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**Kosovo Energy Regulatory Office**

**Rule on Transmission System Operator Pricing  
(TSO 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 basis for the determination of Maximum Allowed Revenues that may be earned by the Transmission System Operator (“TSO”) in any Relevant Year in order to allow it to recover the reasonable costs of making and maintaining the Transmission System available to users in accordance with the Law on the Energy Regulator; and
  - 1.2      The process by which such Maximum Allowed Revenues shall be reviewed and periodically re-determined.

### **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 revenue recovered by the TSO through charges for the provision of Transmission System Services and Market Operator Services and any other revenue items stipulated by the Regulator measured, measured on an accruals basis;
  - 1.2      “Approved Investment Plan” has the meaning given to it in Schedule 2;
  - 1.3      “Business Days” means all working days of the week as defined in Kosovo law;
  - 1.4      “Connection Charges” means the charges applied by the TSO for connecting customers to the Transmission System;
  - 1.5      “Economic Asset Lives” means the asset lives used to calculate allowed depreciation on the Regulatory Asset Base;
  - 1.6      “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 TSO and the Regulator. For the avoidance of doubt it shall be an annual rate;
  - 1.7      “Excluded Service” means a service provided by the TSO as part of its licensed activities the costs of which are recovered outside Maximum Allowed Revenues and which includes, but is not limited to, the provision of connections to the Transmission System, transit and the provision of services at the request of specific third parties;

- 1.8 “Extraordinary Adjustment” has the meaning given to it in Schedule 7;
- 1.9 “Extraordinary Event” has the meaning given to it in Schedule 8;
- 1.10 “Extraordinary Review” has the meaning given to it in Article 7;
- 1.11 “Force Majeure Event” has the meaning given to it in Schedule 9;
- 1.12 “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;
- 1.13 “Loss Target” has the meaning give to it in Article 12 paragraph 3;
- 1.14 “Loss Sharing Factor” has the meaning given to it in Article 12 paragraph 4;
- 1.15 “Market Operator Services” means the services which the TSO is authorised to provide under the terms of the Market Operator Licence granted to it by the Regulator;
- 1.16 “Market Operator Charges” means the set of charges applied by the TSO for the provision of Market Operator Services;
- 1.17 “Market Rules” means the [to be defined when new market rules are in place];
- 1.18 “Materiality Threshold” has the meaning given to it in Schedule 7;
- 1.19 “Maximum Allowed Revenues” or “MAR” means the maximum amount that can be recovered in a Relevant Year by the TSO through the TUOS Charge, the revenues from which are regulated under the formulae in Schedule 1 of this Rule;
- 1.20 “Maximum Transmission System Demand” means the maximum electricity demand in a year (in MW) metered at entry points onto the TSO’s Transmission System;
- 1.21 “Metered” means in relation to any electricity metered quantity, as measured by a meter installed for such a purpose under the Metering Code;
- 1.22 “MW” means megawatts;
- 1.23 “MWh” means megawatt hours;
- 1.24 “Net Present Value” means the method of discounting future cash flows;
- 1.25 “Proposal” has the meaning given to it in Schedule 5 paragraph 4;
- 1.26 “Provisional Decision” has the meaning given to it in Schedule 5 paragraph 6;
- 1.27 “Public Electricity Supplier” or “PES” means the holder of the Public Supply Licence;
- 1.28 “Periodic Review” means the review by the Regulator to determine Maximum Allowed Revenues of the TSO for the forthcoming Regulatory Period;
- 1.29 “Regular Adjustment” means the mechanical adjustment to Maximum Allowed Revenues undertaken towards the end of each Relevant Year;

