



**National Association of Regulatory Utility Commissioners
Energy Regulatory Partnership Program
Energy Regulatory Office and Illinois Commerce Commission
Third Partnership Activity**

Designing Tariff Systems

Pricing and Tariffs Department

november 2009, Prishtinë

Tariff Setting Process

PROCESS

Allowed Revenues

Cost of Service

Rate Design

Regulatory Approval

ACTIVITIES

Identify/Calculate fair cost inputs:
Annual Operating & Maintenance
Cost and Return

Identify Customer Classes &
Allocate Revenue Requirement

Design Rate Structures and prices
for each customer class

Obtain Regulatory Approval for
New Tariffs

Tariff Design Criteria

- **Based on well-established & understood economic principles;**
- **Ensure no discrimination or cross subsidy between customer groups;**
- **Minimise complexity & associated costs including cost of metering and billing;**
- **Tariffs should provide cost reflective price signals;**
- **Enable protection of vulnerable customers**

Tariff Design Criteria

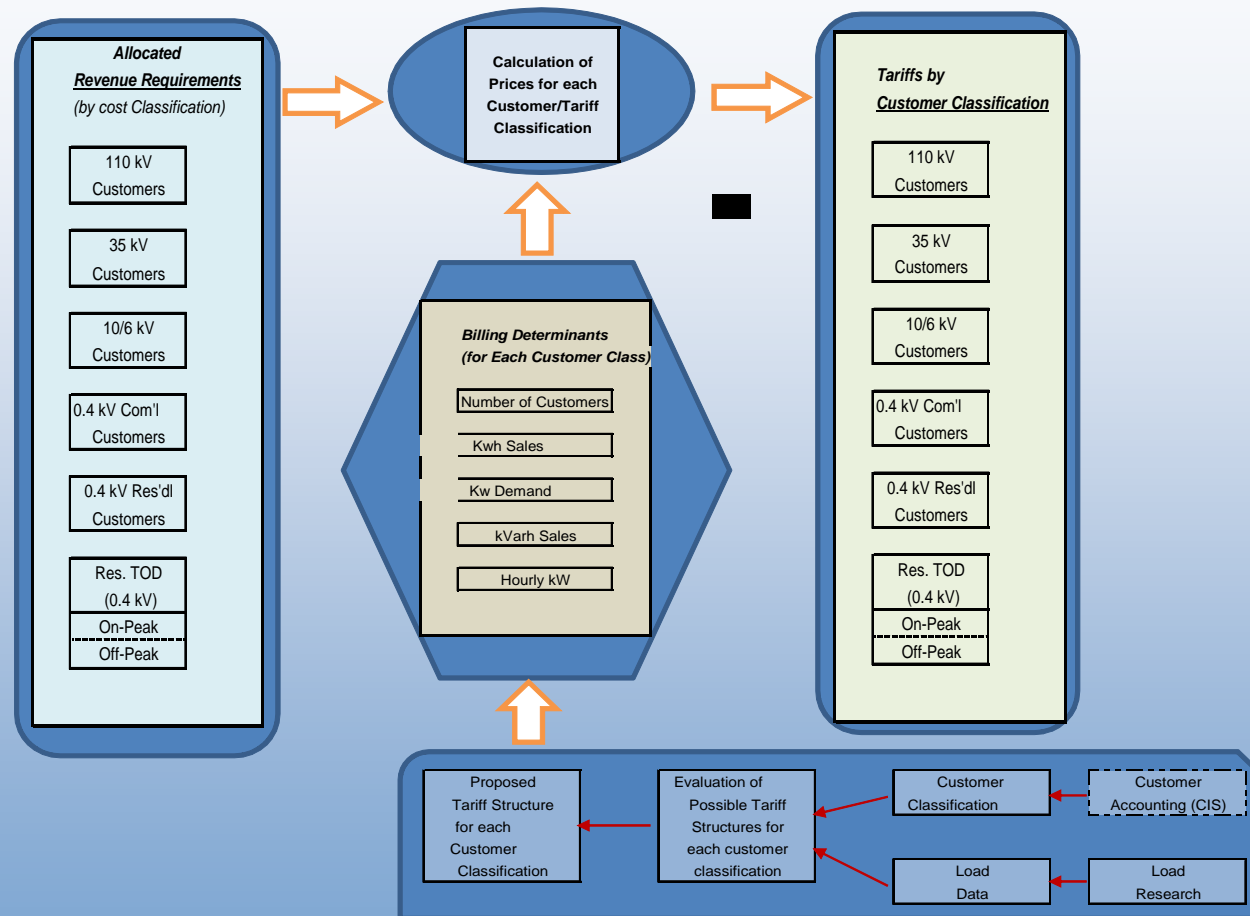
ERO emphasises the need for tariffs to be

