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

FINAL EVALUATION

The Seventh Electricity Tariff Review

ETR7 (2013-2017)

Distribution System Operator and Public Supplier Detail

22 March 2013

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1 Introduction

In a letter dated 8 June 2012 ERO announced the commencement of Electricity Tariff Review 7 (ETR7) which, for the first time, will enable the setting of licensee maximum allowable revenues over multi year periods. Those maximum allowable revenues must, by law, be adequate to cover the reasonable operating and capital costs of performing the licensed activities.

In line with its published Pricing Rules, ERO has carefully assessed the licensee's forecast costs and has satisfied itself that its proposals are reasonable and appropriate. KEK was asked to present its submission to ERO and the public on 3rd September. Since that date, ERO has worked closely with the company to clarify initial submissions for the Distribution System Operator (DSO) and Public Supplier (PES) licensees.

ERO conducted a provisional evaluation of KEK's costs and summarised its findings in Provisional Proposals for the MYT review, issued on 8 January 2013. In response to ERO's Provisional Proposals submissions in respect of DSO and PES were received from both KEK itself and from Çalik-Limak (C-L), the prospective purchaser of the KEK distribution and supply businesses. These submissions were received by ERO on 4 February 2013. C-L and KEK argued for changes to ERO's position as set out in the Provisional Proposals with regard to certain aspects of costs and assumptions underlying the calculation of MARs. ERO comments on both submissions in this Final Evaluation and gives its response to those items that were challenged by respondees.

This document forms part of ERO's final Evaluation and should be read in conjunction with the "Final Evaluation – Overview" published concurrently with this document and its annexes. It is structured as follows:

Section 2 - Final Evaluation of DSO's proposed Capital Expenditures

Section 3 – Final Evaluation of DSO's proposed Operating Expenditures

Section 4 – Final Evaluation of PES's proposed Capital Expenditures

Section 5 – Final Evaluation of PES's proposed Operating Expenditures

Section 6 - Other Regulatory Parameters

Section 7 - Final MARs for DSO and PES

2 Final Evaluation of DSO's proposed Capital Expenditures

2.1 DSO's CAPEX Proposals

On 19 October 2012 ERO issued a consultation document (the "October Consultation") setting out ERO's understanding of, among others, the DSO's submission to date and asking for additional clarification and justification. ERO stated that without proper justification of the DSO's costs and

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explanations of inconsistencies, ERO would consider some cost elements as unjustified and exclude them from the MAR calculation.

The November submission of the DSO consisted of a list of projects totalling €114.1m to be conducted during the Regulatory Period of five years. The DSO planned to evenly spread-out this capex plan throughout each Relevant Year of the Regulatory Period, with investments ranging from €22m to €23m per year.

The technical evaluation of the DSO capex prepared by ERO's technical consultants, SKM, indicated that the DSO investment plan was in line with the licensee's Network Development Plan and that the capital expenditures were based on the requirements of the network and the priorities of the DSO. Furthermore, Load-Related Expenditure and Non-Load Related Expenditure modelling suggests that the current capital expenditure levels were below levels that would be expected given the current asset age profile, even under more optimistic assumptions on asset lives. As such SKM's technical evaluation suggested that none of the projects requested by KEK are excluded from MAR, and ERO agreed with this assessment.

DSO's capex submission underwent a further rigorous investigation to assess whether the unit costs of each of their proposed capital expenditure projects were in line with relevant international comparators. The technical evaluation data suggested that the DSO's unit costs, as reported by KEK in their November submission, were higher than would be expected particularly those of overhead lines (at all voltage levels) and 400 V cables. ERO's Provisional Evaluation of 8th January called for KEK to provide supporting data to confirm these higher costs.

On 4th February 2013, KEK responded with additional data on unit costs. Far from supporting higher costs indicated in their original submission, it is clear that actual costs are well below this level. This revised data has now been reviewed by ERO's technical consultants and they have amended their assessment. Application of the revised KEK data to their 2013-2017 Network Development Plan suggests that KEK's capital costs will be €107.2 million. This is below the value of €114m initially proposed by KEK but is €8.2m higher that the allowance of €99m included in ERO's Provisional Evaluation.