- 1.30 “Regulated Units Billed” means the aggregate quantity of electricity units billed to Kosovar customers in respect of units supplied to them from the Transmission System;
- 1.31 “Regulated Units Distributed” means the aggregate quantity of electricity units distributed through the Transmission System for delivery to Kosovar customers in a Relevant Year metered at exit points on leaving the Transmission System (or where no such meter is installed as otherwise reasonably calculated in accordance with recognised engineering practices);
- 1.32 “Regulator” means the Energy Regulatory Office;
- 1.33 “Regulatory Asset Base” has the meaning given to it in Schedule 2;
- 1.34 “Regulatory Period” has the meaning given to it in Article 5 paragraph 3;
- 1.35 “Relevant Year” means the period of 12 successive calendar months between Regular Adjustments;
- 1.36 “Renewable Energy Fund” means the fund that shall be established and operated by the Market Operator in line with the Rule on the Support of Electricity for which a Certificate of Origin has been Issued as published by the Regulator, and in the name of which a separate bank account has been established;
- 1.37 “Renewable Energy Support Scheme Surcharge” means the surcharge determined by the Regulator in line with its published Rule on the Support of Electricity for which a Certificate of Origin has been Issued, as amended from time to time;
- 1.38 “Statement of Transmission Charging Principles” means a statement issued by the Regulator that the TSO’s methodologies for setting the TUOS Charge and Connection Charges must be in accordance with;
- 1.39 “Statement of Financial Impact” has the meaning given to it in Schedule 7;
- 1.40 “System Operator Charges” means the set of charges applied by the TSO for the provision of System Operator Services;
- 1.41 “System Operator Services” means the services which the TSO is authorised to provide under the terms of the System Operator Licence granted to it by the Regulator;
- 1.42 “Transmission Losses” means total energy losses occurring in the Transmission System operated by the TSO consisting of (1) technical losses as determined by an engineering estimate and (2) commercial losses defined as energy entering the Transmission System less technical losses less energy billed to customers;
- 1.43 “Transmission System” has the meaning assigned to it under the Law on Electricity;
- 1.44 “Transmission System Operator” or “TSO” means the legal entity owner of the Kosovo Transmission System and holder of the System Operator Licence and the Market Operator Licence;
- 1.45 “Transmission System Services” means the services which the TSO is authorised to provide under the terms of the System Operator Licence granted to it by the Regulator, including both System Operator Services and Use of System services;

- 1.46 “TSO Charges” means the set of charges applied by the TSO, including TUOS Charges, System Operator Charges, and Market Operator Charges;
  - 1.47 “TUOS Charges” means the set of charges applied by the TSO for providing Use of System services;
  - 1.48 “Unit distributed” means a kilowatt hour;
  - 1.49 “Use of System” means the use of the TSO’s Transmission System for the conveyance of electrical energy from points of entry into the system to bulk supply points for delivery to Kosovar customers; “Weighted Average Cost of Capital” has the meaning given to it in Schedule 3; and
  - 1.50 “X Factor” means the factor defined at Periodic Reviews and applied at Regular Adjustments to allowed TUOS costs.
- 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 TSO CHARGES**

### **Article 4 General Principle**

- 1 TSO Charges shall comprise TUOS Charges (Chapter 4), System Operator Charges (Chapter 5) and Market Operator Charges (Chapter 6).
- 2 TSO Charges shall be set such that:
  - 2.1 Within each Relevant Year the revenues that the TSO expects to earn from the TSO Charges are equal to Maximum Allowed Revenues (Chapter 3) approved by the Regulator; and
  - 2.2 TSO Charges are determined in accordance with a methodology developed by the TSO and approved by the Regulator. The methodology shall be in accordance with the Statement of Transmission Charging Principles issued by the Regulator.
- 3 Maximum Allowed Revenues comprise the sum of:
  - 3.1 Allowed TSO costs, including allowed operating costs, allowed depreciation, and allowed return on capital;
  - 3.2 Allowed cost of losses;
  - 3.3 The Licence Fee; and
  - 3.4 The costs of any public service obligations that are not recovered through another mechanism.
- 4 Where the TSO receives revenues from its provision of transit services, such revenues shall be offset against the Maximum Allowed Revenues, to the extent that those transit revenues arise from use of assets paid for by or on behalf of the Government of Kosovo or by or on behalf of customers of Kosovo.
- 5 Maximum Allowed Revenues shall be determined as follows:
  - 5.1 Maximum Allowed Revenues shall be set at Periodic Reviews (Article 5):
  - 5.2 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 TSO's control; and
  - 5.3 Extraordinary Reviews (Article 7), which involve an adjustment to Maximum Allowed Revenues for material changes in TSO costs and/or revenues caused by an Extraordinary Event, shall be made as necessary.

### **Article 5 Periodic Reviews and Regulatory Periods**

- 1 At Periodic Reviews Maximum Allowed Revenues of the TSO for the following Regulatory Period shall be set.
- 2 A Periodic Review shall be held prior to each Regulatory Period.

3 Each Regulatory Period shall equal 5 years, except on the mutual agreement of the TSO and  
the Regulator, a Periodic Period may be shortened or extended.

4 The process for undertaking Periodic Reviews is given in Schedule 5.

#### **Article 6 Regular Adjustments**

1 At Regular Adjustments the permitted change in Maximum Allowed Revenues shall be  
calculated.

2 A Regular Adjustment shall be held prior to each forthcoming Relevant Year.

3 The change in Maximum Allowed Revenues at each Regular Adjustment shall be based on  
the following:

3.1 Under or over-recovery of Maximum Allowed Revenues in the current (soon to be  
competed) Relevant Year, due to differences between forecast and actual electricity  
delivered on its network;

3.2 Adjustments to Maximum Allowed Revenues for changes in forecast allowed cost of  
losses (Article 12) and the forecast Licence Fee (Article 13); and

3.3 Under or over-recovery of the allowed cost of losses and the Licence Fee, due to  
differences between forecast and actual costs, subject to any sharing of such under or  
over-recoveries between the TSO and users of the Transmission System.

