



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

Kosovo Energy Regulatory Office

Rule on Transmission System Operator and Market Operator Pricing (TSO/MO Pricing Rule)

2011



Contents

CHAPTER I	General Provisions	4
Article 1	Scope and Purposes	4
Article 2	Definitions and Interpretations	5
CHAPTER II	Regulation of TSO/MO Revenues	8
Article 3	General Principles	8
Article 4	Periodic Reviews and Regulatory Periods	9
Article 5	Regular Adjustments	9
Article 6	Extraordinary Reviews	10
CHAPTER III	Maximum Allowed Revenues	11
Article 7	General Principles	11
Article 8	Allowed Operating and Maintenance Costs	12
Article 9	Allowed Depreciation	12
Article 10	Allowed Return on Capital	13
Article 11	Allowed Cost of Ancillary Services	13
Article 12	Allowed Cost of Losses	13
Article 13	Pass-Through of Licence Fee	14
Article 14	Excluded Costs	14
Article 15	Allocation of Maximum Allowed Revenues to Charges	15
Article 16	Smoothing of Allowed Revenues	15
CHAPTER IV	TNUOS Charges	16
Article 17	General Principles	16
Article 18	TNUOS Charges Approval Process	16
CHAPTER V	System Operator Charges	17
Article 19	General Principles	17
Article 20	System Operator Charges Approval Process	17
CHAPTER VI	Market Operator Charges	18
Article 21	General Principles	18
Article 22	Market Operator Charges Approval Process	18
CHAPTER VII	Connection Charges	19
Article 23	General Principles	19
Article 24	Connection Charges Approval Process	20
CHAPTER VIII	Renewable Energy Support Scheme Surcharge	21
Article 25	General Principle	21
CHAPTER IX	TRANSITIONAL AND FINAL PROVISIONS	22



Article 26	Official Language of the Rule	22
Article 27	Changes	22
Article 28	Interpretation	22
Article 29	Repeal	22
Article 30	Entry into force	23
SCHEDULE 1	Maximum Allowed Revenues Calculation	24
SCHEDULE 2	Regulatory Asset Base	28
SCHEDULE 3	Weighted Average Cost of Capital	30
SCHEDULE 4	Excluded Services	32
SCHEDULE 5	Periodic Review Process	34
SCHEDULE 6	Regular Adjustment Process	37
SCHEDULE 7	Extraordinary Review Process	38
SCHEDULE 8	Extraordinary Events	40
SCHEDULE 9	Force Majeure Events	41
SCHEDULE 10	Transitional Provisions	42



Pursuant to the authority given under Article 8, paragraph 1, subparagraph 1.6 and Article 14 paragraph 2, subparagraph 2.16 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 Transmission System Operator and Market Operator Pricing (TSO/MO Pricing Rule)

CHAPTER I GENERAL PROVISIONS

Article 1

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 developing, operating, and maintaining the Transmission System and making it available to users in accordance with the Law on the Energy Regulator;
 - 1.2 The basis for the determination of Maximum Allowed Revenues that may be earned by the Market Operator (“MO”) in any Relevant Year in order to allow it to recover the reasonable costs of operating and maintaining the electricity market in accordance with the Law on the Energy Regulator;
 - 1.3 The process by which such Maximum Allowed Revenues shall be reviewed and periodically re-determined; and
 - 1.4 The process by which Transmission Network Use of System (“TNUOS”) Charges, System Operator Charges and Market Operator Charges, used to recover the Maximum Allowed Revenues, and the Connection Charges applied by the TSO are determined.



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 revenue recovered by the TSO/MO through charges for the provision of Transmission System Services and Market Operator Services and any other revenue items stipulated by the Regulator, measured on an accruals basis;
 - 1.2 “Ancillary Services” means the services necessary to support Transmission System Services in order to maintain reliable operations of the Transmission System;
 - 1.3 “Allowed Investment Plan” means the programme of capital projects for the Regulatory Period as allowed by the Regulator as part of a Periodic Review;
 - 1.4 “Business Days” means all working days of the week as defined in Kosovo law;
 - 1.5 “Connection Charges” means the charges applied by the TSO for connecting customers to the Transmission System;
 - 1.6 “Economic Asset Lives” means the asset lives used to calculate allowed depreciation on the Regulatory Asset Base;
 - 1.7 “Efficiency Factor” means the efficiency factor defined at Periodic Reviews and applied at Regular Adjustments to determine allowed operating and maintenance costs of the TSO/MO;
 - 1.8 “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/MO and the Regulator. Which shall be an annual rate;
 - 1.9 “Excluded Service” means a service provided by the TSO/MO 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;
 - 1.10 “Extraordinary Adjustment” has the meaning given to it in Schedule 7;
 - 1.11 “Extraordinary Event” has the meaning given to it in Schedule 8;
 - 1.12 “Extraordinary Review” has the meaning given to it in Article 6;
 - 1.13 “Force Majeure Event” has the meaning given to it in Schedule 9;