- ☐ **affordable –so customers are able to pay**
- ☐ **acceptable –so customers are willing to pay**
- ☐ **cost reflective –to protect the company**

Measures taken include

- ☐ **introducing a new lifeline block for the small household customers and with low revenues**
- ☐ **not allowing KEK to recover collection losses from customers – so that ‘good’ customers do not see themselves as paying for ‘bad’ customers**

Tariff Design





Tariff Design Improvements

Customer group

Tariff elements

Industrial and Commercial (costumer)

0. 110kV

Standing charge – euro/month

1. 35 kV

Demand charge – euro/kW

2. 10 kV

Energy charge – euro/kWh

3. 0.4kv Category II Commercial

Reactive power charge –

4. 0.4kv Category I Commercial

euro/kVA rh

Domestic Costumer 0.4 kW

5. 2 Rate meter

Standing charge – euro/month

6. 1 Rate meter

Energy charge – euro/kWh

7. Unmetered

8. Public Lightning

For Costumer group 0 and 4 NA reactive power charge

The structure of tariff proposed by Public Supply for Rewiev and Approve by ERO

Tariffs and cooperation with government

In order to ensure that low income customers are able to consume electricity, some support is required. This is currently made up of two main mechanisms:

1. System for free electricity for social cases - Direct payments from Ministry of Finance to KEK JSC which has a system where Social case are registered (identified and registered by MLSW)

Payment for social cases: €4.5 million for the year 2006 – 2008

Cost estimate for 500 kWh for year 2006-2008

20 € for monthly billed for year 2009;

2. The existence of a lower priced block tariff assists lower income customers that do not receive direct support.

The first block tariff offers a much reduced rate in comparison with the tariff charge on the second and third block

Energy Law – Article 17: Additional Public Sector Obligations may be imposed by ERO relating toquality and price of supply. Such obligations must be clearly defined, non-discriminatory, verifiable, and consistent with EU Directives.

Law on Energy Regulator – repeats above.

Pricing Rule – Article 17 - the ERO may require the Public Supplier to introduce or maintain a tariff category for domestic customers with low incomes or consuming small quantities. Tariffs to this category may be below costs of delivery and financed by cross-subsidy within households category.

Tariff Methodology – 3.7.1 – repeats Article 17 of Pricing Rule.

Law on Disability Pensions in Kosovo – Section 13.7: “All permanent and utterly disabled disability persons shall be determined the taxes, which assist to the reduced charge of the electrical consumption.”

Affordable Tariff – Tariff Methodology

According to the WB project for setting lifeline tariff in Kosovo a common average percentage of annual income spent on electricity is used :

- an affordability level of 5% - 10% in case electricity is not used for heating
- an affordability level of 10% - 15% in case electricity is used for heating

$$AT = \frac{\textit{Expenditure} * \textit{Limit}}{\textit{consumption}}$$

With:

AT = Affordable tariff

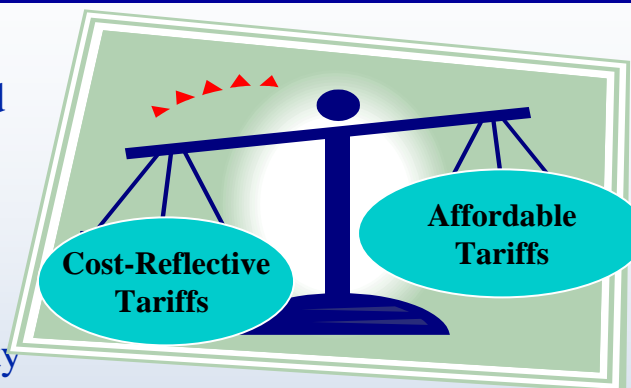
Expenditure = Monthly expenditure of average household

Limit = Proportion of the annual income spent on electricity (affordability limit)

Consumption = minimum level of consumption needed

Regulatory Challenge - Tariff

- ERO Approved Tariffs reflect real operational and system maintenance costs
- Allows for reasonable capital investments, enabling progress in quality of service, decrease losses and increase efficiency
- Sets DUOS and TUOS tariffs
- Monitors the implementation of the tariff system
- Gradually eliminates cross-subsidies between different customer groups

