



Republika e Kosovës  
Republika Kosova - Republic of Kosovo

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



# Consultation Report

## Annual Adjustments of DSO Maximum Allowed Revenues

### Relevant tariff year 2026

#### DISCLAIMER

This Consultation Report is prepared by ERO with the purpose of informing stakeholders. The report does not represent a decision of ERO and shall not be interpreted as such.

10 April 2026



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## Introduction

The Energy Regulatory Office (ERO) is mandated to carry out Regular Annual Adjustments of the Maximum Allowed Revenues (MAR) to be recovered by regulated enterprises. Through this process, ERO prepares an initial proposal for the updated MAR for the Transmission System and Market Operator (TSO/MO, KOSTT) and the Distribution System Operator (DSO, KEDS), and determines the revenues of the Universal Service Supplier (USS). This initial assessment is based on the proposals submitted by the regulated companies, as well as on the decisions on Maximum Allowed Revenues for the 2023–2027 regulatory period for the TSO/MO, DSO and input value for the USS for the 2023–2027 regulatory period.

This year (2026) for the Regular Annual Adjustments, ERO has carried out a detailed review process, which included verification and validation of the data submitted by the licensees. During this process, it was identified that the applications required additional clarifications, updates, and corrections to ensure that the data used in the calculations is complete, accurate, and properly consolidated. Furthermore, the updated Energy Balance received from KOSTT and other relevant parties has been incorporated, reflecting the latest developments in the sector, including changes related to the availability of generation capacities (maintenance outages in TPP units). The integration of this updated balance into the respective models required additional time and has affected the values used in determining the allowed revenues. These steps were necessary to ensure that regulatory decision-making is based on updated and reliable data, thereby enabling a fair, transparent, and robust assessment of costs.

## Annual Regular Adjustments?

Regular adjustments are key regulatory mechanisms that allow revenues to be updated to reflect differences between forecast and actual cost values that are outside the control of regulated enterprises.

Since 2012, electricity tariffs have been set on a multi-year basis. This approach increases revenue predictability for licensees, enabling easier and more affordable financing of capital investments, while also promoting stable and sustainable prices for customers. These revenues are established during Periodic Reviews, conducted every five years, which determine several revenue components that do not change significantly from year to year and are mainly related to the capital and operating expenditures of regulated enterprises.

During Periodic Reviews, ERO also sets efficiency, loss reduction, and performance improvement targets aimed at enhancing the operational efficiency of companies, ultimately resulting in more reasonable prices for customers. ERO's final evaluation of the MAR established during the Periodic Review for the DSO can be accessed in the link in page 3 Relevant documents.

As part of the Periodic Review for the regulatory period 2023–2027, ERO also determines key regulatory input parameters such as the Weighted Average Cost of Capital (WACC), asset



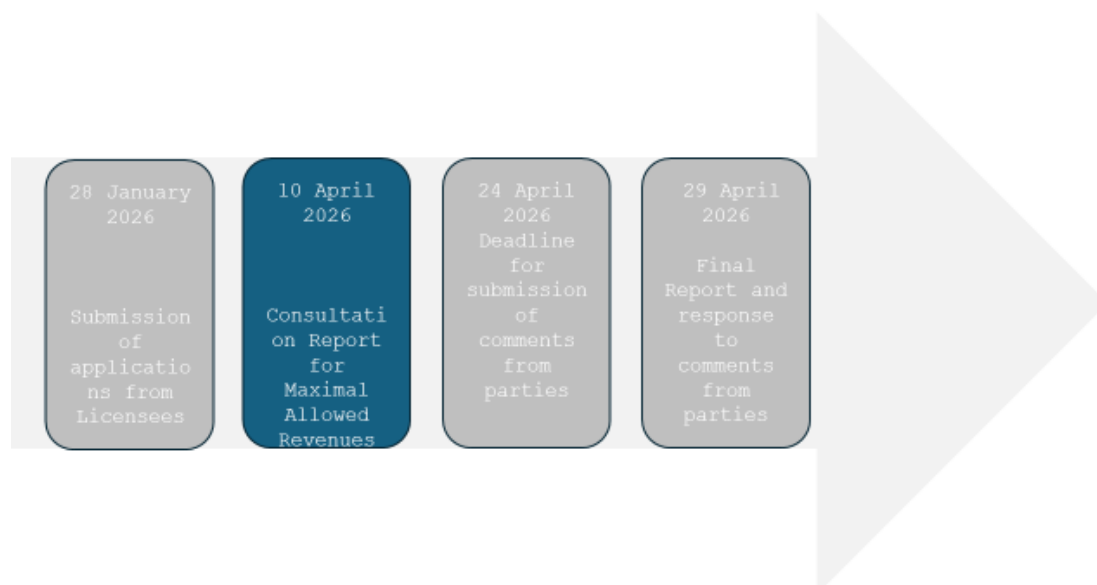
categorization and useful asset lives, depreciation methodologies, and other assumptions used to calculate the Regulatory Asset Base (RAB). These parameters are generally fixed for the duration of the regulatory period and provide the foundation for calculating allowed returns and capital recovery.

