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 Universal Service Supplier

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 in the process of Regular Annual Adjustments of the Maximum Allowed Revenues (MAR) to be recovered by regulated enterprises. In this process, ERO will make an initial proposal for the updated MAR for the Transmission System and Market Operator (TSO/MO, KOSTT), the Distribution System Operator (DSO, KEDS) and will determine the revenues of the Universal Service Supplier (KESCO, USS). This initial evaluation is based on the proposals submitted by the regulated companies, as well as the decisions on the Maximum Allowed Revenues for the regulatory period MYT 2023-2027 for the TSO/MO, DSO and the decisions on the Input Values for the USS for the regulatory period 2025-2027.

In the Regular Annual Adjustments for year 2026, 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

Annual Regular Adjustments constitute an essential regulatory mechanism that enables the alignment of allowed revenues with the differences between forecasted and actual values of cost components that are beyond the reasonable control of regulated enterprises.

Such cost components include, to a significant extent, factors outside the control of regulated operators, including but not limited to the inflation rate, wholesale power purchase costs, and the volume of energy supplied. These elements must be reviewed and adjusted on an annual basis to ensure that regulated entities neither realize undue profits nor incur losses arising from circumstances beyond their control.

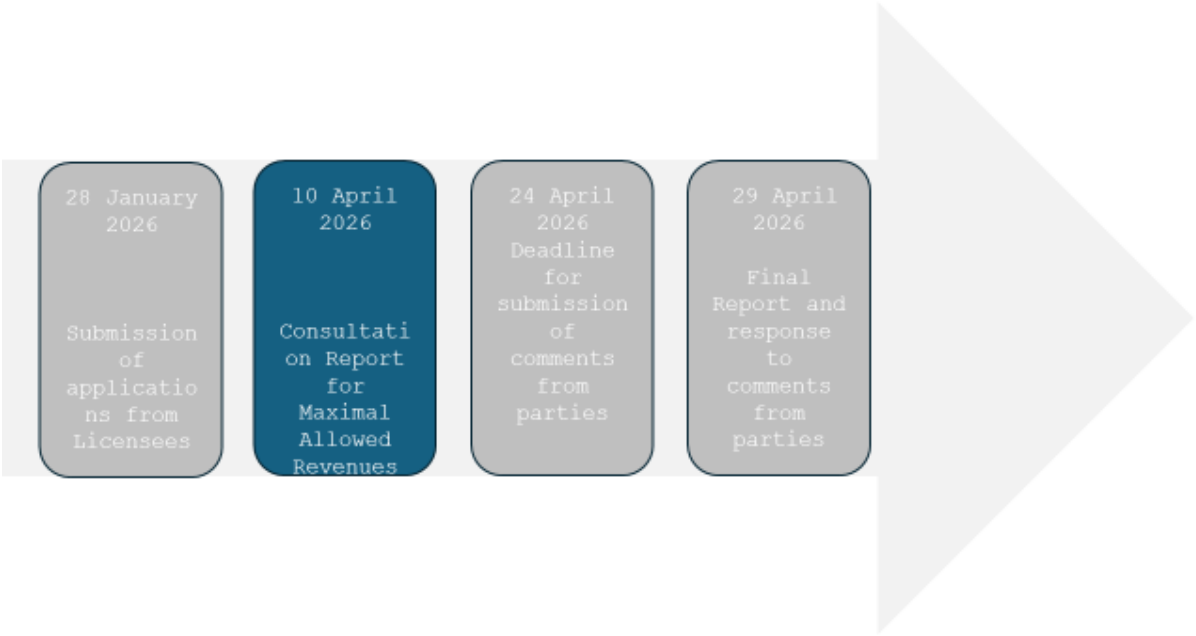
In assessing wholesale power purchase costs, the Energy Regulatory Office (ERO) has taken into account the direct costs incurred by the Universal Service Supplier in relation to purchased energy from domestic generators (KEK) under contractual arrangements, renewable energy sources (RES) under the applicable Support Scheme Rule, as well as the costs associated with energy procured from import purchases.

The purpose of this Consultation Report

This Consultation Report presents ERO's initial proposals for the Maximum Allowed Revenues of the USS for the upcoming tariff year. The report aims to gather stakeholders' comments on ERO's

proposals which will be taken into account for the final tariff decision. The process and indicative schedule for Regular Adjustments is set out in Figure 1, below.

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



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, with which they may disagree, and to comment on them by correcting factual errors, offering counter-arguments or providing new data that ERO may not have considered.

This Consultation Report does not constitute a final decision. Following the consultation period, the Energy Regulatory Office (ERO) will review all proposals received and may revise its proposals where justified by the evidence provided. The final decision on the Maximum Allowed Revenues (MAR) will be approved by the Board of the Energy Regulatory Office and will be published together with a summary of stakeholders' comments and the responses of ERO.

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 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), 2nd floor
Pristina, 10000, Kosovo

Relevant documents

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

Rule on Determination of Revenues of Universal Service Supplier	https://ero-ks.org/2017/Rregullat/USS%20Pricing%20Rule.pdf
ERO's Decision on USS Input Values	https://www.ero-ks.org/zrre/sites/default/files/Publikimet/Vendimet/Vendimet%202025/V_2637_2025-Input%20Values%20and%20Operational%20Expenses%202025-2027_%20FSHU%20Fin.pdf
The application of USS for 2026	https://www.ero-ks.org/zrre/sites/default/files/Publikimet/Pjesemarresit%20ne%20Treg/OSSH/Application%20for%20the%20maximum%20allowed%20revenues%20of%20USS%20for%20the%20year%202026.pdf
Consultation Report on DSO Maximum Allowed Revenues	Consultation Report - DSO MAR .pdf
Consultation Report on TSO Maximum Allowed Revenues	Consultation Report - TSO-MO MAR .pdf

The structure of this Consultation Report

This document is structured as follows:

- Chapter 1 determines the allowed retail costs for 2026;
- Chapter 2 determines the wholesale energy purchase costs for 2026;
- Chapter 3 calculates the adjustment between allowed and realized revenues from 2025;
- Chapter 4 determines the USS MAR for the current relevant year 2026 ;
- Chapter 5 explains the development of deregulation process, of customers who are not eligible for Universal Service Supply (USS);

