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Kosovo Energy Regulatory Office

**Rule on Public Electricity Supplier Pricing
(PES Pricing Rule)**

D R A F T

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CHAPTER 1 GENERAL PROVISIONS

Article 1 Introduction

- 1 This Rule was adopted by the Board of the Energy Regulatory Office (“the Regulator”) at a public session held on [date], under the authority given to it under Article 8 of the Law on the Energy Regulator.

Article 2 Scope and Purposes

- 1 This Rule sets:
 - 1.1 The methodology for determining the Regulated Retail Tariff that can be charged by the Public Electricity Supplier (“PES”) for the retail supply of electricity; and
 - 1.2 The process for reviewing and adjusting the Regulated Retail Tariff.
- 2 This Rule applies to any customer being charged a regulated electricity tariff (“Regulated Customers”). For avoidance of doubt, in accordance with the Law on the Energy Regulator, Regulated Customers include:
 - 2.1 All non-eligible customers; and
 - 2.2 Eligible customers where the Regulator is not satisfied that competition in the supply of electricity is effective.

Article 3 Definitions and Interpretations

- 1 The following terms are used in this Rule and have the following meanings:
 - 1.1 “Actual Regulated Revenues” means the revenues recovered by the PES by charging the Regulated Retail Tariff to Regulated Customers, measured on an accruals basis;
 - 1.2 “Approved Investment Plan” has the meaning given to it in Schedule 2;
 - 1.3 “Bad Debt Allowance” has the meaning give to it in Article 9 paragraph 6;
 - 1.4 “Business Days” means all working days of the week as defined in Kosovo law;
 - 1.5 “Customer Group” means the classification of different types of customers for the purposes of charging retail tariffs. The classification should have regard to customers’ manner of active energy and capacity measuring, manner of electricity consumption, peak load, supply voltage, and other characteristics that impact on the cost of supply;
 - 1.6 “Distribution System Operator” or “DSO” means the holder of the Distribution System Operator Licence;
 - 1.7 “Distribution Use of System charge” or “DUOS charge” means the regulated charge by the DSO for the conveyance of electrical energy across its system;
 - 1.8 “Economic Asset Lives” means the asset lives used to calculate allowed depreciation on the Regulatory Asset Base;
 - 1.9 “Export Incentive” has the meaning given to it in Article 10 paragraph 11;

- 1.10 “EURIBOR” means the European Banking Federation Interbank Offer Rate for Euro deposits for a period equal to 3 months which appears on the appropriate page of the Reuters service at or about 11:00 a.m. Central European Time, or in the event that the Reuter’s service, or any successor thereto, no longer provides such information, such other service as agreed by the PES and the Regulator. For the avoidance of doubt it shall be an annual rate;
- 1.11 “Export Penalty” has the meaning given to it in Article 10 paragraph 12;
- 1.12 “Extraordinary Adjustment” has the meaning given to it in Schedule 5;
- 1.13 “Extraordinary Event” has the meaning given to it in Schedule 6;
- 1.14 “Extraordinary Review” has the meaning given to it in Article 7;
- 1.15 “Final Decision” has the meaning given to it in Schedule 3 paragraph 9;
- 1.16 “Force Majeure Event” has the meaning given to it in Schedule 7;
- 1.17 “Licence Fee” means the amount payable under the terms of Article 7 of the Schedule of Fees issued by the Regulator and amended from time to time;
- 1.18 “Market Operator” or “MO” means the holder of the Market Operator Licence;
- 1.19 “Market Rules” means the [to be defined when new market rules are in place];
- 1.20 “Materiality Threshold” has the meaning given to it in Schedule 5;
- 1.21 “Maximum Allowed Revenues” or “MAR” means the maximum amount that can be recovered in an Relevant Year by the PES through the Regulated Retail Tariff, the revenues from which are regulated under the formulae in Schedule 1 of this Rule;
- 1.22 “Net Present Value” means the sum of discounted future net cash flows;
- 1.23 “Periodic Review” means the review by the Regulator to determine Maximum Allowed Revenues and Regulated Retail Tariff of the PES for the forthcoming Regulatory Period;
- 1.24 “Proposal” has the meaning given to it in Schedule 3 paragraph 4;
- 1.25 “Provisional Decision” has the meaning given to it in Schedule 3 paragraph 6;
- 1.26 “Public Electricity Supplier” or “PES” means the holder of the Public Supply Licence;
- 1.27 “Regular Adjustment” means the mechanical adjustment to Maximum Allowed Revenues and the Regulated Retail Tariff undertaken towards the end of each Relevant Year;
- 1.28 “Regulated Customers” has the meaning given to it in Article 2 paragraph 2;
- 1.29 “Regulated Retail Tariff” means the set of prices charged by the PES to Regulated Customers for providing Standard Service, as determined by the Regulator;
- 1.30 “Regulator” means the Energy Regulatory Office;

- 1.31 “Regulatory Asset Base” has the meaning given to it in Schedule 2;
 - 1.32 “Regulatory Period” has the meaning given to it in Article 5 paragraph 3;
 - 1.33 “Relevant Year” means the period of 12 successive calendar months between Regular Adjustments;
 - 1.34 “Retail Margin” has the meaning give to it in Article 9 paragraph 7;
 - 1.35 “Standard Service” means the service provided to customers supplied electricity by the PES as defined in the Public Supply Licence and General Conditions of Electricity Supply;
 - 1.36 “Statement of Financial Impact” has the meaning given to it in Schedule 5;
 - 1.37 “System Operator” or “SO” means the holder of the System Operator Licence;
 - 1.38 “Transitional Period” has the meaning given to it in Schedule 8;
 - 1.39 “Transmission System Operator” or “TSO” means the holder of the Transmission System Operator Licence;
 - 1.40 “Transmission Use of System charge” or “TUOS charge” means the regulated charge by the TSO for the conveyance of electrical energy across its system;
 - 1.41 “Unregulated Customers” means any customers of the PES’s business that are not Regulated Customers;
 - 1.42 “Wholesale Energy Margin” has the meaning give to it in Article 10 paragraph 10;
 - 1.43 “X Factor” means the factor defined at Periodic Reviews and applied at Regular Adjustments to allowed retail revenues.
- 2 The other terms in this rule shall have the meanings specified in the Law on the Energy Regulator, in the Law on Electricity, or in the Law on Energy.

