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KORPORATA ENERGETIKE E KOSOVËS sh.a.
KOSOVO ENERGY CORPORATION J.S.C.
ENERGETSKA KORPORACIJA KOSOVA D.D.

To: professor Ali Hamiti
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KEK Ref:

**METHOD OF
DELIVERY: COURIER and
EMAIL**

Your Ref:
Dated: 08.02.2010

SUBJECT: Final Tariff Application KEK J.S.C.

Dear professor Ali Hamiti

In Accordance with the Energy Regulatory Office, Kosovo Energy Corporation KEK J.S.C., submits the Final Tariff Application for the year 2010.

Please, find attached documents for the Final KEK J.S.C. Tariff Application for 2010:

1. Cover Letter;
2. Final Application;
3. Tariff Model developed by KEK J.S.C.; and
4. ERO Templates sent to us, filled with the data for Energy and Budget (Actual and Forecasted Data for the years 2009 and 2010).

I would also take this opportunity to ask you to please carefully consider this application and associated documentation in addition to the independent analysis that ERO performs using its model.

Please feel free to call on ~~0800 10000~~ should you require any clarification and additional information regarding the Application

Yours sincerely,

Arben Gjukaj
Managing Director, KEK J.S.C.





KOSOVO ENERGY CORPORATION J.S.C.

**TARIFF APPLICATION
FOR 2010**

February 2010

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1. Introduction

Based on the Guidelines of the Energy Regulatory Office of the Republic of Kosovo for Tariff Applications approved on 27 April 2006, in compliance with the format contained in Appendix A.1, KEK J.S.C submits to the ERO this Application for review and approval of the prices for regulated electricity service to be effective beginning 01 April 2010.

On 07 December 2009 the Energy Regulatory Office (ERO) issued a letter to KEK setting out the schedule for the review of the tariffs to be in effect from 01 April 2010. Preliminary Applications were due to be submitted to ERO on or before 05 January 2010. KEK submitted its Preliminary Application on 18 December, thereby complying with the ERO directive.

This Tariff Application is prepared in electronic format and in hardcopy in compliance with the timetable contained in Rule on Prices, leaving room for additional information by the ERO.

Since KEK JSC holds the Public Generator, Distribution Network Operator, and Public Supply Licenses, all those costs are included in this application. ERO desires to have cost information for each of KEK's Divisions. That is possible since all costs have been separated in this application into the current four primary divisions of:

- Mining
- Generation
- Network
- Supply

Based on ERO guidelines for Tariff Application, the application contains the required sections with reporting tables in Excel spread sheet files.

Tariff Strategy,
Allowed Revenues,
Existing Tariffs Updates,
Proposed Amendments, and
Consultation

Reporting Tables:

Reporting Table 1: Existing and Proposed Tariffs,
Reporting Table 2: Average Tariffs by Group

In the Appendix of the Application KEK submits the calculation of allowed revenues based on KEK's Tariff Model that includes:

- Energy Balance,
- Cost of Purchased Power,
- Mining Costs,
- Generation Costs,

Regulatory Affairs Office

- Distribution Costs,
- Supply Costs, and
- Headquarters Costs.

We also submit data requested by ERO for its tariff model.

Key points of this application include:

- Allowed Revenues in the amount of 181,262,100 Euros are needed. Much of the increase relates to operation, maintenance, and capital expenditures for the mine and generation to ensure the needed coal supply and to continue supplying energy to customers at the improved levels experienced in 2009.
- Imported power of €75.5 million, offset by an estimated subsidy of €50 million is included.
- Exports with a value of €4.4 million
- Estimated KOSTT fee of €21.9 million
- Estimated sales to non eligible customers of 2,801 GWH. This includes estimated sales to consumers north of the Ibar River under the assumption that those consumers will be regularized early in 2010.
- Commercial Losses, defined by ERO as the difference between (1) energy available to Distribution (after adjustment for technical losses of 17.5% and internal use) and (2) billed energy is 20 %. This compares to the amount allowed in the 2009 approved tariffs and reflects that loss reduction efforts are continuing in the South, but losses in the North can be expected to be high in the initial year of regularizing consumers there.
- Allowed Revenues include a Bad Debt expense allowance of 2% of revenue, an amount far below the historical or projected level.
- KEK agrees with the ERO on the following tariff design issues:
 - Individual tariffs should move closer to the costs to serve the respective customers. Given that households are approximately 68% of the regulated load and they are significantly lower than cost; those tariffs must be increased more than the average percentage increase in order to move closer to cost reflective tariffs.
 - No significant change is expected in tariff structures
 - Time of Use Pricing (high and low periods) will continue, although KEK does not agree that is effective as a price signal to households since they have limited ability to shift load.
 - The existing block structure for households will continue, although KEK does not agree that the first block is an effective way to address the issue of poverty in Kosovo

2. Focus on Privatization

KEK anticipates separating the Distribution business (Currently Network and Supply) from Mining and Generation sometime in 2010. That new entity will be Kosovo Electricity Distribution and Supply (KEDS) and the DSO and Public Supply Licenses are anticipated to be transferred to the new entity. The Mining and Generation divisions would remain with KEK.

This tariff process is a very strategic one for all stakeholders including:

- KEK
- KEDS
- ERO
- Government of Kosovo
- Kosovo Energy Consumers
- Potential Investors for Generation Assets
- Potential Investors in KEDS

The potential investors will be observing this tariff process, methodology, and application of cost based tariffs very closely to formulate their assessment. The important consideration is how the process actually works, as opposed to what laws, regulations, and procedures indicate.

Critical reviews will be made of:

- the manner in which Operating and Maintenance Expenditures are reviewed and decided upon
- Allowances, such as bad debt.
- The cost recovery allowed for capital expenditures including:
 - Depreciation Allowances
 - Allowed Asset Base
 - Allowed Return on Investment

In fact, it could be said that the amount the investors are willing to pay the Government of Kosovo for the purchase of shares, especially for the Distribution business, will be based on the value of the Distribution Assets allowed for cost recovery in this filing and its revenue potential. That could be considered to be the ceiling, with adjustments made for perceived risk.

