



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

Energy Regulatory Office

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

2011



CONTENTS

Chapter I	General Provisions	3
Article 1	Scope and Purposes	3
Article 2	Definitions and Interpretations	3
Chapter II	Regulated Retail Tariff	7
Article 3	General Principles	7
Article 4	Input Values Reviews	7
Article 5	Annual Updates	8
Article 6	Extraordinary Reviews	8
Chapter III	Input Values	10
Article 7	Definition of Input Values	10
Article 8	Specifying Input Values	10
Chapter IV	Maximum Allowed Revenues	11
Article 9	General Principles	11
Article 10	Allowed Retail Costs	12
Article 11	Allowed Working Capital Costs	12
Article 12	Allowed Bad Debt Costs	13
Article 13	Allowed Wholesale Power Costs	13
Article 14	Pass-Through Costs	15
Article 15	Allocation of Costs	16
Chapter V	Tariff Structure Methodology	17
Article 16	Methodology for Structuring the Regulated Retail Tariff	17
CHAPTER 9	TRANSITIONAL AND FINAL PROVISIONS	18
Article 17	Official Language of the Rule	18
Article 18	Changes	18
Article 19	Interpretation	18
Article 20	Repeal	18
Article 21	Entry into force	18
Schedule 1	Maximum Allowed Revenues Calculation	19
Schedule 2	Regulatory Asset Base	22
Schedule 3	Input Values Review Process	24
Schedule 4	Annual Update Process	27
Schedule 5	Extraordinary Review Process	29
Schedule 6	Extraordinary Events	31
Schedule 7	Force Majeure Events	32
Schedule 8	Transitional Provisions	33



Pursuant to the authority given under Article 8 paragraph 1, subparagraph 1.6, Article 14, paragraph 2, subparagraph 2.16, Article 25 and Article 42, paragraph 1 of the Law No.03/L-185 on Energy Regulator, the Board of the Energy Regulatory Office on a session held on 30.09.2011 has adopted the:

Rule on Public Electricity Supplier Pricing (PES Pricing Rule)

CHAPTER I GENERAL PROVISIONS

Article 1

Scope and Purposes

- 1 This Rule sets:
 - 1.1 The methodology for determining the Regulated Retail Tariff that is 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”). 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 2

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 “Annual Update” means the adjustment to Maximum Allowed Revenues and the Regulated Retail Tariff undertaken towards the end of each Relevant Year;
- 1.3 “Bad Debt Allowance” has the meaning give to it in Article 102 paragraph 1;
- 1.4 “Business Days” means all working days of the week as defined in Kosovo law;
- 1.5 “Customer Category” 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 Sharing Factor” has the meaning given to it in Article 113 paragraph **Error! Reference source not found.**;
- 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 1113 paragraph **Error! Reference source not found.**5;
- 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 66;
- 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 “Input Values” has the meaning given to it in Article 77;
- 1.18 “Input Values Review” means the review by the Regulator to determine Input Values;



- 1.19 “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;
- 1.20 “Market Operator” or “MO” means the holder of the Market Operator Licence;
- 1.21 “Market Operator Charges” or “MO Charges” means the regulated set of charges applied by the MO for the provision of market operator services;
- 1.22 “Materiality Threshold” has the meaning given to it in Schedule 5;
- 1.23 “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;
- 1.24 “Net Present Value” means the sum of discounted future net cash flows;
- 1.25 “Pass-Through Costs” means the costs established in accordance with Article 144;
- 1.26 “Proposal” has the meaning given to it in Schedule 3 paragraph 4;
- 1.27 “Provisional Evaluation” has the meaning given to it in Schedule 3 paragraph 7;
- 1.28 “Public Electricity Supplier” or “PES” means the holder of the Public Supply Licence;
- 1.29 “Regulated Customers” has the meaning given to it in Article 1 3 paragraph 1;
- 1.30 “Regulated Retail Tariff” means the set of prices charged by the PES to Regulated Customers for providing Standard Service, as determined by the Regulator;
- 1.31 “Regulator” means the Energy Regulatory Office;
- 1.32 “Regulatory Asset Base” has the meaning given to it in Schedule 2;
- 1.33 “Relevant Year” means the period of 12 successive calendar months between Annual Updates;
- 1.34 “Retail Margin” has the meaning given to it in Article 103;
- 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 Charges” or “SO Charges” means the regulated set of charges applied by the TSO for the provision of system operator services;
- 1.38 “Transitional Period” has the meaning given to it in Schedule 8;