CHAPTER 2 REGULATED RETAIL TARIFF

Article 4 General Principles

- 1 The PES shall charge no more or less than the Regulated Retail Tariff to Regulated Customers.
- 2 The Regulated Retail Tariff shall be set and approved at each Regular Adjustment such that:
 - 2.1 Within each Relevant Year the revenues that the PES expects to earn from the Regulated Retail Tariff are equal to Maximum Allowed Revenues (Chapter 3); and
 - 2.2 The Regulated Retail Tariff is consistent with the Tariff Structure Methodology (Chapter 4).
- 3 Maximum Allowed Revenues comprise the sum of
 - 3.1 Allowed retail costs;
 - 3.2 Allowed wholesale power costs, including both energy and capacity costs; and
 - 3.3 Pass-through costs, including the MO charge, SO charge, TUOS charge, DUOS charge, and Licence Fee.
- 4 Maximum Allowed Revenues shall be determined as follows:
 - 4.1 Maximum Allowed Revenues shall be set at Periodic Reviews (Article 5):
 - 4.2 Before the end of each Relevant Year, a Regular Adjustment (Article 6) shall be applied which involves mechanical adjustments to Maximum Allowed Revenues for changes in costs that are considered to be outside of the PES's control (including pass-through costs); and
 - 4.3 Extraordinary Reviews (Article 7), which involve an adjustment to Maximum Allowed Revenues for material changes in costs and/or revenues caused by an Extraordinary Event, shall be made as necessary.
- 5 Transitional provisions given in Schedule 8 shall apply until 31 March 2015.

Article 5 Periodic Reviews and Regulatory Periods

- 1 At Periodic Reviews Maximum Allowed Revenues of the PES for the following Regulatory Period shall be set.
- 2 A Periodic Review shall be held prior to each forthcoming Regulatory Period.
- 3 Each Regulatory Period shall equal 5 years, except:
 - 3.1 During the Transitional Period as given in Schedule 8; and
 - 3.2 On the mutual agreement of the PES and the Regulator, a Periodic Period may be shortened or extended.
- 4 The process for undertaking Periodic Reviews is given in Schedule 3.

Article 6 Regular Adjustments and Relevant Years

- 1 At Regular Adjustments the permitted change in Maximum Allowed Revenues shall be calculated and the resulting Regulated Retail Tariff determined accordingly.
- 2 A Regular Adjustment shall be held prior to each forthcoming Relevant Year.
- 3 Each Relevant Year shall equal one year, with the first Relevant Year starting 12 months after the start of the most recent Regulatory Period, or any other period determined by the Regulator.
- 4 The change in Maximum Allowed Revenues at each Regular Adjustment shall be based on the following:
 - 4.1 Under or over-recovery of Maximum Allowed Revenues in the current (soon to be competed) Relevant Year, due to differences between forecast and actual billed electricity;
 - 4.2 Adjustments to Maximum Allowed Revenues for changes in forecast Wholesale Power Costs and in forecast Pass-Through Costs; and
 - 4.3 Under or over-recovery of uncontrollable costs in the current Relevant Year, due to differences between forecast and actual allowed costs.
- 5 Uncontrollable costs shall be those that are:
 - 5.1 Largely outside of the PES's control;
 - 5.2 Likely to have a significant impact on the PES's financial position and therefore its ability to provide Standard Service to Regulated Customers; and
 - 5.3 Independently verifiable.
- 6 Uncontrollable costs shall include:
 - 6.1 Wholesale power costs, including both energy (Article 97) and capacity costs (Article 11); and
 - 6.2 Pass-through costs, including the MO charge (Article 12), SO charge (Article 13), TUOS charge (Article 14), DUOS charge (Article 15), and Licence Fee (Article 16).
- 7 The formulae for calculating Maximum Allowed Revenues at Regular Adjustments are given in Schedule 1.
- 8 The process for making Regular Adjustments is given in Schedule 4.

Article 7 Extraordinary Reviews

- 1 Extraordinary Reviews shall be triggered by Extraordinary Events, as defined in Schedule 6.
- 2 At Extraordinary Reviews the impact of the Extraordinary Event on Maximum Allowed Revenues for the remainder of the current Regulatory Period shall be calculated. If the impact is greater than the Materiality Threshold, then an Extraordinary Adjustment to the Regulated Retail Tariff shall be made.

- 3 The calculation of the impact on Maximum Allowed Revenues and the associated Extraordinary Adjustment shall not account for any factors that are not directly affected by the Extraordinary Event.
- 4 For the avoidance of doubt, the Regulator shall also take account of the on-going impacts of Extraordinary Events (that pass the Materiality Threshold) at future Periodic Reviews.
- 5 The process for undertaking Extraordinary Reviews is given in Schedule 5.

