Consultation Paper

Ninth electricity tariff review

ETR9 (2015-2016)

Calculation of Maximum Allowed Revenues and Regulated Charges of the Regulated Generator (third relevant year)

09 March 2015

Table of contents

Abstract

The Energy Regulatory Office (ERO) is currently conducting the Regular Adjustment and Annual Update process of the Maximum Allowed Revenue (MAR) of the Regulated Companies in the Electricity Sector on behalf of the Ninth Electricity Tariff Review (ETR9). Under this process, ERO will update the MAR of the Public Electricity Supplier (PES) and will adjust the MAR of the Regulated Generator (KEK), Transmission, System and Market Operator (KOSTT), Distribution System Operator (DSO) based on the figures set on the Periodic Review conducted under ETR7. This Consultation Paper presents ERO's assessment of the Maximum Allowed Revenues (MAR) of the Regulated Generator. Alongside this report, ERO will publish their assessment of the MAR of KOSTT, DSO and PES.

Stakeholder comments

ERO strongly believes that public consultation is at the heart of effective regulatory policy. ERO hereby presents the Regulated Companies and Consumers with the opportunity to examine the evidence and views presented in this Consultation Paper, with which they may disagree, and to comment on them by correcting a factual error, putting forward counterarguments or providing new data which ERO may not have already considered. Parties who wish to express their opinions on ERO's position are invited to submit their comments in writing to ero.pricing-tariffs@ero-ks.org no later than **23 March 2015.** Alternatively, comments can be mailed to:

Zyra e Rregullatorit për Energji
Departamenti për Tarifa dhe Çmime
Rr. Dervish Rozhaja Nr. 12
Prishtinë, 10000, Kosovë

Related Documents

ERO's initial assessment of KEK Reporting Formats submitted under the Periodic Review process	http://ero-ks.org/Price%20and%20Tariffs/2012/albanian/Vleresimi_fillestar_KEK_shqip.pdf
ERO's provisional assessment of the KEK MAR under the Periodic Review process – Detailed Report	http://ero-ks.org/Tarifat/2012/Vleresim_i_perkoshem_KEK_Gjenerim.pdf
ERO's final assessment of KEK MAR under the Periodic Review Process – Detailed Report	http://ero-ks.org/Tarifat/2013/Proceset%20e%20Shqyrtimit/Vlersimi_perfundimtar_per_Gjenerim_22Mars2013.pdf
ERO's Extraordinary Review Consultation Paper	http://ero-ks.org/Tarifat/2014/Raport_vleresues_shqyrtimi_i_jashtzakonshem_10_8_2014.pdf
KEK's Regulated MAR application submitted under the Regular Adjustment 3 process (ETR9)	

Adresa: Rr. Dervish Rozhaja nr. 1, 10000 Prishtinë, Kosovë
Tel: 038 247 615 lok.. 101, Fax: 038 247 620, E-mail: info@ero-ks.org, web: www.ero-ks.org

1 Price Control Overview

The Energy Regulatory Office (ERO) is the independent institution which sets price controls for regulated companies which operate in the Kosovo regulated electricity market. Ideally, ERO would only set price controls for those segments of the electricity sector which are natural monopolies (Transmission and Distribution networks). However, as competition in Generation and Supply has not developed to a level which would produce a competitive price, ERO regulates these segments as well by setting tariffs which emulate competition.

Price Controls are the tools employed by ERO in order to set the amount of money (the Maximum Allowed Revenues - MAR) that the Regulated Companies are allowed to recover for providing a regulated service. The MAR is set during Periodic Reviews by thoroughly analyzing the expenditures and investments that the Companies plan to make during the length of the price control. The level of the MAR is set to allow the companies to cover reasonable costs of operating and maintaining their plants and earn a reasonable return if they deliver the investment results approved upfront. Additionally, ERO sets efficiency targets which aim to increase the companies' operating efficiency and provide incentives or penalties if the companies fail to meet these targets.