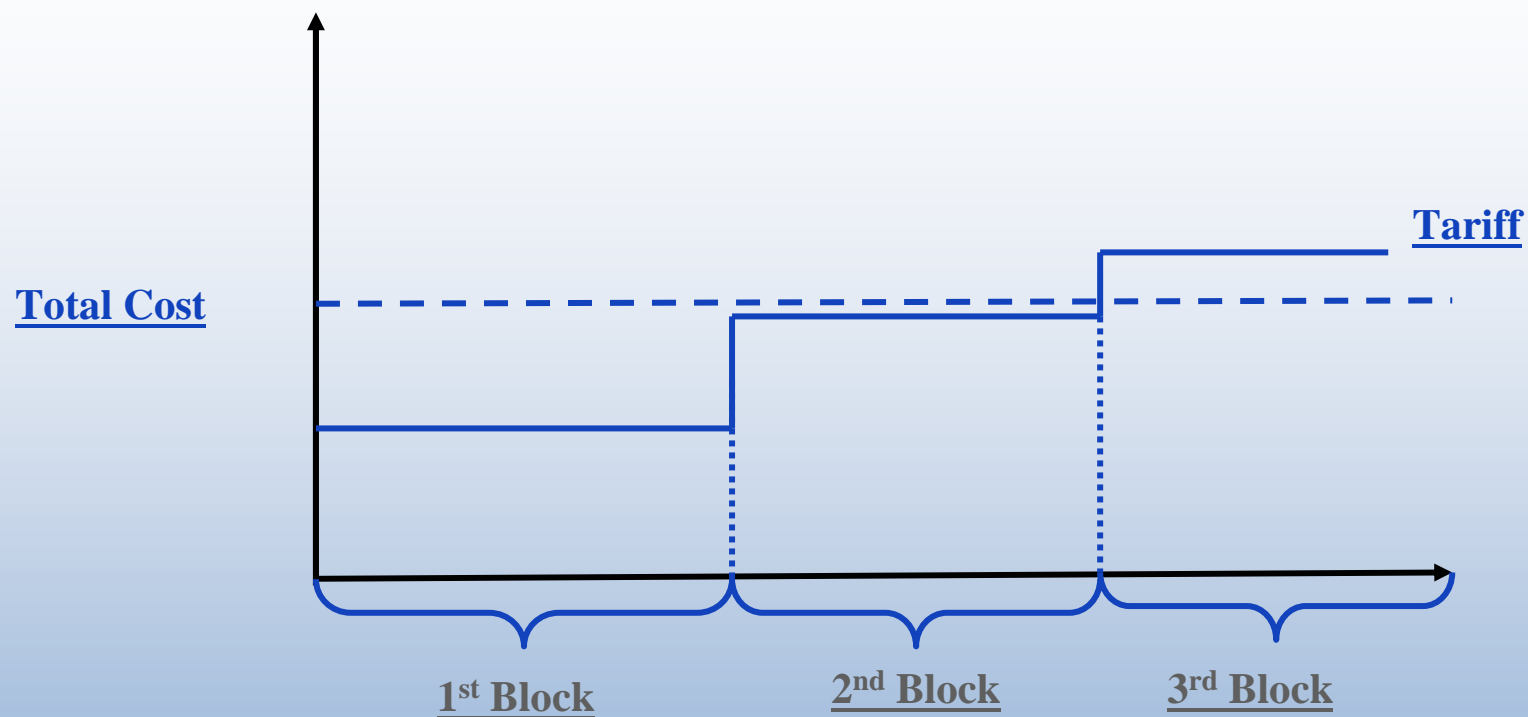


Social Tariff

- Works alongside relevant institution in setting lifeline tariff
- Defines methods to protect vulnerable customers
- Approved tariffs should be affordable, ensuring that the customers are willing to pay
- Approves building-block approach to protect low consumption customers
- Allows for slight cross subsidies within the same customer group



Building-Block Tariff



A new rising block structure was introduced for other household customers, intended to ensure affordability, as follows:

- A first block for consumption $< 200 \text{ kWh/month}$
- A second block for consumption $200\text{--}600 \text{ kWh/month}$.
- A third block for consumption $> 600 \text{ kWh/month}$



Thank You