



METODOLOGY ON DEFINING THE TARIFFS OF THE NOMINATED ELECTRICITY MARKET OPERATOR (NEMO)

CHAPTER I

GENERAL CONDITIONS

Article 1

Scope and Purpose

1. This methodology shall define:
 - i) The tariffs to be applied by NEMO during their markets operation to the Exchange and Clearing Members.
 - ii) Types of Tariffs according to ALPEX Rules and the exchanges that shall be provided by NEMO.
 - iii) The basis and the process to define the permitted level of the incomes for the Nominated Electricity Market Operator (NEMO) which shall enable to cover the operational costs.
 - iv) The principles and processes by which NEMO Tariffs shall be approved, reviewed and regulated.

Article 2

Definitions

1. The terms used on this document shall have the meaning as follows.
 - i) “Revenues or Incomes” — shall mean the incomes generated from the tariffs for the provision of the services from NEMO;
 - ii) “Regulatory Authority” — shall mean according to the case, the Energy Regulator Authority or the Regulatory Office for Energy in Kosovo;
 - iii) “License Tariff” – shall mean the payable amount according to the conditions for the Tariffs issued from the Regulator;
 - iv) “Market Operator (MO)” – shall mean the natural or the legal person, licensed from the Regulatory Office for Energy, responsible for the operation and organization of the electricity market;



- v) “Tariffs of the Nominated Electricity Market Operator”- shall mean the approved tariffs from the Regulator;
 - vi) “ALPEX Rules” — Shall mean the Electricity Market Rules or the ALPEX Rules approved by the respective Regulator.
2. The other expressions on this Methodology shall have the meanings defined on the primary and secondary legislation for electricity of Albania or Kosovo according to the event, as well as ALPEX Definition.

CHAPTER II

NEMO TARIFFS

Article 3

General Conditions

1. In defining the tariffs structure shall be followed the principles as follows:
 - i) The structure of the tariffs for the NEMO market participants shall be the same for both markets of Albania and Kosovo.
 - j) The tariff structure for the NEMO market participants shall be simple.
 - k) The tariff components for the NEMO market participants that charge any participant shall reflect the requirements for the budgeted incomes.
 - l) The tariff components for the NEMO market participants, shall aim to be foreseen and sustainable in the largest possible level.
 - m) The tariffs for the participants shall not be reasonable or discriminatory to any participants categories.
 - n) The tariffs set according to a profit basis to generate the profit to the permitted ROIE rate.
 - o) The Structure of NEMO Tariffs shall aim to be comparable with the tariff structure of other NEMO-s.
2. These principles are explained in details on Annex 1.
3. NEMO shall propose the tariffs in such a way that the Permitted Rate of Return that are expected from these tariffs shall be within the defined limits of the Permitted Rate of Return (Chapter III) approved by the Regulator.



Article 4

The Review of the Tariffs and the Regulatory Periods

1. The incomes and the Permitted Rate of Return shall be defined in Reviewing the Tariffs.
2. The Period for which the NEMO Tariffs are effective, is an “un-limited” period, the Permitted Rate of Return shall remain effective until it is required the Tariff Review from NEMO or from the Regulator.
3. The formula to calculate the Permitted Incomes is on Annex 2.
4. The Process to Review the Tariffs is on Annex 3.

CHAPTER III

PERMITTED INCOMES OF NEMO

Article 5

General Conditions

1. Methodology on defining the Permitted Incomes of NEMO shall be implemented through the "Permitted Rate of Return" approach.
2. The Regulator shall set the aimed Rate of Return for the NEMO in a level that permits the coverage of the necessary operational costs and any capital cost.
3. The Permitted Incomes shall be set in such a level that enable the NEMO to recover the costs to the extent that they are justified and carefully incurred with a ROIE return.
4. The Permitted Incomes for the period shall recover the costs as follows but not limited to:
 - 4.1. The operational and maintenance costs;
 - 4.2. The costs for the expansion of the activity;
 - 4.3. Depreciation according to fiscal law;
 - 4.4. Permitted Rate of Return;
 - 4.5. The tariffs and the taxes of the license;
 - 4.6. Capital costs;
 - 4.7. Debt Costs;
 - 4.8. Costs regarding the market integration in regional and european level;

5. In defining the costs, the Regulator shall refer, but is not obliged or limited to:
 - 5.1. The existing information for the previous periods regarding the volume of transactions, the costs and the quality of NEMO service;
 - 5.2. The provided volumes, costs and the quality of service regarding NEMO; and
6. Any other income that is not taken through the approved tariffs, but is related to the provision of authorized services of NEMO that shall be reduced from these incomes.

