Republika e Kosovës
Republika Kosova - Republic of Kosovo

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

Consultation Report

Annual adjustment of Maximum Allowed Revenues for DSO

Relevant tariff year 2025

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.

14 March 2025

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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 (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 2023-2027 for the TSO/MO and DSO.

What is meant by Regular Adjustments?

Regular Adjustments are essential components that enable the adjustment of revenues to reflect differences between the forecast and actual values of costs that are outside the control of regulated enterprises.

Since 2012, electricity tariffs have been set on a multi-year basis. This aims to increase revenue predictability for licensees, enabling easier and cheaper financing of capital investments, and to promote stable and sustainable prices for customers. These revenues are set during the Periodic Reviews, which are organized every 5 years, and determine several revenue components that do not change significantly from year to year, and which are related to the capital and operating expenses of regulated enterprises. During the periodic reviews, ERO also sets efficiency targets, loss reduction targets and performance improvement targets, which aim to increase the operational efficiency of companies and which is reflected in more reasonable prices for consumers. ERO's final evaluation of the Maximum Allowed Revenues set during the Periodic Review for the DSO can be accessed here.

However, some cost components can vary significantly from year to year. These are costs that are largely outside the control of regulated operators such as the inflation rate, cost of energy purchase or volume of served energy, changes in legislation, taxes, etc. Despite multi-year tariffs, these cost components must be adjusted after each year to ensure that companies do not realize a profit or loss for reasons beyond their control.

What is 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, 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.

How can ERO's proposals be commented on?

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 28 March 2025 at the latest. Comments can also be sent by mail at the following address:

Energy Regulatory Office
Tariffs and Pricing Department
St. Beki 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 Maximum Allowed Revenues of the Distribution System Operator	http://ero-ks.org/2017/Rregullat/Rregulla%20per%20te%20Hyrat%20e%20OSSH.pdf
Final Evaluation of DSO MAR within Periodic Review – Detailed Evaluation	https://www.ero-ks.org/zrre/sites/default/files/Publikimet/Pjesemarresit%20ne%20Treg/Furnizim/Raport%20p%C3%ABrfundimtar%20p%C3%ABr%20t%C3%AB%20Hyrat%20e%20Lejuara%20Maksimale%20per%20OSSH_P%C3%ABrgjigjet%20ndaj%20Komenteve.pdf

The Application of DSO for 2025	https://www.ero-ks.org/zrre/sites/default/files/Publikimet/Pjesemarresit%20ne%20Treg/Furnizim/Aplikimi%20i%20OSSH-s%C3%AB%20p%C3%ABr%20MAR_2025%20.pdf
Consultation Report on USS Maximum Allowed Revenues	(link)
Consultation Report on TSO Maximum Allowed Revenues	(link)

The structure of this Consultation Report

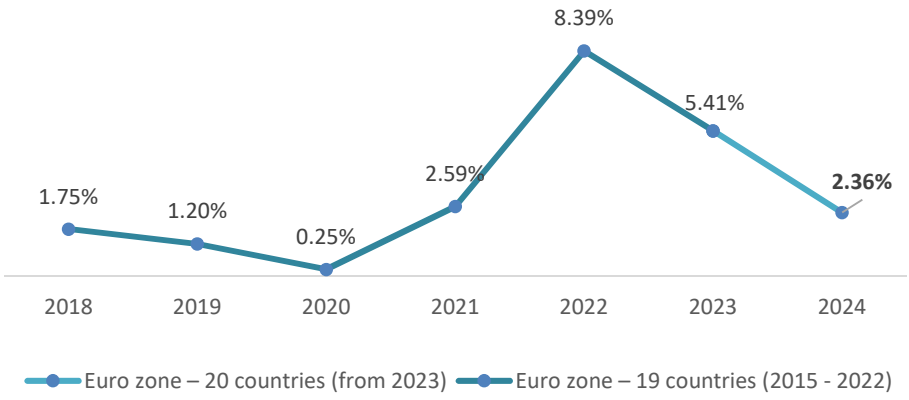
This document is structured as follows:

- Chapter 1 indexes the Operating and Maintenance Costs for the Efficiency Factor and for Annual Inflation based on the Harmonized Index of Consumer Prices (HICP) published for Eurozone countries, for the year 2025;
- Chapter 2 updates the forecast of allowed costs of losses for 2025
- Chapter 3 applies the changes between the Allowed and Actual Revenues in the Relevant Previous Year (t-1), including the excluded revenues; and,
- Chapter 4 sets the DSO MAR for the next relevant year.