- 1.39 “Transmission Network Use of System charge” or “TNUOS charge” means the regulated charge by the TSO for the conveyance of electrical energy across its system;
 - 1.40 “Transmission System Operator” or “TSO” means the holder of the Transmission System Operator Licence;
 - 1.41 “Unregulated Customers” means any customers of the PES’s business that are not Regulated Customers;
- 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 II REGULATED RETAIL TARIFF

Article 3

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 Annual Update 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 III); and
 - 2.2 The Regulated Retail Tariff is consistent with the Tariff Structure Methodology (Chapter V).
- 3 Maximum Allowed Revenues shall be determined as follows:
 - 3.1 Maximum Allowed Revenues shall be set at Annual Updates (Article 45):
 - 3.2 The calculation of Maximum Allowed Revenues shall use Input Values set at Input Values Reviews; and
 - 3.3 Extraordinary Reviews (Article 6), 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.
- 4 Transitional provisions given in Schedule 8 shall apply until 31 March 2015.

Article 4

Input Values Reviews

- 1 At Input Values Reviews the Input Values used to calculate Maximum Allowed Revenues of the PES shall be set. Changes to Input Values shall only be made to the extent that those changes are reasonable, justified, and prudently asserted.
- 2 An Input Values Review shall be held at the initiation of the Regulator, when changes in circumstances are considered to merit such a review.



- 3 The PES may propose at any time to the Regulator that an Input Values Review be initiated. The Regulator is required to respond to such a proposal with written reasons for its decision to initiate or not initiate such a review.
- 4 The process for undertaking Input Values Reviews is given in Schedule 3.

Article 5

Annual Updates

- 1 At Annual Updates the permitted change in Maximum Allowed Revenues shall be calculated and the resulting Regulated Retail Tariff determined accordingly.
- 2 An Annual Update shall be held prior to each forthcoming Relevant Year.
- 3 The change in Maximum Allowed Revenues at each Annual Updated shall be based on the following:
 - 3.1 Updated forecasts of all allowed costs;
 - 3.2 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;
 - 3.3 Under or over-recovery of allowed wholesale power costs and pass-through costs due to differences between forecast and actual costs, subject to any sharing of net imbalance costs and export revenues between the PES and Regulated Customers.
- 4 The formulae for calculating Maximum Allowed Revenues at Annual Updates are given in Schedule 1.
- 5 The process for making Annual Updates is given in Schedule 4.

Article 6

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 Relevant Year shall be calculated. If the impact is greater than the Materiality Threshold then an Extraordinary Adjustment to Maximum Allowed Revenues shall be made. The Material Threshold shall be 5% of revenues, unless determined otherwise at Input Values Reviews on the mutual agreement of the PES and the Regulator.



- 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 Annual Updates.
- 5 The process for undertaking Extraordinary Reviews is given in Schedule 5.



CHAPTER III INPUT VALUES

Article 7

Definition of Input Values

- 1 Input Values are key parameters used in the calculation of the Maximum Allowed Revenues of the PES.
- 2 Input Values comprise the following:
 - 2.1 Economic Asset Lives;
 - 2.2 Retail Margin;
 - 2.3 Bad Debt Allowance;
 - 2.4 Balancing Sharing Factor; and
 - 2.5 Export Sharing Factor.

Article 8

Specifying Input Values

- 1 The following values are specified as fixed values, to apply in all Relevant Years until a further Input Values Review is conducted:
 - 1.1 Economic Asset Lives.
- 2 The following values may be specified as either fixed values or as a schedule of values, with a different value to apply in each Relevant Year from the current Relevant Year until a further Input Values Review is conducted:
 - 2.1 Retail Margin;
 - 2.2 Bad Debt Allowance;
 - 2.3 Imbalance Sharing Factor;
 - 2.4 Export Sharing Factor.



