

KOMPANIA KOSOVARE PER FURNIZIM ME ENERGJI ELEKTRIKE
KOSOVO ELECTRICITY SUPPLY COMPANY J.S.C.
KOSOVSKO PREDUZECE ZA SNABDEVANJE ELEKTRICNOM ENERGIJOM D.O.O.
KESCO SH.A.
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HQ 1

Arsim Janova
ac. Chairman of ERO Board

Alper Erbas
Supply Director, KESCO

08 March 2018

SUBJECT: USS Comments to ERO Consultative Paper on Maximum Allowed Revenues for the Relevant Tariff Year 2019



Dear Mr. Janova,

This report summarizes response of the Universal Service Supplier (USS) to the ERO's Consultation Paper (CP) on Maximum Allowed Revenues (MAR) for the Relevant Tariff Year 2019, issued on 22 February 2019.

USS appreciates the opportunity to provide its input on important issues raised by ERO in the Consultation Paper and requires from ERO to consider its stance on issues raised in this report prior to any final decision on MAR for the relevant tariff year 2019.

USS is available to meet with ERO at any time to discuss the issues raised in ERO's CP and counter-arguments provided in this report.

Sincerely,



Alper Erbas
Supply Director

USS Comments on ERO Consultative Paper on Maximum Allowed Revenues for the Relevant Tariff Year 2019

I. Introduction

This report summarize comments of the Universal Service Supplier (USS) to the ERO's Consultation Paper (CP) on Maximum Allowed Revenues for the Relevant Tariff Year 2019, issues on 22 February 2019.

KESCO, as licensed Universal Service Supplier (USS), thanks ERO for giving the opportunity to comments on important issues raised in the ERO Consultative Report and requires from ERO to seriously consider its stance for issues raised in this report, prior to any decision on final MAR for the tariff year 2019.

KESCO is available to meet with ERO at any time to discuss the issues raised in this response to the CP. In addition, electronic versions of all tables will be provided for ERO use, so ERO can utilize them in its work.

II. Sales and Electricity Purchases

USS noticed that ERO used different sales from the ones USS used in its application, and similarly different purchase amount were considered from the Renewable Energy Sources for the year 2019, nevertheless concerning point remains the forecasted import price.

Based on the ERO Consultation paper price for KEK purchases has increased only for inflation rate, however the import price was predicted as 60 €/MWh, while the incurred average price in 2018 is 68 €/MWh. USS is aware that the year 2018 found KEK with some difficulties, which urged them not to work and hence the need for import increased, yet, we should emphasize that also in 2017 KEK produced less than initially forecasted. Hence, when calculating the expected price ERO should consider the uncertainty of KEK production, as well as the fact that not all forecasted renewable generations start operating based on their predicted timeframe provided for the energy balance purposes.

Analysis for import need on hourly basis, based on available import prices on the market provided on 4 March, show that expected prices including border and service see are around 70-72 €/MWh. In this view, we request from the regulator to consider the actual price incurred in 2018 when predicting purchases from import for the year 2019.

The expected wholesale costs for the year 2019 are as follows:

Description	GWh	€ '000	
		ERO Proposal	KEDS Revised
Purchases from KEK	3,263	96,266	96,266
Purchases from RES connected in transmission level	296	10,126	10,126
Purchases from RES connected in distribution level	141.9	5,367	5,367
Import	41.3	2,477	2,803
Retail Margin	3%	3,427	3,437
Total Wholesale costs for USS	3,742	117,665	118,000

III. Personnel Costs

Despite our continues comments that ERO should reflect the proper costs included in OPEX, ERO continues to apply the costs approved in 2018 which were increased only to reflect only some changes in the energy sector and governmental requirements, however still the gap between employees working in the public sector (KEK, KOSTT) and the ones working at the universal service supplier (KESCO) are high, therefore there is no reflection of the actual costs.