1 Indexation of Operating and Maintenance Costs, Allowed Depreciation and Allowed Return on Capital for 2025

The Allowed Operating and Maintenance Expenses, Depreciation Cost and Allowed Return are determined by ERO during periodic reviews on a real basis (excluding inflation). Consequently, these costs should be indexed to the inflation rate during each regular annual adjustment. 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, published by Eurostat for the 20 countries of the Eurozone, which for the year 2024 was 2.36%.[1].

Figure 1. *Harmonized Index of Consumer Prices HICP*



The adjustments resulting from the application of the inflation rate to each of the components of the allowed costs in 2024 were then added to the initial cost evaluation for 2025. The details of these calculations are presented in the table below.

Table 1. Adjustments for inflation

Line	Unit	a) Allowed 2024	b) Adjustment for inflation	c) Initial evaluation 2025[2]	d=b+c Allowed 2025
OPEX	mil€	29.38	0.69	27.46	28.15
Depreciation	mil€	20.60	0.49	21.54	22.63
Return	mil€	17.35	0.41	17.72	18.16

[1] Source: Eurostat,
https://ec.europa.eu/eurostat/databrowser/view/PRC_HICP_AIND__custom_15646147/default/table?lang=en
https://ec.europa.eu/eurostat/databrowser/view/PRC_HICP_AIND__custom_15646163/default/table?lang=en

[2] According to Periodic Review Allowances 2023-2027 link:
https://www.ero-ks.org/zrre/sites/default/files/Publikimet/Pjesemarresit%20ne%20Treg/Furnizim/Raport%20p%C3%ABrfundimtar%20p%C3%ABr%20t%C3%AB%20Hyrat%20e%20Lejuara%20Maksimale%20per%20OSSH_P%C3%ABrgjigjet%20ndaj%20Komenteve.pdf

The allowed costs for depreciation and return for 2025, in addition to indexation for inflation, also include the costs for depreciation and return for investments allowed in the four municipalities in the north of Kosovo for 2025.

1.1 Additional costs for OPEX

During the evaluation of the application by the DSO, ERO evaluated as reasonable the DSO's request that the basic OPEX costs in 2025 be adjusted from those determined in the Periodic Reviews for two reasons:

1. **Increase of the minimum wage for physical security workers and cleaning services.**
   ERO evaluates that the increase in the minimum wage based on Decision No. 02/218 of the Government of the Republic of Kosovo [3], has an impact on a share of the OPEX costs for the DSO. This decision will affect the DSO's 2025 OPEX by an amount of €0.157 million.

2. **Additional costs for operating the DSO in the four municipalities in the north of Kosovo.**
   KEDS in their application has foreseen the costs associated with the provision of services outlined in the Energy Guideline and the Elektrosever License. During the review of these costs, ERO has analysed in detail all the costs associated with the provision of services for the four municipalities in the north of Kosovo in comparison with the costs associated with similar services in the part operated by the DSO. Based on ERO's analysis, the value of 0.362 million€ are contracted services related to network maintenance and new connections, while the value of 0.573 million€ are expenses for other services within the DSO. In total, ERO has evaluated that for the year 2025 these costs will be 0.935 million €.

The impact of these additional costs and inflation adjustment on 2025 OPEX costs are summarized in the following table.