CHAPTER 3 MAXIMUM ALLOWED REVENUES

Article 8 General Principles

- 1 Maximum Allowed Revenues shall equal the reasonable costs of the PES in providing Standard Service to Regulated Customers, to the extent that the costs are justified and prudently asserted.
- 2 The reasonable costs of the PES shall comprise:
 - 2.1 Allowed retail costs (Article 9), which shall be adjusted for inflation less the X Factor at Regular Adjustments, but shall otherwise remain fixed between Periodic Reviews;
 - 2.2 Allowed wholesale power costs, including both energy (Article 97) and capacity costs (Article 11), which shall be fully passed-through at Regular Adjustments except for the Wholesale Margin and the Export Incentive; and
 - 2.3 Pass-through costs, including the MO charge (Article 12), TUOS charge (Article 14), DUOS charge (Article 15), and Licence Fee (Article 16), which shall be fully passed-through.
- 3 In determining reasonable costs, the Regulator shall refer to, but is not bound by or limited to:
 - 3.1 Past performance;
 - 3.2 Projected performance;
 - 3.3 Comparisons with similar utilities in Kosovo and elsewhere in Europe; and
 - 3.4 Comparisons with the costs of similar activities in Kosovo and elsewhere in Europe.
- 4 Any non-tariff revenues that relate to providing Standard Service to Regulated Customers shall be deducted from Maximum Allowed Revenues.
- 5 At Periodic Reviews the Regulator may adjust the profile of Maximum Allowed Revenues expected to be recovered over each Relevant Year to minimise step changes in the Regulated Retail Tariff.
- 6 At all times, the Net Present Value of the forecast Maximum Allowed Revenues to be recovered in this way shall equal the Net Present Value of the forecast allowed costs of the PES.
- 7 The formulae for calculating Maximum Allowed Revenues are given in Schedule 1.

Article 9 Allowed Retail Costs

- 1 Allowed retail costs shall be adjusted for inflation less the X Factor at Regular Adjustments, as per the formulae given in Schedule 1, but shall otherwise remain fixed between Periodic Reviews.
- 2 Allowed retail costs shall comprise the following allowed costs as they relate to supplying Regulated Customers:
 - 2.1 Operating and maintenance costs;

- 2.2 Corporate costs;
 - 2.3 Depreciation cost;
 - 2.4 Bad debt costs;
 - 2.5 Retail Margin; and
 - 2.6 Any other costs that are reasonably incurred by the PES in providing retail services to Regulated Customers.
- 3 Allowed operating and maintenance costs shall not include:
- 3.1 The costs of advertising and other marketing because the PES does not compete for Regulated Customers; and
 - 3.2 Any taxes or duties that are intended to be recovered through the Retail Margin.
- 4 Allowed corporate costs shall comprise costs (or a proportion of total corporate costs where the PES is a subsidiary or affiliate of another entity) that are necessary and attributable to the continued functioning of the PES but are not directly associated with providing Standard Service to Regulated Customers.
- 5 Allowed depreciation costs shall be calculated on a straight-line basis as a function of Economic Asset Lives and the Regulatory Asset Base, as described in Schedule 2.
- 6 Allowed bad debt costs shall be calculated by applying the Bad Debt Allowance as per the formulae given in Schedule 1. The Bad Debt Allowance shall be an estimate of the reasonable level of bad debts incurred by the public supply business, taking account of the provisions of the Law on Corporate Income Tax. The Bad Debt Allowance shall be determined at Periodic Reviews.
- 7 The Retail Margin shall provide the PES with a reasonable return that compensates it for the risks it assumes in providing Standard Service to Regulated Customers, a return on its Regulated Asset Base and its cost of providing working capital. The Retail Margin shall be determined at Periodic Reviews. The PES shall not earn a return on assets financed using capital grants.
- 8 To calculate allowed retail costs, the total retail costs per customer shall first be calculated, , taking into account the different costs in providing retail services to different Customer Groups. These costs per customer shall then be multiplied by the number of Regulated Customers, adjusted for the different costs of providing retail service, to obtain the allowed retail costs to be recovered from Regulated Customers.

Article 10 Allowed Wholesale Energy Costs

- 1 Maximum Allowed Revenues shall be adjusted for changes in allowed wholesale energy costs at each Regular Adjustment, as per the formulae given in Schedule 1. This adjustment shall return under or over-recovered allowed wholesale energy costs during the current Relevant Year, plus the Wholesale Energy Margin and Export Incentive, and update forecasts for the forthcoming Relevant Year.
- 2 Allowed wholesale energy costs shall comprise the following allowed costs as they relate to supplying Regulated Customers:

- 2.1 Domestic energy generation costs;
 - 2.2 Energy import costs;
 - 2.3 Net imbalance costs;
 - 2.4 Revenues relating to transmission and distribution losses (as a negative cost);
 - 2.5 A Wholesale Energy Margin adjustment;
 - 2.6 An Export Incentive; and
 - 2.7 An Export Penalty.
- 3 Allowed domestic energy generation costs shall comprise the actual costs incurred by the PES in purchasing energy from generators in Kosovo (whether regulated or unregulated) for supplying to Regulated Customers, as determined in power purchase agreements or otherwise.
 - 4 Allowed domestic energy generation costs shall exclude any additional costs of generation that are recovered under separate mechanisms, such as the difference between feed-in-tariffs and average wholesale power costs for purchases from renewable generation.
 - 5 Allowed energy import costs shall be the costs incurred by the PES in purchasing imported energy, as determined in import contracts, less any import subsidies provided by the Government of Kosovo, except during the Transitional Period as given in Schedule 8
 - 6 [As required in its Public Supply Licence, the PES shall use all reasonable means to ensure that imports are procured efficiently and shall not sell energy exports when there is unserved domestic demand for energy due to inadequate domestic generation and imports.]
 - 7 Allowed net imbalance costs shall comprise the actual costs incurred less the actual revenues earned (as determined in accordance with the Market Rules) that result from imbalances between actual demand from Regulated Customers and the contracted supply of energy. The Regulator may, at its discretion, introduce an additional mechanism provide incentives for the PES to minimise net imbalance costs. Any such mechanism shall only be introduced when the Regulator considers the PES is sufficiently able to manage these costs.
 - 8 Allowed revenues relating to transmission and distribution losses shall comprise the actual amount invoiced by the PES to the DSO and TSO (as determined in accordance with the Market Rules) to compensate for the difference between metered energy sent out by generators or imported and energy delivered to Regulated Customers.
 - 9 Forecasts of allowed wholesale energy costs at Periodic Reviews shall have regard to:
 - 9.1 Recent and historic changes in import prices, export prices, the cost of domestic generation, and revenues relating to transmission and distribution losses;
 - 9.2 The seasonality of import and export prices;
 - 9.3 Relevant contract prices on power exchanges; and
 - 9.4 Other factors that provide a reasonably reliable means for forecasting wholesale energy costs.
 - 10 The Wholesale Energy Margin shall be a fixed percentage that is applied to the difference between actual allowed wholesale energy costs in the current Relevant Year and those in the

previous Relevant Year. The Wholesale Energy Margin shall be sufficient to encourage the PES to reduce wholesale energy costs but not result in excessive returns for the PES or losses which threaten its long-term financial position. The Wholesale Energy Margin shall be determined at Periodic Reviews.