- 1.14 “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;
- 1.15 “Loss Allowance” has the meaning give to it in Article12 paragraph 3;
- 1.16 “Loss Sharing Factor” has the meaning given to it in Article12 paragraph 4;
- 1.17 “Market Operator” or “MO” means the holder of the Market Operator Licence;
- 1.18 “Market Operator Services” means the services which the MO is authorised to provide under the terms of the Market Operator Licence granted to it by the Regulator;
- 1.19 “Market Operator Charges” or “MO Charges” means the set of charges applied by the MO for the provision of Market Operator Services;
- 1.20 “Materiality Threshold” has the meaning given to it in Schedule 7;
- 1.21 “Maximum Allowed Revenues” or “MAR” means the maximum amount that can be recovered in a Relevant Year by the TSO/MO through TNUOS Charges, the System Operator Charges and Market Operator Charges, the revenues from which are regulated under the formulae in Schedule 1 of this Rule;
- 1.22 “Maximum Transmission System Demand” means the maximum electricity demand in a year (in MW) metered at entry points onto the TSO’s Transmission System;
- 1.23 “Metered” means in relation to any electricity metered quantity, including active energy, reactive energy and demand, as measured by a meter installed for such a purpose under the Metering Code;
- 1.24 “Net Present Value” means the method of discounting future cash flows;
- 1.25 “Network 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;
- 1.26 “Profiling Factor” means the factor defined at Periodic Reviews and applied at Regular Adjustments to allowed operating and maintenance costs, depreciation, and return on capital and is determined as described in Article 16.
- 1.27 “Proposal” has the meaning given to it in Schedule 5 paragraph 4;
- 1.28 “Provisional Evaluation” has the meaning given to it in Schedule 5 paragraph 8;
- 1.29 “Public Electricity Supplier” or “PES” means the holder of the Public Supply Licence;
- 1.30 “Periodic Review” means the review by the Regulator to determine Maximum Allowed Revenues of the TSO/MO for the forthcoming Regulatory Period;



- 1.31 “Regular Adjustment” means the mechanical adjustment to Maximum Allowed Revenues undertaken towards the end of each Relevant Year;
- 1.32 “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;
- 1.33 “Regulated Units Transmitted” means the aggregate quantity of electricity units transmitted 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);
- 1.34 “Regulator” means the Energy Regulatory Office;
- 1.35 “Regulatory Asset Base” has the meaning given to it in Schedule 2;
- 1.36 “Regulatory Period” has the meaning given to it in Article 4 paragraph 3;
- 1.37 “Relevant Year” means the period of 12 successive calendar months between Regular Adjustments;
- 1.38 “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;
- 1.39 “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;
- 1.40 “Transmission Charging Principles” means principles issued by the Regulator that the TSO’s methodologies for setting the TNUOS Charge and Connection Charges must be in accordance with;
- 1.41 “ Report of Financial Impact” has the meaning given to it in Schedule 7;
- 1.42 “System Operator Charges” or “SO Charges” means the set of charges applied by the TSO for the provision of System Operator Services;
- 1.43 “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;
- 1.44 “TNUOS Charges” means the set of charges applied by the TSO for providing Network Use of System services;
- 1.45 “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;

- 1.46 “Transmission System Operator” or “TSO” means the holder of the Transmission System Operator Licence;
 - 1.47 “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;
 - 1.48 “TSO/MO” means the TSO and MO considered as a single entity;
 - 1.49 “Unit transmitted” means a MWh;
 - 1.50 “Weighted Average Cost of Capital” has the meaning given to it in Schedule 3.
- 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 REGULATION OF TSO/MO REVENUES

Article 3

General Principles

- 1 The TSO/MO shall set TNUOS Charges (Chapter IV), System Operator Charges (Chapter V) and Market Operator Charges (Chapter VI) such that within each Relevant Year the revenues that it expects to earn from these charges are equal to Maximum Allowed Revenues (Chapter III) approved by the Regulator.
- 2 Maximum Allowed Revenues shall be determined as follows:
 - 2.1 Maximum Allowed Revenues shall be set at Periodic Reviews (Article 4);
 - 2.2 Before the end of each Relevant Year, a Regular Adjustment (Article 5) shall be applied which involves mechanical adjustments to Maximum Allowed Revenues for changes in costs that are considered to be outside of the TSO/MO’s control; and
 - 2.3 Extraordinary Reviews (Article 6), which involve an adjustment to Maximum Allowed Revenues for material changes in the TSO/MO’s costs and/or revenues caused by an Extraordinary Event, shall be made as necessary.
- 3 The Maximum Allowed Revenues shall be allocated between TNUOS Charges, System Operator Charges and Market Operator Charges for the purposes of determining these charges (Article 15).