CHAPTER IV MAXIMUM ALLOWED REVENUES

Article 9

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 those costs are justified and prudently incurred.
- 2 The reasonable costs of the PES shall comprise:
 - 2.1 Allowed retail costs (Article 100);
 - 2.2 An allowance for reasonable working capital costs (Article 11);
 - 2.3 An allowance for reasonable bad debts (Article 122);
 - 2.4 Allowed wholesale power costs (Article 133), including a Retail Margin, which shall be passed-through based on the Imbalance Sharing Factor and Export Sharing Factor at Annual Updates;
 - 2.5 Pass-Through Costs (Article 144), including the MO charge, SO charge, TNUOS charge, DUOS charge, and Licence Fee, which shall be fully passed-through at Annual Updates.
- 3 In determining reasonable costs, the Regulator shall refer to, but is not bound by or limited to:
 - 3.1 Past volume, cost and service quality information relating to the PES;
 - 3.2 Projected volumes, costs and service quality relating to the PES;
 - 3.3 Comparisons with similar utilities in Kosovo and in countries elsewhere in Europe, taking account of the similarities between the electricity industry in those countries and that of Kosovo; and
 - 3.4 Comparisons with the costs of similar activities in Kosovo and in countries elsewhere in Europe, taking account of the similarities between the electricity industry in those countries and that of Kosovo.
- 4 The resulting reasonable costs shall be allocated to Regulated Customers as described in Article 15.



- 5 Any non-tariff revenues that relate to providing Standard Service to Regulated Customers shall be deducted from Maximum Allowed Revenues, including any difference between the disposal value of assets and their regulatory value.

Article 10

Allowed Retail Costs

- 1 Allowed retail costs shall comprise the following allowed costs as they relate to supplying Regulated Customers:
 - 1.1 Operating and maintenance costs;
 - 1.2 Corporate costs;
 - 1.3 Depreciation costs; and
 - 1.4 Any other costs that are reasonably incurred by the PES in providing retail services to Regulated Customers.
- 2 Allowed operating and maintenance costs shall not include:
 - 2.1 The costs of advertising and other marketing for the purposes of encouraging consumption because the PES does not compete for Regulated Customers; and Any taxes or duties that are intended to be recovered through the Retail Margin.
- 3 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 using normal and customary accounting practices but which are not directly associated with providing Standard Service to Regulated Customers.
- 4 Public communications for safety, conservation, encouraging prompt payment and discouraging unauthorised use are allowable costs; and
- 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.

Article 11

Allowed Working Capital Costs

- 1 Working capital costs shall be calculated as the cost of financing working capital for the PES multiplied by the allowed working capital value.



- 2 The cost of financing working capital shall be calculated as EURIBOR plus S%, where S is a value to be determined by the Regulator at Annual Updates and which reflects the premium payable by the licensee for short-term loans.
- 3 The allowed working capital value shall be calculated as $1/12^{\text{th}}$ of the sum of allowed retail costs, allowed wholesale energy costs, allowed wholesale capacity costs, and pass-through costs.

Article 12

Allowed Bad Debt Costs

- 1 Allowed bad debt costs shall be calculated by applying the Bad Debt Allowance as per the formulae given in Schedule 1.
- 2 The Bad Debt Allowance shall be an estimate of the reasonable level of bad debts incurred by the PES.

Article 13

Allowed Wholesale Power Costs

- 1 Allowed wholesale power costs shall comprise:
 - 1.1 Allowed wholesale capacity costs;
 - 1.2 Allowed wholesale energy costs; and
 - 1.3 A Retail Margin on allowed wholesale capacity costs and wholesale energy costs.
- 2 Maximum Allowed Revenues shall be adjusted for changes in allowed wholesale power costs at each Annual Update, as per the formulae given in Schedule 1.
- 3 Allowed wholesale capacity costs are those costs associated with the payment of capacity charges for domestic generating capacity which is contracted for the purposes of ensuring security of supply and relates to supply Regulated Customers.
- 4 Allowed wholesale energy costs shall comprise the following allowed costs as they relate to supplying Regulated Customers:
 - 4.1 Costs of purchases from domestic generation;
 - 4.2 Energy import costs;
 - 4.3 Energy export revenues (as a negative cost), subject to the Export Sharing Factor;