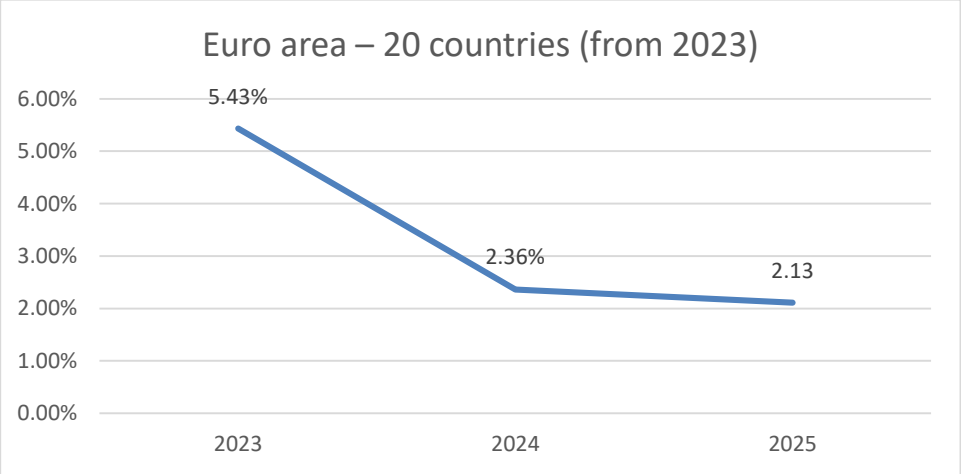
1 Allowed Retail Costs, Pass-through Costs, Working Capital and Bad Debt

Allowed retail costs comprise the costs associated with the supply of regulated customers, including permitted operation and maintenance (O&M) expenses, corporate overheads, depreciation, and other cost items that are demonstrably beyond the control of the Universal Service Supplier (USS).

The ERO has proposed a retail cost allowance for 2026 in the amount of €8.354 million. This amount comprises controllable OPEX adjusted by the applicable efficiency factor, inflation indexation, depreciation (including inflation adjustment), corporate costs, the ALPEX fee, and additional costs related to invoice envelopes in the amount of €0.45 million, reflecting the USS's legal obligation to issue invoices in physical envelopes.

The proposed depreciation costs in the amount of 0.137 for 2026 have been derived using the allowed depreciation for 2025 as the baseline, indexed by the applicable inflation rate of 2.13%[1].

Figure 2. *Harmonized Index of Consumer Prices HICP*



Other components of retail costs namely the retail margin, bad debt allowance, and working capital, are calculated in accordance with the methodologies and formulas prescribed in the Rule on USS Revenues.

Pass-through costs of the USS represent cost elements determined on the basis of the approved Maximum Allowed Revenues (MARs) of other regulated entities and subsequently incorporated into the calculation of the USS Maximum Allowed Revenues solely for the regulated customer segment. These include, inter alia, pass-through charges from KOSTT and KEDS, contributions to the Renewable Energy Sources (RES) Fund, and any other costs demonstrably outside the control of the USS.

From Table 1 below, it can be observed that ERO has reduced operating costs (OPEX) from €10.29 million to €8.19 million, reflecting its assessment of cost efficiency and reasonableness. However, the largest differences are observed in pass-through costs, particularly for DSO (KEDS), where costs have been reduced from €180.31 million to €157.47 million, as a result of the revision of energy prices, losses, and the energy balance.

[1] Eurostat, https://ec.europa.eu/eurostat/databrowser/view/prc_hicp_aind/default/table?lang=en

Similarly, the RES support fund has been significantly reduced from €15.51 million to €8.08 million, while KOSTT costs remain almost unchanged.

The details of these costs are presented in the following table:

Table 1. *Retail Costs, Working Capital, Bad Debt and Pass-through Costs of USS*

USS	Unit	USS Proposal 2026	ERO Proposal 2026
Operating Expenses	mil€	10.29	8.19
Depreciation Expenses	mil€	0.14	0.14
Working Capital Costs	mil€	2.61	2.69
Bad Debt Costs	mil€	8.50	7.32
Licensing Costs	mil€	0.71	0.03
TSO/MO Pass-through Costs	mil€	32.12	32.36
DSO Pass-through Costs	mil€	180.31	157.47
Retail Margin	mil€	5.33	4.41
Pass-through costs – RES Fund	mil€	15.51	8.08

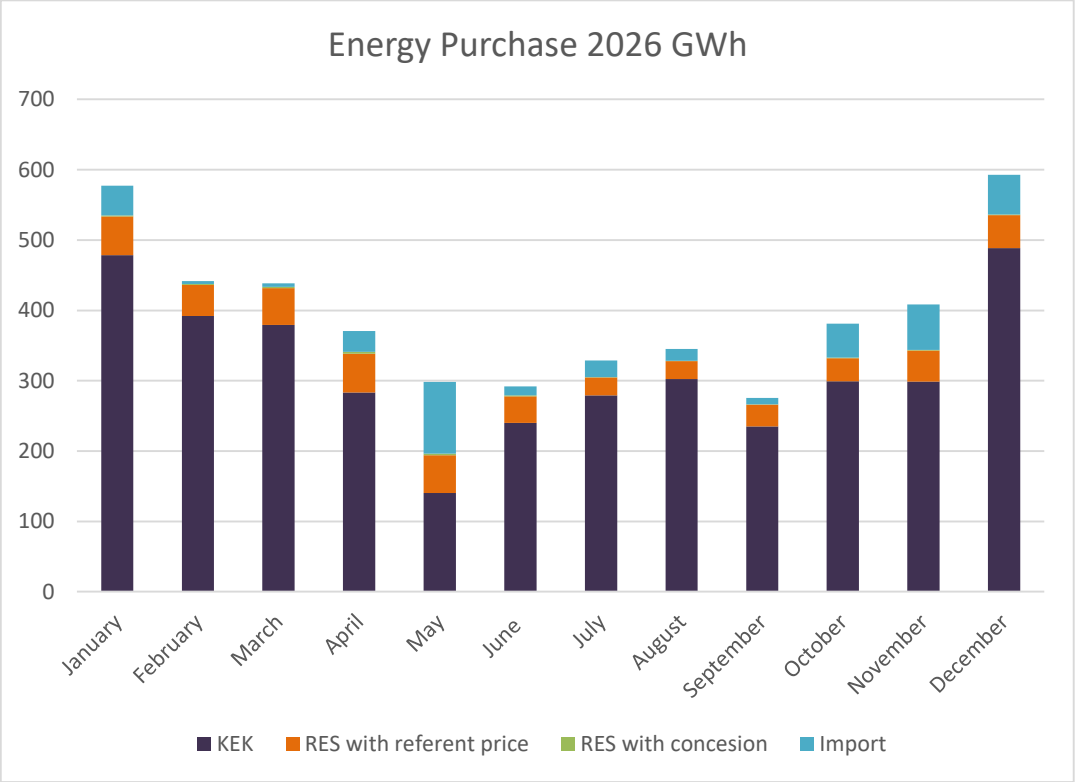
2 Allowed Wholesale Purchase Costs (WHPC) for 2026

In order to evaluate the costs related to the purchase of wholesale energy for USS customers, ERO has analysed the data reported by USS for the forecasted consumption of 2026, the evaluation of the effect of customer deregulation, and the balance forecast data for 2026. ERO understands that there may be additional changes in the profile and amounts of purchases by USS as a result of the deregulation process liberalisation of electricity market, because the number of additional customers may move from the category of customers with regulated prices to that of customers with unregulated prices.