3. Tariff Strategy

Proposed tariffs are consistent with requirements of the Law on Energy Regulatory based on the Tariff Methodology, and in particular the requirements on cost-reflective and non-discrimination as required in that methodology.

According to the Tariff Methodology, KEK has provided an explanation on determining the regular existing tariffs and the cost to supply the individual customer categories.

KEK J.S.C. goals are to offer sufficient electricity to regular customers, according to their demands based on cost reflective tariffs. Therefore the strategy of this Tariff Application for 2010 is to take steps to move closer to this goal, especially in relation to the mining operation, maintenance, and capital expenditures. Significant progress was made during the year 2009 to provide paying customers with as close to 24:0 service as possible. KEK has been successful at having 3 generating units at Kosovo A available with 2 of them operating at any point in time. The availability of the Kosovo B units has also improved, allowing more energy to be available to customers. During the summer of 2010 the low pressure rotors in each of the Kosovo B units will be replaced, increasing the capacity of Kosovo B by approximately 60 to 80MW, thereby improving the supply situation. This is reflected in the energy balance developed for the year 2010. Transmission and distribution constraints have an impact on local areas but these are being addressed as well.

Based on cost analyses, we propose that tariff groups contain separate tariff elements such as:

- Standing Customer Charge,
- Demand Charges (for certain tariff categories),
- Active Energy Charge , and
- Reactive Energy Charge (for certain tariff categories).

The tariffs are also based on (1) seasonal costs (Summer and Winter), and (2) the time of day.

3.1 Retail Supply Tariffs

This tariff application contains the reflective costs principals, meaning that each tariff group must move toward the appropriate costs so that the customers of different groups pay only appropriate costs created by use of electricity service. KEK realizes that it is not advisable to adjust tariffs drastically, and therefore proposes to make adjustments to move closer to cost reflective tariffs over time. KEK recommends that ERO adopt this principle when reviewing this application and approving the final tariffs.

Retail Supply Tariff consists of four components:

- Standing Tariff (€/customer),
- Maximal Demand Tariff (€/kW); - where applicable,
- Active Energy Tariff (€/kWh),
- Reactive Energy Tariff (€/kVArh); – where applicable

KEK as a commercially oriented enterprise is careful in protecting the vulnerable customers. However, knowing that this is a responsibility of the Government of the Republic of Kosovo, KEK is working with the Government to enhance the effectiveness of the Social Cases Subsidy.

Our corporation will increase efficiency and minimize theft and non-payment by implementing the Rule on General Conditions of Power Supply and the Rule for Disconnection and Reconnection of Customers in order to minimize losses.

3.2. Retail Tariff

The retail tariffs for end-use customers are a combination of Generation/Import, Transmission Tariff, Distribution Network costs, and Supply costs. Each one of these contains elements that reflect appropriate cost.

- Standing Tariff for customers is calculated by using results of cost allocation for each tariff category based on the following relation:

$$\text{Standing Tariff (€/customer)} = \frac{\text{Cost of billing and collecting by customer groups}}{\text{Total number of annual bills of customers per group}}$$

- Maximal Demand Tariff is calculated for each category based on the following relation:

$$\text{Maximal demand tariffs (€/kW)} = \frac{\text{Costs related to maximal demand allocated to customer groups}}{\text{Total of estimated maximal demand per group}}$$

Amount of charged maximal demand must be taken during PEAK load for the appropriate voltage level. Metering and billing of maximal demand with demand meter (maxi-graph) is done only on large customers because of high cost. Whilst, demand costs for customers without demand meters are included in energy tariffs in accordance with standard industry practice.

- Active Energy Tariff is calculated for each category based on the following relation:

$$\text{Active Energy Tariff } e \text{ (€/kWh)} = \frac{\text{Costs of energy allocated to customer groups}}{\text{Total of consumed energy per group}}$$

- Reactive Energy Tariff for large customers with appropriate meters is calculated based on the following relation:

$$\text{Reactive Energy Tariff (€/kVArh)} = \frac{\text{Cost of reactive energy allocated to customer groups}}{\text{Total of consumed reactive energy per group}}$$

4. Projected Load Forecast (Energy Balance)

The energy available (KEK generation, purchases from hydro generators, imports, and exports), losses in the transmission and distribution systems, and sales to consumers utilized in this Application are those contained in the final KEK Energy Balance Report issued in November 2009 and provided to ERO.

A significant highlight to point out is that for the year 2010 it is assumed that the practice (mandated by the international community for the past 10 years) of providing energy at no cost to the minority areas (10% of total energy) will be discontinued during 2010. The minority areas south of the Iber River have already been regularized (either the consumers pay going forward or they are disconnected). It is anticipated that in 2010 the area of Kosovo North of the Iber River will be regularized as well; meaning that consumers that pay will receive service and those that do not will be disconnected. The sales to customers reflect regularizing the minority areas. In the short term, the level of non-technical losses (commercial loss/theft) will likely increase, however, KEK is assuming that overall; it can stay within the 20% commercial loss allowance allowed by ERO.

KEK's goal is to provide 24:0 service to all paying consumers, subject to limitation due to technical constraints and illegal/ unplanned customer connections.

The Energy Forecast can be summarized as shown in the following table:

Regulatory Affairs Office

2010 Energy Forecast
(GWH)

KEK Generation	4,578	
Purchase of Hydro Power	92	
Imports	860	
Exports	(193)	
Transmission Losses (2.5% of energy flows)	(166)	
Internal Consumption (primarily mine)	(146)	
Distribution Technical Losses (17.5% of input to distribution)	(758)	
Distribution Non-Technical Losses (20% of input to distribution)	(868)	
Supply Deficit	<u>30</u>	
SALES TO CUSTOMERS		3,430
<u>Allocation of Sales:</u>		
110 KV Customers	90	
Distribution Customers	<u>2,711</u>	
Total Regulated	2,801	
Eligible Customer (220 KV)	<u>629</u>	
TOTAL SALES		3,430

4.1. Allocation of Sales to Customer Classes

KEK has allocated the energy sales components for 2010 to customer classes utilizing the 2009 base data by customer class as follows:

- Number of Customers
- Demand (KW) for those classes with demand meters
- Active energy (kWh) by time of day and season
- Reactive energy for the appropriate classes

The result is the “Billing Determinants” contained in Section 6.3. This allows ERO to analyze the impact of the estimated 2010 sales on each tariff class, the revenue that would result if existing tariffs were in place for the entire year of 2010, and ultimately the tool to use to design tariffs for 2010 to recover the finally approved Allowed Revenues. As

shown in Section 6.4, if current tariffs were in effect for the entire year of 2010, the estimated revenues would be €158.1 million.