4.4 Net imbalance costs, subject to the Imbalance Sharing Factor.

- 5 Revenues relating to the sale to the TSO and DSO of energy to cover transmission and distribution losses shall be deducted from allowed wholesale energy costs, to avoid recovering the cost of energy losses twice.
- 6 Allowed costs of purchases from domestic energy generation 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, less any allowed wholesale capacity costs.
- 7 Allowed costs of purchases from domestic energy generation 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.
- 8 Allowed energy import costs shall be the actual costs incurred by the PES in purchasing imported energy, as determined in import contracts, less any import subsidies provided by the Government of Kosovo.
- 9 Allowed energy export revenues shall be the actual revenues earned by the PES in selling exported energy.
- 10 The Export Sharing Factor shall be a fixed percentage that is applied to export revenues to determine the sharing of these revenues between the PES and Regulated Customers. The Export Sharing Factor shall be sufficient to encourage the PES to maximise export revenues, but not result in excessive returns for the PES.
- 11 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.
- 12 The Imbalance Sharing Factor shall be a fixed percentage that is applied to net imbalance costs to determine the sharing of these costs between the PES and Regulated Customers, where a value of 0% means that all net imbalance costs are allocated to the PES and a value of 100% means that all net imbalance costs are allocated to Regulated Customers. In setting the Imbalance Sharing Factor, the Regulator shall consider the extent to which the PES is able to manage imbalances and, in particular, the balance between supplies from domestic generation and firm imports and the demand served by the PES. The Regulator shall set the Imbalance Sharing Factor at 100% until such time as it considers that supply is generally adequate to meet demand.
- 13 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 eligible and non-eligible customers.
- 14 Forecasts of allowed wholesale energy costs at Annual Updates shall have regard to:



- 14.1 Recent and historic changes in import prices, export prices, the cost of domestic generation, and revenues relating to transmission and distribution losses;
 - 14.2 The seasonality of import and export prices;
 - 14.3 Relevant contract prices on power exchanges; and
 - 14.4 Other factors that provide a reasonably reliable means for forecasting wholesale energy costs.
- 15 The Regulator may, at its discretion, introduce an export penalty that is deducted from Maximum Allowed Revenues. The penalty would apply 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. The penalty per unit would be sufficient to ensure that the PES has a strong incentive to serve domestic demand before exporting, but should not threaten the financial position of the PES. Any such penalty shall only be introduced if and when the Regulator considers that there is evidence of significant volumes of exports by the PES taking place at times of domestic load shedding.
- 16 The Retail Margin shall be a fixed percentage that is applied to allowed wholesale energy costs and allowed wholesale capacity costs. It shall be set at such a level such that it:
- 16.1 Provides the PES with a reasonable return that compensates it for the risks it assumes in providing Standard Service to Regulated Customers. This shall be calculated with reference to the margins earned by similar utilities in countries elsewhere in Europe, taking account of the similarities between the electricity industry in those countries and that of Kosovo; and
 - 16.2 Provides the PES with a reasonable return on its net fixed assets used in providing Standard Service to Regulated Customers. This shall be calculated with reference to the cost of capital of other licensees in Kosovo.

Article 14

Pass-Through Costs

- 1 The PES shall full pass-through all Pass-Through Costs at each Annual Update, which shall comprise the following:
 - 1.1 MO charges that are invoiced by the MO and relate to Regulated Customers;
 - 1.2 SO charges that are invoiced by the TSO and relate to Regulated Customers;
 - 1.3 TNUOS charges that are invoiced by the TSO and relate to Regulated Customers;
 - 1.4 DUOS charges that are invoiced by the DSO and relate to Regulated Customers; and



- 1.5 The share of the Licence Fee that relates to Regulated Customers.

