



EUROPEAN UNION

## Central Regulatory Unit/ Energy Regulatory Office



### Temporary Instruction No. 01/2004 On the Principles of Calculation of Prices and Tariffs in the District Heating Sector in Kosovo for the Heating Season 2004/2005

#### **CHAPTER 1 General Provisions**

##### **Article 1**

In accordance to the UNMIK/REG/2000/49 On the Establishment of the Administrative Department of Public Utilities, the Central Regulatory Unit/Energy Regulatory Office issues the Temporary Instruction on the Principles of Calculation of Prices and Tariffs in the District Heating Sector in Kosovo (“the Instruction”)

##### **Article 2. Scope**

- 2.1 This Instruction determines the principles for calculating and approving the prices and tariffs of heat in the organized district heating market for the heating season 2004/2005.
- 2.2. The terms used in this Instruction shall have the same meanings as in the Law on the Energy Regulator No.2004/9, UNMIK Regulation 2004/20, dated 30 June 2004.

#### **CHAPTER 2 Procedures for submission and approval of prices and tariffs**

##### **Article 3 Commencement of the procedure**

- 3.1 The heat enterprise submits to the Energy Regulatory Office a written application for approval of prices and tariffs of heat for the heating season 2004/2005.

##### **Article 4 Verification of the application**

- 4.1 Where an application complies with the provisions of this Instruction, the Energy Regulatory Office shall examine all the data listed in the application and in the attachments and documents thereto.

- 4.2 The Energy Regulatory Office may verify at its own initiative the stated circumstances and data, and may contact heat enterprises and ask for additional documents or information. The district heating companies shall promptly provide documents and information to the Energy Regulatory Office.
- 4.3 The heat enterprise is obliged to provide all necessary assistance to the Energy Regulatory Office.
- 4.4 When the heat enterprises submit for the first time the prices for the Energy Regulatory Office's approval, the Energy Regulatory Office shall give due account to the existing investment standards and to the prevailing levels of interest rates.

#### **Article 5 Formal examination**

- 5.1 Within seven (7) calendar days upon the acceptance, the Energy Regulatory Office shall examine the submitted application, attachments and required documents.
- 5.2 If the application, attachments and required documents are not compliant to the provisions of this Instruction, or if all required documents are not attached, the Energy Regulatory Office shall notify the applicant. The written notification shall invite the applicant to rectify his application within seven (7) calendar days from the date of notification.
- 5.3 In case when the applicant fails to rectify the non-compliance of his application, attachment or required documents within the period stipulated in paragraph 2, the Energy Regulatory Office shall reject the application and notify the applicant in writing. The notification shall be sent to the applicant within the seven (7) calendar days from the date set out in Article 5.2.
- 5.4 In the case when the Energy Regulatory Office reject the application as stipulated under the Article 5.3, the Energy Regulatory Office shall impose fines in accordance to the Article 57 of the Law on Energy Regulator until the fulfillment of the requirement stipulated in the Article 5.2.

#### **Article 6 Proposal of the tariff structure and prices**

- 6.1 In the application the heat enterprises shall include their proposals for the tariff structure and for the prices to the Energy Regulatory Office prior to the heating season which officially starts on 15 October 2004 and ends on 15 April 2005.
- 6.2 The proposal shall include :
- a) the tariff structure and the price for heat delivered to the final customers;
  - b) the tariff for connection to the heat distribution network.

## **Article 7 Content of the application**

- 7.1 An application for approving prices and tariffs of heat shall specify:
- a) the name of the applicant, the registered office, the address of the main office and the tax registration number of the applicant;
  - b) a proposal and grounds for the requested tariff structure and prices and the period of their validity;
  - c) the signature of the person representing the applicant.
- 7.2. The applicant shall submit to the Energy Regulatory Office in a form of attachment, following documents:
- a) the annual financial statements for the previous year with attachment
    - i. the auditor report if the annual financial statement of the applicant was subject to independent financial auditing;
  - b) detailed description of the sources of funding for the energy activity and evidence of the availability of such sources;
  - c) detailed calculations, evidence and grounds for the calculation of each separate element of the prices and tariffs in accordance with the requirements of this instruction;
  - d) information regarding the estimated income from the sales of heat to final customers, the total costs of production, distribution and supply of heat, the total heat capacity contracted, and the total yearly heat production in MWh;
  - e) a list of all submitted documents.
- 7.3. If the applicant intends to implement a long-term investment project, in addition to the documents specified in Article 7.2, it shall submit:
- a) a financial model for the period of the project;
  - b) a description of important parameters of the financial model;
  - c) the signed agreements which govern the implementation of the project and the principles of pricing;
  - d) full justification of the reasons for such investment.

## **Article 8 Review of prices and tariffs**

- 8.1 In its proposal the heat enterprises shall report the expenses they have actually incurred in accordance with the accountancy rules and the applicable accountancy standards in Kosovo.
- 8.2. During the regulatory period (heating season 2004/2005) the heat enterprise is entitled to present proposals to the Energy Regulatory Office for changing the initial prices approved by the Energy Regulatory Office, either because of the changes within the enterprise or because of a change in legislation applicable in Kosovo.
- 8.3. In reference to the Article 8.2. the heat enterprise shall attach to the proposal the documents that are necessary for proper justification of the proposed change.
- 8.4. The Energy Regulatory Office will review the request together with justification and attached documents and decide in accordance to the Article 4 of this Instruction.