5. Allowed Revenues

This section provides the results of requested allowed costs that are incurred by KEK divisions: Mining, Generation, Network and Supply, plus the costs for KEK's headquarters, which are allocated to each of the divisions based on number of employees in accordance with ERO practice. Allowed Revenues for non eligible customers are calculated based on 2010 budget data and input into the Tariff Model resulting in an amount of 181,262,100 Euros.

Calculation of Allowed Revenues for KEK J.S.C Divisions is done based on ERO's Tariff Methodology and KEK's Tariff Model (Model date: 05 February 2010). The amount of revenue that is calculated based on energy and financial data will allow the Public Supplier to recover costs from retail tariffs that are charged to non-eligible (regulated) customers for the supply of electricity.

In this amount are included:

- Allowed revenues for public supplier, including electricity from KEK generation and import,
- Transmission Network Tariff (KOSTT) for transmission services for non-eligible customers, and
- Total allowed revenues for Network Division for distribution services to regulated customers.
- Supply Costs for all customers

Requested Allowed Revenues are based on the 2010 test year. Test year 2010 is used because the final tariffs approved by the ERO in this filing are expected to become effective on April 1st 2010. All data in the Tariff Model (Energy Balance, Costs, etc.) are based on a calendar year 2010. Along with this Application, KEK is providing ERO with output of its tariff model, containing details of each component. ERO was provided with the model, the documentation of the model (Manual), and a presentation of its features during the last tariff filing.

5.1. Retail Supply Allowed Revenues.

The following table presents total costs for retail sales tariffs which are proposed to be collected through proposed tariffs. This table is a summary of calculations included in the Tariff Model provided with this application.

ALLOWED REVENUES BASED ON 2010 FORECAST

 Shqip English

Line No.	Item Description	Mining	Generation	Network	Supply	Total KEK
1	OPEX EXPENSES	42,244.0	30,801.8	18,714.0	10,103.3	101,863.1
2	Depreciation	5,571.8	4,202.4	1,051.1	507.2	11,332.5
3	RETURN	18,838.3	8,786.8	4,237.6	308.2	32,171.0
4	Supply Margine				4,015.5	4,015.5
5	Imports				25,539.6	25,539.6
6	Purchases at Network Voltage				2,818.4	2,818.4
7	KOSTT Fee		5,813.0		16,135.7	21,948.7
8	Sale of Energy to KOSTT for Losses				-5,339.8	-5,339.8
9	Revenue Credit (Eligible Customers)				-21,281.2	-21,281.2
10	Bad Debt Expense				3,160.0	3,160.0
11	Other Operating Income	-1,500.0				-1,500.0
12	Exports				-4,429.8	-4,429.8
13	Allocated HQ Costs	5,045.9	2,399.4	1,768.3	1,750.6	10,964.1
14	Total Allowed Revenues	70,200.0	52,003.4	25,770.9	33,287.8	181,262.1

5.2. Reconciliation of Allowed Revenues – 2010 Request to 2009 Allowance

In order to provide ERO with information to analyze KEK's 2010 requested allowed revenues in relation to those approved in 2009, the following reconciliation is provided:

Reconciliation of Allowed Revenues: 2010 Request to 2009 Allowance

(millions of Euros)

	<u>2009 Allowed</u>	<u>2010 Request</u>	<u>Difference</u>
Total "Allowed Revenues"	139	181	42

Reconciliation:			
Costs related to New Investments			27
Depreciation		5	
Return		22	
KOSTT Fee			7
Net Cost of Imports			9
Maintenance			2
New O&M costs for North Kosovo			3
Bad Debt Expense			3
Reduction in Exports			2
Increase in Ferronikeli Revenue Credit			(11)
		TOTAL	42

The Depreciation and Return on Investment calculations for 2010 reflect the anticipated under expenditure of 2009 capital expenditures by €24.8 million for the mines and €9.4 million in the network. Return on investment was computed using the ERO approved rate of 13.8%, which current tariffs are based on. Pre 2006 investments are excluded in accordance with the tariff methodology.

The basic import quantity is 860 GWH in accordance with the energy balance. The cost is estimated to be €61.1 million (€70 per MWH) in 2010 based on contract prices for the first quarter of 2010 and an estimate of the cost for the remainder of the year. In order to provide reliable service to paying customers, the imported power budget also contains an allowance for emergency import during long unexpected generating unit outages (72 hours) of 86 GWH at a cost of €8.6 million and an allowance for emergency import during short unexpected generating unit outages (up to 6 hours) of 58 GWH at a cost of €5.8 million. This produces a total cost for imported power of €75.5. This is offset by the Imported Power Subsidy of €40 million contained in the 2010 Kosovo Consolidated Budget and a €10 million subsidy remaining from the 2009 budget year that was allowed to be carried over to 2010, resulting in a net cost of €25.5 million.

ERO has been provided with the details of the 2010 Import forecast. It should be noted that 2009 import prices were impacted by the economic downturn in the region which depressed prices as well as the availability of significant exchange energy from Albania due to extremely high rainfall.

KEK has included €3.2 million in Allowed Revenues as a Bad Debt Allowance. Every business that does not demand payment on or before delivery of the product incurs a bad debt expense. The expense requested is 2% of billed revenue, as it was last year. Of course, this is a small portion of the 17% bad debt expense expected in 2010. KEK has taken steps to reduce bad debt expense. In 2009, KEK experienced 19% bad debt expense compared to the 25% experienced in 2008.