ERO has compiled a forecast of the profile of energy purchases by the USS for 2026 based on the Energy Balance and the USS demand, which is a key part of understanding the demand for energy and how to supply the required energy. This profile is also divided into two main categories: "peak" (maximum consumption) and "base load" (basic consumption), which helps in determining the amount of energy that should be purchased during different months of the year.

Based on ERO's analysis, the profile of energy purchases by the USS is presented in the Figure 3, below.

Figure 3. *Forecast of USS purchasing profile in 2026*



The realization of the supply forecast largely depends on the performance of domestic power plants. In recent years, maintaining stable generation has been challenging and influenced by a number of operational and investment-related issues, which may continue to affect performance in the coming periods. The challenges related to the generation of these power plants are described in section below.

2.1 Operational Challenges of TPP Kosova A and Kosova B

During the year 2025, the generation units at Kosovo A and Kosovo B experienced relatively frequent outages. It is important to emphasize that Unit B2 of TPP Kosova B was for 147 days in capital rehabilitation. This pattern largely reflects a combination of structural, technical, and operational characteristics associated with an aging thermal generation fleet and the historical pace of investment and maintenance. The reduced availability of these units limited domestic generation output and, as a consequence, increased reliance on electricity imports, often procured under less favourable market conditions.

The TPP Kosovo A and Kosovo B are among the oldest lignite-fired power plants in Europe, with several units operating beyond their original design life. The advanced age of the assets naturally leads to gradual declines in technical performance and efficiency, together with a higher probability of forced outages. Key components including boilers, turbines, and auxiliary system, are increasingly exposed to material fatigue and wear. Under such circumstances, even with routine maintenance, the units are more susceptible to unplanned shutdowns and capacity deratings.

In addition, the scope and timing of rehabilitation programs over the years have not always fully matched the scale of technical needs typical for plants of this vintage. While certain rehabilitation measures have been undertaken, some activities have faced delays linked to financing constraints, procurement processes, needs for domestic production and implementation challenges. As a result, maintenance practices have, at times, been more corrective than preventive in nature, which can contribute to a higher likelihood of unexpected failures.

Operational factors have also influenced unit availability. Kosovo A and Kosovo B have periodically been required to operate under flexible regimes to support system balancing and demand variability. Increased ramping and cycling can place additional stress on thermal units, particularly older equipment, thereby accelerating component degradation and increasing the probability of outages.

The combined effect of these elements during the year was a reduction in available domestic generation from Kosovo A and Kosovo B. It should be noted that last year, the Kosova B Thermal Power Plant was under repair for a duration of 147 days. The lack of domestic generation was mainly covered through increased imports. This, together with higher demand and lower renewable energy production, contributed to the increase in system costs in 2025.

Consequently, the observed tariff pressures are closely linked to broader structural and operational conditions within the domestic generation portfolio. This situation underscores the importance of continued investment in maintenance and rehabilitation, alongside longer-term strategic planning, to strengthen generation reliability and gradually reduce exposure to import price volatility.

The deferred rehabilitation and overhaul activities are scheduled to be implemented during 2026. In this context, Unit B1 of TPP Kosovo B is planned to undergo a comprehensive general rehabilitation with an expected duration of approximately eight months, while Unit B2 is scheduled for a shorter outage of around one month. At TPP Kosova A, Units A3, A4, and A5 are expected to undergo their regular revision and rehabilitation cycles and will be placed in reserve mode for defined periods: A3 for approximately 84 days, A4 for 80 days, and A5 for 116 days.

These planned outages represent necessary technical interventions aimed at improving the medium- to long-term reliability and performance of the generation fleet. However, during the implementation period they will significantly reduce the availability of domestic baseload capacity. As a result, the power system is expected to rely more heavily on electricity imports to ensure security of supply and continuity of service.

Consequently, an increase in import volumes during 2026 is anticipated, which may exert upward pressure on the cost of energy procured for Universal Supply Service (USS) customers, particularly if imports occur during periods of elevated regional market prices. While this may translate into higher short-term cost exposure, the planned rehabilitations are expected to contribute positively to unit reliability and operational efficiency in subsequent periods, thereby supporting improved system performance over the longer term.

The planned rehabilitation and revision activities are expected to contribute to a meaningful reduction in the frequency and duration of unplanned outages. By addressing key technical constraints and restoring the condition of critical components, these interventions should enhance the operational

stability of the units and improve their overall availability. Additionally, the planned rehabilitation and overhaul activities are expected to contribute to a significant reduction in the frequency and duration of unplanned outages, increase the operational stability of the units, and improve their overall availability.

2.2 Wholesale forecast prices and costs for 2026

To supply the energy volumes in accordance with the 2026 draft Energy Balance and to determine the projected prices, the Energy Regulatory Office (ERO) has analyzed the price forecasts submitted by KESCO, together with the prevailing price trends in electricity markets.

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

The forecast data are based on prices provided by the licensee, where KESCO used October 2025 prices as a reference for projecting energy prices and costs for 2026. ERO has updated these data using the actual average import prices reported by the USS for January and February 2026. These actual prices are lower than the forecasts initially provided by the USS. For January 2026, the actual average price was €153.95/MWh compared to the USS's forecast of €177.92/MWh, while for February 2026 the actual price was €109.93/MWh compared to the USS forecast of €160.93/MWh.