4 The formulae for calculating Maximum Allowed Revenues at Regular Adjustments are given  
in Schedule 1.

5 The process for making Regular Adjustments is given in Schedule 6.

#### **Article 7 Extraordinary Reviews**

1 Extraordinary Reviews shall be triggered by Extraordinary Events, as defined in Schedule 8.

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 Maximum  
Allowed Revenues 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 7.

## CHAPTER 3 MAXIMUM ALLOWED REVENUES

### Article 8 General Principles

- 1 Maximum Allowed Revenues shall be set at such a level that enables the TSO to set TUOS, Market Operator and System Operator Charges at a level that allows recovery of all reasonable costs of providing Transmission System Services and Market Operator Services to the extent that the costs are justified and prudently asserted.
- 2 The reasonable costs of the TSO shall comprise:
  - 2.1 Allowed TSO costs, including allowed operating costs (Article 9), allowed depreciation (Article 10), and allowed return on capital (Article 11). At Regular Adjustments allowed costs shall be adjusted for inflation less the X Factor, and also for changes in Maximum Transmission System Demand, Regulated Units Distributed, and number of customers, to the extent that allowed costs are determined to vary in this respect;
  - 2.2 Allowed cost of losses (Article 12), which shall be based on a Loss Target and passed-through at Regular Adjustments based on a Loss Sharing Factor;
  - 2.3 The Licence Fee (Article 13), which shall be fully passed-through at Regular Adjustments; and
  - 2.4 The costs of any public service obligations that are not recovered through another mechanism.
- 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 Maximum Allowed Revenues shall not recover costs for the provision of any service (including the provision of electric lines or electrical plant) deemed to be an Excluded Service in terms of Schedule 3 and which:
  - 4.1 Is for the specific benefit of any third party who requests it; and
  - 4.2 Is remunerated under any charges other than charges for use of the Transmission System.
- 5 The cost of the provision of Excluded Services shall be recoverable by the TSO in line with Schedule 4.
- 6 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 Maximum Allowed Revenues.

7 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 TSO to be recovered from TUOS Charges, Market Operator Charges and System Operator Charges. The calculation of the Net Present Value shall use the Weighted Average Cost of Capital of the TSO, as determined by the Regulator, as the applicable discount rate.

8 The formulae for calculating Maximum Allowed Revenues are given in Schedule 1.

#### **Article 9 Allowed Operating Costs**

1 Allowed operating costs shall not include any proportion or element of corporate costs (of any parent entity or any affiliated entity) that cannot reasonably be attributed to the TSO.

#### **Article 10 Allowed Depreciation**

1 Allowed depreciation costs shall be calculated on a straight-line basis as a function of Economic Asset Lives and the Regulatory Asset Base for different classes of assets, as described in Schedule 2.

#### **Article 11 Allowed Return on Capital**

1 Allowed return on capital costs shall be calculated as a function of the Weighted Average Cost of Capital and the Regulatory Asset Base, as described in Schedule 2.

2 Return on capital shall be calculated based on value of the Regulatory Asset Base at the middle of each Relevant Year (as an average of the opening and closing values of the Regulatory Asset Base).

3 The TSO shall not earn a return on assets financed using capital grants.

#### **Article 12 Allowed Cost of Losses**

1 The allowed cost of losses shall be the forecast cost of losses to be recovered by the PES from the TSO to compensate for losses on the Transmission System, calculated using the Loss Target which shall be set at Periodic Reviews.

2 Maximum Allowed Revenues shall be adjusted for changes in allowed cost of losses at each Regular Adjustment, as per the formulae given in Schedule 1. This adjustment shall:

2.1 Return under or over-recovered allowed costs of losses during the Relevant Year, where these occur for reasons other than the non-achievement of the Loss Target;

2.2 Share the difference between the allowed cost of losses and the actual cost of losses incurred by the TSO during the Relevant Year, based on the Loss Sharing Factor which shall be set at Periodic Reviews; and

2.3 Update the forecast allowed cost of losses for the forthcoming Relevant Year, based on the forecast wholesale energy costs of the PES.

