



Prishtina, 10 January 2012

From: **Dr. Ali Hamiti**, *Chairman of the Board*

For: **Mr. Arben Gjukaj**, Managing Director, KEK J.S.C

Mr. Fadil Ismaili, Managing Director, KOSTT J.S.C

Copy: **Mr. Besim Beqaj**, Minister for Economic Development

Mr. Ismet Krasniqi, Secretary of Parliament of Kosovo

Mr. Zenun Pajaziti, Chairman of the Commission for Economic Development, Trade and industry

Mr. Petrit Pepaj, Director for Rregulatory Affairs and Tarriffs, KEK J.S.C

Ms. Resmije Ahma, Director for Legal and Regulatory Affairs, KOSTT J.S.C

Subject: Sixth Electricity Tariff Review (ETR6)

Dear all

I am writing to you to set out ERO's plans for the Sixth Electricity Tariff Review (ETR6), for new tariffs to take effect from 1 April 2011.

This review will be the first to be conducted under the new Pricing Rules issued by ERO. According to those rules, the first periodic review of allowed revenues for the TSO/MO and DSO licensees will be conducted under transitional arrangements, with allowed revenues and approved tariffs and charges applying for a one-year period (ie, until 31 March 2013). Following this, a full periodic review will be conducted leading to the establishment of allowed revenues for a multi-year period from 1 April 2013. The allowed revenues for the Public Electricity Supply (PES) will be established on the basis of the pass-through of power purchase costs and network charges with other input values¹ also being determined under transitional arrangements. The transitional arrangements provide for a much shorter review process than generally applied for periodic reviews.

¹ These are defined in Article 7 of the Rule on *Public Electricity Supplier Pricing* and comprise allowed asset lives, the retail margin, the bad debts allowance and the export sharing factor.



The new Pricing Rules do not provide for any transitional review arrangements for Regulated Generators². However, ERO does not consider it possible to conduct a full periodic review of the allowed revenues for these licensees as, under the Pricing Rules, such a review must be initiated at least 120 working days prior to the new allowed revenues coming into effect. Therefore, ERO proposes to conduct a transitional review for these licensees under the same arrangements as for other regulated licensees³.

The timetable for reviews to be conducted under transitional arrangements, as set out in the Pricing Rules, is as follows:

- 60 days prior to the start of the regulatory period: Initiation of the review.
- 45 days prior to the start of the regulatory period: Provisional evaluation of licensee proposals by ERO published for public consultation.
- 30 days prior to the start of the regulatory period: Final decision by ERO on allowed revenues for the regulatory period.

In line with these requirements, ERO proposes to adopt the following timetable for ETR6:

- Initiation of ETR6. ERO will issue a public notification to this effect and require submissions of proposed allowed revenues from regulated licensees (with the exception of the PES licensee, who will be required to submit proposals for input values): **10 January 2012**
- Submission by licensees of proposed allowed revenues: **16 January 2012**
- Publication of provisional evaluation of licensee proposals by ERO for public consultation: **30 January 2012**
- Closing date for public consultation: **13 February 2012**
- Final decision by ERO on allowed revenues of regulated licensees: **20 February 2012**
- Issuing by licensees of regulated tariffs and charges, in accordance with the approved allowed revenues and charging methodologies: **1 March 2012**
- Final decision by ERO on tariffs and charges for regulated customers: **until 15th of March 2012.**

² A Generator which is obligated under the Law on Electricity to supply the PES at a regulated price where insufficient wholesale competition exists and the PES requires the supply to meet its obligations

³ Defined as licensees whose tariffs or charges are regulated in whole or in part by ERO. These comprise regulated generators, the TSO/MO, the DSO and the PES.



Application guidance

I would also like to take this opportunity to provide some guidance on specific aspects of the tariff applications:

- The applications should conform to the requirements of the new Pricing Rules issued by ERO.
- According to the criteria issued by ERO, effective retail competition does not yet exist for any customer category. Therefore, all customer categories should be assumed to be supplied at regulated tariffs for the purposes of this review.
- The energy balance submitted as part of the tariff applications should conform to that approved by MED for the coming year. Any deviations from this approved balance must be fully justified by licensees.
- Assumptions on operating (import) subsidies should be consistent with those in the most recent approved Kosovo Consolidated Budget (KCB). Differences between assumed and actual operating subsidies received in the previous year should be included in the proposed revenues to be recovered from regulated tariffs.
- In the interests of transparency, ERO proposes to publish the full tariff applications received from licensees alongside its assessment of these. Licensees should, therefore, identify any parts of their application which are considered to be confidential.

Please contact me if you have any questions regarding this letter.

Yours sincerely,

Dr Ali Hamiti

Chairman of the Board