Article 4

Periodic Reviews and Regulatory Periods

- 1 At Periodic Reviews, Maximum Allowed Revenues of the TSO/MO 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:
 - 3.1 During the Transitional Period as given in **Error! Reference source not found.**;
 - 3.2 on the mutual agreement of the TSO/MO and the Regulator, a Regulatory Period may be shortened or extended.
- 4 The formulae for calculating Maximum Allowed Revenues at Periodic Reviews are given in Schedule 1.
- 5 The process for undertaking Periodic Reviews is given in Schedule 5.

Article 5

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 calculated based on the following:
 - 3.1 Indexation of allowed operating and maintenance costs to expected efficiency improvements through an Efficiency Factor;
 - 3.2 Indexation of allowed operating and maintenance costs (after application of the Efficiency Factor), allowed depreciation, and allowed return on capital to inflation;
 - 3.3 Updated forecasts of allowed cost of ancillary services, allowed cost of losses, and the Licence Fee;
 - 3.4 Under or over-recovery of the allowed cost of losses in the current (recently completed) Relevant Year, due to differences between forecast and actual volumes of electricity transmitted and wholesale electricity prices, subject to any sharing of such under or over-recoveries between the TSO and users of the Transmission System, and



- 3.5 Under or over-recovery of Maximum Allowed Revenues in the current (recently) Relevant Year, due to differences between forecast and actual electricity transmitted on its network and/or differences between forecast and actual Maximum Demand.
- 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 6

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. The Material Threshold shall be 5% of revenues, unless determined otherwise at Periodic Reviews on the mutual agreement of the TSO/MO 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 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 III MAXIMUM ALLOWED REVENUES

Article 7

General Principles

- 1 Maximum Allowed Revenues shall be set at such a level that enables the TSO/MO to recover the reasonable costs of providing Transmission System Services and Market Operator Services, to the extent that those costs are justified and prudently asserted.
- 2 The reasonable costs of the TSO/MO shall comprise:
 - 2.1 Allowed operating and maintenance costs (Article 8) , which shall be adjusted for inflation and the Efficiency Factor at Regular Adjustments;
 - 2.2 Allowed depreciation (Article 9), which shall be adjusted for inflation at Regular Adjustments;
 - 2.3 Allowed return on capital (Article 10), , which shall be adjusted for inflation at Regular Adjustments;
 - 2.4 Allowed cost of ancillary services (Article 11), which shall be fully passed-through at Regular Adjustments;
 - 2.5 Allowed cost of losses (Article 12), which shall be passed-through based on a Loss Allowance and Loss Sharing Factor at Regular Adjustments;
 - 2.6 The Licence Fee (Article 13), which shall be fully passed-through at Regular Adjustments; and
 - 2.7 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 volume, cost and service quality information relating to the TSO/MO;
 - 3.2 Projected volumes, costs and service quality relating to the TSO/MO;
 - 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 Where the TSO/MO receives revenues under the Inter-TSO Compensation mechanism, such revenues shall be offset against Maximum Allowed Revenues.

Article 8

Allowed Operating and Maintenance Costs

- 1 In submitting its estimates of fixed and other operating and maintenance costs required to be recovered through Maximum Allowed Revenues for any forthcoming Regulatory Period, the TSO/MO shall only seek to recover any portion or element of such costs which can be reasonably attributed to the TSO/MO licensees.
- 2 Allowed operating and maintenance costs shall only include any proportion or element of corporate costs (of any parent entity or any affiliated entity) that can reasonably be attributed to the TSO/MO licensees using normal and customary accounting practices.
- 3 At each Regular Adjustments the Efficiency Factor shall be applied to allowed operating and maintenance costs, as per the formulae given in Schedule 1.
- 4 The Regulator shall set the Efficiency Factor at Periodic Reviews based on the annual efficiency improvement in the operating and maintenance costs of the TSO/MO that can be reasonably expected. Expected efficiency gains will be captured in the Efficiency Factor and not double-counted in forecasts of operating and maintenance costs.
- 5 In setting the Efficiency Factor the Regulator shall refer to, but is not bound by or limited to, the factors specified in paragraph 3 of Article 7.