3 In setting the Loss Target the Regulator shall take into account:

3.1 The outturn level of actual Transmission Losses for the most recent complete period of 12 successive months for which accurate data is available;

- 3.2 Any expected loss reduction that may reasonably be expected to be obtained based on the Approved Investment Plan during the Regulatory Period; and
- 3.3 The level of Transmission Losses in comparable Transmission Systems elsewhere in Europe.
- 4 The Loss Sharing Factor shall be sufficient to encourage the TSO to reduce Transmission Losses.
- 5 The methodology used for measuring the outturn level of Transmission Losses can be changed by the mutual agreement of the Regulator and the TSO. In such cases, the Loss Target shall be adjusted accordingly to leave the absolute level of loss reductions expected over the Regulatory Period unchanged.

### **Article 13      Pass-Through of Licence Fee**

- 1 The TSO shall pass-through the Licence Fee. 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 TUOS CHARGES**

### **Article 14 General Principles**

- 1 TUOS Charges shall be set from time to time such that:
  - 1.1 The TSO recovers its allowed costs that are not recovered from other charges or from Excluded Services; and
  - 1.2 TUOS Charges are in accordance with a methodology developed by the TSO and approved by the Regulator. The methodology shall be in accordance with the Statement of Transmission Charging Principles issued by the Regulator.

### **Article 15 TUOS Charges Approval Process**

- 1 The TSO shall submit to the Regulator its methodology for TUOS Charges and any subsequent amendments to this methodology at least [30 Business Days] prior to its proposed date of effectiveness.
- 2 No methodology or amendments to a methodology shall be effective until approved by the Regulator.
- 3 The TSO shall have the right to determine the TUOS Charges subject to the requirements of Article 14 above.

## **CHAPTER 5      SYSTEM OPERATOR CHARGES**

### **Article 16      General Principles**

- 1      System Operator Charges shall be set from time to time such that:
  - 1.1      The TSO recovers its system operator costs, as authorized under the System Operator Licence, that are not recovered from other charges;
  - 1.2      The allowed costs of losses are included in the system operator costs and recovered from System Operator Charges; and
  - 1.3      System Operator Charges are in accordance with a methodology developed by the TSO and approved by the Regulator. The methodology shall specify how costs are allocated to the system operator function and how these are to be recovered from charges. The methodology shall be in accordance with the Statement of Transmission Charging Principles issued by the Regulator.

### **Article 17      System Operator Charges Approval Process**

- 1      The TSO shall submit to the Regulator its methodology for System Operator Charges and any subsequent amendments to this methodology at least [30 Business Days] prior to its proposed date of effectiveness.
- 2      No methodology or amendments to a methodology shall be effective until approved by the Regulator.
- 3      The TSO shall have the right to determine the System Operator Charges subject to the requirements of Article 16 above.

## **CHAPTER 6 MARKET OPERATOR CHARGES**

### **Article 18 General Principles**

- 1 Market Operator Charges shall be set from time to time such that:
  - 1.1 The TSO recovers its market operator costs, as authorized under the Market Operator Licence, that are not recovered from other charges; and
  - 1.2 Market Operator Charges are in accordance with a methodology developed by the TSO and approved by the Regulator. The methodology shall specify how costs are allocated to the market operator function and how these are to be recovered from charges. The methodology shall be in accordance with the Statement of Transmission Charging Principles issued by the Regulator.

### **Article 19 Market Operator Charges Approval Process**

- 1 The TSO shall submit to the Regulator its methodology for Market Operator Charges and any subsequent amendments to this methodology at least [30 Business Days] prior to its proposed date of effectiveness.
- 2 No methodology or amendments to a methodology shall be effective until approved by the Regulator.
- 3 The TSO shall have the right to determine the Market Operator Charges subject to the requirements of Article 18 above.

## **CHAPTER 7 CONNECTION CHARGES**

### **Article 20 General Principles**

- 1 Connection Charges shall be set from time to time such that:
  - 1.1 The TSO recovers its connection costs that are not recovered from other charges; and
  - 1.2 Connection Charges are in accordance with a methodology developed by the TSO and approved by the Regulator. The methodology shall be in accordance with the Statement of Transmission Charging Principles issued by the Regulator.
- 2 Connection costs shall include the costs of:
  - 2.1 Carrying out of works and provision and installation of electrical plant, lines, meters and other equipment for the purposes of constructing or modifying a connection of an electricity site or customer to the Transmission System in so far as these costs are not otherwise recovered from TUOS Charges;
  - 2.2 The cost of removal of electrical plant, lines, meters and other equipment for the purposes of disconnecting an electricity site or customer from the Transmission System;
  - 2.3 A reasonable rate of return on the capital represented by such costs; and
  - 2.4 The costs of maintenance of electrical plant, lines, meters and other equipment that are not otherwise recovered from TUOS Charges.
- 3 Revenues from Connection Charges are included in revenues from Excluded Services, as defined in Schedule 4.
- 4 The boundary between those costs to be recovered from Connection Charges, those to be recovered from TUOS Charges, those to be recovered from Market Operator Charges and those to be recovered from System Operator Charges or other charges shall be defined in the methodology on the determination of Connection Charges.