Table a

DSO's proposed capital programme using updated unit cost information (February 2013)	2013 € 000's	2014 € 000's	2015 € 000's	2016 € 000's	2017 € 000's	T €
DSO Network Development Plan (NDP) using KEK proposed costs	22,540	22,343	23,403	22,952	22,867	**11**
Final DSO NDP using revised unit cost data February 2013	21,646	21,233	21,393	21,557	21,420	**10**
Difference (€ 000's)	**-894**	**-1,110**	**-2,010**	**-1,395**	**-1,447**	**-**

2.2 Çalik-Limak Submission on DSO Capex

The prospective purchaser of the KEK Distribution and Supply businesses, Çalik-Limak, also made a written submission to ERO following the January 2013 consultation on ERO's Provisional Evaluation. The consultee made a number of points in relation to DSO capex. It suggested that a reassessment of network investment priorities was appropriate, to identify key or problematic areas. There were two further proposals that would directly impact the capex allowances included in ERO's Provisional Proposals. C-L said that unit costs in Kosovo are characterised by limited competition and high dependence on imports and should be allowed at levels proposed by the licensee. It also suggested it would be appropriate to maintain capex allowances at the company's proposed levels, with any savings redirected to additional projects for network improvement.

ERO's response to the main points raised by Çalik-Limak are as follows:

2.2.1 Çalik-Limak propose to review the network and its priorities

ERO believes that such a review would be a positive step for the DSO. ERO has previously indicated how it would treat the results of such a review[1]. In summary, should the new owner wish to revise the business's approved investment plans, ERO will consider their proposals at the time. The key criterion that ERO will take into account in approving any modifications is whether the changes deliver equal (or greater) benefit to customers for the same cost. As noted by SKM, however, it is not clear whether Çalik-Limak is proposing to increase the level of investment over that proposed by KEK. ERO does note that Çalik-Limak's commitment to an investment of €300 million over 15 years is no more than KEK has been spending (and Kosovo customers paying) historically.

2.2.2 Çalik-Limak suggest unit costs should be as proposed by the company

Reassessment of unit costs as described above has resulted in an increased allowance of €107.2m based on unit costs achieved and contracted by KEK.

2.2.3 Request for the full, proposed capex value

Çalik-Limak have suggested that ERO should simply allow the full capex amount requested by KEK. They say that, should any monies remain unspent, they will apply any savings to additional projects which is good for the system.

ERO is aware that KEK has historically been underinvesting in the system. While ERO fully expects the licensee to plan and implement capital projects in an efficient and cost-effective manner, and to look for savings, it would not be appropriate for customers to underwrite a higher capex allowance than has been currently justified against a vague good intention to enhance future performance.