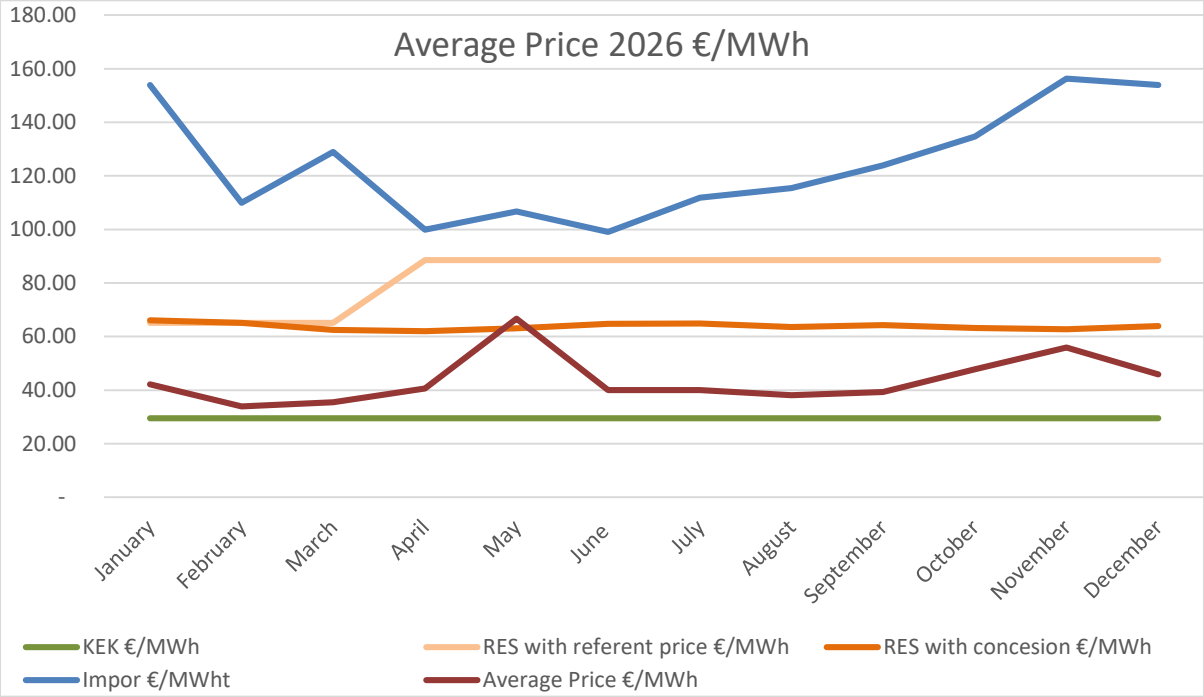
However, ERO does not expect this downward trend to continue, considering the ongoing conflict in the Middle East and the disruptions it causes in global fuel markets. Therefore, in the upcoming months, ERO expects prices to return to levels similar to the previously used forecast prices and to the USS projections.

The price forecasts used by ERO as a reference do not include December 2026, as this month is beyond the period for which forecast prices were reported. For this month, ERO applied the actual price observed in January 2026, based on the assumption that prices will return to similar levels during the winter of 2026/27.

As a result, the volume-weighted average import price for 2026 is €129.76/MWh, below the actual realized value for 2025 of €146.22/MWh and the USS's forecast for 2026, as shown in Figure 4 below.

ERO notes with concern that the ongoing conflict with Iran may impact fuel prices, and consequently electricity prices in Europe. Nevertheless, ERO considers it premature to make adjustments to forecasts due to this conflict, given the uncertainties regarding its duration and potential effects on fuel supply and prices. ERO will continue to monitor developments and will reassess the situation before making any final decisions.

Figure 4. *Forecast of the average price of wholesale energy purchases for USS*



Taking into account seasonal demand patterns and potential price variability, this forecast provides the USS with a structured basis for planning energy procurement and anticipating the costs to be recovered during 2026. Following the determination of the required supply volumes necessary to meet the demand of USS customers, the corresponding wholesale energy purchase costs are calculated.

Pursuant to the Rule on USS Revenues, the Universal Service Supplier is required to procure electricity in a transparent, competitive, and efficient manner. In this context, the USS must demonstrate that the forecast procurement prices are reasonable and reflect prudent market-based assumptions.

Accordingly, the allowed wholesale purchase costs (WHPCt) shall be calculated in accordance with 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 import energy 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*

During 2026, the units of the Kosovo A and Kosovo B Thermal Power Plants will undergo extended outages due to major capital overhauls. Considering the age of these units and the need for investments, the capital refurbishments are essential to ensure safer and more reliable operation, increase generation capacity, and reduce environmental pollution in the years ahead.

These prolonged outages of the generating units imply that, during 2026, additional electricity imports will be required, which will increase wholesale electricity supply costs in 2026 compared to subsequent years. As a result of these capital refurbishments, the need for electricity imports is expected to decline in the following years.

Due to the reduced domestic generation resulting from capital investments in recent years, electricity supply is expected to rely significantly on imports, thereby increasing pressure on supply costs. Consequently, this situation would contribute to higher electricity tariffs for final consumers in the current year.

In order to maintain security of supply and avoid tariff increases for this tariff year arising from reduced domestic generation and increased imports, the Energy Regulatory Office (ERO), in accordance with the legal and regulatory framework, has proposed a profiling (cost-smoothing) mechanism to allocate these costs over two years. Under this mechanism, ERO proposes that approximately €34 million of purchase costs from KEK be distributed across 2026 and 2027. This approach does not represent a real reduction in costs, but rather a temporal allocation of these costs over a two-year period.

In this context, profiling these costs aims to mitigate the immediate tariff impact, contributing to affordability for consumers while ensuring continuity of supply, and without affecting the financial sustainability of energy enterprises. Without this profiling, there would be a significant increase in costs in 2026 followed by a potential decrease in 2027; therefore, ERO has proposed this cost-profiling approach.

Regarding this proposal, ERO initiated consultations with the affected energy enterprises, KEK and the Universal Service Supplier (KESCO), to obtain their positions. During the consultation, the relevant parties agreed with ERO's proposal to profile these costs over two years, with the objective that the final beneficiaries would be end consumers.

This cost allocation mechanism will be treated in the same manner as other adjustments for differences between forecasted and actual wholesale energy purchase costs, which are recovered through the revenue correction mechanism (KREV). This also includes compensation for additional financing costs that licensees may incur to cover the gap between actual costs and revenues during this year.

Table 2 presents the forecast of energy purchases for 2026 for the USS and ERO's proposal. The data analysis reveals several significant differences between the USS' submission and ERO's assessment, which directly impact the level of supply costs.
In particular, the main difference is observed in the import component, where ERO used a lower average price (€129.76/MWh) compared to the USS' submission (€157.84/MWh), as well as a slightly lower import volume updated according to the latest energy balance.
Differences are also noted in the treatment of energy from RES under the Support Scheme, where ERO applied a higher reference price (€78.93/MWh) in line with the updated methodology for 2026, reflecting the system's actual costs.

As a result of these changes, the total wholesale costs according to ERO amount to €177.81 million, lower than the USS' submission of €229.04 million, creating a difference of -€51.24 million. This difference mainly arises from the optimization of import prices and the revision of several key calculation parameters.

The amount of €177.81 million presented in the table represents the cost of supply for 2026 after the application of the cost profiling mechanism. Through this mechanism, approximately €34 million has not been recognized in this year but has been deferred to future tariff periods.

In real terms, the cost of supply for 2026 amounts to around €212.58 million, based on the energy volume by source, including a margin of 2.54%. The difference of approximately €34 million does not represent a reduction in costs, but rather a deferral in the recognition of electricity purchase costs from KEK J.S.C. to a future tariff period.

This treatment aims to mitigate the immediate impact on tariffs, while the deferred cost will be recovered in the following years.

Overall, ERO considers that the proposed cost structure reflects current market conditions and ensures a more efficient and reasonable cost level for consumers, while respecting the principles of transparency, competition, and efficiency.