Continues increase in the number of customers, increase of services and overall changes in the organization of the staff is reflecting with the increased workload. The increase workload further results in higher operational costs that is not proportional neither in the number of employees, nor in costs. Such difference are noticed also in the draft financial statements provided to ERO, which shows a 10% increase in incurred operational costs from 2017 to 2018. Although

On the other hand, higher salaries in the public sector with much lower workload expose USS in continues threat to lose its professional employees, influencing also the workflow and quality of work.

Thus in this report, USS considers a 3% increase in total OPEX reflecting the real needs of the USS, and requires from the Regulator to seriously consider the analysis and provide fair and equal treatment to other entities operating in the same sector.

IV. Pass-through costs

USS noticed that ERO has calculated more pass through costs both for the transmission and distribution costs, considering that USS has decreased sales, hence lower sales shall be considered. Such correction are properly applied in this paper.

V. Actual Regulated Revenues and KREV calculation

When calculating Actual Regulated Revenues for the year 2018, ERO considered all reported revenues from the USS, and didn't apply the decrease paid to the distribution system operator for its part, a total of €1.2 million. Moreover, it has also included revenues from the imbalances and compensation, which are already included in the wholesale calculation as per the formula defined in USS Pricing Rule, Schedule 1 'Calculation of Regulated Revenues', article 2.2 'Allowed Wholesale Power Costs'.

It should be clarified that that revenues in the FS regarding imbalances and compensation paid to the market operator do not show the net balances, hence, whenever considering the revenues the expenses shall be calculated as well – a similar approach that USS used when calculated its actual wholesale costs for the year 2018.

VI. Bad Debt

Bad debt is an estimate and input value of regulatory period. In the last year of the first Regulatory period (2017) bad debt was set at 4%. For this Regulatory Period, ERO did not determine the Bad Debt Allowance, nor has initiated any consultation paper, yet when determining USS costs for the year 2018 has used the same debt allowance as applied in the year 2017 (4%), and the same one was proposed for the year 2019.

USS doesn't agree with this approach, as ERO is not considering the market opening and its affect for the Universal Service Supplier. As argued several times due to the decreased number of industrial and commercial customers – who are the regular payers, USS will remain mainly with the not-regular payers, who tend to delay and/or reject their payments of the bills received, and since based on the new law is not allowed to disconnect customers who complain until there's a decision from court, and considering the bureaucratic and slow-work of courts in Kosovo, operations will become impossible to be handled within the relevant tariff year.

It should be also emphasized that due to the nature of the business operating in Kosovo, respectively that the same companies in different areas can be connected to the different voltage levels, we expect many customers connected to the 10 kV level to go on the open market, thus influencing once again the collection of the USS

USS has calculated its effect, and therefore requires a bad debt allowance of 5%, which will provide some security for the daily operation of the universal service supplier. Any lower application than 5% will expose directly the USS into the decrease of working capital, thus we request from the Regulator to consider increase the bad debt allowance from 4%-5%.

VII. Final MAR proposal for the year 2019

Considering the abovementioned, the final MAR proposal from USS for the year 2019 to be considered by ERO is € 256.33 million, the details of which are shown below:

USS MAR Proposal for 2019		mil €
It		7.49%
Allowed Retail Costs		6.35
<i>OPMct</i>		6.24
<i>DEPCt</i>		0.11
Pass-through Costs (PSTCt)		148.46
KOSTT fees		29.72
DSO fees		107.89
BRE Fund		10.84
Working Capital Costs (WCLCt)		1.70
Wholesale Power Costs (WHPC)		118.00
Licence fee		0.01
Revenue Adjustments Factor (ADJ)		(31.01)
BDTA		5.0%
PES MAR		256.33

The requested MAR for the year 2019 reflects the actual costs expected for the year 2019 considering also the deregulated customers connected in the 35 kV level, which are regular payers, thus offering financial stability. Taking into consideration also the expected sales of the year 2019, the requested MAR is justifiable and as such shall be considered by ERO during final decision-making process.