The last Periodic Review was conducted by ERO in 2012/2013 (ETR7) and set the MAR of the Regulated Generator for a four-year period until 2016. Understanding the need for intensive capital investment programs required to improve the reliability of supply and to maintain the aging generation and mining infrastructure, ERO approved the Regulated Generator's plan to invest over €284 million in its Generation and Mining activities in the next four years up to 2016. A quick glance at the ETR7 allowances is provided below:

Table 1 ETR7 KEK MAR at a glance

KEK Mining	KEK Generation
€127.9 million in investments over 4 years	€156.3 million in investments over 4 years
Key projects include investments into heavy machinery, repair of two excavators and construction of double-conveyor belts to for the new Sibovc South-West mine	Key projects include the capital overhaul of the A3, B1 and B2 units, Hydraulic Ash Transport for Kosovo A and a new outer casing for the high pressure turbine in the B1 unit
4% annual efficiency factor applied to all Operating and Maintenance costs of the Mine over four years	4% annual efficiency factor applied to all Operating and Maintenance costs of the Regulated Generator over four years

2 Introduction

The Periodic Review process, conducted by ERO in 2012/2013, set the Maximum Allowed Revenues of the Regulated Generator for a four-year period until 2016. According to the Rule on Regulated Generator Pricing, within each of those four years between 2013 and 2016, the Energy Regulatory Office undergoes a "Regular Adjustment" process. This process differs from a Periodic Review in that the Regular Adjustment process does not entail a detailed analysis of investment plans and operating and maintenance costs. Instead, the Regular Adjustment uses the results obtained during the Periodic Review process and adjusts the MAR to reflect changes between the costs which were forecasted during the Periodic Review and the actual costs incurred by the licensees due to reasons outside of the control of the licensee. During the Regular Adjustment process ERO will:

1. Index the previously allowed Operating and Maintenance costs of the Regulated Generator to reflect the Efficiency Factor set during the Periodic Review process and the Annual Inflation which is set based on the Harmonized Index of Consumer Prices (HICP) for All Items in the Eurozone;
2. Update the Allowed Lignite Supply Costs (LGSC);
3. Update the Allowed other fuel supply costs (OTFC);
4. Update the Pass Through Costs;
5. Set the Availability Target of the Regulated Generator;
6. Set the resulting Energy and Capacity charges of the Regulated Generator;

This Report is structured as follows:

- Section 3 sets ERO's proposal for the Regulated Generator MAR;
- Section 4 sets ERO's proposal for the Regulated Generator charges;

3 ERO's position on the Regulated Generator MAR

During Regular Adjustments ERO sets the allowable change in Maximum Allowed Revenues of the Regulated Generator. This allowed change in Revenues is calculated based on the formula provided in Annex 1 paragraph 2 of the Rule on Regulated Generator Pricing:

$$MAR_t = OPMC_t + DEPC_t + RTNC_t + LGSC_t + OTFC_t + PSTC_t$$

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*

$LGSC_t$	*is allowed lignite supply costs in Relevant Year t*
$OTFC_t$	*is allowed other fuel supply costs in Relevant Year t*
$PSTC_t$	*is Pass-Through Costs in Relevant Year t*

3.1 Operating and Maintenance Costs (OPMCt)

Operating and Maintenance costs of the Regulated Generator are reset during Regular Adjustments according to the formula set under Annex 1 paragraph 2.1 of the Regulated Generator Pricing Rule:

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

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*
CPI_{t-1}	*is the actual value of inflation in Relevant Year t-1, measured using the "Harmonized 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*
Et	*is the Efficiency Factor in Relevant Year t, which is set at Periodic Reviews*
P_t	*is the Profiling Factor in Relevant Year t, which is set at Periodic Reviews*

3.1.1 The applicable inflation rate

ERO has set the applicable inflation rate for indexing the OPMCT allowance according to the Harmonized Index of Consumer prices for all items in the Eurozone. The provisional rate reported by Eurostat is 0.43%[1]

KEK has repeated their request to lower the efficiency factor applied to the Operating and Maintenance costs from 4%, as originally set by ERO, to 1%. KEK claims they are unable to implement the target as it would imply a significant downscaling of the employed staff. They argue this is not possible since most of the qualified staff moved to KEDS after unbundling and that, as a publicly owned enterprise, a certain burden of social responsibility is unjustly placed on them. Their OPMCt proposal has been calculated under the assumption that ERO accepts their request to reduce the efficiency factor to 1%.

