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METHODOLOGY ON DETERMINATION OF MARKET OPERATOR TARIFFS


-MO Tariff Methodology-

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1.0 INTRODUCTION

1.1 Purpose

This document sets out the methodology used by KOSTT to determine tariffs to be paid by Generators and Suppliers to Market Operator¹, (MO Tariffs)

Transmission system connection taxes are governed by the Transmission Connection Charging Methodology, which is issued separately from KOSTT and approved by ERO².

1.2 Scope

This document covers:

1. Legal and Regulatory framework on Market Operator Tariffs;
2. The definition of Market Operator services;
3. Market Operator Cost Allocation;
4. Market Operator tariffs calculation

1.3 Legal and Regulatory Requirements

This Methodology takes into account and complies with requirements provided under:


- Law No. 05/L-081 on Energy;
- Law No. 05/L-085 on Electricity;
- Law No. 05/L-084 on Energy Regulatory;

This methodology has also been prepared in accordance with the following documents:

- Transmission System Operator License;
- Market Operator License;
- Rule on Maximum Allowed Revenues of Transmission System Operator and Market Operator (TSO/MO Revenues Rule);
- Rule on General Conditions of Energy Supply;

¹ Generators and Suppliers are defined by Market Rules

² ERO- Energy Regulatory Office

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- Principles on Determination of Transmission and Market Use of System Tariffs and Connection Taxes;

1.4 TSO/MO types of Tariffs and Taxes

- **Transmission Use of System Tariffs (TUOS)** - The manner for deriving these tariffs is set out in the TUOS Tariff Methodology.
- **System Operator Tariffs** - The manner for deriving these tariffs is set out in the SO Tariff Methodology.
- **Market Operator Tariffs** - **The methodology for deriving these tariffs is set out in this document.**
- **Connection Taxes** - The methodology for deriving these taxes is set out in the Transmission System Connection Charging Methodology.

2.0 RENEWABLE ENERGY FUND


Pursuant to Article 8 paragraph 7 of the Law on Electricity, Market Operator is responsible for managing the RES Fund:

“Compensation, payments of energy generated from renewable sources is done according to compensation fees for electricity generated from renewable energy sources, collected by the Market Operator by the end customer supplier, with the exception of the quantity for which the producers have signed a contract for sale under the provisions of this law.”

The manner how fund collection and management as well as the methodology for setting tariffs for compensation of electricity generated by RES is set out in the Rule on the Support Scheme for Generation of electricity from RES.

3.0 CONTRACTUAL ARRANGEMENTS

The Rule on General Conditions of Energy Supply determines the general conditions of energy supply to customers, and the duties and obligations of energy enterprises and customers. It described the general principles of connections and use of the system, reading, metering, billing and collection and unauthorized use of energy.

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According to the Market Rule the payment of obligations to KOSTT is mandatory. Market Rules set out the procedures to be followed in cases of disputes relating to tariffs or non-payment of tariffs.

4.0 LEGAL AND REGULATORY GROUNDS FOR DETERMINING TARIFFS

Rule on Maximum Allowed Revenues of Transmission System Operator and Market Operator (MAR) sets the ground for determining of Maximum Allowed Revenues in each relevant year, pursuant to the Law on Energy Regulatory and Transmission Charging Principals.

Pursuant to Article 3 (TSO/MO Revenues Rule), the TSO/MO shall propose Transmission Use of System Tariffs (TUOS), System Operator Tariffs (SO), and Market Operator Tariffs (MO), such that within each Relevant Year the revenues that it expects to earn from these tariffs are equal to Maximum Allowed Revenues approved by the Regulatory.

Pursuant to Article 21 (TSO/MO Revenues Rule), TSO/MO shall propose TUOS tariffs, such that TSO/MO recovers its market operator costs, for the provision of services as authorized under the Market Operator Licence;

Pursuant to Article 22 (TSO/MO Revenues Rule), Market Operator Tariffs Methodology is approved by the Regulatory; This Methodology and any its subsequent, TSO/MO shall submit to the Regulatory for further approval at least 15 Business Days³ prior to its proposed date of effectiveness.

4.1 Electricity Market Operator License (MO License)

MO License, (Separate Accounts for the Market Operation Business, the Licensee in its internal accounting shall keep an account for all transmission business, and for other business. Regulatory accounting shall be pursuant to Regulatory accounting guidelines issued by ERO.


Also, this License stipulates that the basis of charge apportionment and allocation shall not change between financial years without consent of ERO and written approval for any such changes.

4.2 Market Operator Services

Pursuant to MO License, KOSTT is authorized to perform the following activities:

- Accede to the Market Rules in the capacity as “owner”;

³ Business Days means all working days of the week as defined in applicable Law of the Republic of Kosovo.

