



Prishtinë, 01.Dec.2008

From: **Z. Ali Hamiti**, Chairman of ERO Board

For: **Z. Arben Gjuka**, Acting Managing Director, KEK JSC

Z. Fadil Ismaili, Managing Director, KOSTT JSC

cc: **Z. Blerim Rexha**, d/Minister- Ministry of Energy and Mines

Mrs. Myzejne Selmani, Chairwoman of the Committee for Economy, trade, industry, energy, transport and telecommunication

Mr. Ethem Çeku, D/Chairman of the Committee for Economy, trade, industry, energy, transport and telecommunication

Mr. Salvador Elmazi, Director of Energy Department-MEM

Mr. Avni Alidemaj, A/Director of Networking division KEK JSC

Mr. Fahredin Maqastena, Director of Supply Division KEK JSC

Mr. Driton Rustemaj, Director of Tariffs and Regulatory Issues KEK JSC

Mr. Istref Klinaku, Executive Director of generation KEK JSC

Mr. Adil Januzi, A/Director of Mines division

Mrs. Resmije Ahma, Director of Legal and Regulatory Issues, KOSTT JSC

Mr. Salih Bytyqi, A/Financial Director , KEK JSC

Mr. Nebih Haziri, Financial Director KOSTT JSC

Subject: Third Electricity Tariffs Review 3 (ETR3)- Principles and Timetable

Dear all,

This letter invites KEK JSC and KOSTT JSC to submit for review , the applications for electricity tariffs to take effect from April 1, 2009. This shall be the third electricity tariff review (ETR3).

Review of prices implies the process of verifying the expenditures of the energy companies, calculation and setting of tariffs based on covering the real and reasonable expenditures incurred by the energy company in order to provide electric energy supply services. A particular attention and care is paid to the customer protection continuously taking into account the Inflation and Consumption index Price. These two approaches represent a balance in protection of customers' and energy companies' interests.



The set implementation plan and timetable for revision of electric energy tariffs represent a process where the ERO's and Energy Companies' obligations and tasks are set forth. ERO expects that the tariff applications that shall be submitted by KEK JSC and KOSTT JSC should cover the updated forecasts of the allowed revenues for all regulated activities during 2009, including the revenues expected to be recovered from regulated retail tariffs charged to non-eligible customers and regulated transmission and distribution use-of-system (TUOS and DUOS respectively) charges.

Application principles

Applications for Tariff revision should comply with the applied tariffs during ETR1 and ETR2. In order to help that, before ETR2 has started, ERO had prepared two instruction papers that include the approaches to be set into the allowed revenues and regulated tariffs. Furthermore, ERO has prepared the Guidelines on Tariff and Revenue Model (RTM) in order to assist the users' better understanding of the Revenue and Tariff Model.

ERO Proposes that the following principles should be applied at the tariff applications submitted which are according to ETR1 and ETR2:

- Existing tariff structure and the customer categories should remain unchanged. Other changes shall reduce the stability and tariff predictability to the customers as well as requires KEK JSC to incur substantial new costs in revising its billing systems.
- There shall be a gradual movement in cost-reflective tariffs. The reviewed tariffs should continue towards the cost-reflective tariffs including the re-balancing of the relative industrial, commercial and residential, while at the same time ensuring payment affordability concerns are addressed.
- Separate distribution use of system charges (DUOS) should be identified. Although DUOS charges are calculated according to ETR1 and ETR2, they have not been approved or become effective. With the expected extension of the eligibility threshold above which customers can select their supplier to include customers connected to the distribution network, it will be necessary to establish explicit DUOS. ERO encourages KEK, in the incoming reviews, to equip with meters the un-metered residential customers 0.4 kV so this temporary tariff group is eliminated.

Indicative Timetable

ERO expects to receive tariff review applications within the set deadline so it can become effective from April 1st, 2009.

Taking into account the deadlines established in *Rule on Principles of Calculation of Tariffs in the Electricity Sector* we have the following timetable for ETR3:

- 10 December 2008 – submission of application templates by ERO to KEK JSC. and KOSTT JSC.
- Until 22 Dec 2008 –Submission of the preliminary tariff application by KEK JSC. and KOSTT JSC.
- 16 January 2009 - Review and analysing of the tariff applications, data and information and subsequently submission of comments by ERO to KEK JSC. and KOSTT JSC.



- 26 January 2009 –Replies received by KEK JSC. and KOSTT JSC.
- 16 February 2009 –Submission of the final tariff applications for KEK JSC. and KOSTT JSC.
- 3 March 2009 – Review of the tariff applications by ERO, including the consultation with stakeholders.
- 15 March 2009 -.comments received from the stakeholders relative to ETR3 Consultation paper.
- 31 March 2009 – tariff decision approved by ERO.
- 1 April 2009 – date of effectiveness of new tariffs.

ERO welcomes any comment that you may have relative to the principles and timetable presented in this letter. Please set out any such comments until 8 December 2008. Communications regarding to this letter should be addressed to ERO.PRICING-TARIFFS@ero-ks.org .

In conformity with the ERO principle on transparency at work, this paper and any responses shall be published in the ERO official web-site.

I look forward to your reply.

Respectfully,

Dr Ali Hamiti
Chairman of ERO Board