As discussed previously, the details of Allowed Revenues are contained in Attachment A. ERO is also being provided with the electronic version of the Tariff Model for its use.

KEK would like ERO to take note of the fact that the Allowed Revenues proposed for 2010 take into account:

- An increase in sales to regulated customers of 8% above the actual 2009 level (2,801 GWH vs. 2,589 GWH). This includes anticipated sales to consumers north of the Ibar River.
- Improved service levels to paying consumers as evidenced by a significant reduction in load shedding in late 2009 which is expected to continue in 2010.
- Minimal increases in operating and maintenance costs for the operating departments with the exception of a €3 million increase in maintenance costs to continue the good performance of the generating units and to make up for the lack of maintenance in prior years in the generation and distribution areas and an estimated €3 million additional operation and maintenance cost related to regularizing consumers in the North.

- Incorporation in KEK allowed revenues of the tariff increase granted to KOSTT in 2009.

Disconnection of non paying customers has given positive results. This action is also supported by ERO, MEM and the Police. Whilst, from Prosecution is required more involvement in addressing the dispute cases between KEK and customers. Disconnections are the most important tool to enforce payment discipline.

KEK welcomes the recommendations of Ministry of Labor and Social Welfare on the Implementation of the Memorandum for Social Issues within the Energy Community Treaty.

Until KEK improves the collection rate up to a reasonable level, KEK would like to be treated in a more commercially oriented matter and to reduce the burden on the KCB by including “Costs of Bad Debts”, in Allowed Revenues. Every Commercial Company that grants credit to its customers is faced with expenses due to bad debt. This happens also to the companies with high commercial efficiency. For that reason, KEK has included a Bad Debt expense allowance of 2% of revenue, an amount far below the historical or projected level.

6. Existing Tariff Updates

Existing regulated tariffs are provided in the Reporting Table No. 1, whilst the proposed Tariffs are updated in compliance with proposed allowed revenues for 2010 that are also reflected in Reporting Table No. 1, not changing the structure of existing tariffs. KEK has developed its tariff model and has done a Cost of Service Study to classify and to allocate the Allowed revenues to each customer group. Allowed Revenues are then allocated to each customer group to determine their fair share of the total amount.

6.1. Cost (of Service) Allocation Study

During the cost of service study we've used different allocation factors to allocate each of the cost elements for customer tariff group. The principal of cost causation¹ is the typical approach used to select the appropriate allocation for each of cost elements.

¹ Cost causation is usually the central principle for all cost allocation. This principle means that a cost is allocated on the basis of the factors that cause the cost to be incurred. For example, For example, a distribution company has to invest in building distribution capacity to meet customer peak demand. The investments in capacity correspond to the peak demand and, therefore cause the investment expenditures to be incurred. It follows that the investment expenditures would be allocated on the basis of some measure of peak responsibility of different customer groups or service categories. (National Regulatory Research Institute

Factors Used to Allocate Allowed Revenues to Tariff Classes

Allocation Factor	Name	Description	Costs Allocated
1	Grossed-up Energy (kWh) at High Voltage	The ratio, in percent, of the total annual energy sales for each tariff group to the total annual energy sales for the system.	Variable costs of generation and other variable supply costs.
2	Grossed-up Energy (kWh) at Medium Voltage	The ratio, in percent, of the total annual energy sales for each tariff group to the total annual energy sales for the system.	Variable costs of generation and other variable supply costs.
3	Coincident Share at High Voltage	The ratio, in percent, of the demand of each tariff group at the time of the system peak to the maximum system peak demand.	Fixed costs included in generation of electricity.
4	Coincident Share at Medium Voltage	The ratio, in percent, of the demand of each tariff group at the time of the medium voltage peak to the maximum medium voltage peak demand.	Fixed costs included in generation of electricity.
5	Customers	The ratio, in percent, of the average total number of customers for each tariff group to the sum of the average number of customers for all customer tariff groups.	Part of the customer-related cost.
6	Weighted Customers	The ration, in percent, of the weighted total number of customers for each tariff group to the sum of the weighted number of customers for all customer tariff groups. This provides the relative cost between tariff groups for some of the customer-related costs.	Part of the customer-related cost, such as metering and billing.