Table 2. *Forecast of energy purchase 2026*

Purchase of Energy for USS 2026	USS GWh	USS €/MWh	USS mil€	ERO GWh	ERO €/MWh	ERO mil€
Purchase from KEK	3,733.96	29.50	110.15	2,645.53	29.50	78.04
Purchase from RES in support scheme	495.26	65.12	32.25	501.85	78.93	39.61
ALPEX trading fee	-	-	0.05	-	-	0.03
Purchase from RES with concesion koncesioni	13.44	63.24	0.85	13.94	63.44	0.89
Importi	422.04	157.84	66.62	408.85	129.76	53.05
Imbalances for 2026	-	-	-	-	-	1.81
Total Purchased Energy	4,664.70	0.05	209.92	3,570.17	48.57	173.40
Retail Margin 2.54%			2.54%			2.54%
Value of Ratail Margin for USS			5.33			4.40
Additional Obligations for KEK			13.79			
Tatal Whalesale Costs			**229.04**			**177.81**
Difference of Wholesale Costs						**-51.24**

It is important to emphasize that in line with the Rule on USS Revenues, namely Article 17 and Appendix 3, USS is obliged to provide electricity in a transparent, competitive and efficient manner. Consequently, USS shall demonstrate that the energy purchase prices are reasonable and in line with the requirements of Article 17 of the Rule on USS Revenues.

2.3 Adjustment of HPP Concession Costs for the Year 2026

Following the Regular Annual Adjustment for 2024, the Energy Regulatory Office (ERO) reviewed the historical differences between the purchase prices applied under concession agreements for hydropower plants (HPPs) and the prices indexed by the HICP. Since these generators operate under concession agreements (rather than feed-in tariffs), in some years the applied prices were higher than

the reference values adjusted for inflation. As a result, an over-recovery of allowed revenues in the amount of €453,843 was identified.

In order to avoid a significant tariff impact in a single year, this amount is being deducted from the allowed revenues over a three-year period (2024–2026). The deduction process started in 2024, continued in 2025, and the remaining portion, amounting to –€0.15 million, is reflected in the calculation of the Maximum Allowed Revenue (MAR) for 2026. This adjustment ensures the proper alignment of allowed revenues with the efficiently incurred and justified costs, in accordance with the applicable regulatory framework.

3 Adjustments for the Allowed Revenues Realized in 2025

In line with the Rule on Maximum Allowed Revenues, the revenue correction for 2025 has been carried out. The principle applied is based on the overall evaluation of the allowed costs and the actual revenues realized for those categories of expenses that directly depend on the level of supply. These calculations were carried out using the following formula:

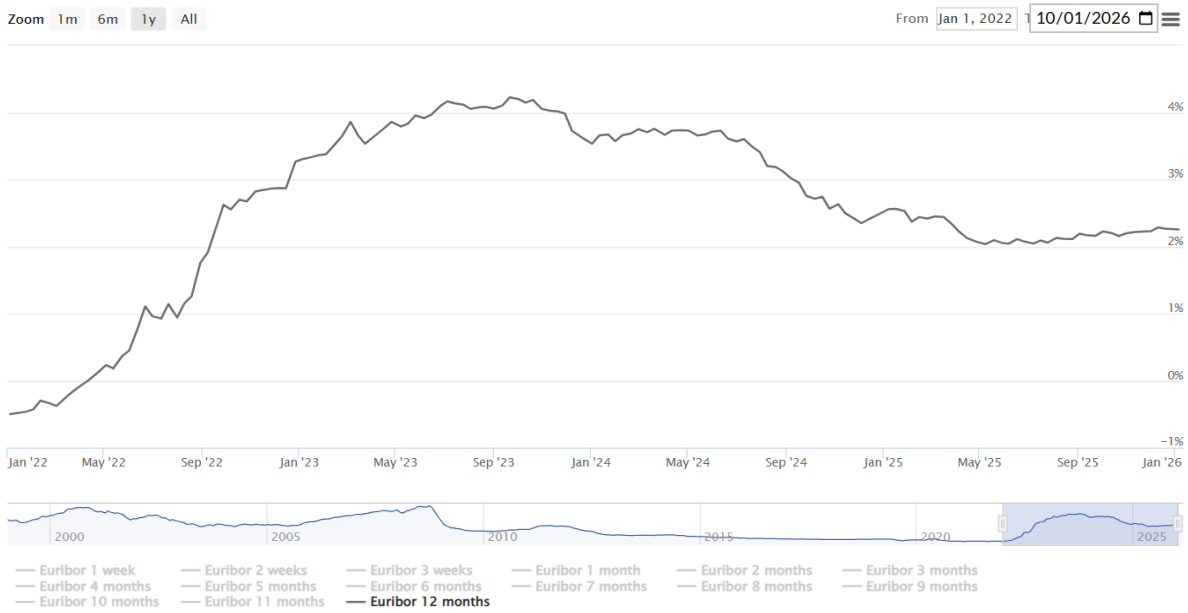
$$KREV_t = (AAC_{at-1} – ARR_{t-1}) * (1+ I_t)$$

Where:

AAC_{at-1}	*Actual Allowed Cost as determined in relevant year t-1*
ARR_{t-1}	*Actual Regulated Revenues in relevant year t-1*
I_t	*Interest rate for relevant year t, which is calculated based on EURIBOR plus S%, where S presents the value determined by ERO during periodic reviews which reflects the premium payable by the licensee for short-term loans.*

The EURIBOR rate of 2.22% for 2025 is the interest rate that reflects the cost of short-term loans that banks apply for a period of one year. This rate is EURIBOR plus the S factor which represents the value determined by ERO during annual adjustments that reflects the premium payable by the licensee for loans which serves as a basis for calculating the “It-interest rate” that they pay for loans taken to finance their investments or operations.

Figure 5. *Annual average of 12-month EURIBOR*[2].



From the analysis of the Table 3, it can be observed that the OPEX allowed by ERO for 2025, amounting to €6.22 million, is lower compared to the actual OPEX reported by the USS. This difference is mainly related to the fact that ERO has deducted from the realized costs an amount of approximately €0.45 million, which was initially allowed for envelope-related costs but was not actually incurred by the USS during 2025. As a result, ERO has reflected only the actual and justified costs in the allowed OPEX, excluding this unimplemented cost item from the recognized costs for tariff purposes.