However, some cost components may vary significantly from year to year. These typically include costs largely outside the control of regulated operators, such as inflation, energy purchase costs, energy volumes served, changes in legislation, taxes, and similar factors. Despite the multi-year tariff framework, these components must be adjusted annually to ensure that companies neither gain nor incur losses due to factors beyond their control.

## The purpose of this Consultation Report?

This Consultation Report presents ERO's initial proposals for the DSO's Maximum Allowed Revenues for the upcoming tariff year. The report aims to gather stakeholder comments on ERO's proposals which it will consider in its final tariff decision. The process and indicative timetable for Regular Adjustments is set out in Figure 1, below.

**Figure 1.** The Process and Indicative Schedule of Regular Adjustment for the DSO



ERO strongly believes that public consultation lies at the heart of sustainable regulatory policies. Through this report, ERO invites regulated enterprises, customers, and other stakeholders to review the data and views presented in this Consultation Report and to provide their feedback where they may disagree. Stakeholders are encouraged to submit comments by identifying and correcting any factual errors, presenting reasoned counter-arguments, or providing additional data and evidence that ERO may not have considered.

This Consultation Report does not constitute a final decision. Following the consultation period, ERO will review all submissions received and may revise its proposals where justified



by the evidence provided. The final decision on Maximum Allowed Revenues will be adopted by the ERO Board and published together with a summary of stakeholder comments and ERO's responses.

## Consultation Report - ERO proposal can be commented as follows:

The parties wishing to submit their comments on ERO's proposals are invited to send their written comments at [ero.pricing-tariffs@ero-ks.org](mailto:ero.pricing-tariffs@ero-ks.org) by 24 April 2026 at the latest. Comments can also be sent by mail at the following address:

Energy Regulatory Office  
Tariffs and Pricing Department  
St. Bekim Fehmiu (former Fazita Building), 2<sup>nd</sup> floor  
Pristina, 10000, Kosovo

### Relevant documents

This Consultation Report refers to several other documents which are accessible through the following links.

Rule on Maximum Allowed Revenues for the Transmission System and Market Operator	<a href="http://ero-ks.org/2017/Rregullat/Rregulla%20per%20te%20Hytrat%20e%20OOST_OT.pdf">http://ero-ks.org/2017/Rregullat/Rregulla%20per%20te%20Hytrat%20e%20OOST_OT.pdf</a>
Final Evaluation of TSO/MO MAR within the Periodic Review MY 3 2023-2027	<a href="https://www.ero-ks.org/zrre/sites/default/files/Publikimet/Pjesemarresit%20ne%20Treg/Furnizim/KOSTT_Final%20Report%20on%20Maximum%20Allowed%20Revenues%20for%20TSO-MO_Responses%20to%20comments.pdf">https://www.ero-ks.org/zrre/sites/default/files/Publikimet/Pjesemarresit%20ne%20Treg/Furnizim/KOSTT_Final%20Report%20on%20Maximum%20Allowed%20Revenues%20for%20TSO-MO_Responses%20to%20comments.pdf</a>
KOSTT's Application for 2026	<a href="https://www.ero-ks.org/zrre/sites/default/files/Publikimet/Pjesemarresit%20ne%20Treg/OSSH/eng.%20260128_KOSTT_Aplikacioni%20i%20KOSTT%20p%C3%ABr%20azhurnimet%20vjetore%20t%C3%AB%20t%C3%AB%20hyrav...%20(1).pdf">https://www.ero-ks.org/zrre/sites/default/files/Publikimet/Pjesemarresit%20ne%20Treg/OSSH/eng.%20260128_KOSTT_Aplikacioni%20i%20KOSTT%20p%C3%ABr%20azhurnimet%20vjetore%20t%C3%AB%20t%C3%AB%20hyrav...%20(1).pdf</a>
Consultation Report on USS Maximum Allowed Revenues	<a href="#">Consultation Report - USS MAR Annual Adjustment.pdf</a>
Consultation Report on TSMO Maximum Allowed Revenues	<a href="#">Consultation Report - TSO-MO MAR .pdf</a>

## The Structure of this Consultation Report

This document is structured as follows:



- Chapter 1 updates the operating and maintenance costs;
- Chapter 2 updates the allowed costs of losses;
- Chapter 3 applies the differences between the Allowed and Realized Revenues in the Relevant Previous Year (t-1), including the excluded revenues;
- Chapter 4 Sets the components of allowed revenues; and,
- Chapter 5 sets the DSO MAR for the next relevant year.

