

Methodology on Defining the Retail Electricity Sale Price for the End-Use Customers Supplied from the Universal Service Supplier (USS)

Article 1 Legal Basis

This methodology is drafted in conformity with articles 19/b; 47;79/4; 81/4; 83; 85 and 109 of Law No. 43/2015 “On Power Sector”, Council of Minister Decision No.244, of date 30.03.2016 “On approving the conditions for imposing the Public Service Obligation that shall be implemented to the licensee on power sector, which exercise the electricity production, transmission, distribution and supply activities” Council of Minister Decision No. 449, of date 15.06.2016 "On approving the conditions and procedures for defining the supplier of last resort for electricity", articles 21 and 22 of the "Regulation on ERE Organization, Operation and Procedures" approved with Decision No.96, of date 17.06.2016, ERE Board Decision No. 112, of date 08.07.2016 "On defining the licensee charged with Universal Service obligation for the electricity market and defining the Conditions for exercising Universal Service obligation”

Article 2 Purpose

The purpose of this methodology is to define the principles, rules and procedures of setting the electricity sale prices, for the end use customers supplied by the Universal Service Supplier.

Article 3 Scope

The scope of this methodology is to define the electricity retail sale price for the following customer categories supplied by Universal Service Supplier implementing Law 43/2015 "On Power Sector" as well as Council of Minister Decision No. 449, of date 15.06.2016

- Customers connected to the 20 kV, 10 kV and 6 kV distribution network;
- Consumers connected to the 0.4 kV distribution network until such time as ERE determines that those consumers entitled to universal service could purchase electricity on the market with unregulated prices, as required by Article 9 of the Conditions for the licensee charged with universal service obligation for the electricity market, approved with ERE Board Decision No. 112 of date 08.07.2016.

Article 4

Definitions

The terms used on this Methodology shall have the same meaning prescribed in Article 3 and other sections of Law no.43/2015 “On Power Sector”. Specific terms used on this methodology shall have the following meanings:

1. **Universal Service Supplier** – shall mean a public service for the end use customers, which ensures their right to be supplied with electricity of a defined quality, within the Albanian Republic territory, with regulated prices, easily and clearly compared, transparent and non discriminatory.
2. **Bad Debt** – a permitted value from the required revenues by Universal Service Supplier from the customer category which are unlikely to be paid.
3. **Depreciation Expenses** – Depreciation costs related to fixed assets used to provide universal service, and the depreciation costs related to intangible assets such as software used by the USS, as determined in the effective accounting standards.
4. **Energy and Capacity Cost** –The cost incurred by the Universal Service Supplier for energy and capacity needed to serve consumers eligible for Universal Supply Service including (1) purchases from the electricity production company whose shares are fully/partially controlled by the state in conformity with the terms of the annual contract between the parties, approved by ERE in accordance with Article 5.2 of the Council of Ministers Decision No.244, dated 30.03.2016, (2) electricity purchases in the unregulated market required in excess of the contracted amount to with the electricity production companies whose shares are fully/partially are controlled by the state, (3) costs connected with the balancing charges, as well as any other cost that has to do with the electricity and capacity purchase; (4) costs related to electricity purchase produced by renewable resources.
5. **Cost of Using the Transmission System** – amount that shall be paid to the Transmission System Operation of using the transmission system according to the tariffs approved by ERE.
6. **Cost of Using the Distribution System** – amount paid to the DSO for using the distribution, according to the tariffs approved by ERE.
7. **EURIBOR** means the European Banking Federation Interbank Offer Rate for Euro deposits for a period equal to 3 months which appears on the appropriate page of the Reuters service at or about 11:00 a.m. Central European Time. The rate used shall be an annual rate.

- 8. Operating and Maintenance Costs** - Costs incurred by the Universal Service Supplier for (1) direct maintenance costs connected with the USS activity, (2) general and administrative costs directly connected with USS activity (3) costs related with the licensing and regulation fees of the USS.
- 9. Regulatory Period** – The 12-month period used by the regulator to determine the revenues required by the licensee, to define the prices.
- 10. Required Revenues** – the amount of the revenues needed to an efficiently managed licensee to perform the activity to which he is licensed for the regulatory period. This amount of revenues is proposed by the licensee and approved by the regulator.
- 11. Retail Margin** – A fixed percentage that is applied over the electricity purchase cost and capacity by the USS.
- 12. Working Capital (WC)** –Funds needed to meet the on time difference between the perform of the expense and ensuring the service and the collection of the revenues from the customers during the activity.
- 13. Working Capital Allowance (WCA)** – An amount issued to USS for the required revenues to cover the costs of the borrowed funds used for day-to-day operations.