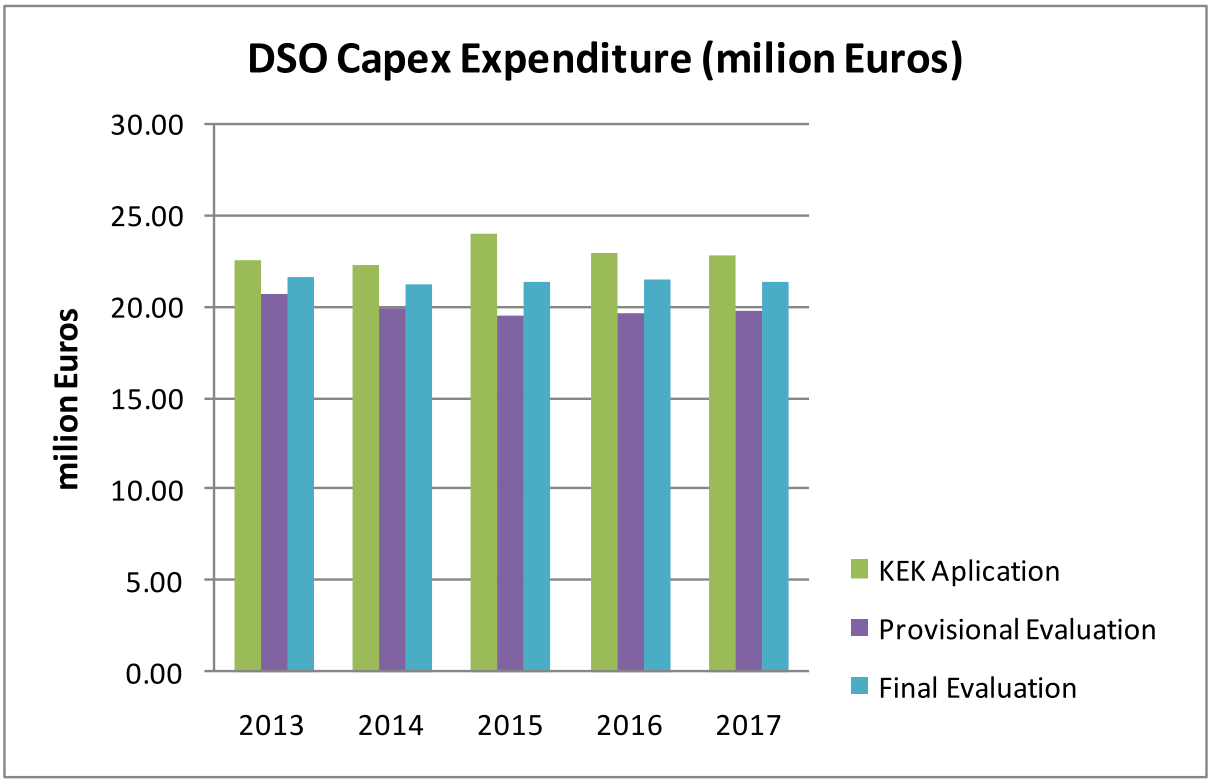
2.3 ERO's Final Evaluation of DSO capex

KEK's DSO Network Development Plan (NDP) has been reviewed by ERO's technical consultants, SKM and their provisional evaluation was set out in their December 2012 report. SKM has recommended

[1] ERO: ETR7 "1st Consultation Document", 11 June 2012, section 2.2

that the projects listed in the NDP are appropriate and necessary. ERO has accepted this recommendation and therefore decides to allow the proposed projects to be included in capex when setting the MAR for the next control period, but using the lower unit costs noted in section 2.1 above. ERO's final capex allowances are shown in Table a above, and Figure 1 below shows the relationship between KEK's request for capital expenditure, ERO's Provisional Allowance and ERO's Final Allowance.

Figure 1



3 Final Evaluation of DSO's proposed Operating Expenditures

Since the initial submission on August 31st, DSO presented their operating expenditures in a number of submissions after subsequent clarification meetings between KEK and ERO. It should be noted that KEK's submission for total opex reduced by €4.4m between the first and the November submissions.

Both KEK and Çalik-Limak have argued against ERO's Provisional Evaluation on a number of items of operating expenditure. These are discussed in the following sections.

3.1 Salary and related costs

KEK originally forecasted a yearly increase in average salaries of 5% in real terms over all its business units (not just DSO and PES). KEK originally suggested that this is being done to increase the costs per employee above the Harmonized Index of Commodity Prices (HICP) for the period of 2008-2011 of

5.4%, which is broadly in line with Kosovo CPI. The comments below relate equally to KEK's PES, mining and generation businesses.

3.1.1 KEK Submission on salaries and related costs

KEK's February 4th submission sought to justify the proposed real-terms increase in salary costs by arguing that a proposed Government requirement for employers to pay health costs for staff would require a 2% increase from 2014. KEK argued that the 2012 actual salary costs were higher than those allowed by ERO in 2012, and that these should be taken as a starting point. These costs should be increased by 3% in 2013, rising to 5% going forward to reflect the obligation on health costs.

3.1.2 Çalik-Limak Submission on salaries and related costs

Çalik-Limak argued that KEK basic salaries had not increased since 2008, and that the proposed upward adjustment was needed to bring 2013 salaries back up to their 2008 levels in real terms. They also stated that they wished to introduce a motivational scheme for staff, partly to incentivise losses reduction and partly to reflect staff development.

In their submission they requested an additional allowance for salary costs, over and above that requested by KEK.

Table b

Çalik-Limak additional request for salary costs KEK DSO & PES	2013 € 000's	2014 € 000's	2015 € 000's	2016 € 000's	2017 € 000's	Total € 000's
ERO Provisional Evaluation	14,530	14,530	14,530	14,530	14,530	72,650
Çalik-Limak submission	16,649	18,736	20,079	21,521	23,072	100,057
Difference %	15%	29%	38%	48%	59%	38%

3.1.3 ERO Final Evaluation on Salaries and Related Costs

In setting its 2012 allowance for salary costs, **ERO has allowed the full request from KEK for ETR6.** KEK's own submissions have indicated that salaries have increased each year and Çalik-Limak's claim of no salary increase since 2008 is presumably based on a misunderstanding.