Table 2. *Summary of OPEX cost adjustments*

DSO – OPEX 2025	Unit	Value
Initial evaluation 2025	mil€	27.46
Adjustment for inflation	mil€	0.69
Additional cost for minimal wage	mil€	0.16
Additional costs for operation in the four municipalities in the north	mil€	0.94
Total OPEX	**mil€**	**29.25**

[3] Decision No. 02/218 of the Government of the Republic of Kosovo, https://gzk.rks-gov.net/ActDetail.aspx?ActID=96573

1.2 Adjustments for Depreciation and Return of Capital Investments

During the evaluation of the application by the DSO, ERO considers as reasonable the DSO's request that the basic costs for depreciation and return on capital investments in 2025 shall be adjusted from those determined in the Periodic Reviews for two reasons:

1. **Investments in meters, recognized during 2024**
   During 2024, ERO has recognized as an investment the installation of new meters worth €2.275 million. Due to the depreciation period of 10 years, this investment also affects the depreciation base and return on investment in 2025. The impact of this investment on the allowed costs for depreciation in 2025 is €0.228 million, while on the return on investments is €0.157 million.

2. **Investments for the four municipalities in the north of Kosovo in 2024 and 2025**
   In its application, KEDS has foreseen the capital costs associated with the provision of services foreseen in the Energy Guideline and the license of Elektrosever. In addition to the investments recognized in 2024, ERO has evaluated that the investments foreseen in 2025 are necessary for the provision of quality services and the reduction of losses in the four municipalities in the north of Kosovo. For 2025, ERO proposes the value of 2.29 million € additional investments for the DSO, summarized in the table below.

Table 3. DSO investments in four municipalities in the north, recognized by ERO

Unit	Unit	2024	2025
MV networks, substations, transformers and equipment	mil€	0.70	0.06
LV networks, substations, transformers and equipment	mil€	-	0.39
Transformer stations, transformers and equipment	mil€	0.75	-
Measuring equipment and instruments, trucks, cranes	mil€	2.00	1.84
Total mil€		**3.45**	**2.29**

The impact of these additional investments and inflation adjustment on depreciation costs and return on investments in 2025 are summarized in the following table:

Table 4. Summary of adjustments of depreciation costs and return of investments

DSO	Unit	Depreciation	Return
Initial evaluation 2025	mil€	21.54	17.72
Adjustments for inflation	mil€	0.49	0.41
Additional costs for minimal wage	mil€	0.23	0.16
Additional costs for operation in four municipalities in the north	mil€	0.37	0.33
Total	mil€	22.63	18.62

2 Adjustment of the forecast of Allowed Cost of Losses for DSO for 2025

2.1 DSO Electricity Balance for 2025

In order to evaluate the costs related to the purchase of losses at the DSO level, ERO has analysed the data reported by KEDS for 2024 and the data for the forecast of the balance for 2025. The analysis of the realized balance for 2024 and the forecast for 2025 are presented in the following table:

Table 5. DSO Electricity Balance

Electricity Balance at DSO	Unit	Realization 2024	Proposal KEDS 2025	Proposal ERO 2025
Gross consumption of electricity	MWh	6,258.27	6,223.84	6,318.31
Energy consumption by customers	MWh	5,284.46	5,299.13	5,416.30
Electricity losses	MWh	973.81	924.71	902.01
Total electricity losses	%	15.56%	14.86%	14.28%

The gross electricity consumption according to ERO's proposal is higher than that proposed by KEDS, because in contrast, ERO has taken into consideration the actual realizations of January 2025 and February 2025, which have resulted higher than planned by KEDS.

ERO evaluates the performance achieved by the Distribution System Operator in 2024 in reducing distribution losses by 0.84% percentage points compared to 2023. In 2024, the DSO has reached and exceeded the loss target of 14.70% by 0.51 percentage points.

In 2025, the loss target of 13.30% will be applied, according to ERO's Decision V_1636_2022[4] on the loss reduction target of the DSO. This determination of the allowed share of losses is an important step in the process of further development of the energy sector in Kosovo and contributes to the stability and improvement of energy supply to customers throughout the country, including the four municipalities in the north of Kosovo.