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- Maintain a process for all Trading Parties to accede to the Market Rules;
- Administer electricity organized market;
- Manage supplier replacement process;
- Maintain accounts for Market Operator, Transmission System Operator and Trading Parties;
- Compile and submit to the System Operator the daily electricity purchase programs;
- Purchase/sale of energy from renewable energy sources;
- Organizing of purchase/sale of balancing energy by service providers that includes collection of bids and compiling the list of economic advantages;
- manage the final settlement process;
- Invoice mutual financial obligations of the Transmission System Operator and Market Operator as well as Trading Parties;
- Act as agent of Transmission System Operator financial settlement;
- Provide electric energy market information; and
- Perform all other function assigned to it under the Market Rules.


5.0 MAXIMUM ALLOWED REVENUES (MAR)

5.1 General Principles for determining Maximum Allowed Revenues

KOSTT levied revenues through tariffs in a year are determined by ERO through MAR review process. This process comprises a periodic review, and a regular adjustment for indexation of allowed costs and revenues, and adjustments for over and under recovery of costs (see Article 3 of the TSO-MO Revenues Rule).

Following these processes, ERO sets out MAR for Transmission System and Market Operator (TSO/MO), and then allocates these costs to each activity separately for the purpose of setting tariffs. In addition, the TSO/MO is allowed to receive other unregulated revenues which are excluded during the calculation of the MAR. These Other Revenues are from the following sources:

- **Grants:** ERO does not take into account grant income from grants upon calculation of depreciation and allowed returns. Assets funded by grants are not included in Regulated Assets Base;
- **Connection Revenues:** Connection assets funded by the customer are not included in depreciation and allowed returns, respectively are not included in MAR of TSO/MO. Treatment of funds received from this activity is provided under Transmission Connection Charging Methodology;

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- **Transit revenues/expenditure:** Net revenue, i.e. the difference between revenues and expenditures from the transit is included in the calculation of the maximum allowed revenues;
- **Revenues from the Cross-Border Capacity Allocation:** Revenues from capacity allocation whenever there are such activities will be dealt with during the determination of maximum allowed revenues;
- **Revenues from the Use of Optical Fibre Capacities:** In the future, KOSTT is expected to have revenues from the rental of fibre optic infrastructure;

5.2 Allocation of MAR to activities

The first stage in the calculation of User tariffs is to allocate the MAR agreed in regular periodic review/adjustment at separate TUOS, System Operator and Market Operator activities. Annex 1 describes the process of allocation of costs of MO in details.

6.0 STRUCTURE OF THE SYSTEM OPERATOR TARIFFS


6.1 Key features

The key features of the structure of Transmission tariffs are set out in the Transmission Use of System Charging Principals (Article 7).

Market Operator tariffs key features are:

- TSO shall cover tariffs for Market Operator and System Operator services through a separation coefficient of generation and supply, depending on their share in the amount of energy in the transmission:

When this allocation results in the average annual price of the transmission fee paid by the generator to be greater than € 0.5/MWh, then the allocation in the MO and SO tariffs should be updated in such a way that the average tariffs paid by the generator shall not exceed the value of 0.5 €/MWh.
- Tariffs should be set so as to differentiate the costs of providing and maintaining the Transmission System available at different voltage levels.
- The MO tariffs do not change in relation to the voltage level at which the connection is made.

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6.2 Charging Basis

In order to determine the MO tariffs applicable to an individual user, charging metrics need to be defined. KOSTT considers that the following metrics are consistent with Transmission Charging Principles:

- The TSO/MO will calculate the MO tariffs annually, prior to the start of the relevant year in accordance with Articles 21 and 22 of the TSO-MO Revenues Rule.
- Subject to approval of the tariffs by ERO, KOSTT will publish its MO tariffs.
- The tariffs will be levied per MWh and are applied to monthly throughput.
- The costs for which tariffs are to be levied are not related to location on the transmission system.

6.3 Formula for calculation of MO tariffs

MO Tariffs formula:

$$\mathbf{T-OT_p = A / X_p / (B + C)}$$

$$\mathbf{T-OT_{f/sh} = A / X_{f/sh} / D}$$

$$\mathbf{T-FBRE=REC / NP_f}$$

Description and units:

A – MO Revenues - **€**

B – Transmission Connected Generation – **GWh**

C – Distribution Embedded Generation - **GWh**

D – Sales to end-customers and direct customers + Distribution losses – **GWh**


T-OT_p – Market Operator Tariffs for Generators - **€/MWh**

T-OT_{f/sh} – Market Operator Tariffs for Suppliers and Distribution - **€/MWh**

T-FBRE – Renewable Energy Fund Tariffs

REC – Renewable Energy Fund Costs

NP_f – Net amount- consumption of the forecasted energy suppliers

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X_p – Cost allocation factors for the transmission embedded generator

$X_{f/sh}$ – Cost allocation factors for the supplier and distribution

6.4 MO tariff types

The following table indicates units used for tariffs, referenced in the Market Rule (by name and variable) and the charging metrics in this document to which they relate.