## **CHAPTER 3 Procedure for calculation of tariff**

### **Article 9 Rationale for tariff calculation**

- 9.1 The tariff that is subject of this Instruction shall be applied for invoicing the non-metered customers. It includes an estimated consumption per square meter, called normative tariff. As of entering when this Instruction enters into the force, heat metering at the delivery points is not yet implemented, customers connected to those delivery points will be invoiced according to the normative tariff for the year of invoice and in proportion to the total surface of customer's facility.
- 9.2 The proposal for tariff shall be based upon calculation of three unit costs:
- a) Fixed cost of heat generation, distribution and supply;
  - b) Variable cost of heat generation, distribution and supply;
  - c) Connection fee for new customers (Article 13, Paragraph 4)

### **Article 10 Division of customers into tariff groups**

- 10.1 The division of customers into several tariff groups shall only be done if justified by differences in expenses born by the district-heating enterprise for delivering heat to them, according to the following criteria:
- a) sources of heat generation feeding the district-heating network;
  - b) district-heating network distributing heat;
  - c) place where heat is delivered and appropriate scope of supply;
  - d) customer requirements regarding the reliability and continuity of heat supply;

### **Article 11 Basis for calculation of prices and tariffs identification of justified costs**

- 11.1 Justified costs being basis for calculation of unit costs, prices and rates shall be based on:
- a) yearly forecasted operating expenses, comprising maintenance and financial costs (banking transaction and other financial transaction);
  - b) yearly forecasted costs of renewal of equipment and expansion;
  - c) yearly forecasted costs related to environmental protection;
  - d) yearly common costs (management, administration etc.).
  - e) yearly taxes
- 11.2 Heat Enterprises are entitled to propose to Energy Regulatory Office a reasonable profit as percentage of net income to be included in the calculation of the unit price; It is in Energy Regulatory Office discretion to approve, modify or review proposed profit.

## Article 12 Type of justified costs

- 12.1 Heat enterprises are permitted to recover all reasonable costs including:
- a). the costs of fuel maintenance and fuel reserves, wages and salaries;
  - b). the costs of management, operation, maintenance, replacement and construction of energy facilities, the cost of decommissioning energy facilities and facilities for storage of fuel reserves;
  - c). the costs of maintenance of reserve and regulating capacities, required for ensuring reliable supply to customers;
  - d). the costs of capital depreciation;
  - e). the cost of public service obligations and other obligations imposed on the heat enterprise.
- 12.2 Heat enterprises are obliged to indicate the improvement of operational and financial efficiency.

## Article 13 Details for calculation of unit price

- 13.1 Total unit price of heat contains the sum of unit price of heat capacity and unit price of heat delivered, calculated according to the formula:

$$U_p = U_c + U_h$$

where:

$U_p$	Total unit price of heat	€/ m <sup>2</sup> year
$U_c$	Unit price of heat capacity	€/ m <sup>2</sup> year
$U_h$	Unit price of heat delivered	€/ m <sup>2</sup> year

- 13.2 Unit price of heat capacity contracted (capacity charge) shall be calculated based on the formula:

$$U_c = K_f : S$$

where:

$U_c$	Unit price of heat capacity	€/ m <sup>2</sup> year
$K_f$	Total yearly forecasted fixed costs	€/ year
$S$	Total heated surface (customer database)	m <sup>2</sup>

13.3 Unit price of heat delivered (energy charge) shall be calculated based on the formula:

$$U_h = K_v : S$$

where:

<b>U<sub>h</sub></b>	Unit price of heat	€/ m <sup>2</sup> year
<b>K<sub>v</sub></b>	Total yearly forecasted variable costs	€/ year
<b>S</b>	Total heated surface (customer database)	m <sup>2</sup>

13.4 Calculation of connection fee for new connections shall be done according to the separate Instruction No. 02 / 2004 on the Terms and Procedure for New Connections to the District Heating Distribution Network.

#### **Article 14 Prices to Customers**

- 14.1 The contract between the heat enterprise and the customers connected to the heat distribution network shall include the prices of heat for the customer.
- 14.2. For customers, the price will be based upon the normative tariff determined by the Energy Regulatory Office upon the heat enterprise's proposal, based on:
- a) total price for heat to the customers delivery point;
  - b) price (fee) for new connections to the distribution network.
- 14.3 The district heating enterprise will invoice the estimated consumption of the consumer applying the unit price stipulated in the tariff for the regulatory period.

#### **Article 15 Proposal for change of tariff**

- 15.1 During the regulatory period the heat enterprise may present to the Energy Regulatory Office proposals for justified changes in its approved tariff in compliance with the dispositions set in this Instruction.
- 15.2 These changes may only be justified by changes of legislation, significant variations of price of fuel and other causes out of the control of the district heating enterprises.
- 15.3 The Energy Regulatory Office shall review, approve, modify or refuse the proposal in accordance to the procedure stipulated in this Instruction.

## **CHAPTER 4 - Final Provisions**

### **Article 16 Investigations**

- 16.1 The Energy Regulatory Office shall conduct regular investigations, for the purpose of:
- a) evaluation of the reported and estimated financial information submitted by the district heating enterprises;
  - b) approving the types and actual expenses throughout the regulatory period in compliance with the existing legislation on finance and accounting;
  - c) determining the income for the regulatory period;
  - d) approving the initial prices calculated for each licensed district heating enterprise.

### **Article 17 Language and entrance into force**

- 17.1. Applications and attachments stipulated under this Instruction shall be completed in one of the languages officially in use in Kosovo. The applicant shall translate documents that are not in Albanian, Serbian or English language.
- 17.2. Applications shall be recorded into Register of Energy Regulatory Office and regularly updated.
- 17.3. The present Instruction shall apply upon its signature.

Director of the Central Regulatory Unit

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Bjorn Hauksson

Date: 27 September 2004