In addition, the report explains the key assumptions, data sources, and regulatory methodologies applied in the calculation process, as well as the potential implications for network tariffs and market participants.

## 1 Updating of indexed cost allowances

### 1.1 Approach

The Allowed Operating and Maintenance Expenses (“OPEX”), Depreciation Cost and Allowed Return are determined by ERO during periodic reviews on a real basis (excluding inflation). The allowed OPEX includes an assumed efficiency factor, representing expected productivity improvements over the period.

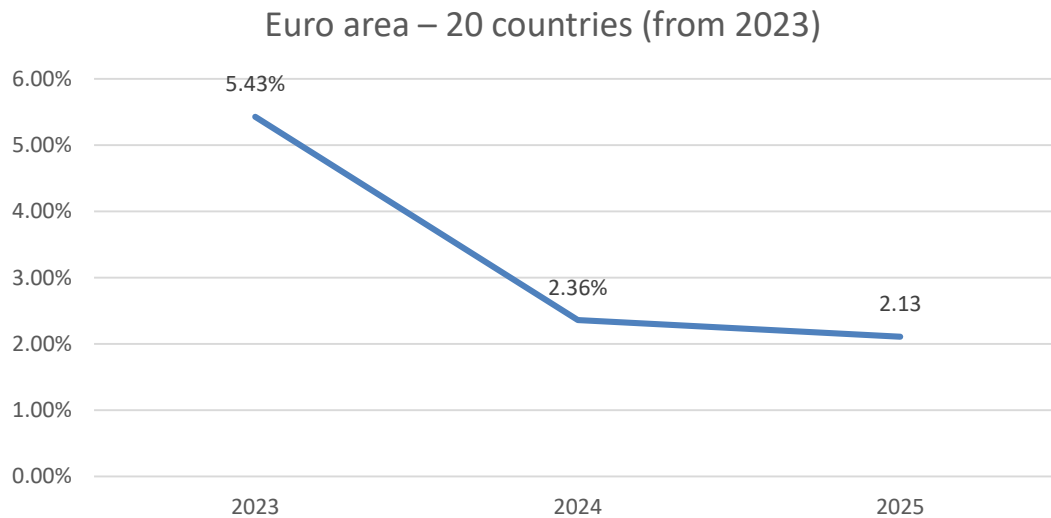
At each annual adjustment, these costs are updated by the inflation rate during the previous year. The Rule on Allowed Revenues of the DSO stipulates that the costs should be indexed to the rate of the Harmonized Index of Consumer Prices HICP, published by Eurostat for the 20 countries of the Eurozone, which for the year 2025 was **2.13%**.<sup>1</sup>

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<sup>1</sup> Source: [Eurostat](#)



**Figure 2. Harmonized Index of Consumer Prices (HICP)**



## 1.2 DSO proposals

In its submission, the DSO has argued that the application of HICP to update allowed OPEX results in unsustainable levels of under-recovery relative to its actual costs. Based on the Rule on Maximum Allowed Revenues for DSO, ERO applies to the final allowed OPEX for 2025 an adjustment based on the Harmonised Index of Consumer Prices (HICP). The allowed OPEX for 2025 amounts to €29.25 million, while the actual costs incurred according to DSO reach €36.48 million, reflecting a significant difference compared to ERO's allowed level of €29.25 million. By applying HICP indexation, the calculated OPEX for 2026 reaches €32.75 million, incorporating the indexation of costs for the inflation realized in 2025, as well as certain additional costs related to wages and other services recognized in 2026. However, the OPEX allowed by ERO for 2026 remains significantly lower than the actual costs of 2025, as well as lower than OSSH's proposal for 2026 of €39.39 million.

The DSO attributes its higher OPEX to a number of factors:

- Personnel costs represent the largest share of OPEX (approximately 70% of cash operating costs). The rate of wage inflation and, therefore, the rise in personnel costs has been substantially greater than the change in HICP since the base year of 2022 used to set OPEX allowances (of ~10%). This is due to external factors unique to Kosovo and to the DSO:
  - The minimum wage in Kosovo at the time the OPEX allowance was set for 2023-27 (in 2022) was €170 per month. It has since risen to €350 in 2024, to €425 in January 2026, and is expected to rise to €500 from July 2026, a cumulative increase of 194%. This creates substantial upward pressure on the DSO's salary structure to comply with the new minimum wage levels and to maintain differentials.