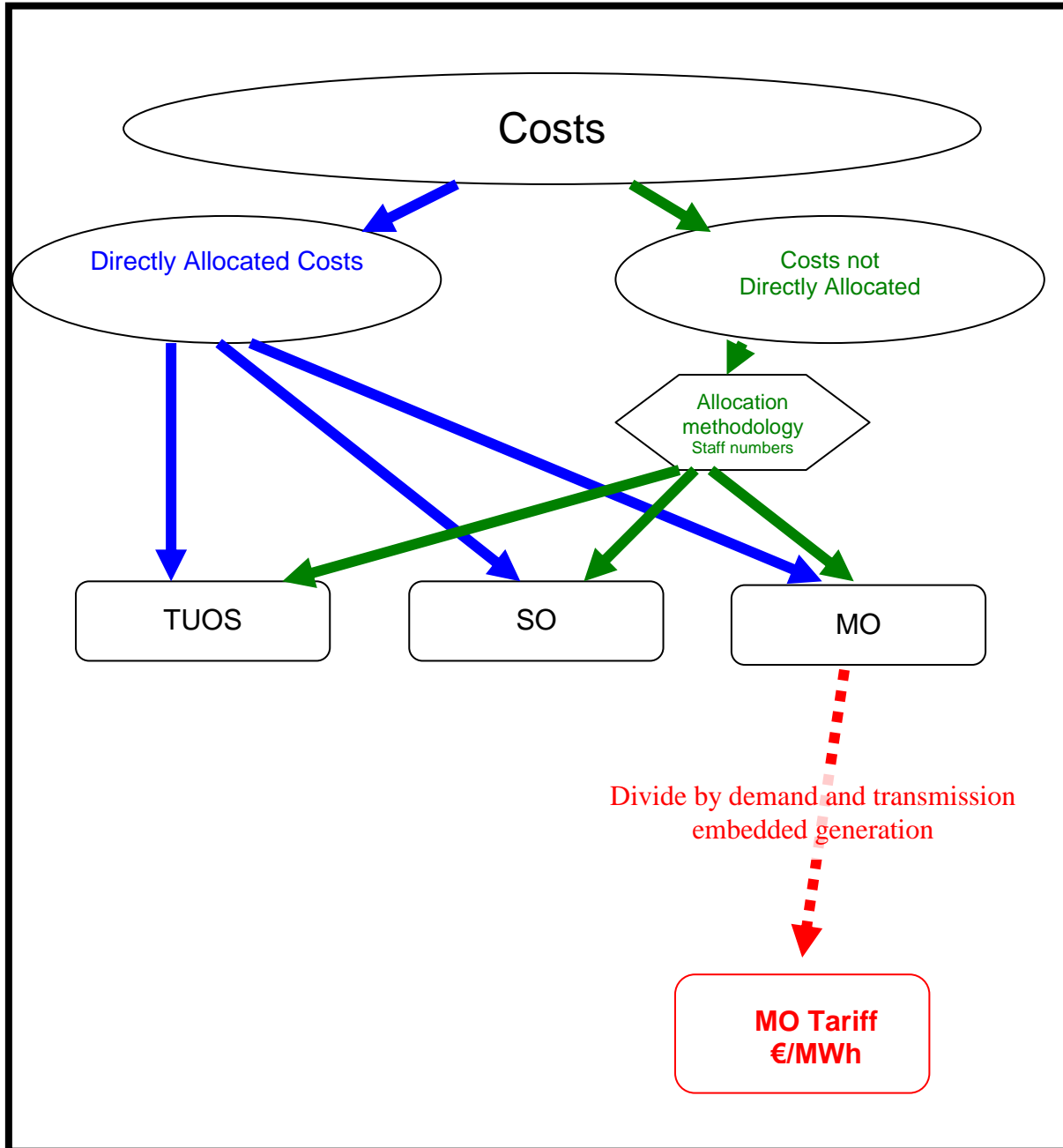
Tariff name in MO Tariff Methodology and Units	Market Rule Variable	Tariff name based on Market Rule
OT _p Tariff (for generation) - €/MWh	TGMO	Generator Market Operator Tariff
OT _{f/sh} Tariff (for suppliers and distribution) - €/MWh	TSMO	Supplier and Distribution System Operator Tariff for Market Operation

7.0 ADJUSTMENT FOR OVER / UNDER RECOVERY OF MAR

This charging methodology does not explicitly take account of any over or under recovery of MAR (or the element of MAR attributable to TSO/MO activities) in a relevant year. The mechanism for adjusting for under or over recovery is through the calculation of the overall maximum allowed revenue each year as set out in the TSO/MO Revenues Rule.

ANNEX 1: COST ALLOCATION

The following graph indicates the principle of cost allocation by activities: Use of Transmission System, System Operator and Market Operator.



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