- 11 The Export Incentive shall be a fixed percentage that is applied to actual export revenues in the current Relevant Year that relate to providing Standard Service to Regulated Customers and shall determine the split of these revenues between the PES and its customers. The Export Incentive shall be sufficient to encourage the PES to maximise export revenues, but not result in excessive returns for the PES. The Export Incentive shall be determined at Periodic Reviews.
- 12 If the PES sells energy exports when there is unserved domestic demand for energy due to inadequate generation or imports, as evident in the settlements data produced by the TSO, an Export Penalty shall be deducted from Maximum Allowed Revenues at the next Regular Adjustment. The Export Penalty shall be expressed as a penalty per unit of unserved energy and shall be determined at Periodic Reviews multiplied by the quantity of unserved demand. The penalty per unit shall be sufficient to ensure that the PES has a strong incentive to serve domestic demand before exporting by being set above the expected cost of imports, but should not threaten the financial position of the PES.
- 13 To calculate allowed wholesale energy costs, a share of the PES's total wholesale energy costs shall be allocated to Regulated Customers in a way that does not distort competition for Unregulated Customers. During the Transitional Period special provisions shall apply, as given in Schedule 8.

Article 11 Allowed Wholesale Capacity Costs

[Placeholder until market design is finalised]

Article 12 Pass-Through of MO Charges

- 1 The PES shall pass-through MO charges that are invoiced by the MO and relate to Regulated Customers. Maximum Allowed Revenues shall be adjusted for changes in MO charges at each Regular Adjustment, as per the formulae given in Schedule 1.
- 2 To calculate the MO charges that relate to Regulated Customers, total MO charges shall be allocated in a way that preserves, to the extent possible, the price signals in the charges.

Article 13 Pass-Through of SO Charges

- 1 The PES shall pass-through SO charges that are invoiced by the SO and relate to Regulated Customers. Maximum Allowed Revenues shall be adjusted for changes in SO charges at each Regular Adjustment, as per the formulae given in Schedule 1.
- 2 To calculate the MO charges that relate to Regulated Customers, total SO charges shall be allocated in a way that preserves, to the extent possible, the price signals in the charges.

Article 14 Pass-Through of TUOS Charges

- 1 The PES shall pass-through TUOS charges that are invoiced by the TSO and relate to Regulated Customers. Maximum Allowed Revenues shall be adjusted for changes in TUOS charges at each Regular Adjustment, as per the formulae given in Schedule 1.

- 2 To calculate the TUOS charges that relate to Regulated Customers, total TUOS charges shall be allocated in a way that preserves, to the extent possible, the price signals in the charges.

Article 15 Pass-Through of DUOS Charges

- 1 The PES shall pass-through DUOS charges that are invoiced by the DSO and relate to Regulated Customers. Maximum Allowed Revenues shall be adjusted for changes in DUOS charges at each Regular Adjustment, as per the formulae given in Schedule 1.
- 2 To calculate the DUOS charges that relate to Regulated Customers, total DUOS charges shall be allocated in a way that preserves, to the extent possible, the price signals in the charges.

Article 16 Pass-Through of Licence Fee

- 1 The PES shall pass-through the share of the Licence Fee that relates to Regulated Customers. Maximum Allowed Revenues shall be adjusted for changes in the Licence Fee at each Regular Adjustment, as per the formulae given in Schedule 1.

CHAPTER 4 TARIFF STRUCTURE METHODOLOGY

Article 17 Methodology for Structuring the Regulated Retail Tariff

- 1 The structure of the Regulated Retail Tariff shall be consistent with the methodology set out in this article and in any further guidance issued by the Regulator.
- 2 A single set of prices shall apply to any Customer Group.
- 3 The Regulated Retail Tariff shall not include any cross subsidisation between Customer Groups, except during the Transitional Period as given in Schedule 8.
- 4 The Regulated Retail Tariff shall take into account environmental concerns.
- 5 Block tariffs may be used to encourage efficient consumption. They may also be used for social reasons, but only in the circumstance where the Regulator is not satisfied on the basis of the available evidence that other subsidy mechanisms are adequately protecting vulnerable customers.
- 6 The Regulated Retail Tariff shall include time-of-use tariffs to encourage efficient consumption, so long as metering is adequate for this purpose and if it is warranted by the load profile of the customer.
- 7 The Regulated Retail Tariff shall vary based on the seasonal cost of service to encourage efficient consumption.
- 8 The Regulated Retail Tariff shall reflect the costs of supplying different Customer Groups in order to assist in the long-term management of peak demand and provide an incentive for customers to use electricity efficiently. More precisely, to the extent possible given the provisions above, the Regulated Retail Tariff shall:
 - 8.1 Recover the average allowed retail cost of supplying each different Customer Group;
 - 8.2 Reflect the marginal energy and capacity costs of supplying different Customer Groups during different seasons and times of the day.
 - 8.3 Accurately preserve the price signals of the MO charges, SO charges, TUOS charges, DUOS charges, and the Licence Fee.

SCHEDULE 1 MAXIMUM ALLOWED REVENUES CALCULATION

1 This schedule sets out the formulae for calculating Maximum Allowed Revenues of the PES. This schedule is intended to complement the principles set out in the main body of the Rules.