- There have also been significant increases in public sector salaries since 2023, which are estimated as rising from €604 in 2022 to €824 per month by the end of 2025, a cumulative increase of 36%. This also creates upward pressure on salaries for DSO staff to remain competitive with alternative employers.
- The DSO's salaries are substantially below those for equivalent grades elsewhere in the electricity supply industry, meaning that without above-inflation increases, the DSO is at continual risk of losing staff to other companies. The DSO's estimates are that the average salary for engineers in the DSO (KEDS) is €845 compared to €980 for the TSO/MO (KOSTT) and €971 for the public generator (KEK). For technicians, the average salary is €650 for KEDS compared to €699 for KOSTT and €747 for KEK.
- The DSO's responsibilities and, therefore, costs have expanded since the base OPEX allowance was set, due to:
  - The opening up of the retail electricity supply market to competition, which has imposed new obligations on the DSO (for example, for customer verifications and for provision of data to new suppliers), and which has required new operating processes and new systems to be introduced (for example, the Supplier Service Interface platform).
  - The continued growth in customer numbers, which imposes additional workload on the DSO with respect to managing connections, setting up new customer accounts etc.
  - The increased need for manual management of distribution feeders in overloaded areas at the request of the TSO, to maintain network security. This is expected to continue in 2026 under current operating conditions.

The DSO also proposes a slightly higher depreciation allowance and return than would be justified based on HICP indexation alone. This reflects additional planned capital investments, totaling €1.721 million, for the four municipalities in the north of Kosovo for which electricity is distributed, under a contract with KEDS (as DSO), by Elektrosever. These investments represent priority projects which were previously identified but not implemented in prior years. These additional investments enter into the RAB during 2026 and increase its value, and so the depreciation and return allowances calculated using the RAB, relative to that originally approved for the 2023-27 period. A breakdown of these investments is provided below (Table 1).



**Table 1.** Proposed additional DSO-financed investments in northern municipalities

Component	Unit	Proposal 2026
MV networks, substations, power transformers, and equipment	€ mil	0.978
LV networks, substations, power transformers, and equipment	€ mil	0.061
Metering devices and equipment, trucks, cranes and other work machinery	€ mil	0.721
<b>Total</b>	<b>€ mil</b>	<b>1.760</b>

The DSO also notes that the network charges currently paid by Elektrosever to the DSO for the use of its assets include an allowance for the costs of these investments which are to be financed and owned by the DSO. If these investments are not made, then a reduction in the network charges may be required to compensate for the DSO's failure to invest according to the contract. However, the Energy Regulatory Office considers that network tariffs should be analyzed and determined at the level of the entire distribution system and should not be linked solely to the implementation or non-implementation of investments in a specific part of the network. For this reason, any potential revision of network tariffs should be undertaken within the framework of the overall regulatory process and by taking into account developments and costs across the entire system.

A comparison of the various indexed cost components, showing the allowed and actual values for 2025, the value that would apply in 2026 if only the HICP indexation was applied, and the value proposed by the DSO, is provided below (Table 2).

**Table 2.** Comparison of 2025 values, indexed values, and DSO proposed values

Component	Unit	Allowed 2025	Actual 2025	Calculated 2026	DSO proposal 2026
OPEX	€ mil	29.247	36.480	32.752	39.391
Depreciation	€ mil	22.629	22.629	23.343	24.614
Return	€ mil	18.616	18.616	19.424	20.083
<b>Total</b>	<b>€ mil</b>	<b>70.492</b>	<b>77.725</b>	<b>72.571</b>	<b>84.088</b>

### 1.3 ERO's assessment

ERO agrees with the DSO that the increases in the minimum wage will also increase its costs. This is particularly so for contracted-out security and cleaning services, where staff are generally paid at or close to the minimum wage. ERO, therefore, proposes to allow an increase



of €0.31 million in the costs of these services, included within the overall OPEX allowance, to reflect the minimum wage increase.

ERO also accepts the argument that the differentials between DSO salaries and those for other companies in the electricity supply industry and those of the public sector more generally, mean that retention of skilled employees is challenging, as well the recruitment of the new staff is very difficult, with this level of salaries. To correct for this, ERO proposes to allow for an average increase in salaries corresponding increases in employer contributions and payroll taxes. The total proposed increase in personnel costs, included within the overall OPEX allowance, is €2.574 million. It should be noted that this is an average increase, it will be for the DSO to decide how this additional allowance is allocated between its staff. In this regard, the allowed increase in personnel costs is expected to primarily address the need to retain and attract professional and technical staff, while avoiding disproportionate increases at managerial levels.

ERO does not consider the expansion of retail competition and the growth in customer numbers necessitate further adjustments in allowed costs. These requirements were foreseen at the time of setting base OPEX allowances and are already included within these.

ERO does accept the proposed investments in the north of Kosovo and their inclusion into the RAB for 2026 which, in turn, will increase allowed depreciation and return slightly above the value obtained from applying HICP indexation alone. However, ERO has recalculated the impacts of these investments on the RAB and so depreciation and allowed return, obtaining slightly different values to the DSO's calculations.