Article 15

Allocation of Costs

- 1 To determine allowed costs to be recovered from Regulated Customers and, thereby, Maximum Allowed Revenues, the reasonable costs calculated according to this Chapter shall be allocated as follows:
- 1.1 Allowed retail costs and allowed working capital costs shall be allocated in proportion to customer numbers. To do so, the average cost per customer shall first be calculated by dividing total retail costs and working capital costs by the total number of customers (both regulated and unregulated), weighted according to the different costs of providing retail service to different Customer Groups. This average cost per customer shall then be multiplied by the weighted number of Regulated Customers, to obtain the allowed retail costs and working capital costs to be recovered from Regulated Customers.
 - 1.2 Allowed wholesale energy costs and wholesale capacity 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.
 - 1.3 Pass-Through Costs shall be allocated to Regulated Customers in a way that preserves, to the extent possible, the price signals in the charges.
 - 1.4 There is no need to separately allocate bad debt costs to Regulated Customers, as this allocation follows from the application of the Bad Debt Allowance as per the formulae given in Schedule 1.



CHAPTER V TARIFF STRUCTURE METHODOLOGY

Article 16

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 and shall be set so as to:
 - 8.1 Accurately preserve the price signals of the MO charges, SO charges, TNUOS charges, DUOS charges, and the Licence Fee, to the extent allowed by limitations on customer metering;
 - 8.2 Recover the retail costs and working capital costs associated with supplying each different Customer Group; and
 - 8.3 Reflect the costs of supplying different Customer Groups during different seasons and times of the day, to the extent allowed by limitations on customer metering.



CHAPTER VI

TRANSITIONAL AND FINAL PROVISIONS

Article 17

Official Language of the Rule

This Rule is issued in the Albanian language and shall be translated into Serbian and English language. In the event of discrepancies between versions, the Albanian version shall prevail.

Article 18

Changes

1. ERO retains the right to change or modify any provision of this Rule.
2. Procedures for amendment or modification of this Rule will be the same as for its approval.

Article 19

Interpretation

If there is uncertainty about the provisions of this Rule, the Board will issue disclosure.

Article 20

Repeal

This Rule repeals the "Rule on Principles of Calculation of Tariffs in the Electricity Sector (Pricing Rule)" and "Tariff Methodology for the Electricity Sector" approved by the Board of ERO on 15th December 2005, and amendments made on 29th November 2006 of Tariff Methodology, issued in accordance with the Law No.2004/09 on Energy Regulator.

Article 21

Entry into force

This Rule comes into force upon its adoption by the ERO Board and will be published in the official website of the ERO.

Board of the Energy Regulatory Office:

Dr. Ali Hamiti, Chairman

Përparim Kabashi, Member

Blerim Koci, Member



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 at Annual Updates using the following formula:

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

Where

MAR_t is Maximum Allowed Revenues in Relevant Year t

$RETR_t$ is allowed retail costs in Relevant Year t, which is set at Annual Updates

$WCLC_t$ is allowed working capital costs in Relevant Year t

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

$PSTC_t$ is Pass-Through Costs in Relevant Year t

$NTFR_t$ is non-tariff revenues in Relevant Year t

$KREV_t$ is the revenue correction factor in Relevant Year t

$BDTA_t$ is the Bad Debt Allowance in Relevant Year t, set as a percentage (%) value

- 2.1 Allowed working capital costs ($WCLC_t$) shall be calculated using the following formula:

$$WCLC = (1 / 12) * I_t * (RETR_t + WHPC_t + PSTC_t - NTFR_t)$$

Where

I_t is the interest rate for the Relevant Year t calculated based on EURIBOR plus S%, where S is a value to be determined by the Regulator at Annual Updates and which reflects the premium payable by the licensee for short-term loans

$RETR_t$ is allowed retail Costs in Relevant Year t

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

$PSTC_t$ is Pass-Through Costs in Relevant Year t



$NTFR_t$ is non-tariff revenues in Relevant Year t

- 2.2 Allowed wholesale power costs ($WHPC_t$) shall be calculated using the following formula:

$$WHPC_t = (WHCC_t + WHEC_t) * (1 + RETM_t) + (WHPCa_{t-1} - WHPCf_{t-1}) * (1 + I_t)$$

Where

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

$WHCC_t$ is allowed wholesale capacity costs in Relevant Year t

$WHEC_t$ is allowed wholesale energy costs in Relevant Year t

$RETM_t$ is the Retail Margin in Relevant Year t

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

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

I_t is the interest rate for the Relevant Year t calculated based on EURIBOR plus S%, where S is a value to be determined by the Regulator at Annual Updates and which reflects the premium payable by the licensee for short-term loans.