Article 9

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 10

Allowed Return on Capital

- 1 Allowed return on capital shall be calculated as a function of the Regulatory Asset Base and the Weighted Average Cost of Capital, described in Schedule 2 and Schedule 3 respectively.
- 2 Allowed return on capital shall be calculated based on the 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/MO shall not earn a return on assets financed using capital grants.

Article 11

Allowed Cost of Ancillary Services

- 1 The allowed cost of ancillary services for the next Relevant Year shall be proposed by the TSO/MO at each Periodic Review and each Regular Adjustment, using a forecast of ancillary services requirements to be purchased in the next Relevant Year and the estimated prices of these purchases.
- 2 The forecast of requirements and estimated prices shall be supported by evidence including any ancillary services agreements entered into by the TSO/MO.
- 3 The Regulator shall determine an allowed cost of ancillary services considering this proposal, following an assessment of the supporting evidence on need and cost. In making this assessment, the Regulator shall take into consideration whether ancillary services have been procured on a competitive basis or such other evidence as might be provided to show the procurement of these services is made on an economic basis.

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 Allowance 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 Allowance;



- 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 Allowance 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 Allowed Investment Plan during the Regulatory Period; and
 - 3.3 The level of Transmission Losses in comparable Transmission Systems in countries elsewhere in Europe, taking account of the similarities between the electricity industry in those countries and that of Kosovo.
- 4 The Loss Allowance and Loss Sharing Factor shall be sufficient to encourage the TSO to reduce Transmission Losses but not impose costs on the TSO such that its financial position is threatened.
- 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 Allowance shall be adjusted to be consistent with the changed methodology, so as to leave the absolute level of loss reductions (expressed in percentage points) expected over the Regulatory Period unchanged.

Article 13

Pass-Through of Licence Fee

- 1 The TSO/MO shall fully pass-through the Licence Fee at each Regular Adjustment.

Article 14

Excluded Costs

- 1 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 4 and which:
 - 1.1 Is for the specific benefit of any third party who requests it; and
 - 1.2 Is remunerated under any charges other than charges for use of the Transmission System.



- 2 The cost of the provision of Excluded Services shall be recoverable by the TSO/MO in line with Schedule 4.

Article 15

Allocation of Maximum Allowed Revenues to Charges

- 1 Maximum Allowed Revenues in each Relevant Year are allocated between revenues to be recovered under TNUOS Charges, System Operator Charges and Market Operator Charges as follows:
 - 1.1 System operator costs, including the allowed costs of losses, are to be recovered from System Operator Charges. The TSO/MO will develop a methodology to specify how costs are allocated to the system operator function;
 - 1.2 Market operator costs are to be recovered from Market Operator Charges. The TSO/MO will develop a methodology to specify how costs are allocated to the market operator function; and
 - 1.3 All remaining allowed revenues, which are not recovered through 1.1 and 1.2, are to be recovered from TNUOS Charges.

Article 16

Smoothing of Allowed Revenues

- 1 At Periodic Reviews, the Regulator shall smooth the recovery of allowed depreciation and allowed return on capital such that they are constant in each Relevant Year of the Regulatory Period. This smoothing shall be achieved by ensuring that the Net Present Values of smoothed and unsmoothed allowed depreciation and return on capital (during the Regulatory Period) are equal, using the Weighted Average Cost of Capital as the discount rate.
- 2 At Periodic Reviews the Regulator may also adjust the profile of Maximum Allowed Revenues during the Regulatory Period to minimise significant step changes between the last year of the current Regulatory Period and the first year of the forthcoming Regulatory Period. The Regulator shall give careful consideration to the impact that any profiling will have on the cash flows of the TSO/MO and its ability to provide Network System Services and Market Operator Services.
- 3 This additional profiling shall be done by applying a Profiling Factor, which may vary for each Relevant Year of the Regulatory Period. In setting the Profiling Factor at Periodic Reviews, the Regulator shall ensure that the Net Present Value of forecast Maximum Allowed Revenues (during the Regulatory Period) is unchanged, using the Weighted Average Cost of Capital as the discount rate.



CHAPTER IV TNUOS CHARGES

Article 17

General Principles

- 1 The TSO/MO shall set TNUOS Charges such that:
 - 1.1 The TSO/MO recovers its allowed revenues that are not recovered from other charges; and
 - 1.2 TNUOS Charges are in accordance with a methodology developed by the TSO/MO and approved by the Regulator. The methodology shall be in accordance with the Transmission Charging Principles issued by the Regulator.

