Republika e Kosovës
Republika Kosova - Republic of Kosovo

ZYRA E RREGULLATORIT PËR ENERGJI
REGULATORNI URED ZA ENERGIJU
ENERGY REGULATORY OFFICE

Final Report on DSO Maximum Allowed Revenues

Eleventh Electricity Tariff Review

ETR 11 (2017-2018)

DISCLAIMER

This Consultation Paper has been prepared by ERO for the purpose of informing stakeholders. It does not represent a decision by the ERO and should not be interpreted as such.

March 2017

Table of Contents

1 Summary

Following the preliminary evaluation of the Applications regarding the Maximum Allowed Revenues for the licensee of the Distribution System Operator (DSO, KEDS), the licensee and other stakeholders were enabled to represent their comments through public consultation within a two weeks period.

With the purpose of representing a fair evaluation for DSO Maximum Allowed Revenues, ERO and Distribution System Operator representatives held several meetings to provide explanations regarding the calculations on preliminary evaluation.

This document presents responses to comments submitted by interested parties, and ERO's proposal on DSO Maximum Allowed Revenues.

Regarding the preliminary evaluation of DSO Maximum Allowed Revenues, ERO did not receive comments from any other party except for KEDS comments, which are included herein:

2 Energy Balance and Cost of Losses

KEDS Comments

KEDS agreed with the preliminary evaluation of ERO regarding the energy volumes as well as the level of sales in DSO, as described by KEDS in its application.

KEDS states that the anticipated level of loss reduction inherited from 2013 caused by the poor performance of the previous license holder should not be applied during the calculation of the energy balance, respectively during the calculation of the loss costs. KEDS points out that the penalty of 1.8% of the ongoing loss level is being unfairly transferred to KEDS.

ERO's Response

ERO recognizes that KEK has not been successful in achieving the target of losses before transferring responsibilities to KEDS. ERO has already provided a detailed comment on this issue in ETR8 (Consultation Paper – Calculation of DSO MAR) published on 24 June 2014 and confirms that the position of ERO on this issue has not changed and that the difference between the allowed and realized losses must be carried by the DSO in order to provide an incentive for reducing losses below the level set by ERO, so that the DSO will benefit from achieving the target of losses, otherwise the failure to achieve this goal will be a burden on the DSO.

3 Personnel Costs

KEDS Comments

The DSO has asked ERO to consider a 5% increase of wages for its employees for 2017, estimated by KEDS in the amount of 0.81 million euros. In addition to increasing the cost of wages, KEDS has included in its calculations the additional health insurance costs that are expected to be applied by July 2017. Both of these expenditures have an impact on personnel costs for the DSO in the additional value of 0.9 million euros. .

ERO's Response

Pricing rules determine that allowed levels of operating and maintenance costs (OPMCs) are set during periodic reviews and remain unchanged throughout the regulatory period. It should be noted that the level of OPEX realized for the period 2013-2015 is lower than the level allowed by ERO, so KEDS may have realized this saving as an increase to its employees. In case KEDS is obliged to make additional expenditures outside its control, ERO will consider them.

4 Other Components

KEDS Comments

Starting from March 2017, DSO, as part of balancing system, will be responsible for any deviation in the forecast losses, costs which are not forecast by ERO. DSO believes that it will continue the purchase of losses from KESCO as USS, at least for the Universal Service Supplier, based on the comprised costs of USS, which will impact the reduction of expenditures, namely this will prevent the increase of tariffs for final customers with immediate implementation of all these tariff changes. Until the SCADA system is implemented, which will allow such measurements, DSO and USS shall remain the same balancing group, as is the practice in many developed countries, including the ones which are part of the European Union, such as Bulgaria.

ERO's Response

Based on the primary and secondary legislation, DSO shall carry out the purchase of electricity for covering the losses in the distribution network, as well as sale and purchase of balancing energy. The Distribution System Operator shall ensure electricity for covering the losses in the distribution network as well as ancillary services in the distribution network, according to principles of electricity market, transparency and non-discrimination. Therefore, ERO has allowed for the loss costs the allowed level of losses that is set during periodic reviews, forecast in MAR to be covered by the DSO to compensate for the losses in the distribution system. ERO has also allowed the DSO to cover the costs related to obligations towards KOSTT for the System Operator and Market Operator services.

5 Excluded Costs

KEDS Comments

Within the review of Distribution System Operator costs from ERO, DSO noticed that costs which are related to provision of excluded services have been entirely deducted during the determination of allowed costs for the following three years, namely adjustments for 2013 and 2014 have been applied for this year as well, along with the ones from 2016.

DSO believes that such adjustments, if necessary, shall be carried out at the end of the regulatory period, along with other adjustments.

KEDS agrees with the decrease of excluded costs for 2016, meanwhile the adjustments for 2013 and 2014 shall be implemented at the end of regulatory period.

ERO's Response

Based on the Rules for Determination of Revenues, ERO shall carry out the Regular Adjustments of Revenues for any unregulated revenue (revenues from the asset leasing, revenues from different economic operators, assets sales, various services to customers etc.)