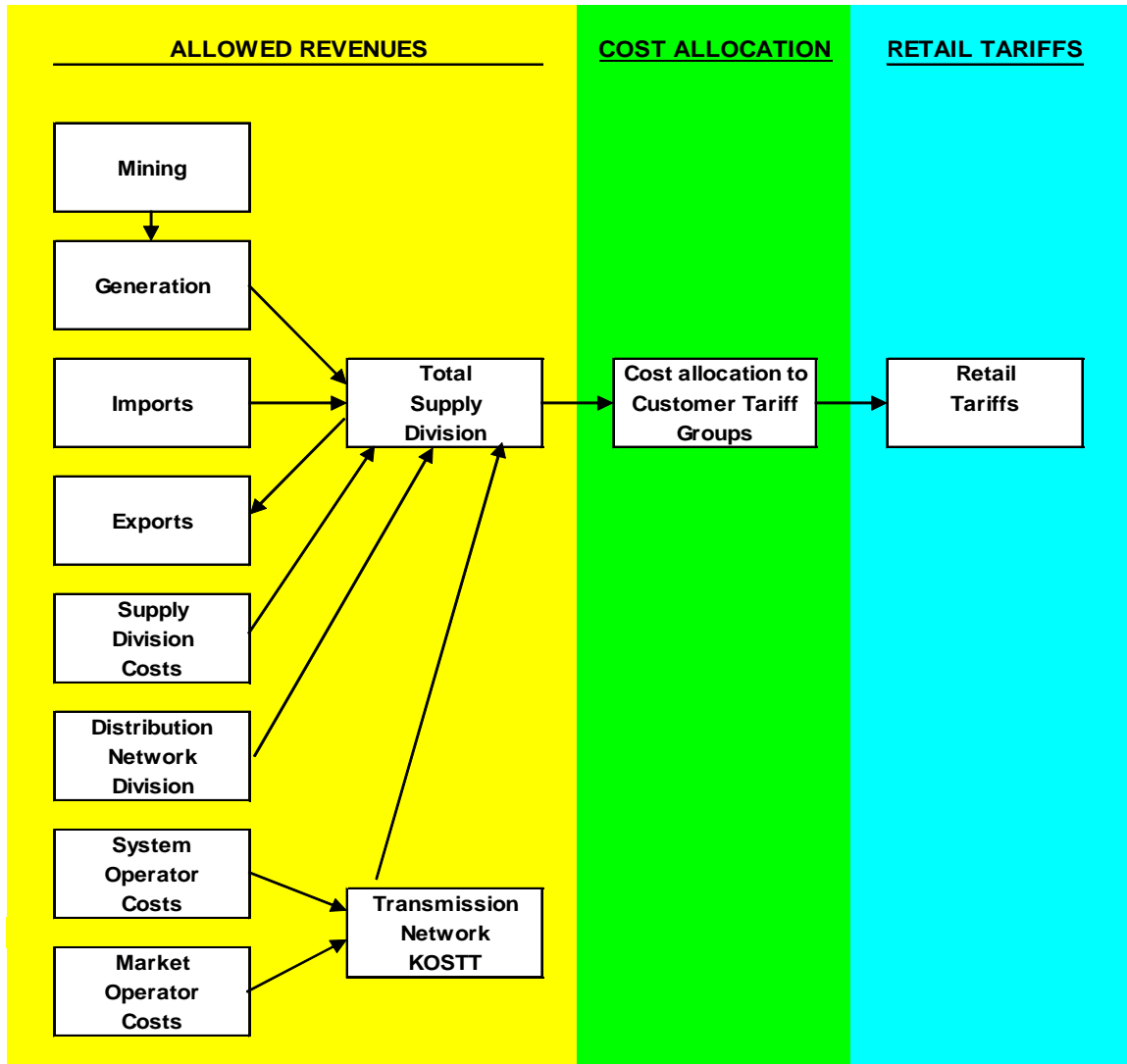
6.2. Tariff Process

In developing the proposed tariffs, this diagram shows the process that KEK utilized to develop retail tariffs in conformance with the Laws and the ERO Tariff Methodology and Guidelines.

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KEK TARIFF DESIGN PROCESS



Note: Mining, Generation, Network, and Supply division costs include an allocation of headquarter (corporate support) costs.

Individual tariffs could be developed for each licensed activity since KEK has provided costs for each of the activities. This, of course will be done when KEK is unbundled as part of the privatization process. At this point in time, however, it does not appear that the unbundling will occur until late 2010 at the earliest. At that time, the contractual arrangements will be identified, which is necessary to determine the components and structure of each tariff. For the purpose of developing retail tariffs to be effective 01 April 2010, however, it is not necessary to go through the effort of developing individual licensee tariffs.

6.3. Billing Determinants

Regulatory Affairs Office

Billing determinants are the tariff elements that are measured and for which the prices are applied to calculate customer bills. The billing determinants include:

- Customer standing charge,
- Demand charges (kW) where applicable,
- Active Energy Charge (kWh), and
- Reactive Energy Charge (kVArh), where applicable.
-

The Tariff Model estimates the billing determinants for each of the customer classes based on the 2009 billing data applied to the 2010 energy balance. The 2009 data is used to calculate the percentage of energy billed in each block and then applying these percentages to the total billed energy for each customer classes in 2010. KEK has collected the actual billing determinants for 2009 for each customer group and has applied the 2010 Energy Balance results to estimate the billing determinants for 2010.

Summary of KEK billing determinants for 2010

Tariff Group	Billing Determinants		2010 Billing Determinants
	Description of Measured Unit	Monthly Billing Unit	
0 HV Industrial	Customer Bills	€	24
	KW	€/kW	177,600
	Summer kWh		
	Peak	€/kWh	27,356,663
	Off-Peak	€/kWh	25,143,337
	Winter kWh		
	Peak	€/kWh	20,128,144
	Off-Peak	€/kWh	17,371,856
	Varhr	€/kVARh	
1 (35 kV)	Customer Bills	€	276
	KW	€/kW	98,000
	Summer kWh		
	Peak	€/kWh	11,497,524
	Off-Peak	€/kWh	7,836,476
	Winter kWh		
	Peak	€/kWh	15,156,475
	Off-Peak	€/kWh	11,590,525
	Varhr		40,000,000
2 (10 kV)	Customer Bills	€	2,800
	KW	€/kW	575,000
	Summer kWh		
	Peak	€/kWh	56,603,132
	Off-Peak	€/kWh	36,308,868
	Winter kWh		
	Peak	€/kWh	69,191,517
Off-Peak	€/kWh	43,906,483	
	Varhr		68,000,000
3 Category I (0.4 kV)	Multi-Tariff		
	Customer Bill	€	13,320
	KW	€/kW	732,000
	Summer kWh		
	Peak	€/kWh	52,250,097
	Off-Peak	€/kWh	31,894,903
	Winter kWh		
	Peak	€/kWh	59,929,930
Off-Peak	€/kWh	37,539,070	
	Varhr	€/kVARh	54,000,000
4 Category II 1 Tariff	Single Tariff		
	Customer Bill	€	255,000
	Summer kWh	€/kWh	25,668,573
	Winter kWh	€/kWh	37,606,058
4 Category II (0.4 kV) 2 Tariff	Customer Bills		480,000
	KW	€/kW	
	Summer kWh		
	Peak	€/kWh	69,045,225
	Off-Peak	€/kWh	61,994,202
	Winter kWh		
	Peak	€/kWh	90,484,974
	Off-Peak	€/kWh	70,297,968
5 Domestic 2-rate mtr.	Customer Bill	€	3,600,000
	< 200 kWh		
	Summer kWh		
	Peak	€/kWh	129,755,467
	Off-Peak	€/kWh	134,920,335
	Winter kWh		
	Peak	€/kWh	139,944,107
	Off-Peak	€/kWh	143,240,765
	200-600 kWh		
	Summer kWh		
	Peak	€/kWh	141,630,511
	Off-Peak	€/kWh	171,451,330
	Winter kWh		
	Peak	€/kWh	163,544,723
	Off-Peak	€/kWh	194,737,517
> 600 kWh			
Summer kWh			
Peak	€/kWh	71,862,094	
Off-Peak	€/kWh	85,963,124	
Winter kWh			
Peak	€/kWh	134,563,227	
Off-Peak	€/kWh	172,427,147	
6 Domestic 1 rate mtr.	Customer Bill	€	665,000
	< 200 kWh		
	Summer kWh	€/kWh	36,098,898
	Winter kWh	€/kWh	38,420,300
	200-600 kWh		
	Summer kWh	€/kWh	27,318,712
	Winter kWh	€/kWh	30,283,832
	> 600 kWh		
Summer kWh	€/kWh	10,670,424	
Winter kWh	€/kWh	15,133,034	
7 Domestic Un-metered	Customer Bill	€	61,324
	< 400 kWh		
	Summer kWh	€/kWh	11,425,200
	Winter kWh	€/kWh	12,419,217
	Customer Bill		62,709
	400-800 kWh		
	Summer kWh	€/kWh	15,937,828
	Winter kWh	€/kWh	26,482,926
Customer Bill		4,685	
> 800 kWh			
Summer kWh	€/kWh	2,509,077	
Winter kWh	€/kWh	2,990,204	
8 Public Ltg	Customer Bills	€	6,250
	Summer kWh	€/kWh	3,589,000
	Winter kWh	€/kWh	4,543,000