Article 18

TNUOS Charges Approval Process

- 1 The TSO/MO shall submit to the Regulator its methodology for TNUOS 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/MO shall have the right to determine the TNUOS Charges subject to the requirements of Article 17 above.



CHAPTER V SYSTEM OPERATOR CHARGES

Article 19

General Principles

- 1 The TSO/MO shall set System Operator Charges such that:
 - 1.1 The TSO/MO recovers its system operator costs, for the provision of system operator services as authorized under its TSO Licence;
 - 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/MO 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 Transmission Charging Principles issued by the Regulator.

Article 20

System Operator Charges Approval Process

- 1 The TSO/MO 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/MO shall have the right to determine the System Operator Charges subject to the requirements of Article 19 above.



CHAPTER VI MARKET OPERATOR CHARGES

Article 21

General Principles

- 1 The TSO/MO shall set Market Operator Charges such that:
 - 1.1 The TSO/MO recovers its market operator costs, for the provision of services as authorized under the Market Operator Licence; and
 - 1.2 Market Operator Charges are in accordance with a methodology developed by the TSO/MO 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 Transmission Charging Principles issued by the Regulator.

Article 22

Market Operator Charges Approval Process

- 1 The TSO/MO 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/MO shall have the right to determine the Market Operator Charges subject to the requirements of Article 21 above.



CHAPTER VII CONNECTION CHARGES

Article 23

General Principles

- 1 The TSO/MO shall set Connection Charges such that:
 - 1.1 The TSO/MO 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/MO and approved by the Regulator. The methodology shall be in accordance with the 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 TNUOS 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 TNUOS 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 TNUOS Charges, those to be recovered from System Operator Charges and those to be recovered from Market Operator Charges or other charges shall be defined in the methodology on the determination of Connection Charges.



Article 24

Connection Charges Approval Process

- 1 The TSO/MO 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/MO shall have the right to determine the Connection Charges subject to the requirements of Article 23 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 VIII RENEWABLE ENERGY SUPPORT SCHEME SURCHARGE

Article 25

General Principle

- 1 The TSO/MO 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/MO.
- 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/MO.



CHAPTER IX TRANSITIONAL AND FINAL PROVISIONS

Article 26

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 27

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 28

Interpretation

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

Article 29

Repeal

This Rule repeals the "Rule on Principle 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 Law No.2004/09 on Energy Regulator.



Article 30

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 TSO/MO. This schedule is intended to complement and clarify the application of the principles set out in the main body of the Rule.
- 2 Maximum Allowed Revenues (MAR_t) shall be calculated at Periodic Reviews and Regular Adjustments using the following formula:

$$MAR_t = OPMC_t + DEPC_t + RTNC_t + ASVC_t + LSSC_t + LICC_t - ITCR_t + KREV_t$$

Where

MAR_t is Maximum Allowed Revenues in Relevant Year *t*

OPMC_t is allowed operating and maintenance costs in Relevant Year *t*

DEPC_t is allowed depreciation in Relevant Year *t*

RTNC_t is allowed return on capital in Relevant Year *t*

ASVC_t is allowed cost of ancillary services in Relevant Year *t*

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

LICC_t is the Licence Fee in Relevant Year *t*

ITCR_t is net revenues to the TSO/MO under the Inter-TSO Compensation Mechanism in Relevant Year *t*

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

- 2.1 Allowed operating and maintenance costs (OPMC_t) shall be calculated at Regular Adjustments using the following formula:

$$OPMC_t = OPMC_{t-1} * (1 + CPI_{t-1}) * (1 - E_t) * (1 - P_t)$$

Where

OPMC_t is allowed operating and maintenance costs in Relevant Year *t*

OPMC_{t-1} is allowed operating and maintenance costs in Relevant Year *t-1*, except for Relevant Year 1 when a value determined by the Regulator at the most recent Periodic Review shall be used



<i>CPI_{t-1}</i>	<i>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, or any other measure of inflation that the Regulator determines is a better measure of the change in operating and maintenance costs over time and is allowed at a Periodic Review</i>
<i>E_t</i>	<i>is the Efficiency Factor in Relevant Year t, which is set at Periodic Reviews</i>
<i>P_t</i>	<i>is the Profiling Factor in Relevant Year t, which is set at Periodic Reviews</i>