ERO's role in setting MARs is to include an allowance for salary costs that will be passed on to customers through tariffs. It is for the company's management to set salary levels. If KEK wish to pay their staff more than this allowance they are free to do so, but will need to find genuine efficiency gains elsewhere to pay for it. ERO therefore proposes to use the ETR6 allowed value for 2012 as the appropriate starting point for forecast salaries.

Similarly, in response to the proposal of Çalik-Limak to readjust salaries, ERO considers that it is for the new management to introduce whatever incentive or motivational schemes it considers appropriate. However, ERO is of the view that, in common with the nature of such schemes, they should fund themselves through the resulting savings accruing to the business. It is not appropriate for customers to pay for those schemes.

At present the Government's proposals regarding employee health costs are not yet law. As with the Lignite Royalty, ERO must take into account any change in law when allowing external costs to be fully recovered. In the event that this requirement comes into force, ERO will review the situation. ERO will make any adjustment then considered appropriate, taking into account all relevant factors at the time. It would, however, be premature to pass this cost on to customers until it becomes a reality.

ERO therefore remains of the view that there is no justification for real terms increases in salary costs and in setting the allowance for the forthcoming period proposes to keep salaries at 2012 approved levels and also an increase of 60,000 thousand euros annually for personel costs because of the unbundling, some of the staff positions, mainly those of management, will be duplicated.

3.2 Repairs and Maintenance

In their response to ERO's consultation on the Provisional Evaluation, both KEK and Çalik-Limak, argued that the ERO approved allowance for 2012 was substantially below the level of actual expenditure in that year. They argued that 2012 *actual* expenditure of €7.14 million was a better basis for forecast expenditure levels for the rest of the control period, as opposed to the allowed value of €4.9 million.

ERO has significant concerns about the pattern of repairs and maintenance expenditure, and the effect of choosing a single year to define a cost base for this category of spend. In previous price reviews, ERO has recognised that the electricity network is in poor condition and has therefore allowed the full repairs and maintenance request by the company each year. However, KEK has consistently underspent against its allowance in each of the previous control years, and ERO has adjusted the final allowance in each year for amounts paid by customers through tariffs but not spent by KEK.

The high level of reported spend in 2012 therefore conflicts with this pattern of lower than expected spend in earlier years. ERO has sought an additional explanation from KEK to justify the very high level of expenditure reported in 2012. KEK has confirmed its expenditure of €7.14 million but was unable to provide detail of what that money was spent on. ERO concludes that KEK's management systems for monitoring and controlling expenditure on repairs and maintenance are deficient. In particular KEK does not appear to undertake activity-based costing which would have enabled it to provide an explanation and justification for different types of repairs and maintenance activities.

In the absence of any supporting data from the licensee, ERO believes that an allowance based on the historic pattern of adjusted costs over the previous five year period is an appropriate basis for forecasts for the MYT period. ERO's technical consultants have assessed these historic expenditures and have provided a range of forecast values, using an annual increase related to the growth in the network. ERO's final allowances for repairs and maintenance are shown in Table c below. The allowance for the MYT period are significantly higher than those included in ERO's Provisional Proposals.

Table c

R & M Costs - DSO	2012 € 000's	2013 € 000's	2014 € 000's	2015 € 000's	2016 € 000's	2017 € 000's	Total € 000's
KEK Forecast (November 2012)	4,905	5,101	5,305	5,517	5,738	5,968	27,629
KEK (& Calik Limak) Revised forecast (Feb 2013)	7,153	7,439	7,737	8,046	8,368	8,703	40,293
ERO Provisional Proposal (Jan 2013)	4,905	4,977	5,049	5,123	5,198	5,274	25,621
ERO Final Proposal (Feb 2013)		6,218	6,339	6,463	6,589	6,717	32,326

3.3 Other controllable opex

ERO's assessment of the other DSO itemised categories of opex covered the following line items:

- Fuel;
- Other Expenses

In its Provisional Evaluation ERO noted that these costs would be largely dependent on staff numbers as opposed to customer numbers. As KEK DSO do not forecast any increase in staff numbers over the Regulatory Period and ERO therefore recommends these allowances be held at 2012 levels. KEK argued that that fuel costs will increase with customer numbers. ERO does not accept this. It may seem superficially attractive to suppose that customer numbers are a major driver of fuel costs. In practice, however, it has been found by regulators elsewhere that the principal driver for such costs in network length and not customer numbers. Accordingly ERO sees no justification to change its provisional evaluation on this point.