[1] http://epp.eurostat.ec.europa.eu/tgm/refreshTableAction.do;jsessionid=9ea7d07d30e7a2a0d00a3622451d993b94fd5b2e0b51.e34OaN8PchaTbyoLc3aNchuMchmMeo?tab=table&pcode=teicp000&language=en

ERO notes that the efficiency factor has been set based on the publicly discussed values during the Periodic Review and reflects a target which was applied to comparable utilities elsewhere. ERO cannot accept that electricity customers be burdened with the cost of maintaining high employment due to social reasons. ERO will therefore continue to apply a 4% annual O&M efficiency factor and has updated the allowed costs to reflect this position.

3.1.2 Applying the efficiency factor on KEK's OTFCt costs

KEK had highlighted in their ETR8 application that ERO had incorrectly applied the efficiency factor on their Other Fuel Costs (OTFCt) thereby expecting KEK to increase their efficiency on a cost item which they have no control over. The resulting impact on KEK MAR had been a decrease of €0.3 million which ERO acknowledged and retroactively compensated.

As ERO has applied the efficiency factor to all OTFCt allowances for the Regulatory Period, it is obliged to compensate KEK annually and has therefore increased KEK's OTFC allowance for the equivalent amount in their Y3 MAR.

3.1.3 ERO's final assessment of the OPMCt component

The Operating and Maintenance cost calculation formula provided in Annex 1 Paragraph 2.1 of the Rule assumes that the OPMCt allowance has been profiled throughout the Regulatory Period so that the OPMC value in any Relevant Year is calculated by indexing the OPMC value of the previous Relevant Year. Since ERO has neglected to profile the OPMC during the Regulatory Period, the strict application of the formula mentioned above would result in a mismatch between the resulting costs and the costs which were intended to be allowed throughout the Regulatory Period. In order to correct for this, ERO will apply the following formula:

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

The final Operating and Maintenance Costs which KEK is allowed to recover during the Third Relevant Year sum up to €19.94 million.

3.2 Allowed Depreciation (DEPCt)

The Allowed Depreciation of the Regulated Generator is reset during each Regular Adjustment according to Paragraph 2.2 of Annex 1 of the Rule on Regulated Generator Pricing:

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

Where

$DEPC_t$	*is other allowed depreciation in Relevant Year t, which is smoothed such that it is constant over the Regulatory Period*
$DEPC_{t-1}$	*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*

CPI_{t-1}	*is the actual value of inflation in Relevant Year t-1, measured using the "Harmonized 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*

As is the case for Operating and Maintenance costs, the above mentioned formula assumes that the DEPCt allowances are profiled throughout the Regulatory Period such that the DEPC allowance in any given year can be calculated by indexing the same allowance of the previous year. As ERO has not profiled the depreciation allowances in their Periodic Review, the strict application of this formula will lead to a mismatch between allowed and resulting values. ERO has therefore applied the following formula in order to correct for this:

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

The resulting allowed depreciation is €23.25million.

3.3 Allowed Return (RTNCt)

The allowed return component of the Maximum Allowed Revenues of the Regulated Generator is calculated according to the formula provided in paragraph 2.3 of Annex 1 of the Rule:

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

Where

$RTNC_t$	*is other allowed return on capital in Relevant Year t, which is smoothed such that it is constant over the Regulatory Period*
$RTNC_{t-1}$	*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 Review shall be used, which is smoothed such that it is constant over the Regulatory Period*
CPI_{t-1}	*is the actual value of inflation in Relevant Year t-1, measured using the "Harmonized 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*

However, in order to correct for the fact that ERO has not profiled the Allowed Return over the Regulatory Period as explained in Sections 3.2 and 3.3 above, ERO will apply the following formula:

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

The resulting Allowed Return component of the Regulated Generator MAR is €9.3 million.