### **Article 21 Connection Charges Approval Process**

- 1 The TSO shall submit to the Regulator its methodology for connection charges and any subsequent amendments to this methodology at least [30 Business Days] prior to its proposed date of effectiveness.
- 2 No methodology or amendments to a methodology shall be effective until approved by the Regulator.
- 3 The TSO shall have the right to determine the Connection Charges subject to the requirements of Article 20 above.
- 4 Parties connecting to the Transmission System shall have the rights to refer any dispute over the Connection Charges applicable to them to the Regulator, as provided for in relevant legislation.

## **CHAPTER 8      RENEWABLE ENERGY SUPPORT SCHEME SURCHARGE**

### **Article 22      General Principle**

- 1      The TSO shall recover the Renewable Energy Support Scheme Surcharge from users of its transmission system.
- 2      The Renewable Energy Support Scheme shall be separately identified on the invoices issued by the TSO.
- 3      The totality of monies recovered shall be remitted to the account of the Renewable Energy Fund and no deductions from such sums may be retained by the TSO.

## SCHEDULE 1 MAXIMUM ALLOWED REVENUES CALCULATION

1 This schedule sets out the formulae for calculating Maximum Allowed Revenues of the TSO. 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:

$$MAR_t = UOSR_t + LSSC_t + LICC_t + KREV_t$$

Where

$MAR_t$  is Maximum Allowed Revenues in Relevant Year  $t$

$UOSR_t$  is allowed TUOS 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 TUOS costs

$LSSC_t$  is allowed cost of losses in Relevant Year  $t$

$LICC_t$  is the Licence Fee in Relevant Year  $t$

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

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

$$UOSR_t = UOSR_{t-1} * (a_t + b_t * MDS D_t / MDS D_{t-1} + c_t * REUD_t / REUD_{t-1}) * (1 + CPI_{t-1} - X_t)$$

Where

$UOSR_t$  is allowed TUOS revenues in Relevant Year  $t$

$UOSR_{t-1}$  is allowed TUOS 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

$a_t$  is the proportion of allowed TUOS costs that do not vary with changes in Maximum Transmission System Demand, Regulated Units Distributed, or Customer Numbers in Relevant Year  $t$ , which is set at Periodic Reviews, where  $a_t + b_t + c_t + d_t = 1$

$b_t$  is the proportion of allowed TUOS costs that vary with changes in Maximum Transmission System Demand in Relevant Year  $t$ , which is set at Periodic Reviews, where  $a_t + b_t + c_t + d_t = 1$

$MDS D_t$  is forecast Maximum Transmission System Demand in Relevant Year  $t$

$MDS D_{t-1}$  is actual Maximum Transmission System Demand in Relevant Year  $t-1$

- $c_t$  is the proportion of allowed TUOS costs that vary with changes in Regulated Units Distributed in Relevant Year  $t$ , which is set at Periodic Reviews, where  $a_t + b_t + c_t + d_t = 1$
- $REUD_t$  is forecast Regulated Units Distributed in Relevant Year  $t$
- $REUD_{t-1}$  is actual Regulated Units Distributed in Relevant Year  $t-1$
- $CPI_{t-1}$  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 cost of losses (LSSC<sub>*t*</sub>) shall be calculated at Regular Adjustments using the following formula:

$$LSSC_t = LSSCf_t + (LSSCa_{t-1} - LSSCf_{t-1}) * (1 + I_t) + (LSSCa_{t-1} - LSAC_{t-1}) * LSSF_t$$

Where

- $LSSC_t$  is allowed cost of losses in Relevant Year  $t$
- $LSSCf_t$  is forecast cost of losses in Relevant Year  $t$ , which is calculated as:

$$LSSCf_t = LT_t * WHEC_t$$

Where

- $LT_t$  is the Loss Target, which is a percentage, in Relevant Year  $t$
- $WHEC_t$  is the wholesale energy cost(€) as determined for the PES in Relevant Year  $t$
- $LSSCa_{t-1}$  is actual cost of losses in Relevant Year  $t-1$  calculated using the Loss Target
- $LSSCf_{t-1}$  is forecast cost of losses in Relevant Year  $t-1$ , calculated using the Loss Target
- $I_t$  is the interest rate for the Relevant Year  $t$  calculated based on EURIBOR plus 1%
- $LSSCa_{t-1}$  is actual cost of losses in Relevant Year  $t-1$  calculated using the Loss Target
- $LSAC_{t-1}$  is cost of losses actually incurred by the TSO in purchasing energy from the PES as compensation for energy lost on the Transmission System (not calculated using the Loss Target) in Relevant Year  $t-1$
- $LSSF_t$  is the Loss Sharing Factor in Relevant Year  $t$ , which is set at Periodic Reviews