The resulting proposed cost allowances are shown below (Table 3).

**Table 3.** ERO proposed values for indexed cost allowances

Component	Unit	Allowed 2025	Actual 2025	DSO proposal 2026	ERO proposal 2026
OPEX	€ mil	29.247	36.480	39.391	32.752
- <i>calculated</i>	€ mil				29.870
- <i>adjustments</i>	€ mil				2.882
Depreciation	€ mil	22.629	22.629	24.614	23.396
Return	€ mil	18.616	18.616	20.083	19.424
<b>Total</b>	<b>€ mil</b>	<b>70.492</b>	<b>77.725</b>	<b>84.088</b>	<b>75.572</b>



## 2 Adjustment of the forecast of allowed losses for DSO in 2026

### 2.1 Volume of losses

ERO's approach to determining the allowed volume of electricity distribution losses to be purchased by the DSO is as follows:

- The forecast consumption by distribution-connected customers is obtained from the approved energy balance, as developed by the TSO/MO and reviewed by ERO. For 2026, this forecast consumption is 6,587.72 GWh.
- Based on this forecast and the multi-year trajectory for loss reduction, the level of allowed losses in the majority of the distribution network has been set at approximately 12.10% of the energy entering the network. Meanwhile, in the four northern municipalities, due to specific conditions and the historically limited level of investments, a higher level of allowed losses of 18.5% has been set for 2026, according to the assessment of the Energy Regulatory Office.
- In total, the allowed distribution losses for 2026 are estimated at around 842.46 GWh, representing approximately 12.79% of the energy entering the distribution network, reflecting expectations of continued improvement in loss reduction compared to the previous year, as assessed by the Energy Regulatory Office.
- In the four northern municipalities, the supply of electricity to consumers is carried out by Elektrosever in accordance with the relevant contract, while KEDS, in its capacity as the Distribution System Operator (DSO), remains responsible only for the procurement of electricity to cover network losses, but not for the supply of electricity consumption in this area.
- A higher losses level is applied in the four northern municipalities. This additional allowance reflects the limited previous investment in loss-reduction measures in this area and the high levels of uncertainty over loss levels in past years. For 2025, ERO set the allowed loss rate at 21.5% and announced its intention to further lower this, reflecting the expected loss reductions achievable under the new contractual arrangements and with the delivery of various loss-reducing investments. For 2026, ERO has set a loss rate of 18.5% for this region.
- However, since electricity consumption in the four northern municipalities represents a relatively small share of the total consumption in the distribution system, losses from this region contribute approximately 5.4% of the total energy losses, according to the assessment of the Energy Regulatory Office.

The resulting allowed electricity distribution losses for 2026 are 842.46 GWh, representing 12.35% of energy entering the distribution network. This is down from the 14.61% actual loss rate in 2026 and from the 13.85% loss rate proposed by the DSO for 2026, reflecting ERO's



expectations of continuing improvements by the DSO on reduction of losses. A comparison is provided below (Table 4).

**Table 4. Actual and proposed electricity distribution losses**

Component	Unit	Allowed ERO 2025	Actual DSO 2025	Actual ERO 2025	Proposal DSO 2026	Proposal ERO 2026
<b>Energy Entering in Distribution System</b>						
- Total	GWh	6,318	6,578	6,536	6,601	6,587.72
<b>Level of losses in distribution</b>						
- Average	%	14.28%	14.61%	14.06%	13.85%	12.79%
<b>Distribution losses</b>						
- Total	GWh	902	961	919	915	842.46
<b>Electricity sales</b>						
- Total	GWh	5,416	5,617	5,617	5,687	5,745.26

## 2.2 Prices for purchasing energy to cover losses

The DSO is obligated to procure energy to cover electricity distribution losses at least-cost. In practice, this means the DSO first procures from the public generator, KEK, at a contracted price, for any residual generation not required to meet demand from regulated customers under the Bulk Supply Agreement between KEK and the USS (KESCO). Additional energy is procured as imports.

The assumed split of purchases from KEK and from imports is derived from the approved energy balance, adjusted for the actual data for the split in January and February 2026.

The estimated supply from KEK is deducted from the total allowed losses, with the remainder being assumed to be covered by imports. For 2026, the estimated available energy from KEK represents 36.1% of allowed losses.

Purchases from KEK are made at a regulated price of €36.0/MWh. Purchases of imports are made at market prices. In 2025, the actual volume-weighted average price of imports was €141.7/MWh. For 2026, the DSO has forecast import prices will increase slightly, to an average of €151.31€/MWh. This forecast uses prices from a range of power exchanges.

ERO has aligned the projected import prices for the DSO with those applied for USS import prices. These are derived from ERO's assessment of wholesale electricity price forecasts obtained from regional energy exchanges in Hungary, Romania, Bulgaria and Greece, to which the costs of cross-border transmission capacity are added.



