2,322,283	0	2,322,283	2,322,283	0
SS 400/110kV – Ferizaj 2	4,368,443	16,145,600	6,649,472	(11,777,157)	(2,281,029)
Total	**8,214,776**	**16,746,400**	**11,341,992**	**(8,531,624)**	**(3,127,216)**

ERO notes that there are very large differences between the planned expenditures shown as part of the original tariff application and in KOSTT's responses. These large differences make it difficult for ERO to have confidence in the reliability of KOSTT's projections of capital expenditures in 2011 and, hence, the existence or otherwise of a financing shortfall. In addition, the large differences suggest that KOSTT has significant ability to delay or otherwise limit its capital expenditures where required. Given this, ERO does not propose to make any adjustment to allowed revenues in response to KOSTT's comment.

6 Import subsidies

In its Consultation Papers, ERO assumed that import subsidies paid from the BRK for 2011 would be €33.05 million as provided in the draft BRK issued in October 2010. The proposed BRK presented to the Assembly provides for import subsidies of €27.3 million. The estimate of allowed revenues to be recovered from regulated retail tariffs has been adjusted accordingly.

7 Summary of proposals

In summary, ERO has made five adjustments to the allowed revenues proposed in its Consultation Papers. These are the addition of security costs for KEK Supply, the removal of ancillary services costs from KOSTT's allowed revenues (and a corresponding adjustment to KEK's allowed revenues), an increase in other overheads for KOSTT to the originally requested amount, a reduction in assumed import subsidies to reflect the latest available information and a reduction of unspent import costs.

The proposed allowed revenues to be recovered from regulated tariffs following these adjustments are shown below. The total allowed revenues reach the amount of €180.3 million.

Table 4: Proposed allowed revenues from regulated retail tariffs

		Mining	Generation	KEK Networks	Supply	Total KEK	KOSTT	TOTAL
Operating Expenses	€000s	42,244	30,802	16,714	19,217	**108,976**	5,339	**114,315**
Depreciation	€000s	8,899	4,912	1,143	439	**15,392**	2,059	**17,451**
Return	€000s	22,152	6,663	3,308	1,421	**33,544**	1,302	**34,846**
Imports	€000s				50,114	**50,114**		**50,114**
Non-KEK Power Purchases	€000s				3,971	**3,971**		**3,971**
Ancillary Services	€000s					**0**	0	**0**
Allocated HQ Costs	€000s	5,551	2,639	1,945	1,926	**12,061**		**12,061**
TOTAL ALLOWED COSTS	**€000s**	**78,846**	**45,016**	**23,110**	**77,086**	**224,058**	**8,699**	**232,758**
Sales to Eligible Customers	€000s				0	**0**		**0**
Exports	€000s				-4,467	**-4,467**		**-4,467**
Other Operating Income	€000s	-1,500	0			**-1,500**		**-1,500**
Subsidies	€000s				-27,350	**-27,350**		**-27,350**
Adjustments	€000s	-1,861	-2,074	-1,809	-13,345	**-19,088**	-25	**-19,113**
TOTAL ALLOWED REVENUES	€000s	**75,485**	**42,942**	**21,301**	**31,925**	**171,653**	**8,674**	**180,328**

As stated in the Consultation Papers, ERO proposes to make no change to existing regulated retail tariffs for 2011. In making these proposals, ERO assumes that Ferronikeli is supplied as a regulated customer under the tariff proposed above.

ERO has reduced KOSTT's regulated charges by 32.6%, which represents a difference between ERO's proposed allowed revenues (including the costs of transmission losses) and estimated revenues under KOSTT's 2010 regulated charges. The reduction in individual charges may differ from this average, depending on the allocation of costs across the individual charges.

Table 5: Proposed allowed revenues from regulated transmission charges

		ETR4 Approved	KOSTT Application	ERO Proposals
Operating Expenses	€000s	7,847	7,409	5,339
Depreciation	€000s	1,857	2,039	2,059
Return	€000s	934	1,209	1,302
Purchase of Losses	€000s	5,582	5,186	3,868
Ancillary Services	€000s	1,624	1,600	0
TOTAL ALLOWED COSTS	**€000s**	**17,844**	**17,443**	**12,567**
Adjustments	€000s	235	-25	-25
TOTAL ALLOWED REVENUES	€000s	**18,080**	**17,418**	**12,542**
Volumes entering transmission	GWh	4,309	4,523	4,496
REQUIRED AVERAGE CHARGE	**€c/kWh**	**0.42**	**0.39**	**0.28**
Change			**-8.2%**	**-33.5%**

The resulting proposed retail tariffs for existing regulated customers and KOSTT's regulated charges are shown in Appendix 1: Tariff tables.

In addition, a revenue-cap would apply to KOSTT so that differences between actual and allowed revenues in 2011 are adjusted in subsequent years.