6.4. Proposed Tariffs

The new tariffs can be determined in several different ways. The Tariff Model calculates the tariffs based on its allocation of costs.

Traditionally, the overall increase in tariffs is determined by firstly determining the increase in overall revenue requirements. The following table provides this information. The revenues in the table were calculated from the billing determinants contained in the Tariff Model; the Allowed Revenues were calculated in the Tariff Model.

Tariff Category	Billing with 2009 Tariffs	Cost of Service Results	Increase in Billing to Equal COS Results	
			€	%
0	3,692,665	3,302,827	-389,838	-10.56%
1	2,827,356	2,686,881	-140,476	-4.97%
2	13,448,804	9,675,542	-3,773,262	-28.06%
3	13,449,271	9,752,791	-3,696,480	-27.48%
4	31,737,281	24,575,097	-7,162,184	-22.57%
5	79,411,461	114,680,241	35,268,780	44.41%
6	8,791,171	11,853,751	3,062,580	34.84%
7	4,066,324	4,253,535	187,211	4.60%
8	702,964	481,468	-221,497	-31.51%
Total	158,127,298	181,262,132	23,134,834	14.63%

The table also shows the % increase that would result for each of the blocks within each tariff category if tariffs were immediately increased to cost reflective levels.

KEK makes the following proposals, which differ from the model results:

1. KEK believes that none of the tariffs within each of the tariff categories should be decreased as the model results show.
2. KEK proposes that the tariffs for domestic customers would not be increased to the full cost of service levels at once because such a move would cause rate shock for those customers, however, they should move closer to the cost of service.
3. The data inputs for the ERO model contain many assumptions that need to be examined by the ERO and KEK prior to the next tariff filing. For example, the model produces prices for Category 0 (110 KV) customers during the summer low period that are lower than the cost that KEK can produce electricity for.

Once the analysis has been made to compute the cost to serve each tariff class, the individual tariffs for each class must be set at an appropriate level to have the tariff recover an amount to move it closer to the cost. KEK recommends a gradual but meaningful adjustment for each class.

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Based on the fact that household tariffs are significantly below cost while other classes are above to varying degrees, KEK proposes the allocation of the tariff increase to be as follows based on the requested 14.6% increase:

Allocation of Tariff Increase to Broad Customer Classes

(Euros in millions)

	<u>Households</u>	<u>Other Classes</u>	<u>Total</u>
Revenue at Current Tariffs	92.3	65.8	158.1
Increase Requested: Percent	17.9%	10.0%	14.6%
Amount	16.5	6.6	23.1

Tariff classes other than household were adjusted by 10%. In order to recover the total Allowed Revenues, Household tariffs must be increased by an average of 17.9%. This is illustrated in the following table.

Tariff Category	Billing with 2008 Tariffs	10% Increase	Additional Increase	Final Increase	
	Total €	All Categories	Total €	Total €	% Increase
0	3,692,665	4,061,932	0	4,061,932	10.00%
1	2,827,356	3,110,092	0	3,110,092	10.00%
2	13,448,804	14,793,685	0	14,793,685	10.00%
3	13,449,271	14,794,198	0	14,794,198	10.00%
4	31,737,281	34,911,009	0	34,911,009	10.00%
5	79,411,461	87,352,607	6,420,342	93,772,949	18.08%
6	8,791,171	9,670,288	663,629	10,333,917	17.55%
7	4,066,324	4,472,956	238,133	4,711,089	15.86%
8	702,964	773,261	0	773,261	10.00%
Total	158,127,298	173,940,028		181,262,132	14.63%