The forecast data are based on prices secured by the licensee, where KEDS has used the prices from October 2025 as a reference for projecting energy prices and costs for 2026. ERO has updated this data, using the actual average import prices reported by the DSO for January and February 2025. These actual prices are below the forecasts originally provided by the DSO. For January 2026, the actual average price was €140.52/MWh compared to the DSO forecast of €173.76/MWh and, for February 2026, the actual price was €100.54/MWh compared to the DSO forecast of €146.92 /MWh.

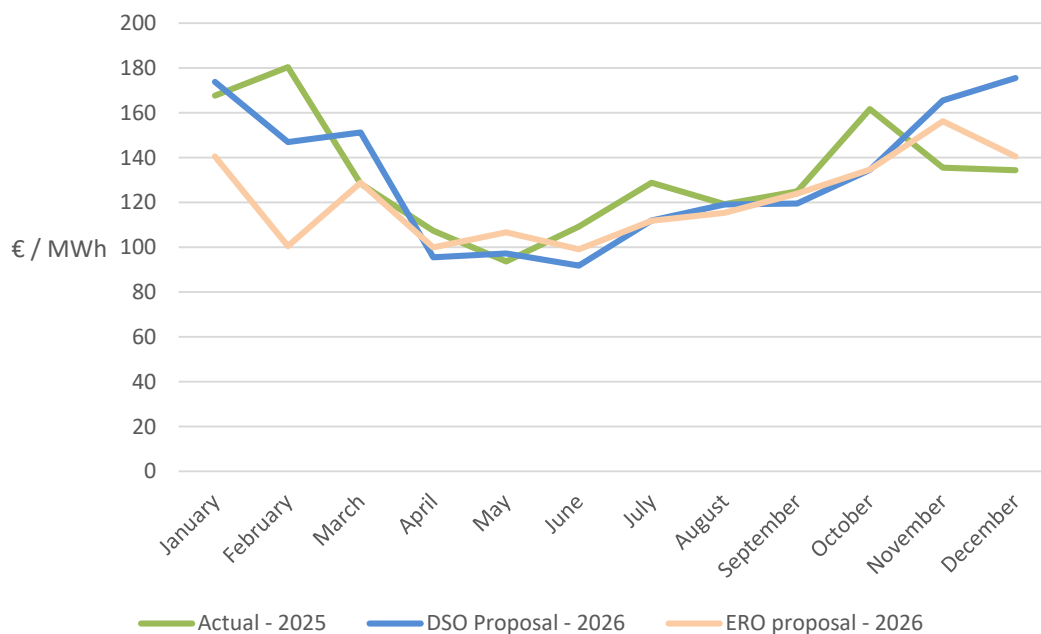
However, ERO does not expect this downward trend to continue given the ongoing Middle East conflict and resulting disruptions to global fuel markets. Therefore, in subsequent months, ERO expects prices to return to similar levels to the forward prices previously applied and to the DSO' own forecasts.

The forward price forecasts being used by ERO as a reference do not include December 2026, which is beyond the date for which forward contracts were reported. Therefore, for this month, ERO has applied the actual price seen for January 2026, based on the assumption that prices will return to similar levels during the winter of 2026/27.

The resulting average import price forecast by ERO for 2026 is €129.76/MWh, below both the 2025 actual value and the DSO's forecast for 2026. The import prices by month are shown below (Figure 3).

ERO notes that the ongoing conflict with Iran may have an impact on fuel prices and, consequently, on electricity prices in Europe. However, ERO considers that it is still too early to make adjustments to the forecasts due to this conflict, taking into account the uncertainties regarding its duration and its potential impact on fuel supply and prices. ERO will continue to monitor developments and will reassess the situation before making any final decision.

**Figure 3. Actual and forecast import prices for DSO**





### 2.3 Forecast of costs for DSO losses in 2026

A comparison of the actual and proposed costs of energy purchases to cover electricity distribution losses is provided below (Table 5). The total cost, as forecast by ERO, is €80,752 million, compared to €107,4 million proposed by the DSO.