2.3 Licence Fee (LICC<sub>*t*</sub>) shall be calculated at Regular Adjustments using the following formula:

$$LICC_t = LICCf_t + (LICC_{t-1} - LICCf_{t-1}) * (1 + I_t)$$

Where

$LICC_t$  is the Licence Fee in Relevant Year  $t$

$LICCf_t$  is the forecast Licence Fee in Relevant Year  $t$

$LICC_{t-1}$  is the actual Licence Fee in Relevant Year  $t-1$

$LICCf_{t-1}$  is the forecast Licence Fee in Relevant Year  $t-1$

$I_t$  is the interest rate for the Relevant Year  $t$  calculated based on EURIBOR plus 1%

- 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%

## **SCHEDULE 2     REGULATORY ASSET BASE**

- 1     This schedule describes the determination of the Regulatory Asset Base for the purpose of calculating allowed depreciation (Article 10) and allowed return on capital (Article 11).
- 2     The Regulatory Asset Base shall be a regulatory value of the TSO's used and useful fixed assets that are necessary for the provision of Transmission System Services and Market Operator Services. It shall distinguish between different classes of assets.
- 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 Regulatory Asset Base shall be updated at each Periodic Review as follows:
  - 4.1     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;
  - 4.2     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;
  - 4.3     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;
  - 4.4     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;
  - 4.5     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
  - 4.6     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.
- 5     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.

- 6 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:
  - 6.1 Comprise the capital projects reasonably required to provide Transmission System Services and Market Operator Services;
  - 6.2 Identify each capital project ranked in priority order;
  - 6.3 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 Transmission System Security, Planning or Operating Security Standard as required by the TSO's licence;
  - 6.4 Have regard to any other relevant investment or development plans for the TSO that have been approved by the Regulator (and any differences between these plans shall be identified by the TSO and explained), including the latest 3 Year Investment Plan prepared by the TSO in line with Article 6 of its Licence and as approved by ERO and the indicative requirements suggested by its 10 Year Plan; and
  - 6.5 Be developed using discounted cash flow techniques.
- 7 The Approved Investment Plan shall be implemented as follows:
  - 7.1 The TSO shall use all reasonable endeavours to ensure the implementation of the Approved Investment Plan in line with its approved timetable;
  - 7.2 If the TSO 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 TSO shall also detail the reasons for the delay and the revised timetable;
  - 7.3 The TSO 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
  - 7.4 If the TSO 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 WEIGHTED AVERAGE COST OF CAPITAL

- 1 The Weighted Average Cost of Capital shall be calculated on a pre-tax basis according to the following formulae:

$$WACC = (1 - gi) * (rEi) / (1 - t) + gi * (rDi)$$

Where

WACC is the Weighted Average Cost of Capital

gi gearing (debt:equity ratio) for firm i

rEi real cost of equity (expressed as a %) for firm i

rDi real cost debt (expressed as a %) for firm i

t Kosovo corporate income tax rate

- 2 The gearing (g) shall be a value determined by the Regulator between 0 and 1, and shall represent the share of debt in total financing. The value shall be determined based on a consideration of the actual financing mix of the TSO, the financing mix that might be expected for similar commercial businesses and the financing mix of similar utilities internationally.

- 3 The cost of equity (rEi) shall be a value calculated by the Regulator using the Capital Asset Pricing Model (CAPM) with the following general formula:

$$rEi = rf + \beta i * ERPm$$

rf risk-free rate

ERPm equity risk premium applicable to the market as a whole

$\beta i$  covariance between the returns on the individual equity asset and those of the market as a whole (the equity beta)

- 3.1 The risk-free rate (rf) shall represent the cost of sovereign debt in Kosovo, in real terms, and shall be determined by the Regulator using evidence on the cost of sovereign debt for Kosovo and/or, where this is unavailable or insufficient, the cost of sovereign debt for countries considered to have a similar credit status to Kosovo.
- 3.2 The equity risk premium (ERPm) shall be determined by the Regulator using evidence on the equity risk premium internationally.
- 3.3 The beta ( $\beta i$ ) shall be determined by the Regulator using evidence on the beta applicable to similar utilities internationally.
- 4 The cost of debt (rDi) shall be the average interest rate of existing long-term loans (exceeding one year) to the TSO, expressed in real terms and weighted according to the value in Euros of each loan.