3.4 ERO's approach in adjusting pass through costs due to the Extraordinary Event

The Maximum Allowed Revenues of the Regulated Generator for the Second Relevant Year(ETR8) of the Regulatory Period were initially set at €139.5 million, forecasted to cover the expenses for providing a production level of 5,525 GWh. Nevertheless the explosion which occurred on 6 June 2014 in Kosovo A significantly reduced the level of output which KEK was expected to deliver (a reduction of 427 GWh under the assumption that the generating units would be back online by the end of the year). KEK filed a request for an Extraordinary Review in order to cover the repair costs and the costs related to the loss of sales as a result of the outage. However KEK was not able to demonstrate, to ERO's satisfaction, that the extraordinary event (the explosion) occurred for reasons outside of their control. ERO therefore did not adjust KEK charges to reflect the new level of production and, in setting the corresponding Wholesale Power Costs (WHPC) of the Public Electricity Supplier, assumed that the Generation MAR after the explosion would be €128.7 million with a new forecast production level of 5,098 GWh.

In order to calculate the adjustments for the Third Relevant Year, ERO has reset the Lignite Supply Cost (LGSCt), Pass Through Costs (PSTCt) and Other Fuel Costs (OTFCt) of the Regulated Generator to match the new production level of 5,098 GWh on a *pro-rata* basis. The results of the detailed calculations are provided in the relevant sections below.

3.5 Allowed Lignite Supply Costs (LGSCt)

ERO is not mandated to Regulate the Mining sector in Kosovo. However, as the cost of mines is one of the main inputs into the cost of the Regulated Generators in Kosovo, ERO regulates this cost from the Generator's perspective. Since there is no Lignite Supply Agreement (LSA) signed between the Regulated Generator and the Mine, ERO undergoes the same detailed analysis of the Mine costs in order to determine the appropriate cost of lignite that the Regulated Generator should be allowed to recover[2].

ERO has applied the same principles as in Section 3.1 to calculate the OPMCt, DEPCt and RTNCt allowance for the Mine Division of KEK. The Pass-through costs of the Mine have been adjusted to reflect the difference between the Extraordinary Review Allowed Value and the Actual Value reported by KEK. ERO has applied formula 2.4 of Annex 1 of the Regulated Generator Pricing Rule:

$$LGSC_t = LGSCf_t + (LGSCa_{t-1} - LGSCf_{t-1}) * (1 + I_t)$$

Where

$LGSC_t$	*is allowed lignite supply costs in Relevant Year t*
$LGSCa_{t-1}$	*is the actual allowed lignite supply costs in Relevant Year t-1*
$LGSCf_{t-1}$	*is the forecast allowed lignite supply costs in Relevant Year t-1*

[2] Article 11 of the Regulated Generator Pricing Rule.

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*

The inputs and resulting calculations of the above-mentioned formula are provided in the following table:

Table 2 Calculation of the Allowed Lignite Supply Costs (LGSCt)

Allowed lignite supply costs in Relevant Year t	LGSCt	**81,245,989**
Forecast allowed lignite supply costs in Relevant Year t	LGSCft	79,312,873
Actual allowed lignite supply costs in Relevant Year t-1	LGSCat-1	74,870,926
Forecast allowed lignite supply costs in Relevant Year t-1	LGSCft-1	73,197,043
Interest rate for relevant year t	It	15.49%

3.6 Allowed Other Fuel Costs (OTFCt)

ERO has applied the formula stipulated in Paragraph 2.5 of Annex 1 of the Regulated Generator Pricing Rule to calculate the allowed Other Fuel Costs of the Regulated Generator:

$$OTFC_t = OTFCf_t + (OTFCa_{t-1} - OTFCf_{t-1}) * (1+ I_t)$$

Where

$OTFC_t$	*is allowed other fuel supply costs in Relevant Year t*
$OTFCa_{t-1}$	*is the actual allowed other fuel supply costs in Relevant Year t-1*
$OTFCf_{t-1}$	*is the forecast allowed other fuel supply costs 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*