*Table 5. Proposed costs of electricity distribution losses*

Component	Unit	Allowed	DSO proposal	ERO proposal
		2025	2026	2026
<b>Volumes</b>				
- KEK	GWh	414	269	304
- Imports	GWh	488	646	538
- Total	GWh	902	915	842
<b>Average price</b>				
- KEK	€ / MWh	36.00	36.00	36.00
- Imports	€ / MWh	145.76	151.31	129.76
- Total	€ / MWh	95.39	117.45	95.85
<b>Cost</b>				
- KEK	€ mil	14.903	9.668	10.968
- Imports	€ mil	71.136	97.743	69.783
- Total	€ mil	86.039	107.410	80.752

### 3 Other allowed revenue components

In addition to the cost items listed above, other allowed revenue components include:

- **Payments for SO and MO Services.** These are estimated based on proposed regulated revenues for the TSO/MO. The current value applied is €3.70 million
- **Licence Fees.** Currently, this component has been set to zero, as no such costs have been identified to be reflected during this period.
- **Unregulated revenues,** represent revenues that the Distribution System Operator (DSO) generates from activities that are not directly related to regulated distribution services. These revenues are used to reduce the revenues that need to be recovered through regulated tariffs and consequently contribute to lowering costs for consumers. For 2026, the Energy Regulatory Office proposes that unregulated revenues be based on the projections established in the periodic review for 2023–2027, proposing that if DSO increases its revenues above €5.41 million, only the



amount exceeding this threshold should be subject to a 25% sharing applied to the prices and services that DSO provides to third parties. Thus, if these unregulated revenues increase further, in line with the regulatory approach for sharing unregulated revenues, 75% of these revenues are used to reduce regulated revenues, while 25% are allowed to be retained by DSO as an incentive mechanism for the further development of activities that generate additional income.

- **Prior Adjustments.** These represent remaining adjustments from the previous multi-year regulatory period, which ended in 2022, and have been set at €0.09 million for each year of the regulatory period 2023–2027. In its proposal, the Distribution System Operator (DSO) also submitted several additional adjustments. However, during the review of the application, the Energy Regulatory Office determined that no supporting evidence or sufficient justification had been provided for these adjustments to warrant their inclusion in the allowed revenues. For this reason, the Energy Regulatory Office decided not to accept these adjustments at this stage of the tariff review.

#### 4 Adjustments for revenue correction factor for the realized year 2025

Annually, the DSO is compensated through the revenue correction factor ( $KREV_t$ ) for differences between its actual allowed revenues and actual revenues in the preceding year. This ensures that the DSO is not penalised for changes in costs and in revenues for factors outside of its control, while still being responsible for managing those cost components which it is deemed able to control.

The following components of allowed revenues are updated to use actual rather than allowed values in the preceding year:

- Payments made to KOSTT for the provision of system operator (SO) and market operator (MO) services. These are regulated costs and not controlled by the DSO.
- Unregulated revenues from services other than electricity distribution.
- Licence fees.

The following components of allowed revenues are not updated:

- OPEX, depreciation, and return.
- Prior period adjustments.

A hybrid approach is applied to determining the actual allowed costs of purchases to cover energy losses. These are recalculated using the actual energy distributed and the actual average purchase price of energy but also using the allowed rather than actual loss rate (expressed as a percentage). This means that the DSO is compensated where volumes



distributed (and so losses) or prices of imports are higher than expected, but not where the actual loss percentage exceeds the allowed level.

The calculation of actual allowed revenues is shown below (Table 6).

**Table 6. Actual allowed costs calculation**

Component	Unit	Allowed 2025	Actual 2025	Actual Allowed 2025
OPEX	€ mil	29.247	36.480	29.247
Depreciation	€ mil	22.629	22.629	22.629
Allowed Return	€ mil	18.616	18.616	18.616
Purchase of Energy for Losses	€ mil	86.039	101.821	99.719
Payments to KOSTT for SO and MO	€ mil	3.277	3.698	3.698
Licence Fees	€ mil	0.000	0.000	0.000
Unregulated Revenues	€ mil	(5.408)	(5.727)	(6.888)
Prior Adjustments (2022 and PRR)	€ mil	0.089	0.089	0.089
KREV 2025	€ mil	26.164	26.164	26.164
<b>Total</b>	<b>€ mil</b>	<b>180.653</b>	<b>205.013</b>	<b>193.275</b>

The difference between the cost of energy purchases for losses according to DSO (€101.821 million) and ERO (€99.719 million) results from the update of the latest data in the energy balance by ERO. In ERO's calculations, lower loss levels and changes in consumption have been reflected, and the loss target has been applied in accordance with the decision of the ERO Board.

The procurement of energy for losses applies a loss rate of 14.06% (as allowed for 2025) to the actual volumes of distributed energy, using the current average purchase prices.

The difference between the actual allowed costs and the actual revenues, representing the difference between what the Distribution System Operator (DSO) was allowed to recover in 2025 and what it actually recovered during that year, is added to the allowed revenues for 2026. This difference therefore represents the difference between the revenues that the DSO was permitted to collect for 2025 and the revenues it actually collected during that year. This amount is included as an adjustment to the allowed revenues for 2026.

For the revenue adjustment related to 2025, the Energy Regulatory Office applied a EURIBOR rate of 2.22%, while the S factor, determined in the periodic regulatory reviews, is 5.74%. As a result, the total rate applied for the cost of financing is 7.96%. The corresponding revenue



adjustment, known as the Revenue Correction Factor (KREVt), is presented in the table below (Table 7).

