



Republika e Kosovës
Republika Kosova - Republic of Kosovo

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



Consultation Paper on Maximum Allowed Revenues

Universal Service Supplier

Relevant Tariff Year 2019

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 2019



Table of Contents

Introduction	Error! Bookmark not defined.	Error! Bookmark not defined.	3
1 Electricity Balance 2019	Error! Bookmark not defined.	Error! Bookmark not defined.	4
2 Wholesale Costs- Energy Purchase	Error! Bookmark not defined.	Error! Bookmark not defined.	5
2.1 Adjustment of Revenues for 2018	Error! Bookmark not defined.	Error! Bookmark not defined.	6
3 Pass-through Costs.....	Error! Bookmark not defined.	Error! Bookmark not defined.	8
4 Retail Costs of the Supplier	Error! Bookmark not defined.	Error! Bookmark not defined.	8
5 Maximum Allowed Revenues	Error! Bookmark not defined.	Error! Bookmark not defined.	9



Introduction

The Energy Regulatory Office (ERO) is currently carrying out the Regular Annual Adjustment for Maximum Allowed Revenues (MAR) to be recovered by the Regulated Companies. Under this process, ERO will make a preliminary proposal for the updated MAR for the Transmission System Operator and Market Operator (KOSTT, TSO/MO), Distribution System Operator (DSO, KEDS) and Universal Service Supplier (USS). This preliminary evaluation is based on the proposals submitted by the regulated companies as well as decisions on Maximum Allowed Revenues for the regulatory period 2018-2022.

This Consultation Paper represents ERO's evaluation on the proposal for Maximum Allowed Revenues (MAR) for Universal Service Supplier (USS) for the relevant tariff year 2019. In evaluating the wholesale energy purchase cost, ERO has taken into consideration the direct costs of the Supplier towards RES, in line with Rule on Support Scheme, the costs for purchase of energy from other generators according to contractual criteria, whereas for the costs of energy purchase from KEK JSC, ERO has conducted its evaluation by carrying out the indexing of the actual price for the harmonized inflation rate, whereas the evaluation for the import price is based on the current realized prices as well as referent prices in regional stock markets.

Comments on this Consultation Paper can be submitted electronically via e-mail at ero.pricing-tariffs@ero-ks.org or as a hard copy at:

Zyra e Rregulatorit për Energji
Departamenti për Tarifa dhe Çmime
Rr. Dervish Rozhaja Nr. 12
Prishtinë, 10000, Kosovë

Comments must be submitted by **8 March 2019** at the latest.

Following the review of the received comments, ERO shall publish the ***Final Report along with Response to Comments***. The comments received on this Consultation Paper will be published along with the Final Report. The Final Decision on MAR will be used for determining the tariffs of the licensees.



1 Electricity Balance 2019

ERO has used the adjusted balance from KESCO to consider the updated consumption and the evaluation for deregulation of customers connected to the 35kV. Such Balance shall reflect only the costs of electricity supply for customers who are entitled the supply under the criteria of universal service. In this regard, the volumes for wholesale purchase of energy for USS are:

- Energy purchases from KEK JSC;
- Energy purchases from generators connected to transmission level;
- Energy purchases from generators connected to distribution level; and
- Import.

The amount of energy for export during this forecast is not considered as energy of the USS, since USS shall only nominate the amounts required to cover the consumption of Universal Service Customers. This amount of energy shall be managed by the respective producer, in line with dispatching priorities. The consumption of universal service customers does not include:

- the categories of customers connected to the transmission level; and
- starting from April, the customers connected to the voltage level 35kV, who fulfil the criteria set by the Law on Electricity.

The following table presents the sources of supply for covering the demand of USS customers.

Table 1: Electricity Balance for USS

Energy Purchases	GWh
Amounts supplied by KEK	3,263
Ujmani and other generators at TSO level	296
Generators at DSO level	142
Import	41
Total supplied amount	3,742
Consumption by categories of USS customers	
Customers 35 kV	15
Customers 10 kV	335
Customers 0.4 kV	3,391
Total consumption of USS customers	3,742

As shown in the table, the amount of energy that is planned to be consumed by customers who are entitled the universal service is equal to the amounts that shall be covered by different sources of supply.

Note: The amount required to be supplied by KEK JSC is calculated as a difference of the total amount towards other sources of supply, given that these sources of supply are renewable energy sources and have a priority in dispatching.

Recovery of losses in transmission and distribution system are the responsibility of the respective network operators and as it can be seen, they are not shown in this table. They are handled in Consultation Papers for the MARs of TSO/MO and DSO.



2 Wholesale Costs- Energy Purchase

Following the determination of required amount of supply in order to cover the demand of USS customers, a calculation of costs for energy purchase in the wholesale market shall also be carried out. In line with the Rule on USS Revenues, the Universal Service Supplier is obliged to provide electricity in a transparent, competitive and efficient manner. The Universal Service Supplier shall demonstrate that electricity forecast prices that will be procured are justifiable.

During the process of negotiating contracts for the purchase of USS energy from domestic generation, account should be taken of the fact that the forecasted prices are in line with the historical and projected prices of the Kosovo wholesale market.