- 4.1 The TSO shall be required to procure loans through a competitive process, or to demonstrate to the satisfaction of the Regulator that the interest rate of those loans not procured through a competitive process is equal to or less than the prevailing market interest rate at the time the loan agreement was signed.
- 4.2 Where the Regulator considers that the interest rate of a loan not procured commercially exceeds the prevailing market interest rate, that loan shall be excluded from the calculation of the cost of debt.
- 4.3 Where the Regulator considers there are insufficient existing loans to provide a reasonable estimate of the actual cost of future debt financing to the TSO, the Regulator may make an adjustment to the actual cost of debt calculated as above. This adjustment shall be made based on:
- (i) An assessment of the prevailing market interest rate for loans to businesses of similar size, risk and credit status as the TSO.
  - (ii) An assessment of the expected interest rate applied to any future concessional loans to the TSO.
  - (iii) An assessment of the expected mix of commercial (non-concessional) and concessional loans in the debt of the TSO over the coming Regulatory Period.

## **SCHEDULE 4 EXCLUDED SERVICES**

- 1 The TSO may levy a charge in respect of the provision of any Excluded Service, which may include (but not be limited to):
  - 1.1 The carrying out of works the cost of which is required to be reimbursed by a user of the system or a third party (including any necessary reinforcement works or diversionary works) for the purposes of connecting a user to the Transmission System (but only to the extent that the service is not already remunerated under other charges described in this Rule);
  - 1.2 The relocating of any electric line or electrical plant (including the carrying out of any associated works) pursuant to any statutory obligation other than one imposed on the TSO under Law on Electricity, the Law on Energy or the Law on the Energy Regulator.
  - 1.3 The moving of any electric line, electrical plant, or metering equipment that forms part of the Transmission System to accommodate the extension, redesign, or redevelopment of any premises on which the asset in question is located or to which it is connected, the cost of which is to be borne by a user of the system or a third party;
  - 1.4 The provision of electric lines and electrical plant to the extent required by any user of the Transmission System to provide a higher degree of security than is required for the purposes of complying with paragraph 2 of Article 11 of the TSO's licence (Transmission System Security and Planning Standards); and
  - 1.5 The provision of any Metering Service that is not already remunerated under any other charge in respect of an Excluded Service.
- 2 Charges for such Excluded Services shall be set at a level that shall allow the TSO to recover:
  - 2.1 Its reasonable costs incurred in providing the service; and
  - 2.2 A reasonable rate of return on the capital outlay represented by any expenditure incurred by the TSO during the period before payment is received of any amounts due by the person requiring the service in question.
- 3 Where applicable, such charges shall be determined in accordance with the approved methodology for Connection Charges.
- 4 In providing a quotation to the person applying for the provision of the Excluded Service, the TSO shall provide such detailed costing as the applicant could reasonably require in order to determine whether the charge is justified.
- 5 The quotation shall make reference to the role of the Regulator as set out in the Law on the Energy Regulator.
- 6 The TSO shall following the end of each Relevant Year provide to the Regulator details of services provided as part of the Transmission Business and treated as Excluded Services by the TSO during the course of such year and stating the revenue derived in respect of such services.

- 7 Where the Regulator is satisfied that in the light of the principles set out in the foregoing paragraphs any service treated by the TSO as an Excluded Service should not be so treated, the Regulator shall issue directions to that effect, and the service or services specified in the directions shall cease to be treated as Excluded Services from the date of issue of the directions or such other date as may be specified in the directions.

## **SCHEDULE 5 PERIODIC REVIEW PROCESS**

- 1 The Regulator shall, in order to promote transparency, publish all submissions, comments, and other documentation received from the TSO 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 TSO, 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.
- 3 The Regulator shall initiate the Periodic Review by notification to the TSO 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 TSO's Proposal for its Maximum Allowed Revenue for the forthcoming Regulatory Period; and
  - 3.4 The timetable for the overall review process.
- 4 The TSO's Proposal shall contain the following information and address the following matters (without limitation):
  - 4.1 Actual Regulated Revenues earned during the current Regulatory Period (using a reasonable estimate for the remaining months where necessary);
  - 4.2 Actual costs of providing Transmission System Services and Market Operator Services 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 Maximum Transmission System Demand, Regulated Units Distributed, and Customer Numbers during the current Regulatory Period;
  - 4.5 Forecast Maximum Transmission System Demand, Regulated Units Distributed, and Customer Numbers for the forthcoming Regulatory Period;
  - 4.6 Forecast Maximum Allowed Revenues, reporting each of the allowed cost components separately, for the forthcoming Regulatory Period; and
  - 4.7 Any other additional material that the Regulator reasonably considers should be included in the TSO's proposal, so long as the Regulator has notified the TSO a reasonable time prior to the deadline for the TSO's proposal.
- 5 The TSO 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 TSO's Proposal, the Regulator shall determine its accuracy, relevance and reasonableness by applying the methodology set out in this Rule, including determining whether the proposed Maximum Allowed Revenues reflects the reasonable costs of providing Transmission System Services and Market Operator Services.
- 7 The Regulator shall prepare a Provisional Decision on the TSO's Proposal no later than [50 Business Days] before the start of the forthcoming Regulatory Period, after consulting with the TSO as necessary. The Provisional Decision shall set out the Regulator's proposals on the Maximum Allowed Revenues to be recovered by the TSO 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 TSO'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 TSO 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 for the forthcoming Regulatory Period. Its decision shall be consistent with this Rule.
- 10 Maximum Allowed Revenues as provided in the Regulator's Final Decision shall apply from the start date of the forthcoming Regulatory Period.
- 11 The TSO may dispute or appeal any decision by the Regulator in accordance with applicable legislation.