Appendix 1: Tariff tables

KEK Regulated Tariffs

Tariff Group	Voltage level of supply	Tariff elements	Unit	Time-of-day	Proposed: High season, 1 October - 31 March	Proposed: Low season, 1 April - 30 September
01	220kv	Standing (customer) charge	€/customer/month		167.67	
		Standing (demand) charge	€/kW/month		13.26	
		Active energy (P), of which:	€c/kWh		2.05	
02	110kV	Standing (customer) charge	€/customer/month		83.83	
		Standing (demand) charge	€/kW		5.59	5.59
		Active energy (P), of which:	€c/kWh	High tariff	6.49	1.92
			€c/kWh	Low tariff	2.70	1.58
		Reactive energy (Q)	€c/kVArh		0.00	0.00
1	35kV	Standing (customer) charge	€/customer/month		11.08	
		Standing (demand) charge	€/kW		5.81	5.81
		Active energy (P), of which:	€c/kWh	High tariff	6.79	2.94
			€c/kWh	Low tariff	3.59	2.65
		Reactive energy (Q)	€c/kVArh		0.66	0.66
2	10kV	Standing (customer) charge	€/customer/month		4.58	
		Standing (demand) charge	€/kW		5.01	5.01
		Active energy (P), of which:	€c/kWh	High tariff	7.61	3.39
			€c/kWh	Low tariff	4.10	3.09
		Reactive energy (Q)	€c/kVArh		0.66	0.66
3	0.4kV Category I (large reactive power consumers)	Standing (customer) charge	€/customer/month		2.58	
		Standing (demand) charge	€/kW		2.91	2.91
		Active energy (P), of which:	€c/kWh	High tariff	8.45	4.69
			€c/kWh	Low tariff	5.33	4.43
		Reactive energy (Q)	€c/kVArh		0.66	0.66
4	0.4kV Category II	Standing (customer) charge	€/customer/month		2.92	
		Active energy (P)	€c/kWh	Single tariff	10.41	6.73
		Active energy (P), of which:	€c/kWh	High tariff	12.53	8.21
			€c/kWh	Low tariff	6.26	4.10
5	0.4kV (domestic 2-rate meter)	Standing (customer) charge	€/customer/month		2.08	
		Active energy (P), for consumption:				
		<200kWh/month (First Block):	€c/kWh	High tariff	4.64	3.33
			€c/kWh	Low tariff	2.33	1.66
		200-600 kWh/month (Second Block):	€c/kWh	High tariff	6.43	4.60
			€c/kWh	Low tariff	3.22	2.31
		>600 kWh/month (Third Block):	€c/kWh	High tariff	9.33	6.68
			€c/kWh	Low tariff	4.66	3.35
6	0.4kV (domestic, 1-rate meter)	Standing (customer) charge	€/customer/month		2.08	
		Active energy (P), for consumption:				
		<200kWh/month (First Block):	€c/kWh	Single tariff	4.14	2.96
		200-600 kWh/month (Second Block):	€c/kWh	Single tariff	5.73	4.10
		>600 kWh/month (Third Block):	€c/kWh	Single tariff	8.31	5.96
7	0.4kV (domestic unmetered)	Estimated Consumption:				
		<200kWh/month	€/customer/month		21.50	
		200-600kWh/month	€/customer/month		38.92	
		>600kWh/month	€/customer/month		65.58	
8	Public lighting	Standing (customer) charge	€/customer/month		2.92	
		Active energy (P), for consumption:	€c/kWh	Single tariff	8.42	8.42

High Tariff applies 07:00-22:00 Monday-Saturday during the High Season and 08:00-23:00 Monday-Saturday during the Low Season
Customers registered as social cases are charged at a zero rate

Appendix 1: Tariff tables

Appendix 2: KOSTT charges

Tariff Group	Voltage level of connection	Tariff Element	Unit	Approved
Generator	**400kV / 220kV**	Use of system (capacity) charge	€/kW/year	0.000
		System operator charge	€/MWh	0.483
		Market operator charge	€/MWh	0.015
Generator	**110kV**	Use of system (capacity) charge	€/kW/year	0.000
		System operator charge	€/MWh	0.483
		Market operator charge	€/MWh	0.015
Generator	**Distribution**	Use of system (capacity) charge	€/kW/year	0.000
		System operator charge	€/MWh	0.108
		Market operator charge	€/MWh	0.015
Supplier	**400kV / 220kV**	Use of system (capacity) charge	€/kW/year	3.225
		System operator charge	€/MWh	0.483
		Market operator charge	€/MWh	0.015
Supplier	**110kV**	Use of system (capacity) charge	€/kW/year	6.650
		System operator charge	€/MWh	0.483
		Market operator charge	€/MWh	0.015