- 2.3 Allowed wholesale energy costs ($WHEC_t$) shall be calculated using the following formula:

$$WHEC_t = GENC_t + IMPC_t - EXPR_t * EXPF_t + IMBC_t * IMBF_t$$

Where

$GENC_t$ is allowed costs of purchases from domestic generation in Relevant Year t

$IMPC_t$ is allowed energy import costs in Relevant Year t

$EXPR_t$ is allowed energy export revenues in Relevant Year t

$EXPF_t$ is the Export Sharing Factor in Relevant Year t

$IMBC_t$ is allowed net imbalance costs in Relevant Year t

$IMBF_t$ is the Imbalance Sharing Factor in Relevant Year t

- 2.4 The revenue adjustment factor ($KREV_t$) shall be calculated 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 as determined in Relevant Year t-1

I_t is the interest rate for the Relevant Year t calculated based on EURIBOR plus S%, where S is a value to be determined by the Regulator at Annual Updates and which reflects the premium payable by the licensee for short-term loans



SCHEDULE 2 REGULATORY ASSET BASE

- 1 This schedule describes the determination of the Regulatory Asset Base for the purpose of calculating allowed depreciation .
- 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 Standard 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 Relevant Year.
- 4 The Regulatory Asset Base shall be updated annually as follows:
 - 4.1 Allowed depreciation costs during the current Relevant Year 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 Relevant Year shall be subtracted from the Regulatory Asset Base at their disposal value;
 - 4.3 Allowed capital expenditure during the current Relevant Year shall be added to the Regulatory Asset Base as from the date when the asset is brought into service and at the cost allowed by the Regulator at the most recent Annual Update. At Annual Updates the licensee may request that the actual rather than allowed cost of an investment be added to the Regulatory Asset Base. The Regulator shall accept the request if the licensee can clearly demonstrate that the difference between allowed and actual costs is due to factors outside of the licensee's control and that its best efforts were made to minimise cost increases. For the avoidance of doubt, the Regulator shall not make any retroactive reduction in revenues earned during the current (recently completed) Relevant Year to account for differences between the allowed and actual costs. The Regulator shall consider actual costs at future Annual Updates as a means of forecasting the cost of future investments;
 - 4.4 If a capital project allowed by the Regulator at the most recent Annual Update is not brought into service in the current Annual Update, its allowed cost shall not be added to the Regulatory Asset Base at the next Annual Update and any revenues earned from the project in the current Relevant Year Period (relating to its inclusion in the Regulatory Asset Base and the associated determination of Maximum Allowed Revenues) shall be deducted from revenues in the following Annual Update;
 - 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 Relevant Year, 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 Input Values 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 Allowed capital expenditures shall be determined at Annual Updates based on submissions by the licensee to the Regulator. These submissions shall take the form of a rolling Allowed Investment Plan which shall be updated annually. The Allowed Investment Plan shall:
 - 6.1 Comprise the capital projects reasonably required to provide Standard Services;
 - 6.2 Identify each capital project ranked in priority order;
 - 6.3 Show the benefit that each capital project is reasonably expected to deliver, with reference where appropriate to the meeting of any relevant standards as may be required by the PES's licence; and
 - 6.4 Be developed using an analysis of the discounted costs and benefits of the capital project.
- 7 The allowed capital projects shall be implemented as follows:
 - 7.1 The PES shall use all reasonable endeavours to ensure the implementation of the allowed capital projects in line with its allowed timetable;
 - 7.2 If the PES shall be or is unable to, for reasons beyond its control, undertake a capital project in accordance with the allowed timetable, it shall notify the Regulator. The PES shall also detail the reasons for the delay and the revised timetable;
 - 7.3 The PES may at any time apply to the Regulator to substitute an alternative capital for an allowed 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 Annual Update. For the avoidance of doubt, Maximum Allowed Revenues in the current Relevant Year shall not be adjusted; and
 - 7.4 If the PES substitutes an alternative capital project for an alternative project without the prior approval of the Regulator, the Regulator shall consider whether to approve the substitution at the next Annual Update but is not bound to do so.