The inputs and resulting calculations of the above-mentioned formula are provided in the following table:

Table 3 Calculation of Other Fuel Supply Costs

Allowed other fuel supply costs in Relevant Year t	OTFCt	**4,410,799**
Forecast allowed other fuel supply costs in Relevant Year t	OTFCft	8,261,669
Actual allowed other fuel supply costs in Relevant Year t-1	OTFCat-1	4,288,866
Forecast allowed other fuel supply costs in Relevant Year t-1	OTFCft-1	7,623,328
Interest rate for the Relevant Year t	It	15.49%

3.7 Allowed Pass-Through Costs (PSTCt)

ERO has applied the formula stipulated in Paragraph 2.6 of Annex 1 of the Regulated Generator Pricing Rule to calculate the allowed Other Fuel Costs of the Regulated Generator:

$$PSTC_t = PSTCf_t + (PSTCa_{t-1} - PSTCf_{t-1}) * (1 + I_t)$$

Where

$PSTC_t$	*is Pass-Through Costs in Relevant Year t*
$PSTCa_{t-1}$	*is the actual Pass-Through Costs in Relevant Year t-1*
$PSTCf_{t-1}$	*is the forecast Pass-Through Costs 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*

The inputs and resulting calculations of the above-mentioned formula are provided in the following table:

Table 4 Calculation of Pass-Through Costs

Pass-Through Costs in Relevant Year t	PSTCt	**3,590,495**
Forecast Pass-Through Costs in Relevant Year t	PSTCft	4,125,819
Actual Pass-Through Costs in Relevant Year t-1	PSTCat-1	3,165,433
Forecast Pass-Through Costs in Relevant Year t-1	PSTCft-1	3,628,968
Interest rate for the Relevant Year t	It	15.49%

3.8 HQ Reallocation adjustment

During the ETR7 periodic review, ERO allocated the total allowed Headquarter costs between KEK and KEDS according to an allocation factor which was based on the number of employees allocated to regulated business. Total HQ costs requested by the licensees in the ETR7 application were, on average, €11.9 million per year were however ERO's engineering consultants estimated that the allowed values should be set at €10.8 million. The allowances are summarized in the following table:

Table 5 ERO HQ cost allowances under ETR7 (€'000)

Division	*Personnel numbers*	*HQ allocation based on personnel*				
		2013	2014	2015	2016	2017
D	1,821	€ 1,720.92	€ 1,720.92	€ 1,720.92	€ 1,720.92	€ 1,721.71
M	5,198	€ 4,912.32	€ 4,912.32	€ 4,912.32	€ 4,912.32	€ 4,914.59
G	2,573	€ 2,431.59	€ 2,431.59	€ 2,431.59	€ 2,431.59	€ 2,432.71
S	1,871	€ 1,768.17	€ 1,768.17	€ 1,768.17	€ 1,768.17	€ 1,768.99
	11,463	€ 10,833.00	€ 10,833.00	€ 10,833.00	€ 10,833.00	€ 10,838.00

Nevertheless the shift of employees between KEK and KEDS changed following the unbundling of KEDS. The final allocation of HQ costs between KEK and KEDS was decided on a separate agreement between the two entities. According to this agreement, KEK and KEDS will share HQ allowed costs on a 46.1% and 53.9% basis, respectively. ERO was therefore obliged to retroactively allocate HQ costs in 2013 and 2014 in order to compensate for differences between the values assumed under the Periodic Review and the values of the agreement. Under the ETR8 adjustment, ERO took into account the new allocation factors determined by the agreement however, when it calculated the allowances, it overestimated the KEK allowance by €0.06 million and underestimated that of KEK by €0.2 million. This difference, along with the associated interest, will also be compensated under ETR9. Consequently, the MAR of KEK has been increased by €0.2 million whereas that of KEDS has been decreased by €0.1 million.