Table 3. *Allowed costs and actual allowed costs for 2025*

Allowed MAR for USS 2025	Unit	Allowed by ERO 2025	KESCO (USS) Actual 2025	ERO Actual 2025
OPEX	€m	6.71	8.10	6.22
Depreciation	€m	0.13	0.13	0.13
TSO Pass-through Costs	€m	33.43	30.61	30.61
DSO Pass-through Costs	€m	141.20	147.25	147.25
RES Fund Pass-through Costs	€m	13.76	14.82	14.82
Working Capital	€m	2.22	2.54	2.53
Wholesale Power Purchase Costs	€m	193.03	240.03	240.03
Allowed tax	€m	0.02	0.03	0.02
Bad debt	€m	8.03	9.07	9.04
Other Adjustments – HPP cost		-015	-0.15	-0.15
Adjustments (2023)		37.38	37.38	37.53
Maximum Allowed Revenues	€m	435.93	489.95	488.03

[2] EURIBOR rates.eu, https://www.euribor-rates.eu/en/euribor-charts/

Based on the data reported by the USS, ERO's analysis shows that the actual costs of electricity supply, including the pass-through costs of DSO, for 2025 are higher than the forecasted allowed costs. In particular, the largest difference is observed in the category of energy purchases for supply, where actual costs are approximately €46.99 million higher than the allowed costs. These costs include energy purchases from domestic generation, imbalance costs, and electricity imports. This difference has also resulted from the increase in electricity consumption in 2025 by around 7.4%, which was mainly covered through electricity imports in the market.

The Revenue Adjustment Factor (KREV) will be used to update the values of the Maximum Allowed Revenues for 2026, reflecting the changes in actual allowed costs compared to the realized revenues for 2025.

The Table 4 below presents the calculation of the Revenue Adjustment Factor (KREV), which according to the assessment of the Energy Regulatory Office (ERO) amounts to €48.30 million. This factor is used to update the Maximum Allowed Revenues (MAR) for 2026, reflecting the difference between the actual allowed costs and the revenues realized during 2025.

According to the calculations, KESCO has proposed Revenue Adjustment Factor on value of €49.69 million, while ERO has determined a value of €48.30 million. The difference results from the lower level of actual allowed costs recognized by ERO and the interest rate used in the calculation.

Table 4 *Calculation of Revenues Correction Factor*

Calculation of Revenue Adjustment Factor (ADJt)	KESCO Proposal 2025	ERO Proposal 2025
AACt-1 Actual allowed costs for relevant year t-1	489.95	488.03
ARRt-1 Revenues realized in relevant year t-1	443.47	443.47
It = 2.22% + 6.17%	6.91%	8.39%
KREV = (AACat-1 -ARRt-1)*(1+It) – Revenues Adjustment Factor	49.69	48.30

3.1 Adjustments for the energy purchase cost in 2025

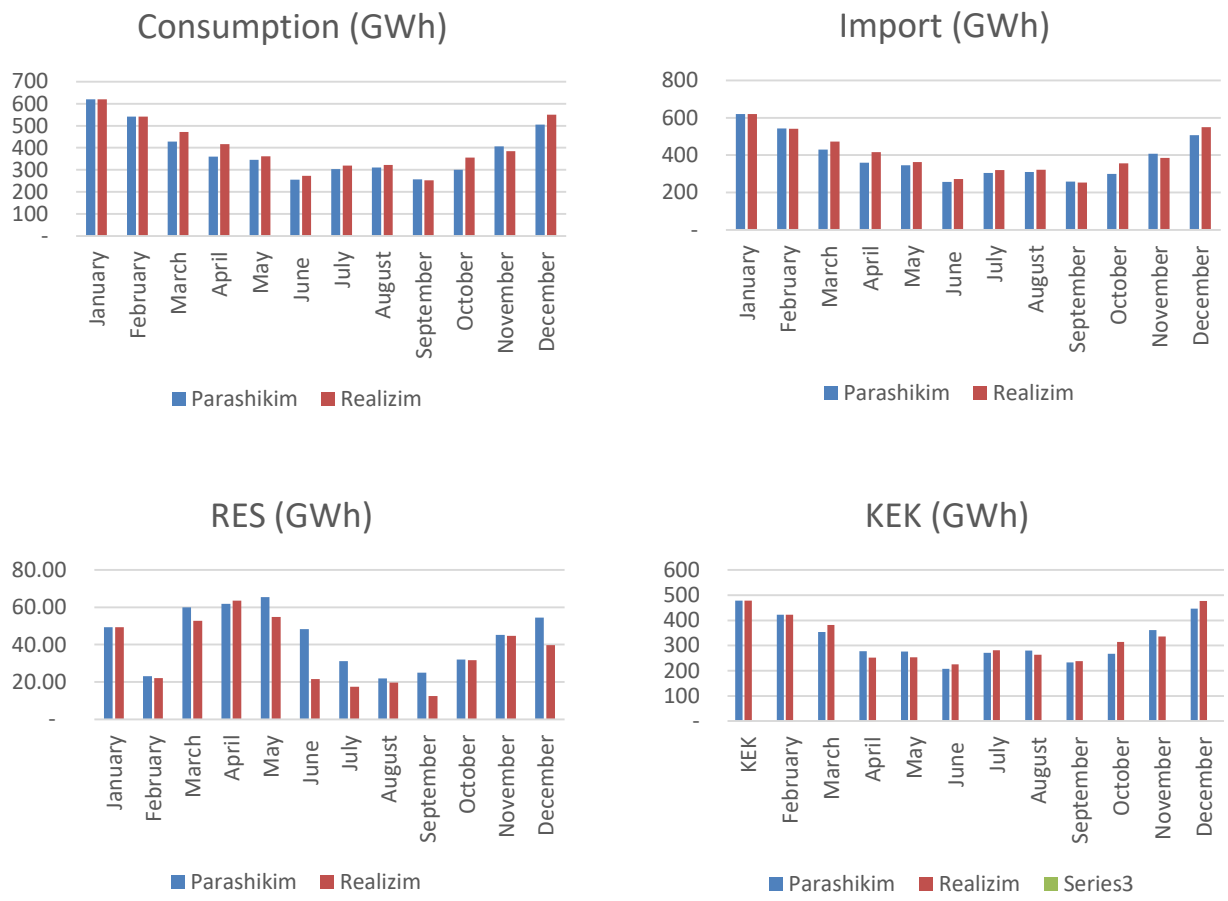
The main adjustment for 2025 is related to the adjustments for allowed power purchase costs.

The increase in the power purchase cost is a result of main causes:

- Increased consumption (351 GWh higher than allowed) and import levels (270 GWh higher than allowed) from USS, and low production from RES (88 GWh lower than forecasted)

Due to increased consumption and the failure to achieve the forecast production from RES, the USS has been compelled to import more electricity than predicted in 2025. This is shown in the Figure 6, below.