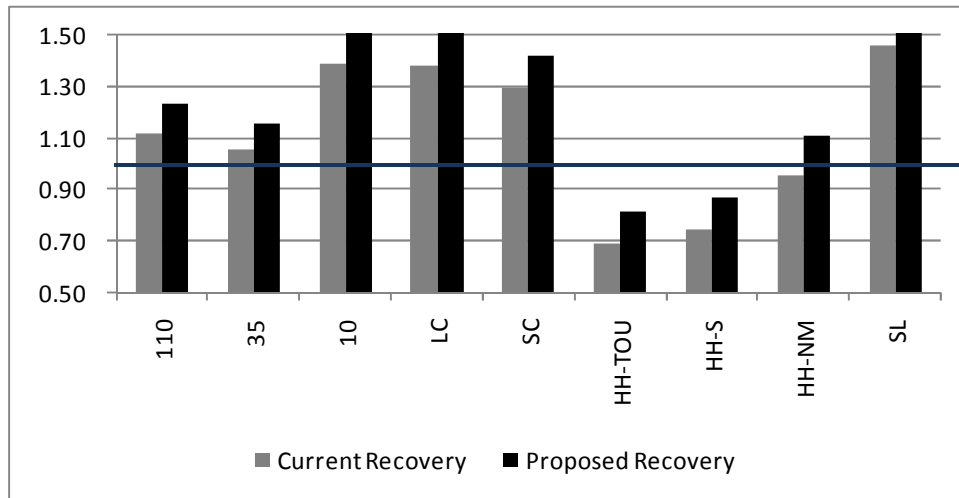
On December 1, 2008, the ERO Chairman issued a letter² concerning the 2009 tariff filing. In the letter, Dr. Hamiti stated: “There shall be a gradual movement in cost-reflective tariffs. The reviewed tariffs should continue towards the cost-reflective tariffs including the re-balancing of the relative industrial, commercial and residential, while at the same time ensuring payment affordability concerns are addressed”. The KEK proposal moves towards more cost-reflective tariffs.

² See letter from Ali Hamiti with subject “Third Electricity Tariff Review (ETR3) – Principle and Timetable”

In order to determine the extent that tariffs recover the cost to serve the individual classes, it is useful to examine the following chart that displays the ratio of revenue generated from each tariff class to the cost to serve each class. A ratio greater than 1.0 indicates that the tariff for the class recovers more than the cost to serve that class while a ratio less than 1.0 indicates that the tariff produces less than the cost to serve. Current tariffs for the Household class provide approximately 70% of the cost to serve that class. The tariffs KEK is proposing would provide approximately 80% of the cost, moving the household class closer to being cost reflective, but still significantly below cost. Such a move is mandatory since the Household Class consumes 68% of the energy to regulated customers and cannot continue to be subsidized so heavily by customers using only 32%.

Cost Recovery Index – Current vs. Proposed Tariffs

(1.0 = Recovery of Cost to serve)



It should be noted that KEK will be working with the government to revise the threshold for qualification for social assistance for electricity such that it would increase the number of qualified social customers from 27,000 to 50,000. This will eliminate the need for ERO to continue with the 3 block tariff structure in the future.

The proposed tariff schedule is contained in Table No. 1 along with a comparison to existing tariffs.

Table No. 2 displays the average price per kWh for each tariff class based on current tariffs and proposed tariffs.

7. Proposed Amendments

Kosovo Energy Corporation (KEK J.S.C.) is not proposing amendments in the Electricity Tariff Structure other than the movement toward cost reflective tariffs for the Household

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classes discussed above. KEK believes that there are other modifications that ERO should consider including:

- Eliminating the time of use tariff structure for household and small commercial customers since the time clocks for those customers do not have adequate battery backup to compensate for power outages. Also, those classes have limited ability to shift load to off peak periods in order to make the tariff a meaningful demand side management tool.
- The Summer / Winter differential for all tariff classes is not cost reflective. The summer tariffs for most classes are below the cost of generation. Also, since the majority of costs for the mine and generation are fixed, the large differential does not allow revenue to follow costs.
- The first block of the household tariffs is set far below cost based on the ERO practice of attempting to subsidize low income consumers. Of course, this type of subsidy is not well targeted since all customers benefit. The Government Social Cases Subsidy is in place and it is much more effectively targeted. ERO is encouraged to work with the Ministry of Labor and Social Welfare to expand the number of recipients of the subsidy to all households in extreme poverty.

It is anticipated that proposed tariffs together with updated prices, will become effective on April 1st 2010.

8. Consultations

Data Gathering, elaboration and completion of this Tariff Application was finalized following deep analyses of energy balance requirements; cost structure, cost allocation to tariff classes, and the structure individual tariffs.

The following table summarizes the activities during these consultations between both parties (KEK and ERO).

Nr.	Description of Activities	Date
1.	<i>ERO - KEK; Minutes of the meeting regarding the Methodology for Cost Allocation</i>	<i>June 3rd, 2009</i>
2.	<i>ERO - KEK; Minutes of the Meeting; Continued the meeting for the Methodology for Cost Allocation for Reactive Energy and other explanations regarding the Metering</i>	<i>July 30th, 2009</i>
3.	<i>KEK - ERO; KEK responded regarding the memorandum of July 28th, 2009 "Raised Issues"</i>	<i>August 28th, 2009</i>
4.	<i>KEK - ERO; KEK responded via e-mail regarding the calculation of the costs for services for Reactive Energy</i>	<i>September 15th, 2009</i>
5.	<i>ERO - KEK; Announcement over the 4th Tariff Review for Electrical Energy</i>	<i>December 7th, 2009</i>
6.	<i>ERI - KEK; Submission of the Templates for tariff application.</i>	<i>December 9th, 2009</i>
7.	<i>KEK - ERO; KEK submits comments regarding 4ETR and requests a consultation meeting at the same day.</i>	<i>December 17th, 2009</i>
8.	<i>ERO – KEK; ERO submits to KEK minutes of the meeting together with the corrected templates..</i>	<i>December 17th, 2009</i>
9.	<i>KEK – ERO; KEK submits the Preliminary Application in ERO based on KEK's Model</i>	<i>December 21st, 2009</i>
10.	<i>ERO – KEK; ERO thanks for preliminary application and requests additional analysis except the templates of 4ETR.</i>	<i>December 23rd, 2009</i>
11.	<i>KEK – ERO; KEK submits filled templates with requested energy and financial data. .</i>	<i>December 31st, 2010</i>
12.	<i>ERO – KEK; ERO submits comments regarding KEK's Preliminary Application 2010.</i>	<i>January 20th, 2010</i>
13.	<i>KEK - ERO; KEK requests a meeting regarding the comments of ERO on Preliminary Application which one was held on the same day.</i>	<i>February 1st, 2010</i>
14.	<i>ERO – KEK; ERO submits minutes of the meeting of February 1st, 2010.</i>	<i>February 4th, 2010</i>
15.	<i>KEK – ERO; KEK submits the Final Tariff Application for Electricity Tariff Review(4ETR)</i>	<i>February 8th, 2010</i>