Article 5

Process of reviewing the prices

1. The retail tariffs of the Universal Service Supplier (USS) shall be reviewed and approved on annual basis, as defined on Article 85 of Power Sector Law.
2. The Regulatory Period upon which the retail tariffs of the USS are to be determined is an estimate of the upcoming 12-month period.
3. The tariff determination process shall require that the USS shall submit at ERE the application for the electricity sale retail prices to the end use customers served by him, with the following content:
 - A schedule of the actual revenues and expenses of the USS for the latest 12 months, prepared in accordance with the effective accounting standards.
 - Data for the energy purchased by the USS (by source) and the energy sold to each customer category for the latest 12 months.
 - A foresee of the energy procured by the USS for the upcoming 12 months period to meet the requirements of each customer category that met the conditions to be supplied by USS.
 - Foresee of the revenues required by USS for the regulatory period that is object of review.
 - The allocation of the revenues required for the foreseen period according to the customer categories supplied by the USS.

- The required distribution for the proposed structure of the prices to benefit the required revenues for each prices category.

ERE shall review the data and information provided by the licensee, information submitted at ERE in conformity with article 21 of the “Regulation on ERE organization, operation and procedures” approved with ERE Board Decision No.96 of date 17.06.2016 and gives an opinion if the information is complete or not. In the event the data is not complete, ERE shall notify the licensee of any deficiencies and provide a time period to him to submit additional or corrected information. The information submitted by the licensee shall be available to the public. ERE shall analyze the information submitted by the licensee and issues its opinion regarding the justification, accuracy and sufficiency of the submitted information. In the event ERE does not find the submitted information accurate or complete shall explain the reasons for it disagreement and proposes alternative reasonable and justified values.

4. If the USS does not agree with ERE tariff decision, he may appeal this decision to the Court, according to the effective legislation in the Republic of Albania.
5. The electricity sale retail price for the customers according to the voltage level where they are connected shall fully reflect the costs that cause them to take the electricity supply service.

Article 6

Defining the Required Revenues

1. **Required Revenues (RR)** of the Universal Supplier shall consist from the following elements:

a. Energy and Capacity Cost (E)

This category shall include the electricity and capacity costs needed to serve consumers eligible for Universal Supply Service. As such it will include:

- The Electricity purchased by the electricity production company whose shares are partially/fully controlled by the state in conformity with the terms of the annual contract between the parties approved by ERE and in accordance with Article 5.2 of the Council of Ministers Decision No.244, dated 30.03.2016.
- Energy and capacity required in addition to the amount set available by the electricity generation company whose shares are fully/partially controlled by the state, in conformity with the market rules.
- Costs related to respective balancing and any other cost related to the assurance of the required energy and capacity.

- Fee payment for the market operator in conformity with the market rules and/or Albanian Power Exchange (APE).

b. Transmission Fee

This category includes the amounts paid to the Transmission System Operator for using the transmission network according to the tariff approved by ERE.

c. Distribution Fee

This category includes the amounts paid to the Distribution System Operator for using the distribution system, according to the tariffs approved by ERE.

d. Operation and Maintenance Costs

This category includes the direct operation and maintenance costs of the USS as well as general and administrative costs directly related with the operation of the Universal Service Supply according to the effective accounting standards. Any license and regulation fee of the USS shall be included in this category.

The costs connected with the public awareness related to technical safety, encouragement of the customers to pay on time the electricity invoices as well as the discourage of customers to use abusive methods in electricity consumption where shall be included the permitted operation and maintenance costs.

Publicity cost or any other marketing form to encourage the consumption increase shall not be permitted to be included in the operation and maintenance costs.

e. Depreciation Expenses

The depreciation cost related to fixed assets utilized to provide universal service, as determined in the accounting standards. In this category shall be included any depreciation cost related to intangible assets such as software required by the USS.

f. Retail Margin

The Retail Margin shall be a fixed percentage that is applied over the costs for the electricity purchase and capacity. Retail margin level shall be defined as such to enable USS a reasonable return that compensates the risk that the licensee receives for providing this service to the customers eligible for it. This margin shall be calculated with reference to the margins benefited by similar companies in the region, taking into consideration the similarities between the electricity industry in those countries with Albania but not more than 3 %:

ERE-s may in addition decide for any needed adjustment, where the amendments are significant. The retail margin (**RM**) is calculated as follows:

$$\mathbf{RM} = \mathbf{permitted\ E\ x\ (\%)}$$

where E is the cost for electricity and capacity purchase

g. Allowed value for the “working capital” (WCA)

The base for defining the value of the allowed working capital value shall be 1/12 of the allowed elements amount as follows:

- Energy and Capacity Cost (**E**)
- Transmission and Distribution Fees (**TF + DUOS**)
- Operation and maintenance costs (**OM**)

The form of calculating the working capital is as follows:

$$\mathbf{WC} = \frac{\mathbf{1}}{\mathbf{12}} * (\mathbf{E} + \mathbf{TF} + \mathbf{DUOS} + \mathbf{OM})$$

The cost of financing working capital (**WCC**) shall be based on the short term debt cost of the licensee. In the event that such a value cannot be determined, shall be applied an equal rate with EURIBOR plus an additional percent of X %. This additional percent (x) shall be based on the situation of financial regional markets at the time. For the purpose of the first tariff review, this addition shall be on the level 3% of the value.