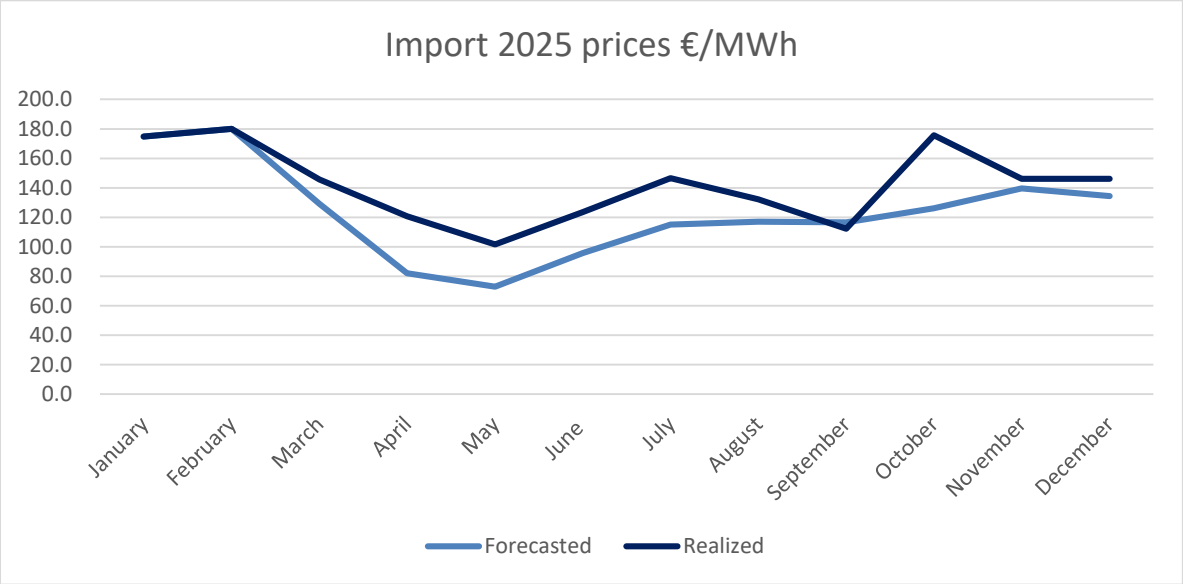
Figure 6. *Forecast and realization of electricity purchases 2025*



- Increased electricity prices compared to forecasts and increase in cross-border capacity costs

  During 2025, there was an increase in prices on European power exchanges, compared to forecasts for price stabilization. Moreover, because most countries in the region are net importers, cross-border networks have often been overloaded. This has led to an increase in prices for the use of cross-border lines for import. The difference between the forecast import prices and the realized prices during 2025 is presented in Figure 7, below.

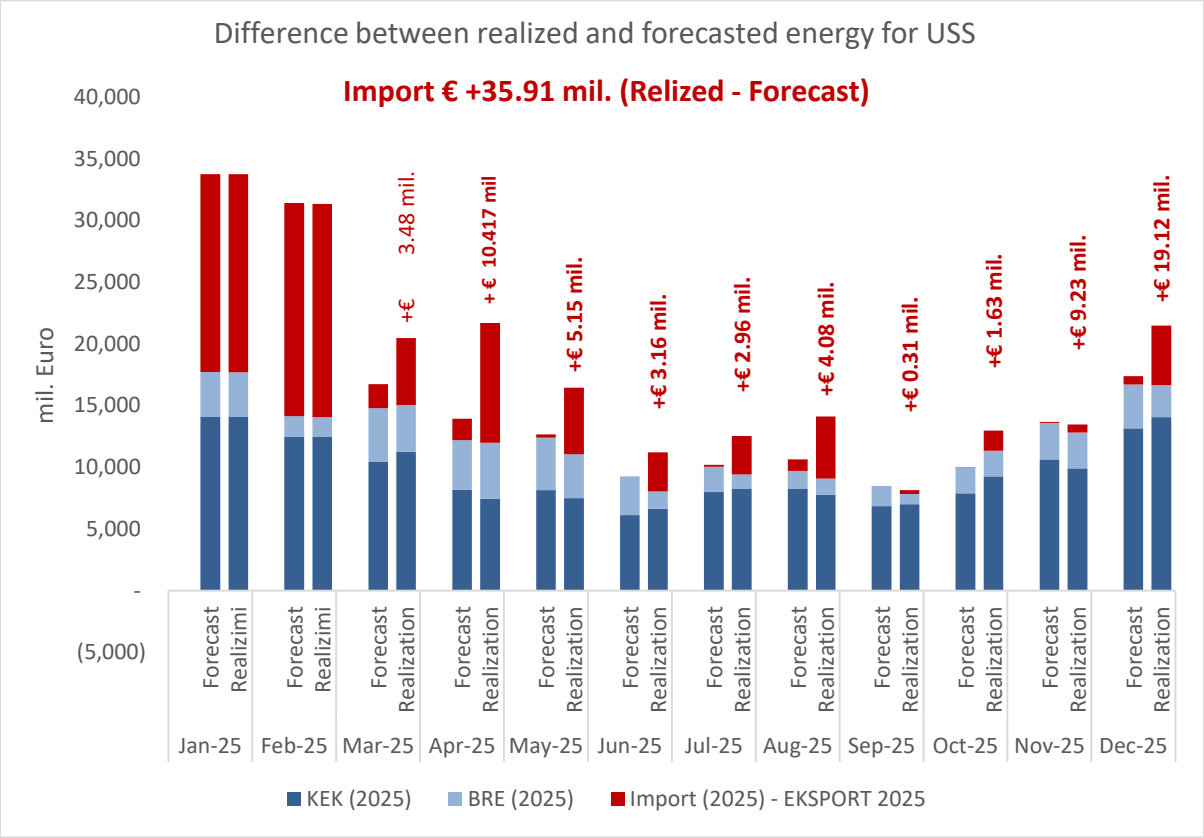
Figure 7. *The difference between forecast import prices and realizations in 2025*



Imbalance costs refer to the period of 2024. In the tariff review for 2025, ERO did not recognize approximately €3.6 million of these costs. ERO has analyzed the imbalance data and, based on this analysis, proposes that only 50% of this amount be recognized for tariff purposes. As a result, from the total value of €3.6 million, it is proposed that €1.8 million be recognized, while the remaining portion may be considered in other tariff processes, if it is assessed that there is a sufficient basis and justification for its review.

Additionally, the increase in energy purchase costs has also been influenced by the higher volume of imported energy (270 GWh) compared to what was forecasted, which in financial terms is €35.91 million higher than expected. This increase is illustrated in Figure 8 below.

***Figure 8**. Forecast and realization of electricity purchases in € million 2025*



As illustrated in Figures 6 and 7 above, the costs of Universal Supply Service (USS) in 2025 increased due to several interacting factors. Electricity consumption grew by 7.4%, import volumes rose significantly by 111.9%, and renewable energy production declined by 16.98%. These developments were compounded by a number of unplanned outages at TPP Kosova A and Kosova B, which together affected the overall balance of supply and demand in the system.

4 The process of Opening Electricity Market

Pursuant to its legal obligations arising from the Law on Electricity No. 05/L-085, and in line with Kosovo's commitments as a Contracting Party to the Energy Community to transpose and implement the Energy Community acquis, the Energy Regulatory Office (ERO) commenced, as of 1 June 2025, the implementation of Article 37 of the Law on Electricity and Directive (EU) 2019/944 to ensure that all household customers and eligible small enterprises are entitled to universal service.