SCHEDULE 3 INPUT VALUES 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 Input Values Review on its official website 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 an Input Values Review from time to time. When a Input Values Review is initiated, it shall commence no later than 120 Business Days prior to the start of the next Relevant Year. Different timing shall apply during the Transitional Period as given in Schedule 8.
- 3 The timetable for the overall review process shall be submitted to PES during the initiation of the review process.
- 4 The Regulator shall initiate the Input Values Review by notification to the PES of:
 - 4.1 The years for which actual, estimated forecast data is required;
 - 4.2 The format in which the data is required to be submitted;
 - 4.3 The timetable for submission of the PES's Proposal for revisions to Input Values.
- 5 The PES' Proposal shall contain the following information and address the following matters (without limitation):
 - 5.1 Actual Regulated Revenues earned from the Regulated Retail Tariff during the current Relevant Year (using a reasonable estimate for the remaining months where necessary);
 - 5.2 Actual costs of providing Standard Service to Regulated Customers during the current Relevant Year, in line with the definition of costs that was used for calculating Maximum Allowed Revenues;
 - 5.3 The annual report and audited financial statements for each financial year that ended in the current Relevant Year when these are available as required by the reporting requirements contained in the PES's licence;
 - 5.4 Actual electricity consumption during the most recent 12-month period;
 - 5.5 Forecast electricity consumption for the forthcoming Relevant Year;



- 5.6 Actual number of Regulated and Unregulated Customers during the current Relevant Year;
 - 5.7 Forecast number of Regulated and Unregulated Customers for the forthcoming Relevant Year;
 - 5.8 Forecast Maximum Allowed Revenues, reporting each of the allowed cost components separately, for the forthcoming Relevant Year;
 - 5.9 Actual billing determinants for the most recent 12-month period and forecast billing determinants for the forthcoming Relevant Year, based on forecast demand, energy and number of customers for each Customer Group;
 - 5.10 The proposed Input Values for the forthcoming Relevant Year; and
 - 5.11 Any studies commissioned by the PES relating to any of the matters to be contained in the PES's Proposal; and
 - 5.12 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.
- 6 The PES shall, to the fullest extent possible, apply the principles set out in this Rule in preparing its Proposal. It shall disclose any areas where it has not applied these, the reason for not applying them, the reasons supporting the alternative approach, and provide an estimate of the impact of using the alternative approach.
 - 7 Upon receiving the PES's Proposal, the Regulator shall determine its accuracy, relevance and reasonableness, including determining whether:
 - 7.1 The proposed Input Values reflect the reasonable costs of providing Standard Service to Regulated Customers; and
 - 7.2 The proposed Input Values represent a fair balance between the interests of the PES and of Regulated Customers.
 - 8 The Regulator shall prepare a Provisional Evaluation within a reasonable time (set forth in the paragraph 3 of this Schedule) before the start of the forthcoming Relevant Year, after reviewing the submission of the PES and then consulting with the PES. The Provisional Evaluation shall set out the Regulator's proposals on the Input Values and the justification for these. The Regulator, in preparing its Provisional Evaluation, 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.
 - 9 Following notification of the PES of its Provisional Evaluation, the Regulator shall launch a public consultation on its Provisional Evaluation, in accordance with the Law on the Energy Regulator.



- 10 Following completion of the public consultation within a reasonable time (set forth in the paragraph 3 of this Schedule) before the start of the forthcoming Relevant Year, the Regulator shall make its Final Decision on Input Values. Its decision shall be consistent with this Rule. Different timing shall apply during the Transitional Period as given in Schedule 8.

- 11 The PES may dispute or appeal any decision by the Regulator in accordance with applicable legislation.



