



**Electricity Tariffs Review (ETR 6)
Application for Tariffs**

16 January 2012

	APPLICATION FOR TARIFFS	FO-CLRR-032
	<i>ver. 1.0</i>	<i>faqe 2 nga 5</i>

1. Introduction

On 10 January 2012, KOSTT received ERO's notification regarding the plan for the six-th electricity tariff review (ETR6) regarding Allowed Revenues, as well as new tariffs and charges applicable as of 1 April 2012.

This document, and the accompanying documents, submitted to the Energy Regulator's Office by KOSTT, comprises the Application of Allowed Revenues of the Transmission System and Market Operator for 2012.

The 2012 Allowed Revenues Application, valued at € 20,931,000.00, is higher than the 2011 Allowed Revenues, as this application also includes the pre-2006 assets, which shall be transferred from KEK to KOSTT, in accordance with the Decision of the Government of Republic of Kosovo No. 10/29, of 03.08.2011.

The 2012 Allowed Revenues Application's evaluation of pre-2006 assets was made on the basis of the asset reevaluation document submitted to ERO by KOSTT on 24.08.2011, as well as based on KOSTT comments on the ERO document issued for public consultation in August 2011 Reevaluation of the Regulated Asset Base – Consultation Paper

The short time granted by the ERO will unavoidably be reflected on the quality of this application, especially due to the fact that KOSTT and KEK are currently implementing the Decision of the Republic of Kosovo on Asset Transfer.

2. Treatment of KOSTT assets

Even in ETR5, KOSTT clarified its vision and approach on the solution for pre-2006 asset treatment. KOSTT proposed for the pre-2006 asset value to return to the level prior to the deletion of 31 December 2004, namely at 115 million euro. This application also includes the depreciation of this value from 2005 to 2011. KOSTT is aware that until now there were no creditor obligations on these assets, therefore it requests they are treated through RAB, rather than RABf, i.e. only requests the coverage of depreciation costs for this value.

Total value of the assets presented in the initial RAB in 2012 is €171,073,074.00

And includes;

- Initial gross RAB state in 2011	€58,888,146.00
- Pre-2006 KOSTT assets	€85,605,388.00
- Pre-2006 KEK 110 kV assets	€8,165,990.00
- Post-2006 KEK 110 kV assets	€7,042,600.00
- KOSTT – investments in 2011	€11,370,950.00

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3. Operational expenditures

Maintenance is of extraordinary significance for the improvement of reliability and capacities of Kosovo's electricity system, and it is crucial to allow for sufficient revenue in order to expand the maintenance program.

Bearing this in mind, KOSTT operates with its own maintenance structures for the transmission grid lines and substations. This imposes an obligation on us to provide adequate spare parts and work appliances that impact the improvement of the efficiency of services.

On the other hand, asset management, namely the monitoring of their operational utilization and parameters and the provision of adequate occupational safety precautions and environmental considerations, impose on us an obligation to implement relevant regulations and standards. Since KOSTT's internal services are not always able to provide for such standards, subcontracting is necessary.

Based on the state of transmission assets, increased consumption, the need for greater efficiency and effectiveness, the implementation of preventive maintenance, etc. maintenance budget requirements are constant.

On 3 August 2011, the Government of Republic of Kosovo issued a Decision to transfer 400/220/110 kV assets, 220/35/10(20) and 110 kV transformers, as well as the relevant fields with 35kV and 10 (20) kV transformer circuit breakers from KEK to KOSTT. A working group has been established to prepare the Implementation Agreement of this Decision as well as the other respective documents regarding the transfer of assets from KEK to KOSTT. The implementation of this decision is also reflected on the asset value and costs of transmission system operation. This will represent an adequate basis for the determination of economic parameters and for maintenance planning in newly created circumstances, as well as an issue for discussion, depending on ERO's considerations and perspectives.

Such an increase of the asset value and number of employees significantly influences the increment of operational expenses for all categories.

As regards operational expenses, KOSTT has continuously adopted an approach that is compatible with the Electricity Tariff Methodology. Usually, between 20 and 30 percent of the maintenance budget was spent on asset maintenance, whereas the rest covered expenses related to infrastructural renovations, as stipulated by the tariff methodology. In this application, that approach changes, as it requires maintenance revenue without considering infrastructural rejuvenations.

Revenue requested for maintenance expenditure in 2012 is approximate with the standards of the transmission systems of the region. This eliminates the use of maintenance budget for the rehabilitation of the existing grid and improves availability and capital investment capacities. The maintenance budget requested for 2012 has changed because of an anticipated increase of maintenance cost demand, based on the increased value of assets to be transferred, the state and life-expectancy of which is yet unknown for us.

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This changed approach regarding the demand for maintenance cost coverage, changes and ensures, in long term, a steady and slow development of transmission tariffs.

In relative terms, maintenance costs in this application are lower than the standards required for the activity. This is a consequence of intensive investments in the past and intensive investments planned for the future.

4. Ancillary Services

Revenue demand for Ancillary Services remains in the same level with the previous year, as the Frequency – Power Regulation project will be financed by KfW, which also envisages the introduction of an operation regime with Albania, expected to be finalized by the end of the year. Commercial arrangements of such services will also be included in this project, expected to be implemented during 2012. We the current lack of more accurate parameters of a commercial agreement, we are inclined to believe that the demand will be equivalent with that of 2011.

5. Transmission Losses

According to the ETR5 review for 2011, the percentage of transmission losses was 2.3 %, and forecasted energy available was 5675.2 GWh. As a result, the volume of allowed losses results in 130.5 GWh.

Metered energy in 2011 indicates larger currents than predicted, namely energy available in 2011 was 5938.4 GWh, which results with a higher volume of allowed losses - 136.6 GWh. Metered transmission losses in 2011 are 116 GWh. It is evident that KOSTT, with an in increased efficiency, has managed to reduce transmission losses vis-à-vis allowed losses by 20.6 GWh. In Allowed Revenues for 2011, KOSTT has included revenues for transmission losses of 130.5 GWh, and with the realized energy flows, allowed losses for KOSTT are estimated at 136.6 GWh. In Allowed KOSTT Allowed Revenues for 2012, revenues for the remaining difference of 6.1 GWh must be included. According to the Tariff Methodology calculating revenues and tariffs in 2011, KOSTT maintains a difference between allowed and realized losses as an incentive for further reduction of losses.

KOSTT's request for transmission losses in 2012 is based on the Price Regulation for TSO /TO. Volume requested in 136 GWh. This value represents current losses in 2011 plus 20 GWh – losses expected to be incurred by 110/10 kV, 110/35kV, 220/35/10 kV transformers transferred to KOSTT.

For 2012, KOSTT proposes that the division factor for transmission losses is 50 – 50.

6. Capital Expenditures

For 2012, KOSTT has planned to implement capital projects in the amount of 30,058,974.00 €. Donations budget for this year is planned at €17,248,194.00; loans €2,843,250.00, and financing by KOSTT € 9,967,530.00.

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Projects Ferizaj 2 and Prizren 2 produce a considerable impact in the total amount of investments, which are almost completed and will enter into operation this year, with a total value of 13 million Euros.

KOSTT Investments Plan 2012 is drafted as a separate document.

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