2.2 *Allowed depreciation (DEPC_t) shall be calculated at Regular Adjustments using the following formula:*

$$DEPC_t = DEPC_{t-1} * (1 + CPI_{t-1}) * (1 - P_t)$$

Where

<i>DEPC_t</i>	<i>is other allowed depreciation in Relevant Year t, which is smoothed such that it is constant over the Regulatory Period</i>
<i>DEPC_{t-1}</i>	<i>is allowed depreciation in Relevant Year t-1, except for Relevant Year 1 when a value determined by the Regulator at the most recent Periodic Review shall be used, which is smoothed such that it is constant over the Regulatory Period</i>
<i>CPI_{t-1}</i>	<i>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</i>
<i>P_t</i>	<i>is the Profiling Factor in Relevant Year t, which is set at Periodic Reviews</i>

2.3 *Allowed return on capital (RTNC_t) shall be calculated at Regular Adjustments using the following formula:*

$$RTNC_t = RTNC_{t-1} * (1 + CPI_{t-1}) * (1 - P_t)$$

Where

<i>RTNC_t</i>	<i>is allowed return on capital in Relevant Year t, which is smoothed such that it is constant over the Regulatory Period</i>
<i>RTNC_{t-1}</i>	<i>is allowed return on capital in Relevant Year t-1, except for Relevant Year 1 when a value determined by the Regulator at the most recent Periodic</i>



Review shall be used, which is smoothed such that it is constant over the Regulatory Period

CPIt-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

P_t is the Profiling Factor in Relevant Year t, which is set at Periodic Reviews

2.4 *Allowed cost of losses (LSSC_t) shall be calculated at Regular Adjustments using the following formula:*

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

Where

LSSC_t is allowed cost of losses in Relevant Year t

LSSA_t is the Loss Allowance, which is a percentage of energy entering the Transmission System, in Relevant Year t

REUE_t is the energy units (in MWh) entering the Transmission System in Relevant Year t

WHEA_t is the average wholesale energy cost (in €/MWh) as determined using the allowed wholesale energy cost for the PES in Relevant Year t

LSSCat-1 is the actual allowed cost of losses in Relevant Year t-1 (calculated using the Loss Allowance)

LSSCft-1 is the forecast cost of losses in Relevant Year t-1 (calculated using the Loss Allowance)

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 Periodic Reviews and which reflects the premium payable by the licensee for short-term loans above the EURIBOR rate

LSACt-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 in Relevant Year t-1 (not calculated using the Loss Allowance)

LSSF_t is the Loss Sharing Factor in Relevant Year t, which is set at Periodic Review.



2.5 *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 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 Periodic Reviews and which reflects the premium payable by the licensee for short-term loans above the EURIBOR rate



SCHEDULE 2 REGULATORY ASSET BASE

- 1 This schedule describes the determination of the Regulatory Asset Base for the purpose of calculating allowed depreciation (Article 9) and allowed return on capital(Article 10)
- 2 The Regulatory Asset Base shall be a regulatory value of the TSO/MO'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 at their disposal value;
 - 4.3 Allowed 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 allowed in the Allowed Investment Plan. Interest during construction shall be capitalised. At Periodic Reviews 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. Regulator shall not make any retroactive reduction in revenues earned during the current (recently completed) Regulatory Period to account for differences between the allowed and actual costs. 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 Allowed Investment Plan is not brought into service in the current Regulatory Period, its allowed 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 Allowed 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 network performance 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 may be required by the TSO's licence and MO's licence;
 - 6.4 Have regard to any other relevant investment or development plans for the TSO/MO that have been approved by the Regulator (and any differences between these plans shall be identified by the TSO/MO and explained), including the latest 3 Year Allowed Investment Plan prepared by the TSO in line with Article 6 of its Licence and as approved by the Regulator and the indicative requirements suggested by its 10 Year Plan; and
 - 6.5 Be developed using an analysis of the discounted costs and benefits of the capital project.
- 7 The Allowed Investment Plan shall be implemented as follows:
 - 7.1 The TSO/MO shall use all reasonable endeavours to ensure the implementation of the Allowed Investment Plan in line with its allowed timetable;
 - 7.2 If the TSO/MO shall be or is unable to, for reasons beyond its control, undertake a capital project in accordance with the timetable given in the Allowed Investment Plan, it shall notify the Regulator. The TSO/MO shall also detail the reasons for the delay and the revised timetable;
 - 7.3 The TSO/MO may at any time apply to the Regulator to substitute an alternative capital project for a capital project in its Allowed Investment Plan; 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. Maximum Allowed Revenues in the current Regulatory Period shall not be adjusted; and
 - 7.4 If the TSO/MO substitutes an alternative capital project for a capital project in its Allowed Investment Plan 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:

$$WACC = (1 - g) * (rE) / (1 - t) + g * (rD)$$

Where

WACC *is the Weighted Average Cost of Capital*

g *gearing (debt:debt+equity ratio)*

rE *real cost of equity (expressed as a %)*

rD *real cost debt (expressed as a %)*

t *Kosovo corporate income tax rate*

- 2 The gearing (g) shall be a value proposed by the TSO/MO and 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 balanced consideration of the current financing mix of the TSO/MO and the financing mix that might be expected to be achievable now and in future taking account of the financing mix of similar utilities internationally.