Given that this tariff year is the last for this regulatory period and in the following years, the opening of electricity market is expected to take place also for customers connected at DSO level, and given that these customers have been previously charged with these costs, they should also in the same way benefit from these unregulated revenues realized by the DSO.

The final value of excluded costs (unregulated revenues), in the final DSO MAR shall be reduced in the value of 5.9 million euros.

6 Adjustments for KREV

KEDS Comments

During the evaluation of DSO Maximum Allowed Revenues, ERO decreased in total the revenues which are related to unbilled energy and return of losses, With respect to this issue, as emphasized in the MAR application, based on the collection reports received by DSO, not the whole amount of energy billed as “return of losses” is collected from the customers who were issued a bill for return of losses due to the fact that:

1. Customers may complain in the first instance at ERO and then at the court, therefore, depending on the final decision, not the whole energy billed for this purpose is allowed to be billed to customers, respectively this represents a controversial value and a long proceeding of collection.
2. Only a small amount, around 20% of the billed energy on behalf of the return of losses is collected.

ERO’s Response

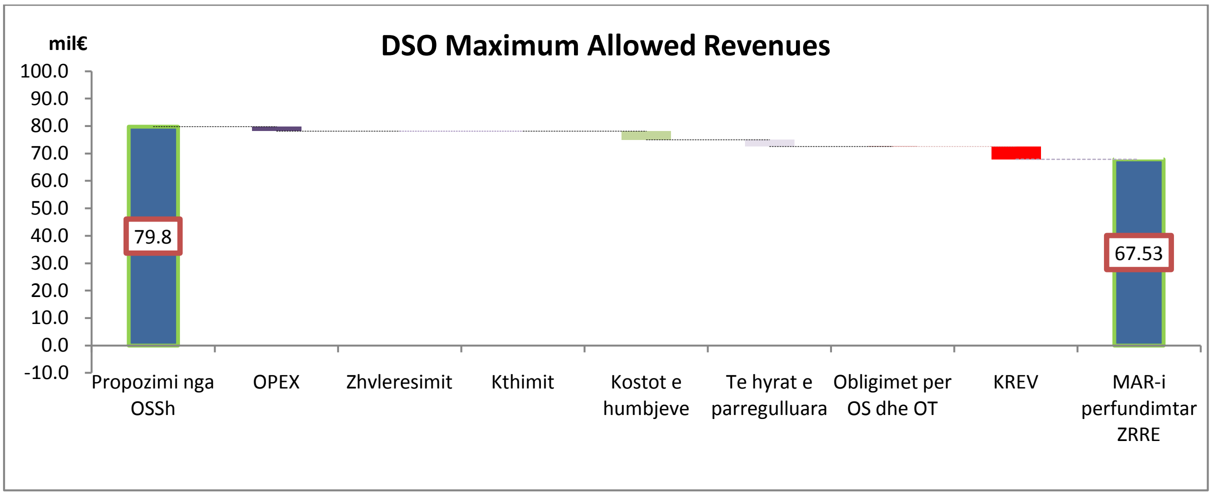
In order to reflect the difference between the allowed revenues towards the ones realized, during each year, the adjustments of revenues shall be carried out through the correction factor (KREV). In this regard, ERO has carried out the cost adjustments for 2017.

1. During the meetings with KEDS representatives, ERO explained that given that such unbilled energy has not been handled as a loss but has been handled in the energy entering distribution (EED) in the amount of 4,555 GWh, then ERO has applied such adjustment. Otherwise, such energy would be reflected as a loss with the purpose of balancing the energy balance of 2016.

2. With respect to the collected level, ERO wants to emphasize that this is an issue of bad debt and such level is allowed for the Supplier.

7 Summary of DSO Maximum Allowed Revenues

Following the analysis of KEDS comments and other stakeholders, ERO evaluated that the Maximum Allowed Revenues for DSO are in an amount of €67.8 million, as necessary revenues, which enable a safe and efficient operation. The graphical presentation of DSO proposal and ERO's evaluation is provided below:



Maximum Allowed Revenues are presented in the following table:

Table - DSO (KEDS) MAR Proposal

DSO MAR		ETR 10 Allowed	ETR11 Proposed
Indexing Parameters			
It	%	14.87%	14.90%
Operational and Maintenance Costs (OPMCt)			
$OPMC_t = OPMC_{t-1} * (1 + CPI_{t-1}) * (1 - E_t) * (1 - P_t)$	€m	25.09	23.81
Allowed Depreciation $DEPC_t = DEPC_{t-1} * (1 + CPI_{t-1}) * (1 - P_t)$	€m	8.75	9.39
Allowed Return $RTNC_t = RTNC_{t-1} * (1 + CPI_{t-1}) * (1 - P_t)$	€m	14.22	15.99
Obligations for SO and TO			0.39
Allowed Losses (LSSCt)			
LSSAt	%	20.63%	18.13%
REUEt	GWh	4,027.1	3,962.1
WHEAt	€/MWh	34.1	35.4
Allowed cost of losses LSSCt		28.3	29.7
Adjustments			
Unregulated revenues	€m	-5.33	-5.9
KREV			
KREV	€m	4.13	-4.3
DSO MAR			
DSO Maximum Allowed Revenues	**€m**	**76.51**	**67.53**