The “Working Capital” Allowance (**WCA**) is calculated according to the following form:

$$\mathbf{WCA} = \mathbf{WC\ x\ WCC}$$

where:

WCA- working capital allowance

WC– working capital

WCC- cost of financing the working capital

h. Bad debt

The Licensee shall be the allowed value of the required revenues (RR). The Licensee (the company) shall propose a value for the bad debt, which ERE shall review if reasonable. In making this determination, ERE will consider the efforts being made by the USS as well as the support provided by law enforcement officials and the judicial system to enforce the collection of amounts due from consumers. To manage with effectiveness the collection accounts by the USS, ERE may decide for a regulatory objective for the bad debt to promote the Company to lower this level, compared with the one of the previous year.

i. Correction of the incomes realized over/under the allowed request for the previous year revenues

In case the licensee, during the previous year has realized more or less required revenues than the allowed ones, they shall be corrected for the following cases:

- Differences on the provided electricity quantities and the invoiced one;
- Differences for the provided costs and the realized ones for electricity and capacity for the unit price in kWh;
- Differences between foreseen cost per unit and the transmission and distribution realized ones;
- Differences coming from a realized sale structure different from the approved one;
- Payment made by the electricity production company whose shares are fully/partially controlled by the state in conformity with article 5.3 of Council of Minister Decision No. 244, of date 30.03.2016.

2. **Revenue Requirement (RR)** of the USS shall be calculated according to the following form:

$$RR = E + TF + DUOS + OM + DA + RM + WCA + BD + AXH$$

Where:

E	<i>electricity and capacity purchase cost</i>
TF	<i>cost for using the transmission system</i>
DUOS	<i>cost for using the distribution system</i>
OM	<i>operation and maintenance cost</i>
DA	<i>depreciation of asset cost</i>
RM	<i>revenue margin</i>
WCA	<i>value of the working capital financing cost</i>
BD	<i>bad debt</i>
AXH	<i>correction of the revenues realized over/under the allowed requirement for the previous year revenues</i>

Article 7

Allocation of the revenues required according to the price structure

1. The Revenue Requirement defined according to Article 4, shall be allocated according to the price structure using the basic principles as follows:
 - a. Energy and Capacity cost shall be allocated according to customer category based on the load chart reflecting the time of use, including the seasonal consumption models for the on-peak and off-peak period for each customer category.
 - b. Distribution System use charges shall be allocated for each customer category based on the voltage level at which the service is provided.
 - c. Transmission System use charges shall be allocated to customer category based on the percentage of kWh that is used for each customer class.
 - d. Working Capital Allowance shall be allocated to customer classes based on proportion for each customer category mentioned on paragraphs a, b, and c.
 - e. Operation and maintenance expenses, depreciation expenses, and the retail margin will be allocated according to customer categories based on the energy percentages sold for each category.
 - f. Bad Debt expense shall be calculated for each customer class based on the percent of bad debt for the latest 12 months period, corrected with an incentive coefficient set by ERE.
 - g. Correction of the revenues realized over/under the allowed requirement for the previous year revenues shall be allocated according to customer categories based on the sales percentage in kWh.

Article 8

Definition of the tariffs for each customer category

1. The Required Revenue for each customer category, determined according to article 5, shall be compared with the estimated revenue based on the current tariffs level for each customer category. The revenue excess or deficiency shall be identified for each category.
2. The licensee shall review the actual invoicing items for each tariff category and shall propose any amendments of these elements that may be included (depending on the customer category or the metering capacity):
 - Fix monthly charge
 - Energy charge (ALL/kWh)
 - Capacity charge (ALL/kWh)
 - Reactive energy charge (ALL/kVarh)
 - Others
3. The Licensee shall propose new tariffs for each customer category to collect the revenues required for each category.

ERE shall review the proposal of the licensee and make the amendments that it judges necessary with the purpose that until 31.12.2017 to approve the tariffs fully reflecting the costs for each customer category, to enable the exit in the liberalized market, as defined on article 109 of Law 43/2015 "On Power Sector" as well as article 9 of the conditions for the

licensee charged with universal service obligation for the electricity market in Albania approved with ERE Board Decision no.112 of date 08.07.2016.

Article 9
Approval

This methodology is approved with ERE Board Decision No. 189, of date 23.11.2017.