3.4 ERO's Final Evaluation of DSO's Opex Proposals

For KEK DSO activities, the recommended reduction in controllable costs is €6.9m over the period, representing 7.9% of the total controllable costs. The controllable opex excludes the Opex associated with Depreciation and Amortisation which is classed as non-controllable and the final assessment of this is driven from the allowed level of capital investment.

Table d

ERO Final Evaluation of DSO's controllable opex	2013 € 000's	2014 € 000's	2015 € 000's	2016 € 000's	2017 € 000's	Total € 000's
Controllable	16,319	16,440	16,563	15,854	15,184	**80,360**
Non-controllable	6,522	7,261	8,016	8,736	9,376	**39,911**
Total	**22,840**	**23,700**	**24,579**	**24,591**	**24,561**	**120,271**

4 Final Evaluation of PES's proposed Capital Expenditures

KEK's PES business is not asset-intensive and the Company's proposed capital expenditures are not significant. The proposed amount is in line with historic expenditure levels. ERO accepted this recommendation in making its provisional evaluation and this view has not changed. The final capex is shown in the table below.

Table e

KEK PES – Final Capex	Annual capex (€)
Computers for customer care department	
Supply printers for billing	
Printers for cash desk	
Supply with photocopying apparatus	
Vehicles	
Total Annual Capex	**395,000**

5 Final Evaluation of PES's proposed Operating Expenditures

The main areas of PES operating cost, as shown in *table e*.1below are discussed in this section. However, in addition to this, Çalik-Limak's submission of 4th February argued for additional operating costs to reflect the costs of business separation from KEK generation and mining, and some costs directly related to the takeover of the business. Those unbundling costs are discussed in section 5.4 below.

Table e.1

PES Proposed Opex	2013-2017 €m
Salary costs	43.17
Depreciation	2.00
Maintenance and Repair	4.10
Other costs	15.03
Total Costs	64.30

5.1 Staffing levels

The Company's submission proposes to maintain PES staff at present levels of 1,380. There are 32 retirements scheduled over the 5 year MYT tariff period which are not factored into the forecast staff numbers.

The increase in customer numbers each year of approximately 3% should act as a driver for increasing PES staff numbers. KEK's plan to fix headcount at existing levels therefore has an implied built-in efficiency of 3%.

5.2 Salary and related costs

KEK and Çalik-Limak made further submissions on company salary levels to ERO following the January consultation on the ERO Provisional Evaluation. These are discussed in respect of the DSO in section 3.2 above. The same comments, and ERO's response to those comments, apply to PES. ERO therefore sees no reason to amend its Provisional Evaluation, and so in setting an allowance for salary costs, will hold expenses in this category at 2012 levels with an increase of 60.000 thousand euros annually for personel costs as in DSO because of the unbundling.

5.3 Repairs and Maintenance

KEK and Çalik-Limak made further proposals relating to repair and maintenance cost in response to ERO's Provisional Evaluation. Both responses suggested that 2012 actual costs should be used as a baseline cost and this should be increased annually in proportion to the change in customer numbers. ERO accepts that the allowance should rise in line with customer numbers but remains of the view that its proposed baseline cost in the Provisional Evaluation is appropriate. Table f below shows details of the R&M costs proposed by KEK and C-L, together with ERO's Provisional and Final Allowances. The Final Allowance for the MYT period is 9.4% higher than the Provisional Allowance.