Article 6 **Operational and maintenance costs**

1. NEMO shall identify and submit according to its assessments the necessary operational and maintenance costs that are required to be covered through the Permitted Incomes for any future regulatory period.

Article 7 **Costs for the expansion of the activity**

1. NEMO shall identify and submit according to its assessments the necessary costs for the expansion of the activity that are required to cover the Permitted Incomes for any future regulatory period.
2. The costs for the expansion of the activity shall mean those activities that are performed by NEMO to increase the number of the participants, the participation and sponsorship to the conferences, fairs, events and forums of national level and beyond that relate to energy area.

Article 8 **Depreciation**

1. The depreciation costs shall be calculated according to the applicable tax legislation.
2. NEMO shall not be allowed to cover the depreciation costs for the activities financed by the grants.

Article 9 **Permitted Rate of Return**

1. The Permitted Rate of Return on the Initial Equity shall be calculated as a function of Net Profit and the Subscribed Initial Equity, described on Annex 3.

2. The amount of the Permitted Rate of Return shall be set by the Regulator in the framework of tariff review.

Article 10
The Costs and the License tariffs

1. The Regulator shall permit NEMO to cover all the licensing expenses and the taxes.

Article 11
Capital Costs

1. The Regulator shall permit NEMO to cover all the Capital Costs that relate to necessary investments to perform the activity.

Article 12
Debt Costs

1. The Regulator shall permit NEMO to cover all Debt Costs that relate to the working capital necessary to perform the activity.

Article 13
The costs related to the market integrity in regional and european level

1. The Regulator shall permit NEMO to cover all the costs related to market integration in regional and european level.
2. These costs shall be identified and handled according to the cost allocation methodology between the NEMO-s and the TSO-s.

CHAPTER IV
TARIFFS OF THE NOMINATED ELECTRICITY MARKET OPERATOR
(NEMO TARIFFS)

Article 14
General Conditions

1. NEMO shall propose the tariffs for approval from the Regulator to:
 - 1.1 Cover the costs according to Chapter III to provide NEMO services to the extent of the Permitted Incomes defined according to this methodology; and



- 1.2 The tariffs according to this methodology drafted by NEMO and approved by the Regulator.

Article 15

The process of approving NEMO tariffs

1. NEMO shall submit for approval to the Regulator this methodology and any future amendment of this methodology at least fifteen (15) working days before the proposed date of effectiveness.
2. Any methodology or amendment of the methodology shall not be effective to the approval by the Regulator.
3. NEMO shall have the right to propose the Tariffs that are subject to the requirements of this article.

CHAPTER V

TRANSITIONAL AND FINAL PROVISIONS

Article 16

Interpretation

1. If there are ambiguities regarding the provisions of this Methodology, the Board of the Regulator Authority shall issue the explanatory information.

Article 17

Amendments

1. The procedures for amending this methodology shall be the same as those for its approval.

Article 18

Effectiveness

This methodology shall become effective after its approval from the Board of the Regulator Authority and shall be published on the official website of the Regulator

Annex 1

The applicable principles for the tariff structure

Principles of the Tariff Structure	Requirements	Application and examples
Objective	<p>In defining the tariffs of the exchange members and those of Clearing, NEMO shall consider the objective.</p> <p>The objective is to promote efficient investments in our economies and specifically in power sector, promote efficient operation of the sector and the use of electricity services for the long-term interests of the customers regarding:</p> <ul style="list-style-type: none"> (a) the price, quality, safety, reliability and safety of electricity supply; and (b) reliability and safety of the power system 	
Simplicity	<p>The tariff structure of the exchange members and those of clearing in ALPEX markets shall be simple and comply the given services.</p>	<p>NEMO considers that the simplicity principle shall mean that the basis of tariff structure and its implementation for different members shall be:</p> <ul style="list-style-type: none"> • direct • easily understandable by its members • easily applicable by the registered members and ALPEX • predictable and expected regarding the influences and the costs
Non-discriminatory	<p>The tariff of the participants shall not be unreasonably discriminatory to a category or different categories of the registered members.</p>	<p>“Discrimination shall mean to handle the person or categories of persons differently or in a not equal approach. Moreover, “discrimination” shall have a legal definition: “Discrimination” shall mean any distinction, exclusion, limitation or preference, except of the reason, that aims to or results in hindering or making it impossible to exercise, in the same way as others, the fundamental rights and freedoms recognized by the Constitution of the Republic of Albania and Kosovo, by international acts ratified by the Republic of Albania and Kosovo, as well as by the legislation in force.</p>