Considering that 2024 was the first billing year in the 4 municipalities in the north of Kosovo, and the loss targets set during the review of multi-year input values for the DSO were set by considering only the consumption in the other municipalities of Kosovo (without the 4 municipalities in the north), respectively in the part of the Republic of Kosovo in which they have control, this principle will continue to apply until the next review of input values.

Following the normalization of electricity supply in the four municipalities in the north of the Republic of Kosovo, ERO, in accordance with the Brussels Agreement Roadmap and secondary legislation, has handled the assets and energy for the supply of the four municipalities in the north based on the responsibilities of the Distribution System Operator and the Retail Supplier. As a result of the new circumstances created by the normalization of supply, DSO last year, with the support of local and international institutions, has undertaken several actions in investments and in operation and

[4] ERO, Decision V_1636_2022, https://www.ero-ks.org/zrre/sites/default/files/Publikimet/Vendimet/Vendimet%202022/V_1636_2022.pdf

maintenance of the assets that supply electricity in these four municipalities in the north. This has enabled DSO to accurately identify the energy flows in this part of the distribution system by identifying the amount of energy consumed by customers and distribution network losses.

In the initial application, the DSO had proposed a value of 49.50 GWh for energy losses in the municipalities in the north. Following the review of data and analysis, the DSO has updated the data, increasing the value of the losses to 80.25 GWh. However, after reviewing this data, ERO proposes that the energy losses of 61.67 GWh reflect the real losses that can be achieved in the municipalities in the north based on the investments undertaken in the past year and those expected to take place this year, as well as the improvement of the DSO's operating circumstances in this area.

The electricity losses in the four municipalities in the north of Kosovo, in relation to the total energy (losses + consumption) in these municipalities in 2024 were 24.50%. In the second year of operation of KEDS in the north of the country, ERO proposes that the losses in the DSO for these municipalities in the north of Kosovo be reduced to 21.5% during 2025, through investments allowed by ERO. In order to provide incentives for the DSO to improve performance, namely in reducing losses in this part of the DSO network as a balanced benefit between the DSO and customers, ERO proposes a loss target of 21.5% by applying the 50/50 sharing factor. This proposal of ERO for this loss target is based on the actual level of losses realized in 2024, the investments made and those expected to be realized by the DSO in 2025 as well as the future possibilities of reducing losses based on the improvement of the overall operating conditions.

Also, in proposing this target, ERO evaluates that there is a significant potential for reducing Distribution System Operator (DSO) losses, especially given the high volumes of energy calculated as losses. This implies that current levels of losses have not yet reached saturation, nor are they comparable to the rest of the DSO network, presenting an opportunity for further optimization. Furthermore, ERO evaluates that with DSO's investments in advanced metering, better network management will be enabled, allowing for further reduction of DSO's losses, leading to increased efficiency and cost savings across the system.

In conclusion, this evaluation by ERO aims to ensure that sustainable loss targets are achieved and to create a basis for improving the company's performance in the coming period. Following public consultation, the ERO Board will make the final decision.

2.2 Forecast of import power purchase costs for 2025

ERO in the preliminary evaluation has predicted the costs of purchasing energy to cover losses based on a) the predicted amounts of electricity purchased from KEK and imports, b) the profile of losses from historical data of the DSO, c) forecasts of electricity prices from KEK and imports, based on HUDEX (Hungarian Power Futures) data.[5], and d) costs for capacities (capacity allocation) based on historical data.

[5] HUDEX, https://hudex.hu/en/market-data/power/daily-data#month dated on 06 Mars 2025

The forecast amounts of energy purchased by KEK include the amounts released from KEK supply under the Bulk Supply Agreement (BSA), after including the effect of customer deregulation. The forecast of the average import price (WHEAt) by ERO is presented in the figure and table below.