In accordance with the applicable legal framework, eligibility for universal service supply (USS) is limited to household customers and small enterprises employing fewer than 50 persons and having an annual turnover and/or annual balance sheet total not exceeding EUR 10 million. Customers not meeting these criteria are required to procure electricity under market-based conditions.

At the beginning of 2025, ERO initiated a comprehensive customer information campaign targeting non-eligible customers. This process aimed to inform affected customers of the applicable timelines, regulatory requirements, and procedures for transitioning to supply in the open electricity market.

In this context, ERO organized and participated in several meetings and workshops with customer representatives, including the Kosovo Chamber of Commerce, international chambers of commerce operating in Kosovo, and other key stakeholders in the energy sector. In parallel, the system operators KEDS and KESCO identified customers not eligible for USS (deregulated customers) and have undertaken the necessary technical, operational, and commercial measures to enable their effective participation in the open electricity market.

Table 5 presents the number of metering points of consumers operating in the open market who have signed contracts with licensed electricity suppliers, totaling 9,535 metering points. The total consumption of these consumers in 2025 reached 1,119.07 GWh (TSO: 95.00 GWh and DSO: 1,024.34 GWh).

Table 5. *Licensed suppliers and connection points of deregulated customers*

Supplier	Number of Connection Points
KESCO	4,641
KEK	3,955
Voltkos	539
Enerco	330
EDS International	68
Future Dinamics	2
Total	**9,535**

However, based on ERO's latest public announcement, due to the need for a detailed review and in-depth assessment of the costs of regulated enterprises, the decision-making process has been postponed. As a result, the deadline for the removal of consumers from the universal service has been extended until May 1, 2026.

This postponement does not prevent eligible consumers from exercising their right to switch to the open market as of April 1, 2026, by following the established procedures and deadlines. In this context, expectations for the transition of around 118 businesses to the open market during 2026 remain valid; however, their realization will depend on final regulatory decisions and the pace of the liberalization process. ERO will continue to monitor this process and inform the public on further developments, ensuring a stable and transparent transition towards an open electricity market.

5 Maximum Allowed Revenues

The following Table 6, presents the proposals for the USS Maximum Allowed Revenues for 2026 with much detailed calculations and information related to the costs and various parameters that influence the determination of these revenues.

After reviewing the USS application, ERO has revised several cost components, reflecting regulatory parameters and the allowed values for sector operators.

As a result of this assessment, the Maximum Allowed Revenues (MAR) for KESCO (USS) for 2026, as proposed by ERO, amount to €442.26 million, which is lower than KESCO's application of €528.78 million.

The differences between KESCO's proposal and ERO's assessment mainly relate to the revision of operating costs, pass-through costs, and wholesale energy purchase costs. These costs have been reviewed by ERO based on updated forecasts of energy prices and volumes. Additionally, pass-through costs from OSSH have also been revised, reflecting the allowed values determined in the tariff review process for the distribution operator.

In addition, ERO has made adjustments to operating costs (OPEX) and the RES support fund, by applying regulatory parameters and assessing the reasonableness of costs. As a result of these revisions, the Maximum Allowed Revenues (MAR) proposed by ERO for 2026 are lower compared to the application submitted by KESCO-USS.

In this context, as explained above, an additional factor contributing to the difference between the application and ERO's proposal is the application of the cost profiling (allocation) mechanism. Through this mechanism, a portion of the electricity purchase cost from KEK J.S.C. (approximately €34 million) has not been recognized in 2026 but has been deferred to future tariff periods. This treatment has contributed to lowering the level of MAR for 2026, without representing a real reduction in costs.

As a result, the MAR level proposed by ERO reflects costs that are reasonable and affordable for consumers in the short term, while the deferred cost will be recovered in the following years in accordance with the applicable regulatory framework.

The regulated revenues of the Universal Service Supplier (USS) will be calculated based on annual updates using the following formula:

$$USRRt = (RETRt + WCLCt + WHPCt + PSTCt - NTFRt + ADJt) / (1-BDTAt)$$ where:

$USRR_t$ – Regulated revenues of the Universal Service Supplier in the relevant year *t*

$RETR_t$ – Allowed retail costs in the relevant year *t*, determined during annual adjustments

$WCLC_t$ – Allowed cost of capital in the relevant year *t*

$WHPC_t$ – Allowed wholesale energy costs for the provision of universal service in the relevant year *t*

$PSTC_t$ – Pass-through costs in the relevant year *t*

$NTFR_t$ – Non-tariff revenues in the relevant year *t*

ADJ_t – Revenue adjustments in the relevant year *t*

$BDTA_t$ – Allowed bad debt costs in the relevant year

Table 6. *Proposed MAR for 2026*

MAR Proposal for USS	Unit	Allowed ERO 2025	Application USS 2026	ERO Proposal 2026
Indexation parameters				
Interest rate It	%	9.30%	6.91%	8.39%
Efficiency factor	%	0%	0.75%	0.75%
Supplier retail costs				
OPEX - $OPMC_t = OPMC_{t-1} * (1 + CPI_{t-1}) * (1 – E_t) * (1 – P_t)$	€m	6.71	10.29	8.19
Depreciation- DEPCt = DEPCt-1 * (1 + CPIt-1) * (1 – Pt)	€m	0.13	0.14	0.14
Depreciation- Actual	€m	0.13		
Pass-through costs				
Allowed costs TSO	€m	33.43	32.12	32.36
Actual costs TSO	€m	30.61		
Allowed costs DSO	€m	141.20	180.31	157.47
Actual costs DSO	€m	147.25		
RES fund costs	€m	13.76	15.51	8.08
Actual RES fund costs	€m	14.82		
Working Capital (WCLCt)				
WCLC = (1 / 12) * It * (RETRt + WHPCt + PSTCt - NTFRt)	€m	2.22	2.62	2.68
WCLC -Actual	€m	2.54		
Power Purchase Costs				
Retail margin	%	2.54%	2.54%	2.54%
Wholesale power purchase costs	€m	193.03	229.04	177.81
Actual wholesale power purchase costs	€m	240.03		
Tax for license and ALPEX	€m	0.02	0.71	0.025
Bad Debt (BDTA)				
BDTA	%	1.80%	1.60%	1.60%
BDTA-Allowed	€m	8.03	8.50	7.32
BDTA-Actual	€m	9.07		
Adjustment of HPP costs	€m	-0.15	-0.15	-0.15
Adjustment of revenues for USS ADJt				
Adjustments of the year 2023-2024	€m	37.38	49.69	48.30
Maximum Allowed Revenues	**€m**	**435.93**	**528.78**	**442.26**