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ENERGY REGULATORY OFFICE
REGULATORNI URED ZA ENERGIJU

Responses Paper

Consultation on Charging Principles

DISCLAIMER

This Responses Paper has been prepared by ERO for the purpose of addressing comments from stakeholders. It does not represent a decision by the ERO.

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1 Introduction

The Energy Regulatory Office (ERO) issued the following draft documents for consultation on 22 June 2012:

- Distribution Charging Principles
- Transmission Charging Principles

Comments on the documents were received from KEK and KOSTT.

Some of the comments were minor in nature and appropriate changes have been incorporated into final versions of the documents. Licensees made further suggested changes intended to provide further information or detail about aspects of charging. ERO does not necessarily disagree with the points raised but considers them inappropriate in documents setting out principles of charging; it is for licensees to consider if they should be incorporated in their charging methodologies.

Other points of a more substantive kind were made by both licensees. It is the purpose of this Responses Paper to advise stakeholders of ERO's views on these comments and how ERO has dealt with them in finalising the documents.

ERO approved and issued final versions of both documents on 18 July 2012.

2 Structure of this paper

The two draft documents on charging principles are similar in form and cover broadly similar issues relating to charging for use of the respective licensees' distribution and transmission systems. In their responses the licensees provided comments on various topics in the documents and in many cases responded on the same issues. As ERO has developed the two documents in parallel and wishes to maintain consistency between them, it seems appropriate to address the comments on a topic-by-topic basis rather than taking each licensee's response in turn. Outlines of licensees' comments and ERO's response are given in the next Section of this Paper.

3 Licensees' Comments and ERO's Responses

3.1 Definition of "Deep" and "Shallow" connections

KEK suggested adding additional words to the definition of "deep" connection. ERO considers that the proposed additions are unnecessary as the additional words duplicate existing phrasing.

KOSTT commented on both definitions. ERO considers the wording proposed by KOSTT to be reasonable, though for reasons of balance ERO has slightly modified KOSTT's proposal to use the

same wording for both definitions. ERO considers that it is appropriate to make the same modifications in both TSO and DSO charging documents.

Additionally, ERO feels that in the light of these comments, a definition of “effective capacity” may provide helpful guidance to the licensees and connection applicants. This has therefore been incorporated in article 3.1 of both documents.

3.2 Future Developments in the Market

KEK objected to the provision requiring charges to reflect coming developments in the market and consider this an undue sophistication. KOSTT disagreed with KEK's view. ERO's view is that failure of the charging structure to accommodate sector evolution, such as the sale of distribution or the licensing of an independently operated thermal generator, could prevent those changes being introduced in a non-discriminatory and economically efficient manner. ERO has therefore concluded that the provision should remain in the documents.

3.3 Demand Side Management Measures

KEK noted that demand side management measures have no practical application in Kosovo at present without giving any justification to that statement.

KOSTT said that in order to take into account the impact of demand side measures on charges, KOSTT will need greater visibility on the actions of suppliers. They have proposed that this would be best achieved through changes to the Grid Code.

In response to KEK's point, ERO's view is that energy saving measures have as great a relevance in Kosovo as in any other country – perhaps more so as Kosovo's energy resources remain constrained. The relevant provision has therefore been retained in both DSO and TSO charging principles.

In response to the suggestion by KOSTT, ERO considers that this may well be an appropriate step to take, and asks that KOSTT consider this further as “owner” of the Grid Code.

3.4 Refusal to Provide Access

KEK proposed that one of the reasons for refusal of access to the distribution system is unpaid debt by licensees. ERO does not consider that this amendment is required. If KEK thinks that this provision is appropriate then it may propose this in its charging methodology. ERO will consider the reasonableness of such a proposal at the appropriate time.