2 Maximum Allowed Revenues (MAR_t) shall be calculated using the following formula:

$$MAR_t = (RETR_t + WHPC_t + PSTC_t + NTFR_t + KREV_t) / (1 - BDTA_t)$$

Where

MAR_t is Maximum Allowed Revenues in Relevant Year t

$RETR_t$ is allowed retail revenues in Relevant Year t , which are set at Periodic Reviews such that, the Net Present Value (over the Regulatory Period and taking account of the X Factor) is expected to equal the Net Present Value of forecast allowed retail costs excluding allowed bad debt costs

$WHPC_t$ is allowed wholesale power costs in Relevant Year t , including both allowed wholesale energy and capacity costs

$PSTC_t$ is pass-through costs in Relevant Year t , including MO charges, SO charges, TUOS charges, DUOS charges, and the Licence Fee

$NTFR_t$ is non-tariff revenues relating to providing Standard Service to Regulated Customers in Relevant Year t , including any difference between the disposal value of assets and their regulatory value

$KREV_t$ is the revenue correction factor in Relevant Year t , which is forecast as zero at Periodic Reviews

$BDTA_t$ is the Bad Debt Allowance in Relevant Year t which is set at Periodic Reviews and may be constant or a declining value across the Regulatory Period

2.1 Allowed retail revenues ($RETR_t$) shall be calculated at Regular Adjustments using the following formula:

$$RETR_t = RETR_{t-1} * (1 + CPI_{t-1} - X_t)$$

Where

$RETR_t$ is allowed retail revenues in Relevant Year t

$RETR_{t-1}$ is allowed retail revenues in Relevant Year $t-1$ except for Relevant Year 1, when a value determined by ERO at the most recent Periodic Review shall be used

CPI_{t-1} is the actual value of inflation in Relevant Year $t-1$, measured using the Harmonised Indices of Consumer Prices (HICPs) – All Items, for the Eurozone, published by Eurostat

X_t is the X Factor in Relevant Year t , which is set at Periodic Reviews

- 2.2 Allowed wholesale power cost ($WHPC_t$) shall be calculated at Regular Adjustments using the following formula:

$$WHPC_t = WHPCf_t + (WHPCa_{t-1} - WHPCf_{t-1}) * (1 + I_t) - (WHECa_{t-1} - WHECa_{t-2}) * WHEM_t + EXPR_{t-1} * EXPF_t - EXPP_t$$

Where

$WHPC_t$ is allowed wholesale power costs in Relevant Year t

$WHPCf_t$ For the first Relevant Year of each Regulatory Period, this shall be a value determined by ERO at the most recent Periodic Review. For the second and subsequent Relevant Years, this value shall be updated using the changes in the allowed price and volumes of energy purchased from regulated generators in Kosovo and the volumes of net imports and price for the forthcoming year of base load contracts on the European Energy Exchange, or using on an alternative means of forecasting where the Regulator considers that indexed prices fail to reflect a reasonable expectation of wholesale prices

$WHPCa_{t-1}$ is actual wholesale power costs in Relevant Year $t-1$

$WHPCf_{t-1}$ is forecast wholesale power costs in Relevant Year $t-1$

I_t is the interest rate for the Relevant Year t calculated based on EURIBOR plus 1% (adjusted to account for the length of time in the Relevant Year)

$WHECa_{t-1}$ is actual allowed wholesale energy costs in Relevant Year $t-1$

$WHECa_{t-2}$ is actual allowed wholesale energy costs in Relevant Year $t-2$, or if the Relevant Year is less than one year, the equivalent Relevant Year one year before Relevant Year $t-1$

$WHEM_t$ is the Wholesale Energy Margin in Relevant Year t

$EXPRa_{t-1}$ is the actual export revenues relating to providing Standard Service to Regulated Customers in Relevant Year $t-1$

$EXPF_t$ is the Export Incentive applicable in Relevant Year t , which is a fixed percentage set at Periodic Reviews

$EXPP_t$ is the Export Penalty applicable in Relevant Year t , which is calculated as follows:

$$EXPP_t = EXPR_t * USEG_{t-1}$$

Where

$EXPR_t$ is the Export Penalty Rate (in €/MWh), which is set at Periodic Reviews and is indexed to changes in the price for the forthcoming year of base load contracts on the European Energy Exchange

$USEG_{t-1}$ is the quantity (in MWh) of domestic demand involuntarily unserved during Relevant Year t-1 as a result of inadequate domestic generation supplies and imports.

- 2.3 Pass-through costs ($PSTC_t$) shall be calculated at Regular Adjustments using the following formula:

$$PSTC_t = PSTCf_t + (PSTCa_{t-1} - PSTCf_{t-1}) * (1 + I_t)$$

Where

$PSTC_t$ is pass-through costs in Relevant Year t

$PSTCf_t$ is forecast pass-through costs in Relevant Year t, updated to reflect changes in MO charges, SO charges, TUOS charges, DUOS charges, or the Licence Fee

$PSTCa_{t-1}$ is actual pass-through costs in Relevant Year t-1

$PSTCf_{t-1}$ is forecast pass-through costs in Relevant Year t-1

I_t is the interest rate for the Relevant Year t calculated based on EURIBOR plus 1% (adjusted to account for the length of time in the Relevant Year)

- 2.4 The revenue adjustment factor ($KREV_t$) shall be calculated at Regular Adjustments using the following formula:

$$KREV_t = (MAR_{t-1} - ARR_{t-1}) * (1 + I_t)$$

Where

ARR_{t-1} is the Actual Regulated Revenues in Relevant Year t-1

MAR_{t-1} is Maximum Allowed Revenues in Relevant Year t-1

I_t is the interest rate for the Relevant Year t calculated based on EURIBOR plus 1% (adjusted to account for the length of time in the Relevant Year)