## **SCHEDULE 6    REGULAR ADJUSTMENT PROCESS**

- 1     The TSO shall submit the proposed new Maximum Allowed Revenues for the forthcoming Relevant Year to the Regulator at least [20 Business Days] before the start of the forthcoming Relevant Year. The TSO 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 TSO to further explain its method of calculating the proposed Maximum Allowed Revenues, and if so required, the TSO shall promptly provide to the Regulator any further information or explanations sought.
- 3     The Regulator shall advise the TSO at least [5 Business Days] before the start of the forthcoming Relevant Year whether or not it approves the TSO's calculation of the proposed Maximum Allowed Revenues.
- 4     If the Regulator approves the proposed Maximum Allowed Revenues, they shall become the Maximum Allowed Revenues for the forthcoming Relevant Year.
- 5     If the Regulator does not approve the proposed Maximum Allowed Revenues, it shall provide reasons and evidence why, in accordance with this Rule. The Maximum Allowed Revenue shall not be adjusted until the Regulator approves a proposal or provides its own calculation of Maximum Allowed Revenues.
- 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 TSO within the required period, approval is assumed and the proposed Maximum Allowed Revenues shall become effective on the first day of the following Relevant Year.
- 8     The TSO may dispute or appeal any decision by the Regulator in accordance with applicable legislation.

## **SCHEDULE 7    EXTRAORDINARY REVIEW PROCESS**

- 1     If an Extraordinary Event has occurred, the TSO 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 TSO 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 TSO's business;
  - 4.3     An estimate of the change in the TSO's costs 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 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 TSO of the Extraordinary Event in each year, calculated as the sum of the change in the TSO'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 TSO (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 TSO 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. The proposed Extraordinary Adjustment shall meet the following conditions:
  - 5.1     The Extraordinary Adjustment shall change Maximum Allowed Revenues 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, using the Weighted Average Cost of Capital as the discount rate;
  - 5.2     The timing and structure of the Extraordinary Adjustment shall, where possible, reduce the tariff shock to customers (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 TSO. If so, the Regulator shall notify the TSO and include a description of the Extraordinary Event

and a summary its expected impact. The TSO shall then prepare a Statement of Financial Impact as per the process described above.

- 7 The Regulator may reasonably require the TSO to further explain its method of calculating the Statement of Financial Impact and Extraordinary Adjustment, and if so required, the TSO shall promptly provide to the Regulator any further information or explanations sought.
- 8 The Regulator shall advise the TSO within [20 Business Days] of receiving the Statement of Financial Impact whether or not it approves the TSO'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 Maximum Allowed Revenues 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. Maximum Allowed Revenues shall not be adjusted until the Regulator approves a proposal.
- 11 If the Regulator does not advise the TSO within the required period (above), approval is assumed and the proposed Extraordinary Adjustment shall become effective immediately.
- 12 The TSO may dispute or appeal any decision by the Regulator in accordance with applicable legislation.

## **SCHEDULE 8    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 TSO that is greater than 3% and shall not be fully recovered through Regular Adjustments;
  - 1.2     Any force majeure events as defined in Schedule 9;
  - 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 TSO;
    - (iii)     The TSO 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 TSO over any 12 month period, such that it seems reasonable that the Materiality Threshold (described in Schedule 7) may be breached.
  
- 2     The occurrence of an Extraordinary Event is sufficient to trigger an Extraordinary Review, however as described in Schedule 7, the event must still breach the Materiality Threshold before Maximum Allowed Revenues shall be adjusted.

## **SCHEDULE 9    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 TSO's control;
  - 1.2     The TSO could not reasonably have provided against;
  - 1.3     Having arisen the TSO could not reasonably have avoided or overcome; and
  - 1.4     Is not substantially attributable to the TSO.
  
- 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 TSO'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.