Table f

R&M opex costs (PES)	2013 € 000's	2013 € 000's	2014 € 000's	2015 € 000's	2016 € 000's	2017 € 000's	Total
KEK Revised forecast (Feb 2013)	870	896	923	951	979	1,008	**4,757**
Calik Limak Forecast (Jan 2013)		866	903	933	964	989	**4,655**
ERO Provisional Proposal (Jan 2013)	592	592	592	592	592	592	**2,960**
ERO Final Allowance		610	628	647	666	686	**3,237**
% Increase of Final Allowance compared with Provisional Allowance		**3%**	**6%**	**9%**	**13%**	**16%**	**9%**

5.4 Other controllable opex

The KEK PES submission proposed "Other Controllable Opex" under the following line items, and are shown here along with their proposed annual percentage increase in costs:

Table g

Category	2013 € 000's	2014 € 000's	2015 € 000's	2016 € 000's	2017 € 000's
Fuel	566	566	566	566	567
Other Expenses	2,392	2,392	2,392	2,392	2,392
Total	2,959	2,959	2,959	2,959	2,959

Similar to the KEK DSO approach, it was observed that these line items were forecast by KEK to increase year-on-year from the estimated 2012 value, with the percentage increase being linked to the forecast increase in customer numbers.

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As with the other controllable costs, ERO considers that these costs (as for DSO, discussed in section 3.4 above) will be largely dependent on staff numbers as opposed to customer numbers. As KEK PES do not forecast any increase in staff numbers over the 5-year MYT period and ERO therefore proposes that these allowances be held at 2012 levels.

5.5 Çalik-Limak's Submission regarding Unbundling costs

In its submission to ERO of 31st January, Çalik-Limak set out its arguments to support an additional allowance amounting to some €37.8m over and above ERO's Provisional Evaluation. The company argues that this additional allowance is needed to cover costs relating to unbundling of the distribution and supply businesses from KEK, and for some costs directly related to its acquisition of the business.

Calik -Limaj porposals for aditional Unbundling Costs	2013 € 000'S	2014 € 000'S	2015 € 000'S	2016 € 000'S	2017 € 000'S	Total € 000'S
Salary Costs(5% 2013,7,5% going forward)	3,991	4,086	4,392	4,722	5,076	22,267
Health Insurance		108	108	108	108	432
Materials and supplies	356	383	380	380	380	1,879
Contracted services	1,103	1,165	1,165	1,165	1,165	5,763
Other Expenses	1,220	1,474	1,624	1,769	1,934	8,021
Mainenance	287	324	324	364	394	1,693
Total Unbundled HQ costs	**6,957**	**7,540**	**7,993**	**8,508**	**9,057**	**40,055**
Consultancy and Know how transfer	3,000	3,000	3,000	3,000	3,000	3,000
Total Unbundled expenses for HQ	9,957	10,540	10,993	11,507	12,056	15,000
less HQ allocation proposal by ERO	3,489	3,489	3,489	3,489	3,489	17,445
Additional costs for unaviodalbe costs for unbundling	6,468	7,051	7,504	8,018	8,567	37,608

ERO has been unable to reconcile the salary costs quoted here by Çalik-Limak with those they have shown elsewhere in their submission. They raise three broad areas of cost which they argue must be addressed, and these are discussed in this section.

5.5.1 Salaries

Çalik-Limak argue that following business separation, some staff positions, principally management, must be duplicated. ERO accepts that this is correct. It is far from certain, however, that these positions must be filled from new employees. ERO understands that some of the key management positions in KEK Distribution and Supply will be filled by staff transferring from comparable positions in KEK, albeit with a smaller scope of responsibility.

5.5.2 Other Opex

Çalik-Limak argue that certain, centralised operating costs should not be re-allocated on the basis proposed by KEK, which is in proportion to divisional staff numbers. They identify a number of central services where they propose an alternative split of cost. ERO has not been able to reconcile the numbers provided by Çalik-Limak in their submission with costs previously provided by KEK.

It has been evident throughout the ETR7 review exercise that KEK's internal accounting system does not currently allow a detailed analysis of individual costs. ERO considers that

KEK's proposed methodology therefore represents a pragmatic and reasonable approach to the allocation of centralised and shared costs.

5.5.3 Consultancy Costs

Çalik-Limak state that KEK Distribution and Supply will continue to require a significant amount of outside services at a cost of some € 3m per year, or € 15m over the new control period. They say that these services include *"transfer of know how, policies, advice and assistance in the preparation of 5 and 10 year network development plan, practices and drawing on the experience and expertise of various sources, not limited to IT, procurements, process reorganisation."* In addition to the sum of € 3m per year, ERO notes that the "unbundled HQ costs" proposed by the company in their submission already include an element of consultancy.