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9. Table No. 1 Existing and Proposed Tariffs

Tariff Group	Voltage level of supply	Tariff elements	Unit	Time-of-day	Existing Tariffs		KEK - Proposed	
					High season 1 October - 31 March	Low season 1 April - 30 September	High season 1 October - 31 March	Low season 1 April - 30 September
0	110kV	Standing (customer) charge	€/customer/month		83.83		95.00	
		Standing (Demand) charge	€/kW		5.59	5.59	6.15	6.15
		Active energy (P), of which:	€/kWh	High tariff	6.49	1.92	7.14	2.11
			€/kWh	Low tariff	2.70	1.58	2.97	1.74
		Reactive energy (Q)	€/kVArh		0.00	0.00	0.00	0.00
1	35kV	Standing (customer) charge	€/customer/month		11.08		15.00	
		Standing (Demand) charge	€/kW		5.81	5.81	6.39	6.39
		Active energy (P), of which:	€/kWh	High tariff	6.79	2.94	7.46	3.23
			€/kWh	Low tariff	3.59	2.65	3.94	2.92
		Reactive energy (Q)	€/kVArh		0.66	0.66	0.73	0.73
2	10kV	Standing (customer) charge	€/customer/month		4.58		5.00	
		Standing (Demand) charge	€/kW		5.01	5.01	5.51	5.51
		Active energy (P), of which:	€/kWh	High tariff	7.61	3.39	8.36	3.74
			€/kWh	Low tariff	4.10	3.09	4.50	3.41
		Reactive energy (Q)	€/kVArh		0.66	0.66	0.73	0.73
3	0.4kV Category I (large reactive power consumers)	Standing (customer) charge	€/customer/month		2.58		3.00	
		Standing (Demand) charge	€/kW		2.91	2.91	3.20	3.20
		Active energy (P), of which:	€/kWh	High tariff	8.45	4.69	9.30	5.16
			€/kWh	Low tariff	5.33	4.43	5.85	4.87
		Reactive energy (Q)	€/kVArh		0.66	0.66	0.73	0.73
4	0.4kV Category II	Standing (customer) charge	€/customer/month		2.92		3.20	
		Active energy (P)	€/kWh	Single tariff	10.41	6.73	11.46	7.41
		Active energy (P), of which:	€/kWh	High tariff	12.53	8.21	13.79	9.01
			€/kWh	Low tariff	6.26	4.10	6.90	4.51
5	0.4kV (domestic, 2-rate meter)	Standing (customer) charge	€/customer/month		2.08		2.50	
		Active energy (P), for consumption:						
		<200kWh/month (First Block):	€/kWh	High tariff	4.64	3.33	5.48	3.93
			€/kWh	Low tariff	2.33	1.66	2.75	1.96
		200-600 kWh/month (Second Block):	€/kWh	High tariff	6.43	4.60	7.57	5.43
			€/kWh	Low tariff	3.22	2.31	3.78	2.73
>600 kWh/month (Third Block):	€/kWh	High tariff	9.33	6.68	11.00	7.89		
			€/kWh	Low tariff	4.66	3.35	5.47	3.96
6	0.4kV (domestic, 1-rate meter)	Standing (customer) charge	€/customer/month		2.08		2.50	
		Active energy (P), for consumption:						
		<200kWh/month (First Block):	€/kWh	Single tariff	4.14	2.96	4.85	3.46
		200-600 kWh/month (Second Block):	€/kWh	Single tariff	5.73	4.10	6.71	4.79
>600 kWh/month (Third Block):	€/kWh	Single tariff	8.31	5.96	9.74	6.97		
7	0.4kV (domestic unmetered)	Estimated consumption <200kWh/month	€/customer/month		21.50		25.00	
		Estimated consumption 200-600kWh/month	€/customer/month		38.92		45.00	
		Estimated consumption >600kWh/month	€/customer/month		65.58		75.00	
8	Public lighting	Standing (customer) charge	€/customer/month		2.92		3.25	
		Active energy (P), for consumption:	€/kWh	Single tariff	8.42	8.42	9.26	9.26

High Season is 1 October - 31 March; Low Season is 1 April - 30 September
 Time of Use - High Tariffs Applies 07:00-22:00 during High Season and 08:00-23:00 during Low Season.
 Reactive Energy Charge is for all reactive energy over limit of $\cos \phi = 0.95$

10. Table No. 2, Average Tariffs by Group - Proposed Compared to Existing

KEK Average Tariffs

(Expressed in terms of Euro Cents per kWh billed)

Based on: 2010 Sales Forecast
 Billing Determinants for 2010
 Current Tariffs approved by ERO effective 01 April 2009
 Proposed Tariffs proposed by KEK effective 01 April 2010
 Excludes Value Added Tax (VAT)

Codes: ERO-KEK	Tariff Class	Average Price (cents/kWh)	
		Current	Proposed
0 - 1/1	110 KV	4.10	4.51
1- 1/2	35 KV	6.14	6.75
2- 1/3	10 KV	6.53	7.18
3 -6/6	Large Commercial	7.41	8.15
4 -7/2	Small Commercial (Time of Use)	8.69	9.56
4 -7/1	Small Commercial (no TOU)	10.09	11.10
5 -4/2	Household (Time of Use)	4.72	5.57
6 - 4/1	Household (no TOU)	5.57	6.54
7- 9/1,2,3	Household (Unmetered)	5.67	6.56
8 - 8/1	Public Lighting	8.64	9.51
	AVERAGE – ALL REGULATED CUSTOMERS	5.65	6.47

Note: Average tariffs vary based on individual customer usage patterns (seasonal and time of day) and for large customers based on their billing demand in relation to consumption (load factor). The above are averages for the respective classes. Value Added Tax is not included in the above prices.