SCHEDULE 2 REGULATORY ASSET BASE

- 1 This schedule describes the determination of the Regulatory Asset Base for the purpose of calculating allowed depreciation (Article 9).
- 2 The Regulatory Asset Base shall be a regulatory value of the PES's used and useful fixed assets that are necessary for the provision of Distribution System Services. It shall distinguish between different classes of assets.
- 3 The Regulatory Asset Base shall be updated at each Periodic Review as follows:
 - 3.1 Allowed depreciation costs during the current Regulatory Period shall be subtracted from the Regulatory Asset Base, calculated on a straight-line basis using Economic Asset Lives;
 - 3.2 Asset disposals during the current Regulatory Period shall be subtracted from the Regulatory Asset Base based on their regulatory value. Any difference between the disposal value and regulatory value of an asset, shall be deducted from Maximum Allowed Revenues in the forthcoming Regulatory Period;
 - 3.3 Approved capital expenditure during the current Regulatory Period shall be added to the Regulatory Asset Base as from the date when the asset is brought into service and at the cost approved in the Approved Investment Plan. Interest during construction shall be capitalised. For the avoidance of doubt, the Regulator shall not make any retroactive reduction in future revenues to account for differences between the actual cost of investments and the approved cost. However the Regulator shall consider actual costs at future Periodic Reviews as a means of forecasting the cost of future investments;
 - 3.4 If a capital project in the Approved Investment Plan is not brought into service in the current Regulatory Period, its approved cost shall not be added to the Regulatory Asset Base at the next Periodic Review and any revenues earned from the project in the current Regulatory Period shall be deducted from revenues in the following Regulatory Period;
 - 3.5 Where any maintenance cost is or has previously been included in allowed operating costs it shall not be capitalised, nor shall it be included in the Regulatory Asset Base; and
 - 3.6 The Regulatory Asset Base shall be adjusted to take into account inflation over the previous Regulatory Period, using the Harmonised Indices of Consumer Prices - All Items for the Eurozone area as published by Eurostat as the relevant measure.
- 4 Economic Asset Lives for different asset classes shall be used to calculate depreciation on the Regulatory Asset Base. Economic Asset Lives shall be determined at Periodic Reviews such that they reflect the technical lives of assets, except where there is demonstrable reason why the technical life of an asset shall vary from the useful economic life of an asset.
- 5 Approved capital expenditure shall be determined at Periodic Reviews based on the Approved Investment Plan for the forthcoming Regulatory Period. The Approved Investment Plan shall:
 - 5.1 Comprise the capital projects reasonably required to provide Standard Services;

- 5.2 Identify each capital project ranked in priority order;
 - 5.3 Show the benefit to Regulated Customers that each capital project is reasonably expected to deliver, with reference where appropriate to the meeting of any relevant standards as required by the PES's licence; and
 - 5.4 Be developed using discounted cash flow techniques.
- 6 The Approved Investment Plan shall be implemented as follows:
- 6.1 The PES shall use all reasonable endeavours to ensure the implementation of the Approved Investment Plan in line with its approved timetable;
 - 6.2 If the PES shall be or is unable to, for reasons beyond its control, undertake a capital investment in accordance with the timetable given in the Approved Investment Plan, it shall notify the Regulator. The PES shall also detail the reasons for the delay and the revised timetable;
 - 6.3 The PES may at any time apply to the Regulator to substitute a capital project in its Approved Investment Plan for an alternative capital project; so long the alternative project can be shown to be expected to result in the same or greater net benefits to customers (taking account of the expected outcomes and lifetime costs). If the Regulator approves the substitution, the alternative project shall be added to the Regulatory Asset Base at the next Periodic Review. For the avoidance of doubt, Maximum Allowed Revenues in the current Regulatory Period shall not be adjusted; and
 - 6.4 If the PES substitutes a capital project in its Approved Investment Plan for an alternative project without the prior approval of the Regulator, the Regulator shall consider whether to approve the substitution at the next Periodic Review but is not bound to do so

SCHEDULE 3 PERIODIC REVIEW PROCESS

- 1 The Regulator shall, in order to promote transparency, publish all submissions, comments, and other documentation received from the PES or other interested parties in relation to the Periodic Review on its official website within [5 working days] of its receipt and the Regulator shall disclose all material information submitted to it by the PES, excluding any information that the Regulator acknowledges as being commercially confidential.
- 2 The Regulator shall initiate the Periodic Review no later than [six months] prior to start of the forthcoming Regulatory Period. Different timing shall apply during the Transitional Period as given in Schedule 8.
- 3 The Regulator shall initiate the Periodic Review by notification to the PES of:
 - 3.1 The years for which actual, estimated forecast data is required;
 - 3.2 The format in which the data is required to be submitted;
 - 3.3 The timetable for submission of the PES's Proposal for its Maximum Allowed Revenue for the forthcoming Regulatory Period; and
 - 3.4 The timetable for the overall review process.
- 4 The PES' Proposal shall contain the following information and address the following matters (without limitation):
 - 4.1 Actual Regulated Revenues earned from the Regulated Retail Tariff during the current Regulatory Period (using a reasonable estimate for the remaining months where necessary);
 - 4.2 Actual costs of providing Standard Service to Regulated Customers during the current Regulatory Period, in line with the definition of costs that was used for calculating Maximum Allowed Revenues;
 - 4.3 The annual report and audited financial statements for each financial year that ended in the current Regulatory Period;
 - 4.4 Actual electricity consumption during the current Regulatory Period;
 - 4.5 Forecast electricity consumption for the forthcoming Regulatory Period;
 - 4.6 Actual number of Regulated and Unregulated Customers during the current Regulatory Period;
 - 4.7 Forecast number of Regulated and Unregulated Customers for the forthcoming Regulatory Period;
 - 4.8 Forecast Maximum Allowed Revenues, reporting each of the allowed cost components separately, for the forthcoming Regulatory Period;
 - 4.9 The proposed Regulated Retail Tariff for the forthcoming Regulatory Period; and