SCHEDULE 4 ANNUAL UPDATE PROCESS

- 1 The Annual Update process for the PES comprises three phases:
 - 1.1 Phase 1: Determination of Import Costs.
 - 1.2 Phase 2: Determination of retail costs.
 - 1.3 Phase 3: Determination of Maximum Allowed Revenues and Regulated Retail Tariff.
- 2 Phase 1: Determination of Import Costs:
 - 2.1 The PES shall submit the proposed Import Costs to be included in the calculation of Wholesale Energy Costs for the forthcoming Relevant Year to the Regulator at least 80 Business Days before the start of the forthcoming Relevant Year. The PES shall also include in its submission all relevant documents and evidence.
 - 2.2 The Regulator shall advise the PES at least 60 Business Days before the start of the forthcoming Relevant Year whether or not it approves the PES's proposed Import Costs.
 - 2.3 If the Regulator does not approve the proposed Import Costs, it shall provide an alternative value for Import Costs to be included in the calculation of Wholesale Energy Costs for the forthcoming Regulatory Year. Reasons and evidence for the alternative value shall be provided in accordance with this Rule.
- 3 Phase 2: Determination of retail costs
 - 3.1 The PES shall submit the proposed retail costs to be included in the calculation of Maximum Allowed Revenues for the forthcoming Relevant Year to the Regulator at least 50 Business Days before the start of the forthcoming Relevant Year. The PES shall also include in its submission all relevant documents and evidence.
 - 3.2 The Regulator shall advise the PES at least 40 Business Days before the start of the forthcoming Relevant Year whether or not it approves the PES's proposed retail costs.
 - 3.3 If the Regulator does not approve the proposed retail costs, it shall provide determine an alternative value for retail costs to be included in the calculation of Maximum Allowed Revenues for the forthcoming Regulatory Year. Reasons and evidence for the alternative value shall be provided in accordance with this Rule.
- 4 Phase 3: Determination of Maximum Allowed Revenues and Regulated Retail Tariff



- 4.1 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 Annual Update formulae given in Schedule 1 and any other items notified by the Regulator.
- 4.2 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.
- 4.3 The Regulator shall advise the PES 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.
- 4.4 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.
- 4.5 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.
- 4.6 Any difference in revenues that arises from incorrect calculations, misreporting of Actual Regulated Revenue, or disputes relating to Annual Updates shall be recovered in subsequent Relevant Years.
- 4.7 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 within three months of an Input Values 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 Relevant Year;
 - 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 Relevant Year;
 - 4.5 A calculation of the financial impact on the PES of the Extraordinary Event, 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 percentage of the Relevant Year remaining between the date of the Extraordinary Event and the end of the Relevant Year.
- 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 forecast change is equal to 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 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 shall not be fully recovered through Annual Updates;
 - 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 under the control of the PES;
 - (ii)
 - (iii) Shall not be fully recovered through Annual Updates; and
 - (iv) 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 earthquakes or flooding.



SCHEDULE 8 TRANSITIONAL PROVISIONS

- 1 The Transitional Period is from 1 April 2012 until 31 March 2015.
- 2 The allowed wholesale energy costs shall be calculated as follows during the Transitional Period:
 - 2.1 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.
- 3 In accordance with the Law on the Energy Regulator, cross subsidisation between Customer Categories shall be allowed during the Transitional Period as follows:
 - 3.1 Where substantial historic price distortions exist, the Regulated Retail Tariff may include cross subsidisation between Customer Groups;
 - 3.2 Cross subsidies shall be rebalanced gradually until 31 December 2014, from which point onwards there shall be no cross subsidies; and
 - 3.3 For the purposes of rebalancing during the Transitional Period, the structure of the Regulated Retail Tariff may change within Relevant Years. Changes shall be defined by the Regulator at Input Values Reviews in a way that smooths rebalancing. Changes to the tariff structure shall be implemented at the same time as Annual Updates.
- 4 The following timing shall apply for the first Values Review and Annual Update:
 - 4.1 The Regulator shall initiate the Values Review no later than 60 days prior to the start of the first Relevant Year of the Transition Period.
 - 4.2 The Regulator shall prepare a Provisional Evaluation no later than 45 days prior to the start of the first Relevant Year of the Transition Period.
 - 4.3 The Regulator shall make its final decision no later than 30 days prior to the start of the first Relevant Year of the Transition Period.
 - 4.4 The PES shall submit its proposed retail costs, Maximum Allowed Revenues and Regulated Retail Tariff simultaneously no later than 25 days prior to the start of the first Relevant Year of the Transition Period.
 - 4.5 The Regulator shall make its Final Decision prior to the start of the first Relevant Year of the Transition Period.