Figure 2. Forecast of the purchase price for losses

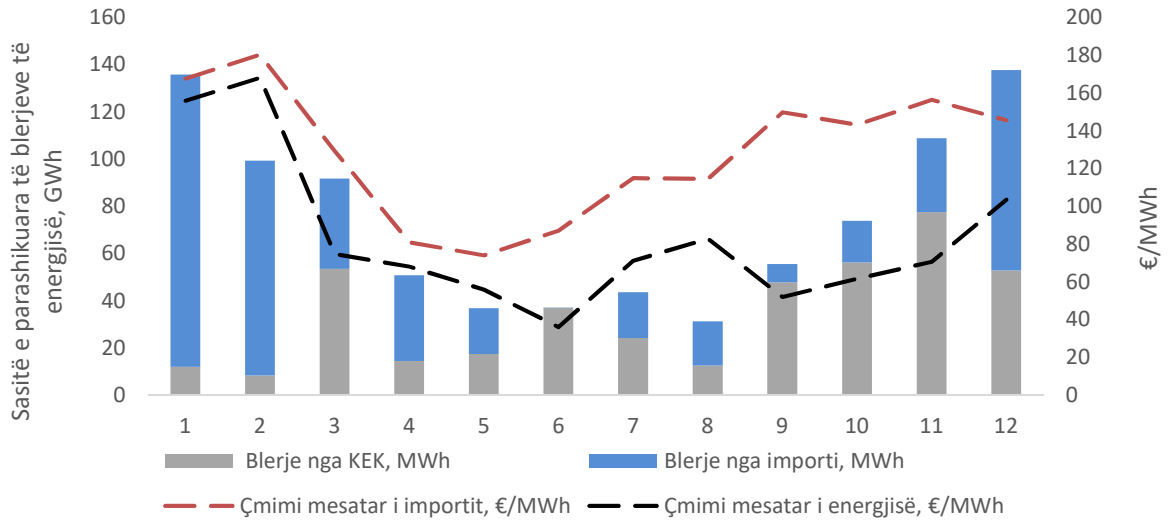


Table 6. *Forecast of the energy price for losses*

2025	Profile of purchases from KEK	Profile of purchases from import	Average price from KEK, €/MWh	Average price of import €/MWh	Average price of energy €/MWh
January (realized)	1.33%	13.72%	36.00	167.60	155.96
February (realized)	0.93%	10.08%	36.00	180.30	168.08
March	5.94%	4.24%	36.00	129.22	74.81
April	1.61%	4.02%	36.00	80.96	68.10
May	1.94%	2.14%	36.00	74.05	55.94
June	4.10%	0.01%	36.00	87.10	36.15
July	2.68%	2.15%	36.00	114.83	71.12
August	1.40%	2.06%	36.00	114.64	82.88
September	5.30%	0.86%	36.00	149.86	51.98
October	6.23%	1.96%	36.00	143.27	61.68
November	8.59%	3.48%	36.00	156.49	70.71
December	5.86%	9.40%	36.00	145.66	103.54
Average	45.89%	54.11%	36.00	147.01	96.07

The percentages shown in the table show how much energy was purchased from each source for each month. For each month there are variations in these percentages, which help to understand which sources have provided more energy and how the average energy price is derived. Losses for the DSO are purchased from KEK surpluses, after they have initially been allocated to the USS. According to the table above, it can be seen that the DSO will purchase 45.89% of the losses from KEK, while the remaining 54.11% will be provided by the market.

The forecast import prices (including cross-border costs) vary from €74.05/MWh in May to €180.3/MWh in February, reflecting price fluctuations in international markets. From ERO's analysis, the forecast average price of electricity to cover losses by the DSO during 2025 will be €96.07/MWh.

2.3 Forecast of the DSO costs of losses in 2025

Based on the energy balance in Chapter 2.1, as well as the forecast of the average energy price in Chapter 2.2, ERO has made a forecast of the costs for covering the allowed losses of the DSO in 2025, according to the following table. The DSO has proposed a value of energy inputs of 6,223.84 GWh, which is based on the draft energy balance that has been updated from the initial application. Following the analysis of this data, ERO has taken into account the updated realization data for the months of January-February 2025, where there is an increase of 6,318.31 GWh in energy inputs at the DSO level.