- 4.10 Any other additional material that the Regulator reasonably considers should be included in the PES's proposal, so long as the Regulator has notified the PES a reasonable time prior to the deadline for the PES's proposal.
- 5 The PES shall, to the fullest extent possible, apply the methodology set out in this Rule in preparing its Proposal. It shall disclose any areas where it has not applied the methodology, the reason for not applying it, the reasons supporting the alternative approach, and provide an estimate of the impact of using the alternative approach.
- 6 Upon receiving the PES's Proposal, the Regulator shall determine its accuracy, relevance and reasonableness by applying the methodology set out in this Rule, including determining whether:
- 6.1 The proposed Maximum Allowed Revenues reflects the reasonable costs of providing Standard Service to Regulated Customers;
- 6.2 The proposed Regulated Retail Tariff is expected to result in the Actual Regulated Revenues being equal to Maximum Allowed Revenues; and
- 6.3 The proposed Regulated Retail Tariff is consistent with the Tariff Structure Methodology;
- 7 The Regulator shall prepare a Provisional Decision on the PES's Proposal no later than [50 Business Days] before the start of the forthcoming Regulatory Period, after consulting with the PES as necessary. The Provisional Decision shall set out the Regulator's proposals on the Maximum Allowed Revenues to be recovered by the PES during the Regulatory Period and the justification for these. The Regulator, in preparing its Provisional Decision, may amend, remove or replace any part of the PES's Proposal as it considers appropriate provided that it shall identify such amendments, removals or replacements and provide justification for these.
- 8 At the same time as it notifies the PES of its Provisional Decision, the Regulator shall launch a public consultation on its Provisional Decision, in accordance with the Law on the Energy Regulator.
- 9 Following completion of the public consultation and no later than [20 Business Days] before the start of the forthcoming Regulatory Period, the Regulator shall make its Final Decision on Maximum Allowed Revenues and the Regulated Retail Tariff for the forthcoming Regulatory Period. Its decision shall be consistent with this Rule. Different timing shall apply during the Transitional Period as given in Schedule 8.
- 10 Maximum Allowed Revenues and the Regulated Retail Tariff as provided in the Regulator's Final Decision shall apply from the start date of the forthcoming Regulatory Period. The PES shall invoice customers accordingly.
- 11 The PES may dispute or appeal any decision by the Regulator in accordance with applicable legislation.

SCHEDULE 4 REGULAR ADJUSTMENT PROCESS

- 1 The PES shall submit the proposed new Maximum Allowed Revenues and associated adjustment to the Regulated Retail Tariff for the forthcoming Relevant Year to the Regulator at least [20 Business Days] before the start of the forthcoming Relevant Year. The PES shall also include in its submission all relevant documents and evidence including the values relating to all the components of the Regular Adjustment formulae given in Schedule 1 and any other items notified by the Regulator.
- 2 The Regulator may reasonably require the PES to further explain its method of calculating the proposed Maximum Allowed Revenues and Regulated Retail Tariff, and if so required, the PES shall promptly provide to the Regulator any further information or explanations sought.
- 3 The Regulator shall advise the PES at least [5 Business Days] before the start of the forthcoming Relevant Year whether or not it approves the PES's calculation of the proposed Maximum Allowed Revenues and Regulated Retail Tariff.
- 4 If the Regulator approves the proposed Maximum Allowed Revenues and Regulated Retail Tariff, they shall become the Maximum Allowed Revenues and Regulated Retail Tariff for the forthcoming Relevant Year.
- 5 If the Regulator does not approve the proposed Maximum Allowed Revenues and Regulated Retail Tariff, it shall provide reasons and evidence why, in accordance with this Rule. The Regulated Retail Tariff shall not be adjusted until the Regulator approves a proposal or provides its own calculation of Maximum Allowed Revenues and associated adjustment to the Regulated Retail Tariff.
- 6 Any difference in revenues that arises from incorrect calculations, misreporting of Actual Regulated Revenue, or disputes relating to Regular Adjustment shall be recovered in subsequent Relevant Years.
- 7 If the Regulator does not advise the PES within the required period, approval is assumed and the proposed Regulated Retail Tariff shall become effective on the first day of the following Relevant Year.
- 8 The PES may dispute or appeal any decision by the Regulator in accordance with applicable legislation.

SCHEDULE 5 EXTRAORDINARY REVIEW PROCESS

- 1 If an Extraordinary Event has occurred, the PES may request an Extraordinary Review.
- 2 An Extraordinary Review cannot be launched undertaken within six months of a Periodic Review or the completion of a previous Extraordinary Review.
- 3 An Extraordinary Review may relate to more than one Extraordinary Event, in which case this schedule addresses the cumulative financial effect of those events.
- 4 Within [20 Business Days] of the PES requesting an Extraordinary Review, it shall submit to the Regulator a Statement of Financial Impact that includes the following matters:
 - 4.1 A description of the Extraordinary Event that is the reason for requesting the Extraordinary Review;
 - 4.2 A summary of the impact of the Extraordinary Event on the PES's business;
 - 4.3 An estimate of the change in the PES's costs of providing Standard Service to Regulated Customers in each year from the date that the Extraordinary Event occurred (or began) to the end of the current Regulatory Period;
 - 4.4 An estimate of the change in forecast revenues from the Regulated Retail Tariff resulting from the Extraordinary Event, in each year from the date that the Extraordinary Event occurred (or began) to the end of the current Regulatory Period;
 - 4.5 A calculation of the financial impact on the PES of the Extraordinary Event in each year, calculated as the sum of the change in the PES's costs and revenues above. Revenues shall be treated as positive numbers and costs treated as negative numbers; and
 - 4.6 A calculation of whether the financial impact is expected to be greater than the Materiality Threshold multiplied by the revenues received by the PES (in the year before the Extraordinary Event) multiplied by the number of years between the date of the Extraordinary Event and the end of the Regulatory Period. The Materiality Threshold shall be a fixed percentage determined at Periodic Reviews; and
- 5 If the PES determines that the financial impact is greater than the Materiality Threshold, it shall include in its Statement of Financial Impact a proposed Extraordinary Adjustment to Maximum Allowed Revenues and Regulated Retail Tariff. The proposed Extraordinary Adjustment shall meet the following conditions:
 - 5.1 The Extraordinary Adjustment shall change Maximum Allowed Revenues and the Regulated Retail Tariff in such a manner that the Net Present Value of the forecast change is equal (but opposite sign) to the Net Present Value of the financial impact of the Extraordinary Event;
 - 5.2 The new Regulated Retail Tariff is consistent with the Tariff Structure Methodology and, where possible, is consistent with the tariff structure in place before the Extraordinary Event occurred; and