KEK has benefited from management consultancy support for some 10 years. As this has been funded by different international aid organisations, it has not represented a cost to the customer. ERO does not accept that customers should now pay for continuing commercial mangement and power sector consultancy. Customers might also expect the new owner of KEK Distribution and Supply to bring this expertise to Kosovo as one of the benefits to them of privatization. ERO therefore disallows this additional cost as part of the MAR. This decision does not of course prevent the new management from procuring outside support, but it will need to be paid for out of the new owner's profits or secured with donor assistance.

5.6 ERO's Final Evaluation of PES's Opex Proposals

KEK has foreseen that these costs should increase yearly due to the increase in customer numbers.

The KEK submitted costs for each year, together with their proposed annual percentage increase in costs are shown in the table below:

For KEK PES activities, the recommended reduction in controllable costs is €9.4m over the period, representing some 13% of the total controllable costs. Note that for PES Depreciation and Amortisation, the charges for Transmission of Electricity and the cost of electricity purchases are classed as non-controllable elements of opex; their values are determined by the outputs of MAR modelling. Note that the charges for distribution of electricity are not included in the opex submission for PES.

Table g

ERO Final Evaluation of PES's controllable opex	2013 € 000's	2014 € 000's	2015 € 000's	2016 € 000's	2017 € 000's	Total € 000's
Controllable	12,423	12,441	12,460	12,479	12,500	**62,302**

6 Other Regulatory Parameters

6.1 Loss Allowance

ERO has set the level of losses to be recovered through regulated tariffs based on ERO's Decision 399 of 6 February 2012. In doing so ERO has reduced the 2011 allowed level of losses by 3% (percentage points) to 27.4%.

In their 4 February response to ERO's Provisional Evaluation consultation Çalik-Limak, argued for a revision to the pre-set Loss Allowance on the basis that KEK had failed to reduce losses in line with its 2012 target. ERO made its February 2012 Decision following representations from Government of Kosovo and the distribution and supply Transaction Advisor, IFC, in order to reduce regulatory uncertainty and to give a firm basis for tenderers to bid against. KEK's potential failure to meet the target was a risk that Çalik-Limak were aware of in seeking pre-set regulatory parameters, and ERO assumes that this was factored into their bid price.

6.2 Loss Sharing Factor

The loss sharing factor has been set in accordance with ERO's Decision 399 of 6 February 2012 at 0%. The implication of this is that any potential benefits or losses that may be gained by reducing losses by more or less than ERO's target are borne by the DSO.

6.3 Efficiency Factor

The efficiency factor for the first three years of the Regulatory Period has been set according to ERO's Decision 399 of 6 February 2012 at 0%. ERO proposes that the efficiency factor for the final two years of the Regulatory Period is set at 5% per year.

6.4 WACC

The Weighted Average Cost of Capital for the DSO has been set according to ERO's Decision 399 of 6 February 2012. According to that Decision, the WACC applicable to the DSO for the next Regulatory Period should be 12% (real, pre-tax).

7 Final MARs 2013-2017

The final MAR for the DSO division of KEK which includes O&M costs, depreciation, allowed return and purchase of losses is summarized in the following table:

Table h

Final Evaluation of MAR for DSO licensed business	2013 €m	2014 €m	2015 €m	2016 €m	2017 €m	Total €m
Total	**70.19**	**67.93**	**67.72**	**66.05**	**65.84**	**337.73**

The final MAR for the PES division of KEK which includes O&M costs, depreciation, retail margin, working capital and allowed bad debts is summarized in the following table, and allowed costs of

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purchasing energy and pass through costs which includes charges of TSO/TO and charges of DUOS are presented in ‘ Final Evaluation- Overview”

Table i

Final Evaluation of MAR for PES licensed business	2013	2014	2015	2016	2017	Total
	€m	€m	€m	€m	€m	€m
Total	14.97	32.91	30.93	31.27	32.26	**142.35**

From the table we can see a big change between year 2013 and other years, which is an outcome of adjustments in import, export and for the late implementation of the decision for tariffs for the year 2012 , which will be passed through in the year 2013. Nett values of those adjustments is – 17.9 milion euros.