The following table summarizes values which were allowed by ERO under the ETR7 review and those which should have been allowed according to the KEK-KEDS agreement:

Table 6 Allocation of costs based on the KEK-KEDS agreement

	HQ allocation based on personnel				
	2013	2014	2015	2016	2017
(A) Values which should have been allowed (per the KEK-KEDS agreement)					
KEK	€ 4,994.01	€ 4,994.01	€ 4,994.01	€ 4,994.01	€ 4,996.32
KEDS	€ 5,838.99	€ 5,838.99	€ 5,838.99	€ 5,838.99	€ 5,841.68
(B) Values which were actually allowed by ERO (w/o interest)					
KEK	€ 7,343.91	€ 4,798.66			
KEDS	€ 3,489.09	€ 5,904.26			
A-B = Difference (Ex-post compensation between KEK and KEDS w/o interest)					
KEK	-	€ (2,349.90)	€ 260.63		
KEDS	-	€ 2,349.90	€ (130.5)		

4 Regulated Generator MAR - Summary

Table 7 Regulated Generator MAR summary

Category	Unit	2015
Allowed operating and maintenance costs in Relevant Year t	OPMCt	**19,945,326**
Actual value of inflation in Relevant Year t-1	CPIt-1	0.043%
Efficiency Factor in Relevant Year t	Et	4%
Allowed depreciation in Relevant Year t	DEPCt	**23,247,841**
Actual value of inflation in Relevant Year t-1	CPIt-1	0.43%
Allowed return on capital in Relevant Year t	RTNCt	**9,269,086**
Actual value of inflation in Relevant Year t-1	CPIt-1	0.43%
Allowed lignite supply costs in Relevant Year t	LGSCt	**81,245,989**
Forecast allowed lignite supply costs in Relevant Year t	LGSCft	79,312,873
Actual allowed lignite supply costs in Relevant Year t-1	LGSCat-1	74,870,926
Forecast allowed lignite supply costs in Relevant Year t-1	LGSCft-1	73,197,043
Interest rate for the Relevant Year t	It	15.49%
Allowed other fuel supply costs in Relevant Year t	OTFCt	**4,410,799**
Forecast allowed other fuel supply costs in Relevant Year t	OTFCft	8,261,669
Actual allowed other fuel supply costs in Relevant Year t-1	OTFCat-1	4,288,866
Forecast allowed other fuel supply costs in Relevant Year t-1	OTFCft-1	7,623,328
Interest rate for the Relevant Year t	It	15.49%
Pass-Through Costs in Relevant Year t	PSTCt	**3,590,495**
Forecast Pass-Through Costs in Relevant Year t	PSTCft	4,125,819
Actual Pass-Through Costs in Relevant Year t-1	PSTCat-1	3,165,433
Forecast Pass-Through Costs in Relevant Year t-1	PSTCft-1	3,628,968
Interest rate for the Relevant Year t	It	15.49%
Cogeneration income		-1,178,977.37
Ash sales income TC B		-1,944,410.00
Income from sales of metallic waste TC A		-1,063,039
Health insurance adjustment		702,637.
Cost Alocation for HQ for TP A &B		300,995

Maximum Allowed Revenues in Relevant Year t	MARt	**140,276,742**

4 Regulated Generator Charges

ERO has assumed a 68% -32% allocation ratio of fixed to variable costs in calculating the capacity and energy charge of the Regulated Generator. Availability and production data have been obtained from KEK's forecast production levels in 2015. The resulting calculations are provided in the following table:

Table 8 Calculation of the Energy and Capacity Charge of the Regulated Generator

Category	Unit	2015
Maximum Allowed Revenues in Relevant Year t - Fixed costs	€	95,388,185
Maximum Allowed Revenues in Relevant Year t - Variable costs	€	44,838,557
Maximum Allowed Revenues in Relevant Year t	€	140,276,742
Forecast available capacity in Relevant Year t	MW/h	5,298,802
Forecast energy sales in Relevant Year t	MWh	5,298,802
Capacity charge	**€/MW/h**	**18.00**
Energy charge	**€/MWh**	**8.47**
Total equivalent	€/MWh	26.47