Table 7 *Forecast of the costs of losses for 2025*

DSO	Unit	KEDS Proposal	ERO Proposal 2025
REUEt	GWh	6,223.84	6,318.31
LSSAt	%	14.86%	14.28%
Total allowed losses	GWh	924.71	902.006
WHEAt	€/MWh	117.50	111.93
Costs of losses $LSSC_t$	**mil€**	**108.65**	**86.652**

$LSSC_t$ *allowed cost of losses in relevant year t*

$LSSA_t$ *allowed losses, presented as a percentage of the energy entering the distribution system in the relevant year t*

$REUE_t$ *are the units of energy (MWh) or (GWh) entering the distribution system in the relevant year t*

$WHEA_t$ *is the average wholesale cost of energy (€/MWh) in the relevant year t*

3 Adjustments for Revenues Correction Factor from 2024

According to the Rule on Maximum Allowed Revenues, the revenue correction for 2024 has been carried out. The principle applied is based on the overall evaluation of allowed costs and actual realized revenues. These calculations were carried out using the following formula:

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

Ku:

AAC_{at-1} *Actual Allowed Cost as determined in relevant year t-1*

ARR_{t-1} *is the 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 difference between the AAC_{at-1} actual allowed costs of €152.501 million and the ARR_{t-1} realized revenues of €128.477 million, after applying the interest rate, results in €26.198 million. This difference between revenues and actual allowed costs is carried forward as an update during the determination of the MAR for 2025.

Table 8 presents data on Operating Expenses (OPEX), Depreciation, Return on Investment, and Energy Purchase Expenses for Losses, Pass-through Costs, Unregulated Revenues for Allowed Revenues Adjustments for 2024, and the Revenue Correction Factor (KREV).

The values of realized costs for 2024 are higher than those allowed in some categories, especially for the purchase of energy for losses, where the actual costs are about 33 million euros higher than the allowed costs. KEK has not supplied the forecast amount of electricity due to the technical conditions of the power plant units and their lifespan, therefore replacing this energy with imports has caused higher costs and significantly higher prices.

The KREV revenue adjustment factor will be used to update the Maximum Allowed Revenue values for 2025, reflecting the differences between allowed costs compared to revenues realized in 2024.

Table 8 *Adjustments of Maximum Allowed Revenues*

	Allowed costs	Realized costs	Actual allowed costs (AAC_{at-1})
OPEX- Operational Expenses	30.30	35.95	30.30
Depreciation	20.60	20.60	20.60
Return on Investments	17.35	17.35	17.35
Purchase of Energy for Losses	65.37	98.74	97.57
Obligations to KOSTT for SO and MO	2.41	2.56	2.56
PRR Unregulated Revenues	-5.41	-5.84	-5.84
Adjustments (2022 and PR2)	0.09	0.09	0.09
Adjustments of Unregulated Revenues	3.82	3.82	3.82
ALPEX	0.018		
KREV 2023	-13.96	-13.96	-13.96
Total	**120.59**	**159.31**	**152.50**

Table 9 *Calculation of Revenues Correction Factor*

Calculation of revenue correction factor	
AACt-1 Actual allowed costs for relevant year t-1	152.50
ARRt-1 Realized revenues in relevant year t-1	128.48
I_t = 3.31% + 5.74%	9.59%
KREV = (AACat-1 -ARRt-1)*(1+It) –Revenues Correction Factor	26.198

The EURIBOR rate of 3.31% for 2024 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 periodic reviews that reflects the premium payable by the licensee for loans which serve as a basis for calculating the “It-interest rate” that they pay for loans taken out to finance their investments or operations.

Figure 3. *Annual average of 12-month EURIBOR*[6]

3.1 Adjustments for pass-through costs in 2024

The obligations of the DSO to the Market Operator (MO) and the System Operator (SO) will be adjusted to reflect the differences between the forecasted and realized energy volume in 2024. ERO has made the adjustments to reflect these differences. The value of these adjustments is 0.15 million (the difference between €2.56 million and €2.41 million).