3.5 Time Period for Provision of Offers

KEK suggested an increase in the proposed time period for provision of an offer for connection, following receipt of the application, from 28 days to 30 days for LV connections and to 90 days for MV or HV connections. ERO notes the work necessary to prepare a connection offers would be more

significant at higher voltages. ERO has therefore set the time periods allowed at 30 days for LV, 45 for MV/HV and 90 days for EHV.

The corresponding period in the TSO document has been set at 90 days for consistency and to reflect the additional studies that may be required for complex connections at the transmission level.

3.6 Charging for Maintenance

KEK commented that it is more straightforward to include maintenance costs in use of system charging, rather than in connection charging, and have proposed that ERO should delete the statement that requires the connection methodology to state how maintenance costs will be dealt with for connection assets. KOSTT offered no objection to ERO's draft proposal.

ERO disagrees with the removal of this provision from the Charging Principles as KEK suggests. If KEK wishes to propose that maintenance costs of connection assets will be recovered through DUoS, then this should be included in its proposed methodology for both connection and use of system.

3.7 Depreciation on Assets paid for by Customers

KEK commented that no depreciation should be allowed on assets paid directly by a customer as to do so would involve the customer paying twice. KOSTT also suggested that clarification was necessary on this issue.

Where a customer pays for its own connection assets, these assets do not become the property of the customer, but rather of the licensee and the ultimate replacement of those assets will be the responsibility of the licensee. ERO considers that where assets have been paid for by customer contributions, the value of those assets should be added to the licensee's regulatory asset base but the amount of the customer contributions should be deducted from the licensee's revenues. The provisions of both documents have been modified to reflect this position.

3.8 Information Requirements from Applicants

KEK suggests that requiring information details and forms to be set out for customers in the methodology is micro-management by ERO. KOSTT did not object in principle to this provision but proposed some clarification of requirements from applicants.

ERO considers that the principles of third party access require transparency and non-discrimination. It is therefore entirely appropriate for licensees to make a full disclosure to potential customers of the information that it will require to be provided before the application can be granted. There is accordingly no change to the DSO document but KOSTT's suggested changes to the TSO document have been incorporated into the final version of that document.

3.9 Load Connections

The draft documents proposed that decisions on shallow or deep charging should rest on the size of the new connection relative to the system capacity at the point of connection, and whether reinforcements necessary to accommodate the connection were already foreseen in the licensee's Distribution or Transmission Development Plan.

KEK suggested that a decision about shallow or deep connection charges made with reference to the Distribution Development Plan could be a source of controversy.

KOSTT proposed an alternative test for deep vs. shallow related to the likely recovery of reinforcement costs driven by small connections. KOSTT suggested a break point between shallow and deep charging based on the the cost of reinforcements being ten times the likely annual TUOS charges for the connection. In discussions with KOSTT on this issue, KOSTT agreed that a test related to the Development Plan remained appropriate.

ERO's view is that the Development Plan test remains relevant for both DSO and TSO to avoid applicants being required to fund developments already foreseen by licensees, and that KOSTT's proposed further test of the quantum of reinforcement costs is appropriate for transmission charging decisions. The documents have been amended accordingly.

KOSTT noted on a separate aspect of this issue that the effect of illegal connections on other customers' supplies has not been addressed. ERO considers that this is an important issue, but it is outside the scope of network charging principles it should not be addressed in the present exercise.

3.10 Contractual Arrangements

KOSTT noted that its existing contractual arrangements, including billing arrangements, under the Market Rules, address the requirements of Articles 10 and 15 of the draft TSO document. ERO considers that arrangements for contractual relationships should be addressed in the licensees' Charging Methodologies rather than the Charging Principles documents.

3.11 Coming into Force of Charges

KEK proposed that charges for connection should come into force within 60 days of being submitted to the Regulator. ERO notes that this is in conflict with the provisions of Article 16.7 of the Law on Electricity which states that terms and conditions, including tariffs, are subject to approval, and rejects this proposal.

However, in response to suggestions by KEK and KOSTT, ERO has clarified procedural steps relating to approval and modification of the Charging Principles documents.