- 3 The cost of equity (rE) shall be a value proposed by the TSO/MO and determined by the Regulator and calculated using the Capital Asset Pricing Model (CAPM) with the following general formula:

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

rf *risk-free rate*

ERPm *equity risk premium applicable to the market as a whole*

βi *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 non-concessionary sovereign debt in Kosovo, in real terms, and shall be proposed by the TSO/MO and determined by the Regulator using evidence on the cost of non-concessionary sovereign debt for Kosovo and/or, where this is unavailable or insufficient, the cost of non-concessionary sovereign debt for countries considered to have a similar credit status to Kosovo.

- 3.2 The equity risk premium (ERPm) shall be proposed by the TSO/MO and determined by the Regulator using evidence on the equity risk premium internationally.



- 3.3 The beta (β_i) shall be proposed by the TSO/MO and determined by the Regulator using evidence on the beta applicable to similar utilities internationally.
- 4 The cost of debt (r_D) shall be the average interest rate of existing long-term loans (exceeding one year) to the TSO/MO, expressed in real terms and weighted according to the value in Euros of each loan.
- 4.1 The TSO/MO shall be required to procure commercial (non-concessional) 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 competitively 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/MO, 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/MO.
 - (ii) An assessment of the expected interest rate applied to any future concessional loans to the TSO/MO.
 - (iii) An assessment of the expected mix of commercial (non-concessional) and concessional loans in the debt of the TSO/MO over the coming Regulatory Period.



SCHEDULE 4 EXCLUDED SERVICES

- 1 The TSO/MO 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/MO under the 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 party requesting the relocation;
 - 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/MO 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/MO 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/MO 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/MO 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/MO 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/MO 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/MO or other interested parties in relation to the Periodic Review on its official website and the Regulator shall disclose all material information submitted to it by the TSO/MO, excluding any information that the Regulator acknowledges as being commercially confidential.
- 2 The Regulator shall initiate the Periodic Review no later than 120 Business Days prior to start of the forthcoming Regulatory Period. Different timing shall apply during the Transitional Period as given in Schedule 10.
- 3 The timetable for the overall review process shall be submitted to ERO during the initiation of the review process.
- 4 The Regulator shall initiate the Periodic Review by notification to the TSO/MO 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 TSO/MO's Proposal for its Maximum Allowed Revenue for the forthcoming Regulatory Period.
- 5 The TSO/MO's Proposal shall contain the following information and address the following matters (without limitation):
 - 5.1 Actual Regulated Revenues earned during the current Regulatory Period (using a reasonable estimate for the remaining months where necessary);
 - 5.2 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;
 - 5.3 The annual report and audited financial statements for each financial year that ended in the current Regulatory Period, when these are available as required by the reporting requirements contained in the TSO's and MO's licences;
 - 5.4 Actual Maximum Transmission System Demand, Regulated Units Transmitted, and Customer Numbers during the current Regulatory Period;
 - 5.5 Forecast Maximum Transmission System Demand, Regulated Units Transmitted, and Customer Numbers for the forthcoming Regulatory Period;
 - 5.6 Actual Transmission Losses during the current Regulatory Period and forecast Transmission Losses for the forthcoming Regulatory Period;