The allowed wholesale energy costs (WHPC_t) will be calculated according to the following formula:

$$WHPC_t = (GENC_t + IMPC_t + IMBC_t * IMBF_t) * (1 + RETM_t)$$

Where:

GENC_t allowed costs of energy purchase from domestic generators in relevant year *t*

IMPC_t allowed costs of energy import in relevant year *t*

IMBC_t net imbalance costs in relevant year *t*

IMBF_t imbalance sharing factor in relevant year *t*

RETM_t retail margin in relevant year *t*

Given that during 2018, the net imbalance costs, following the compensation program, result positive, ERO has not taken into consideration any cost or revenue (pro-ante) in forecast of energy purchase costs for 2018. In case of realization of costs or revenues during 2018, ERO will handle them in 2019 (ex-post). The Summary of forecasted wholesale costs for 2019 is shown in the following table:

Table 2: Energy Purchases

Energy Purchase Costs	GWh	€/MWh	€'000
Amounts supplied from KEK	3,263	29.50	96,266
Ujmani and other generators at TSO level	296	34.27	10,126
Generators at DSO level	142	37.84	5,367
Import	41	60.00	2,477
Imbalance costs		-	-
Imbalance Sharing Factor		-	-
Total Supplied Amounts	3,742	30.53	114.237
Retail margin		3.00%	3,427
Total Energy Purchase Costs			117,665



2.1 Adjustments for Revenues for 2018

In order to carry out the adjustments for 2018 which shall be applied during the determination of USS MAR for 2019, firstly the evaluation of actual electricity supply costs for USS customers shall be carried out. Following the evaluation of these costs, the deduction shall be made from the revenues which resulted from billing in 2018 from applying the tariffs.

The difference between the revenues evaluated from ERO for 2018 and the revenues realized from USS during the same period, is calculated according to the following formula:

$$ADJ_t = (AAC_{at-1} - ARR_{t-1}) * (1 + I_t)$$

Where:

AAC_{at-1} USS Actual Allowed Costs in relevant year t

ARR_{t-1} Actual Regulated Revenues during relevant year $t-1$

I_t is the interest rate for the Relevant Year t calculated based on EURIBOR plus $S\%$, where S is a value to be determined by the Regulator at Periodic Reviews and which reflects the premium payable by the licensee for short-term loans

The value of adjustments for 2018, following the indexing for inflation, results in the amount of -35.6 million Euros.

Table 3: Adjustments for 2018

MAR of Universal Service Supplier	Unit	2018
Indexing Parameters		
Interest Rate I_t	%	7.5%
Retail Costs of the Supplier		
$OPEX - OPMC_t = OPMC_{t-1} * (1 + CPI_{t-1}) * (1 - E_t) * (1 - P_t)$	€m	6.0
$DEPRECIATION - DEPCt = DEPCt-1 * (1 + CPI_{t-1}) * (1 - P_t)$	€m	0.1
Adjustments for CPI 2017		0.1
Pass-through Costs		
TSO Costs	€m	11.1
DSO Costs	€m	80.2
RES Fund		5.6
Working Capital (WCLCt)		
$WCLC = (1 / 12) * I_t * (RETR_t + WHPc_t + PSTc_t - NTFR_t)$	€m	1.4
Energy Purchase Costs		
Wholesale Energy Purchase Costs	€m	119.1
License tax		
License Tax	€m	0.0
Bad Debt (BDTA)		
BDTA	%	4%



BDTA	€m	8.5
Adjustments		
Adjustments 2017		-17.1
Adjustments 2016		-1.5
Adjustments for CAPEX-PRR1		0.1
Adjustments of Revenues for USS		
MAR of the Supplier AAC_{at-1}	€m	213.7
Actual Revenues from Billing ARR_{t-1}	€m	247.5
Adjustment of Revenues ADJ_t	€m	-35.6



3 Pass-through Costs

USS Pass-through Costs are the ones that depend on the evaluations for MAR for other regulated companies. These are the pass-through costs from KOSTT, KEDS (PSTCt), and any other cost that is out of USS control. The Pass-through costs for KOSTT, also including the renewable sources fund, are 40.6 mil€, KEDS pass-through costs are 96.4 mil€.

4 Retail Costs of the Supplier

The allowed retail costs are calculated as the amount of allowed operating and maintenance costs (OPMCt), depreciation costs (DEPCt) and license costs (LCICt). The proposed retail costs for USS for 2019 have used as a starting point the costs allowed in 2018 and indexed for the inflation rate with a value of 1.73%¹. The value of retail costs for USS for 2019 is foreseen to be 6.2 mil€. Other components of retail costs such as the retail margin, the bad debt and working capital are calculated based on the formula set in the Rule on USS Revenues.

¹ <https://www.inflation.eu/inflation-rates/europe/historic-inflation/hicp-inflation-europe-2018.aspx>



5 Maximum Allowed Revenues

The MAR, proposed for USS for 2019, is €247.7 million, which represents an amount that shall be covered by the retail sale regulated tariffs. The details on calculations for the proposed MAR, are given in the following table:

Table 4: Proposed MAR for 2019

MAR of Universal Service Supplier	Unit	2019
Indexing parameters		
Interest Rate I_t	%	7.5%
Retail costs of the Supplier		
$OPEX - OPMC_t = OPMC_{t-1} * (1 + CPI_{t-1}) * (1 - E_t) * (1 - P_t)$	€m	6.1
$DEPRECIATION - DEPC_t = DEPC_{t-1} * (1 + CPI_{t-1}) * (1 - P_t)$	€m	0.1
Pass-through costs		
TSO Costs	€m	40.6
DSO costs	€m	96.4
RES Fund costs	€m	10.8
Working Capital (WCLC _t)		
$WCLC = (1 / 12) * I_t * (RETR_t + WHPC_t + PSTC_t - NTFR_t)$	€m	1.7
Energy Purchase Costs		
Wholesale Energy Purchase Costs	€m	117.7
License Tax		
License Tax	€m	0.01
Bad Debt (BDTA)		
BDTA	%	4%
BDTA	€m	9.9
Adjustment of Revenues for USS		
Adjustments of 2018	€m	-35.6
Maximum Allowed Revenues	€m	247.7