- 5.3 The timing and structure of the Extraordinary Adjustment shall, where possible, reduce the tariff shock to any Customer Group (for example by smoothing the effect of the Extraordinary Adjustment over a number of years).
- 6 The Regulator may also launch an Extraordinary Review without the request of the PES. If so, the Regulator shall notify the PES and include a description of the Extraordinary Event and a summary its expected impact. The PES shall then prepare a Statement of Financial Impact as per the process described above.
- 7 The Regulator may reasonably require the PES to further explain its method of calculating the Statement of Financial Impact and Extraordinary Adjustment, and if so required, the PES shall promptly provide to the Regulator any further information or explanations sought.
- 8 The Regulator shall advise the PES within [20 Business Days] of receiving the Statement of Financial Impact whether or not it approves the PES's proposed Extraordinary Adjustment. The Regulator shall approve the proposal if it:
- 8.1 Meets the conditions provided above;
- 8.2 Is calculated correctly; and
- 8.3 Takes into account all material information reasonably available at the time.
- 9 If the Regulator approves the proposed Extraordinary Adjustment, the new Regulated Retail Tariff shall become effective immediately.
- 10 If the Regulator does not approve the proposed Extraordinary Adjustment, it shall provide reasons and evidence why, in accordance with this Rule. The Regulated Retail Tariff shall not be adjusted until the Regulator approves a proposal.
- 11 If the Regulator does not advise the PES within the required period (above), approval is assumed and the proposed Extraordinary Adjustment shall become effective immediately.
- 12 The PES may dispute or appeal any decision by the Regulator in accordance with applicable legislation.

SCHEDULE 6 EXTRAORDINARY EVENTS

- 1 An Extraordinary Event shall be the occurrence of any one of the following:
 - 1.1 Any change in the tax rate applicable to the PES that is greater than 3% and shall not be fully recovered through Regular Adjustments;
 - 1.2 Any force majeure events as defined in Schedule 7;
 - 1.3 Any other event, which meets all of the following conditions:
 - (i) Was not reasonably foreseeable;
 - (ii) Was not reasonably under the control of the PES;
 - (iii) The PES was not required or reasonably expected to provide against;
 - (iv) Shall not be fully recovered through Regular Adjustments; and
 - (v) Shall significantly change the revenues and/or costs of the PES over any 12 month period, such that it seems reasonable that the Materiality Threshold (described in Schedule 5) may be breached.

- 2 The occurrence of an Extraordinary Event is sufficient to trigger an Extraordinary Review, however as described in Schedule 5, the event must still breach the Materiality Threshold before Maximum Allowed Revenues and Regulated Retail Tariff shall be adjusted.

SCHEDULE 7 FORCE MAJEURE EVENTS

- 1 A force majeure event shall be an exceptional event or circumstance which is all of the following:
 - 1.1 Is beyond the PES's control;
 - 1.2 The PES could not reasonably have provided against;
 - 1.3 Having arisen the PES could not reasonably have avoided or overcome; and
 - 1.4 Is not substantially attributable to the PES.

- 2 A force majeure event may include, but is not limited to, exceptional events or circumstances of the kind listed below, so long as the conditions above are satisfied:
 - 2.1 War, hostilities (whether war be declared or not), invasion, act of foreign enemies;
 - 2.2 Rebellion, terrorism, sabotage by persons other than the PES's employees, contractors or subcontractors, revolution, insurrection, military or usurped power, or civil war;
 - 2.3 Riot, commotion, disorder, strike or lockout by persons other than the party's employees, contractors or subcontractors;
 - 2.4 Munitions of war, explosive materials, ionising radiation or contamination by radio-activity, except as may be attributable to the party's use of such munitions, explosives, radiation or radio-activity; and
 - 2.5 Natural catastrophes such as earthquake, tsunami, typhoon or volcanic activity.

SCHEDULE 8 TRANSITIONAL PROVISIONS

- 1 The Transitional Period is from 1 April 2012 until 31 March 2015.
- 2 The Regulatory Period shall be as follows:
 - 2.1 From 1 April 2012 the Regulatory Period shall be [1 year]; and
 - 2.2 From 1 April 2013 the Regulatory Period shall be [2 years].
- 3 The Regulator shall define the opening Regulatory Asset Base (as at 1 April 2012) prior to the start of the first Regulatory Period.
- 4 The allowed wholesale energy costs shall be calculated as follows during the Transitional Period:
 - 4.1 The PES's total wholesale energy costs should be allocated between Regulated Customers and Unregulated Customers equally based on consumption, except where there is an obligation on an entity that is separate to the PES to import energy for the purposes of supplying non-eligible customers, as per the Law on Electricity. In this case the costs of importing by the entity holding the obligation, as charged to the PES, shall be allocated fully to non-eligible customers.
- 5 In accordance with the Law on the Energy Regulator, cross subsidisation between Customer Groups shall be allowed during the Transitional Period as follows:
 - 5.1 Where substantial historic price distortions exist, the Regulated Retail Tariff may include cross subsidisation between Customer Groups;
 - 5.2 Cross subsidies shall be rebalanced gradually until 31 December 2014, from which point onwards there shall be no cross subsidies; and
 - 5.3 For the purposes of rebalancing during the Transitional Period, the structure of the Regulated Retail Tariff may change within Regulatory Periods. Changes shall be defined by the Regulator at Periodic Reviews in a way that smooths rebalancing to the extent possible. Changes to the structure shall be implemented at the same time as Regular Adjustments.
- 6 During the Transitional Period the PES shall submit its Proposal no later than three months prior to the end of the current Regulatory Period, and the Regulator shall make its Final Decision no later than [10 Business Days] prior.