



The Board of Energy Regulatory Office

Taking into account:

- Article 8 paragraph 1 sub-paragraph 1.6, Article 14 paragraph 2 sub-paragraph 2.7, Article 25 and Article 42 of the Law on Energy Regulator (No. 03/L-185);
- Legal provisions of the Pricing Rule for Distribution System Operator;
- Legal provisions of the Pricing Rule for Public Electricity Supplier;
- Decision V_393_2011 date 29.12.2011;
- Document on Determining the indicative value Weighted Average Capital Cost (WACC); and
- Document on Indicative Target Losses for Distribution System Operator;

On meeting held on 06 February 2012, issued this:

DECISION

- I. The Weighted Average Capital Cost shall be 15% nominal (including 3% inflation) for the transition period and for the following periodic review (1+5 years), under the assumption of gearing at 50%.
- II. The loss reduction curve in distribution will commence from the value recorded in 2011 and shall be reduced by 3% (percentage points) in the first 3 years and by 2.5% (percentage points) in the 3 subsequent years. The loss sharing factor shall be 0%.
- III. The bad debt level shall be set at 5% for 3 first years and 4% for 3 subsequent years.
- IV. The efficiency factor shall be 0% for first 3 years, with 5% maximum per year, for 3 subsequent years. ERO suggests public consultation before setting final targets for 3 subsequent years.

JUSTIFICATION

- o Following regular public consultation, at its meeting held on 29 December 2011, the Board of ERO approved the indicative values for loss reduction in the distribution network along with indicative weighted average cost of capital. The purpose of the decision was to reflect the approximate values deemed reasonable for calculation of Maximum Allowed Revenues, in line with conclusions and comments received from stakeholders.



- On 24 January 2012, ERO received a note from Government's Transaction Advisors for KEDS regarding ERO's indicative values. In their note, according to Transaction Advisors, which was drafted at the behest of the Minister of Economic Development, they emphasize that indicative values as set by the Regulator are not sufficient to ensure investments in KEDS, in line with the Energy Strategy endorsed by the Parliament of the Republic of Kosovo.

- V. ERO Board reviewed and partially endorsed the requests of Transaction Advisor and consequently decided as in the enacting clause of this Decision.

- VI. This Decision is issued into Albanian and shall be translated into Serbian and English. In case of inconsistencies, the version in Albanian shall prevail.

- VII. This Decision shall enter into effect upon its approval by the Board and shall be published on the ERO website.

Legal remedy: Against this Decision, the unsatisfied party may initiate an administrative conflict before the competent Court within thirty (30) days since the date of the decision's receipt or publication on the official web-site of ERO, whichever occurs last.

The Board of ERO

Dr. Ali Hamiti, Chairman

Përparim Kabashi, member

Blerim Koci, member