3.2 Non-tariff revenues in 2024

The DSO has requested from ERO to approve the application of a 50% sharing factor on revenues generated from additional services, in order to stimulate innovation and ensure the financial sustainability of the operator, while maintaining a fair balance between the interests of customers and operators. According to KEDS, this approach would enable support for the development of new services and contribute to increasing the sustainability of the energy sector.

In response to this request, ERO evaluates the sustainability of the regulatory practices followed over the years, which provide for a clear and balanced handling of unregulated revenues from excluded services. ERO has implemented, so far, a consistent approach to protect the interests of customers and to ensure a financial balance for operators.

Based on these practices and the current adopted rules, ERO cannot approve immediate changes in handling of additional services revenues. Any changes in regulatory policies must be made in full compliance with the principles and objectives set out earlier, in order to maintain a fair and sustainable system for all stakeholders. Therefore, the DSO's request for a 50% sharing factor cannot be approved at this stage.

[6] Euribor rates.eu, https://www.euribor-rates.eu/en/euribor-rates-by-year/2024/

ERO suggests that any potential change shall be reviewed in more detail, based on the principles of transparency and customer protection. This is a form of in-depth consultation with all interested parties to ensure a fair and sustainable decision. This decision is due to the fact that at this stage, there is not a sufficient need to change existing policies and no strong evidence has been identified that such a factor would bring tangible benefits to the sector and customers.

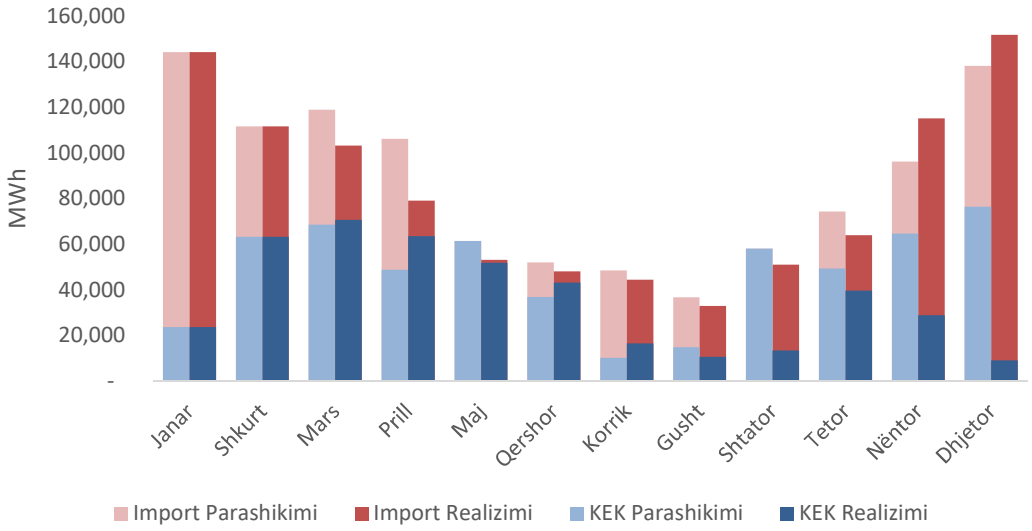
3.3 Adjustments for allowed losses in 2024

The main adjustment for 2024 is related to the adjustments of the allowed costs of losses. Although the DSO exceeded the loss target in 2024 by 0.21 percentage points (from 14.70% to 14.49%), the increase in the costs of purchasing allowed losses, with a large part outside the control of the DSO, has caused the increase in the DSO's overall costs during 2025.

The increase in the cost of purchasing allowed losses is a result of two main causes:

- **Increase of energy consumption by USS customers**
  Based on the Bulk Supply Agreement, USS has priority in purchasing energy from KEK. Due to the increase in consumption by USS, KEK has not been able to supply the DSO with electricity according to the forecasts for 2024. As a result, the DSO has been forced to import energy at a higher price. Consumption and consequently losses to the DSO have increased in months with high electricity prices. This is shown in the figure below.