- 5.7 Proposed Weighted Average Cost of Capital to be applied in forecasting Maximum Allowed Revenues for the forthcoming Regulatory Period;
 - 5.8 Forecast Maximum Allowed Revenues, reporting each of the allowed cost components separately, for the forthcoming Regulatory Period;
 - 5.9 Any studies commissioned by the TSO/MO relating to any of the matters to be contained in the TSO/MO's Proposal; and
 - 5.10 Any other additional material that the Regulator reasonably considers should be included in the TSO/MO's proposal, so long as the Regulator has notified the TSO/MO a reasonable time prior to the deadline for the TSO/MO's proposal.
- 6 The TSO/MO shall, to the fullest extent possible, apply the principles and formulae 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 The Proposal shall use the most recent available information on the wholesale power costs of the PES applied for the purposes of calculating the loss allowance.
 - 8 Upon receiving the TSO/MO'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.
 - 9 The Regulator shall prepare a Provisional Evaluation of the TSO/MO's Proposal within a reasonable time (set forth in the paragraph 3 of this Schedule) before the start of the forthcoming Regulatory Period, after reviewing the submission of the TSO/MO and then consulting with the TSO/MO. The Provisional Evaluation shall set out the Regulator's proposals on the Maximum Allowed Revenues to be recovered by the TSO/MO during the Regulatory Period and the justification for these. The Regulator, in preparing its Provisional Evaluation, may amend, remove or replace any part of the TSO/MO's Proposal as it considers appropriate provided that it shall identify such amendments, removals or replacements and provide justification for these.
 - 10 Following notification of the TSO/MO of its Provisional Evaluation, the Regulator shall launch a public consultation on its Provisional Evaluation, in accordance with the Law on the Energy Regulator.
 - 11 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 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. An alternative timing shall be applied at the Transitional Period given in Schedule 10.



- 12 Maximum Allowed Revenues as provided in the Regulator's Final Decision shall apply from the start date of the forthcoming Regulatory Period.
- 13 Where more recent information on the allowed wholesale power costs of the PES to be applied for the purposes of calculating the loss allowance, the Maximum Allowed Revenues shall be amended accordingly prior to the start date of the forthcoming Regulatory Period.
- 14 The TSO/MO may dispute or appeal any decision by the Regulator in accordance with applicable legislation.



SCHEDULE 6 REGULAR ADJUSTMENT PROCESS

- 1 The TSO/MO shall submit the proposed new 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 TSO/MO 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/MO to further explain its method of calculating the proposed Maximum Allowed Revenues, and if so required, the TSO/MO shall promptly provide to the Regulator any further information or explanations sought.
- 3 The Regulator shall advise the TSO/MO at least 40 Business Days before the start of the forthcoming Relevant Year whether or not it approves the TSO/MO'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 The TSO/MO shall calculate and notify the resulting TNUOS Charges, System Operator Charges and Market Operator Charges at least 30 Business Days before the start of the forthcoming Relevant Year.
- 8 The TSO/MO 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/MO may request an Extraordinary Review.
- 2 An Extraordinary Review cannot be launched 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/MO 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/MO's business;
 - 4.3 An estimate of the change in the TSO/MO'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/MO of the Extraordinary Event in each year, calculated as the sum of the change in the TSO/MO'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/MO (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.
- 5 If the TSO/MO determines that the financial impact is greater than the Materiality Threshold, it shall include in its Report 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 to the Net Present Value of the financial impact of the Extraordinary Event, using the Weighted Average Cost of Capital as the discount rate; and
 - 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/MO. If so, the Regulator shall notify the TSO/MO and include a description of the Extraordinary Event and a summary its expected impact. The TSO/MO shall then prepare a Report of Financial Impact as per the process described above.
- 7 The Regulator may reasonably require the TSO/MO to further explain its method of calculating the Report of Financial Impact and Extraordinary Adjustment, and if so required, the TSO/MO shall promptly provide to the Regulator any further information or explanations sought.
- 8 The Regulator shall advise the TSO/MO within 20 Business Days of receiving the Report of Financial Impact whether or not it approves the TSO/MO'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 The TSO/MO 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/MO that shall not be fully recovered through Regular Adjustments;
 - 1.2 Force majeure events as defined in Schedule 9;
 - 1.3 Any other event, which meets all of the following conditions:
 - (i) Was not reasonably under the control of the TSO/MO;
 - (ii) Shall not be fully recovered through Regular Adjustments; and
 - (iii) Shall significantly change the revenues and/or costs of the TSO/MO 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/MO's control;
 - 1.2 The TSO/MO could not reasonably have provided against;
 - 1.3 Having arisen the TSO/MO could not reasonably have avoided or overcome; and
 - 1.4 Is not substantially attributable to the TSO/MO.
- 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/MO'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 or flooding.



SCHEDULE 10 TRANSITIONAL PROVISIONS

- 1 The Transitional Period is from 1 April 2012 until 31 March 2013
- 2 The first Regulatory Period shall be 1 year.
- 3 The following timing shall apply for the first Periodic Review:
 - 3.1 The Regulator shall initiate the Periodic Review no later than 60 days prior to the start of the first Regulatory Period.
 - 3.2 The Regulator shall prepare a Provisional Evaluation no later than 45 days prior to the start of the first Regulatory Period.
 - 3.3 The Regulator shall make its Final Decision no later than 30 days prior to the start of the first Regulatory Period.