<p>Compatibility</p> <p>In the proposal for review, NEMO shall consider even other structures of existing tariffs in regional or European markets for which it thinks are suitable for comparative purposes. Shall be considered that this is not a concrete principle, but is included in completing the description of the issues that shall be considered by NEMO.</p>	<p>The other respective structures for the tariffs may include:</p> <ul style="list-style-type: none">• Other tariff structures of energy market used from regional NEMO-s or beyond.
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Annex 2

Calculation of Permitted Incomes of NEMO

1. This Annex sets the formula for the calculation of NEMO Permitted Incomes. This Annex aims to fulfill and clarify the implementation of the principles defined on this Methodology.
2. NEMO Permitted Incomes (NEMOAR) shall be calculated in Reviewing the Tariffs by using the formula as follows:

$$NEMOAR = (Initial\ Equity * ROIE) + (OPMC - NTFR)$$

Where:

NEMOAR Permitted Incomes

Initial Equity Kapitali Aksionar i nenshkruar

ROIE Permitted Return over the Initial Equity

OPMC Total Cost

NTFR Non Tariff Incomes

3. The regulator shall monitor the Current Rate of Return through the formula as follows:

$$ROIE = \frac{Current\ Incomes - (OPMC - NTFR)}{Initial\ Equity}$$

4. The Permitted Rate of Return ROIE is 25%.

Annex 3

Tariff Review Process

1. The Regulator authority, to promote transparency, shall publish all other comments and documentation received from NEMO or other interested parties regarding the review of the Permitted Incomes on its official website and the Regulator shall publish all the information and the materials delivered by NEMO, exempting any information that the Regulator considers as confidential.
2. NEMO may submit a request to the Regulator to review the tariffs in the cases as follows:
 - 2.1 There is a deviation of the current Rate of Return from the restrictions of the Permitted Rate of Return that which is approved from the Regulator during the review of the previous tariffs.
 - 2.2 There is an important amendment to the circumstances existing to the time of approving the Permitted Incomes.
 - 2.3 There is an important amendment to the elements according to which are set the Permitted Incomes, which may not be corrected through the process of the regulatory period.
3. If NEMO does not submit a request to the Regulator for tariff review in the circumstances according to Paragraph 2, the Regulator decides to initiate the procedure for tariff review and submits it to NEMO deciding in priority the term for the general process of review.
4. The Regulator shall initiate the Tariff Review notifying NEMO for:
 - 4.1 The data for the current year and the predictions, according to the request;
 - 4.2 The format on which are required to be delivered the data;
 - 4.3 The term to deliver NEMO Proposal for the Permitted Incomes for the future regulatory period.
5. NEMO Proposal shall contain the information as follows and handle the following issues (not being limited):
 - 5.1 The current costs to provide NEMO Services during the current period, in conformity with costs definition that is used for incomes calculation;
 - 5.2 The audit report and the audited financial statements for any financial year that gas terminated in the current Period, when these are available, as required from the report requirement included on NEMO license;

- 5.3 The current requests for membership and the total of the Exchange Members during the current period;
 - 5.4 The expected provisions and memberships for the future period;
 - 5.5 Any study that is required by NEMO, regarding the issues that shall be included on NEMO proposal; and
 - 5.6 Any other additional material that the Regulator considers reasonable shall be included on NEMO proposal, for the time the Regulator informed NEMO in a reasonable time before the final term for NEMO proposal.
6. For the draft of the proposal, NEMO, for the time possible shall implement the principles and the formula defined on this Methodology.
 7. On the cases where NEMO has not implemented the principles and the formula, according to this Methodology, NEMO shall submit the reason for not-implementing them, reasons that support the alternative support and ensure an assessment of the impact to use the alternative approach.
 8. When receiving NEMO proposal, the Regulator shall define the accurateness, importance and its reasonability to implement the defined methodology, including the determination if the proposed incomes reflect NEMO costs.
 9. The Regulatory Authority shall initiate the public consultation.
 10. With the conclusion of public consultation within a reasonable time before the initiation of the future period, the Regulator shall approve the Decision for the Permitted Incomes for the future period. Its decision shall be according to this methodology. The incomes as provided on the Regulatory Decision shall be applied from the initiation date of the future Period.
- 11 NEMO may contest or appeal any decision of the Regulator according to the applicable methodology.