The following Table 7, presents the comparison between the calculations of the DSO and the assessment made by the Energy Regulatory Office regarding this revenue adjustment. According to the DSO's calculations, the actual allowed costs for 2025 amount to €203.771 million, whereas after reviewing the application and applying the regulatory assumptions, the Energy Regulatory Office assessed these costs at €193.275 million. Given that the actual revenues for 2025 remain €165.388 million, this results in a difference of €41.857 million according to the DSO's calculations, while according to the assessment of the Energy Regulatory Office this difference amounts to €30.108 million.

These differences reflect ERO's regulatory approach to ensure that allowed revenues are aligned with reasonable and justified costs, while at the same time protecting the interests of consumers and maintaining the financial stability of the operator.

**Table 7. Revenue correction factor calculation for year 2025**

Component	Unit	Calculation DSO	Calculation ERO
Actual Allowed Costs (2025)	€ mil	203.771	193.275
Actual Revenues (2025)	€ mil	165.388	165.388
Difference	€ mil	38.383	27.887
Inflation Factor (EURIBOR + S)	%	9.05%	7.96%
Revenues Adjustment Factor (KREV)	€ mil	41.857	30.108

## 5 Proposal for DSO Maximum Allowed Revenues

The MAR for the DSO for the current year is calculated as per formula below:

$$MAR_t = OPM_{Ct} + DEP_{Ct} + RTN_{Ct} + LSS_{Ct} + LIC_{Ct} - NTFR_t + ADJ_t + KREV_t, \quad \text{where}$$

MAR<sub>t</sub> Are allowed revenues in year t

OPM<sub>Ct</sub> Are allowed Operational and Maintenance costs for relevant year t

DEP<sub>Ct</sub> Allowed Depreciation in relevant year t

RTN<sub>Ct</sub> Allowed return of capital in relevant year t

LSS<sub>Ct</sub> Allowed cost for losses in relevant year t

LIC<sub>Ct</sub> Kost for licence in relevant year t

ADJ<sub>t</sub> Adjustment of costs

KREV<sub>t</sub> Adjustment factor of revenues for relevant year t

The total proposed Maximum Allowed Revenues for the DSO for 2026 is €184.746 million. This is €50.639 million or 27.4% lower than the DSO's proposal, and slightly increased from 2025



allowed values. As described above (Section 4), the DSO bears the risk that operating costs and loss rates exceed the allowed level, but is protected against differences between actual and allowed costs from factors outside its control, including the costs of imports for energy losses.

The main differences between the DSO's proposal and the assessment of the Energy Regulatory Office are reflected in several cost components. The largest difference relates to the cost of purchasing energy to cover losses, where the Energy Regulatory Office has proposed €80.752 million, compared to €107.410 million proposed by the DSO, reflecting the revision of energy prices and volumes in line with the updated energy balance. In addition, ERO has reviewed operating costs (OPEX), proposing €32.75 million compared to €39.39 million requested by DSO, and has also made adjustments to the allowed return and depreciation in accordance with regulatory parameters. A significant impact is also observed in the KREV component, where ERO has proposed €30.11 million, compared to €41.86 million proposed by DSO, reflecting the assessment of differences between allowed and realized revenues. The cost component "Other Adjustments" amounting to €0.38 million, proposed by DSO as part of OPEX, has not been taken into account by ERO, as it was not considered a reasonable and justified cost for tariff purposes.

As a result of these revisions, the maximum allowed revenues for 2026 according to ERO amount to €184.75 million, compared to €235.38 million proposed by DSO. This assessment aims to ensure that allowed revenues are based on justified and reasonable costs, while balancing the need for the operator's financial sustainability with the protection of consumer interests.



**Table 8. Proposed Maximum Allowed Revenues for DSO for year 2026**

Component	Unit	Allowed	Actual	Actual
		2025	2026	Allowed 2026
OPEX	€ mil	29.247	39.391	32.752
Depreciation	€ mil	22.629	24.614	23.396
Allowed Return	€ mil	18.616	20.083	19.424
Purchase of Energy for Losses	€ mil	86.039	107.410	80.752
Payments to KOSTT for SO and MO	€ mil	3.277	4.263	3.633
Licence Fees	€ mil	0.000	0.000	0.000
Unregulated Revenues	€ mil	(5.408)	(2.704)	(5.408)
Prior Adjustments (2022 and PRR)	€ mil	0.089	0.089	0.089
Other adjustments	€ mil	0.000	0.380	0.000
$KREV = (AACat -1 - ARRt-1) * (1+It)$	€ mil	26.164	41.857	30.108
<b>Total</b>	<b>€ mil</b>	<b>180.653</b>	<b>235.384</b>	<b>184.746</b>