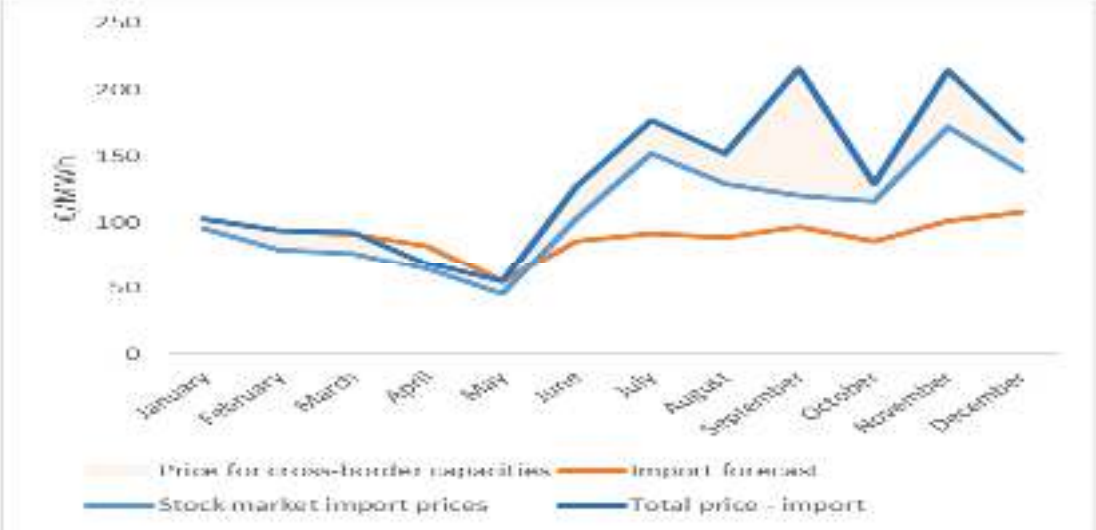
Figure 4. *Forecast and realization of electricity purchases for losses from DSO in 2024*



- **Increase of electricity price compared to forecasts and increase of the costs of cross-border capacities**
  During 2024, there was an increase in prices in European power exchanges, compared to forecasts for price stabilization. Furthermore, because most countries in the region are net importers, cross-border networks are often overloaded. This leads to an increase in prices for the use of cross-border lines for imports. In September, the average cost of paying for cross-border lines was €94.47/MWh, or

78.2% of the price of electricity on the exchange. The difference between the forecast import prices and the realized prices during 2024 is presented below.

Figure 5. *Difference between forecast import prices and realizations*



The average energy price has increased from €63.03/MWh to €98.80/MWh, a significant increase that has directly impacted the increase in total costs. The price increase is a consequence of various factors such as the increase in energy demand, the lack of domestic production, and its replacement with imported energy and the increase in prices in international energy markets. So the total realized cost has increased from €65.37 million to €97.54 million, a significant increase of €32.17 million or about 49.3% which will be adjusted to the costs of 2025.

Table 8: *Adjustments for the costs of losses*

DSO MAR	Unit	Allowed 2024	Realized 2024
Indexation parameter			
It	%		9.59%
Allowed losses (LSSCt)			
LSSAt	%	16.56%	16.56%
Actual losses			15.78%
REUEt	GWh	6,262	6,258
WHEAt	€/MWh	63.03	98.80
LSSCat-1	mil€		**97.54**
LSSCft-1	mil€	**65.37**	
Total costs	mil€	**65.37**	**97.54**

4 DSO Maximum Allowed Revenues

The Maximum Allowed Revenues for DSO are calculated according to the following formula:

MARt = OPMCt + DEPCt + RTNCt + LSSCt + LICCt -NTFR t +ADJt +KREVt, where

MAR_t	*Maximum Allowed Revenues in relevant year t*
$OPMC_t$	*Allowed Operating and Maintenance Costs in relevant year t*
$DEPC_t$	*Allowed Depreciation in relevant year t*
$RTNC_t$	*Allowed Return on Capital in relevant year t*
$LSSC_t$	*Allowed cost of losses in relevant year t*
$LICC_t$	*Cost of Licensing Tax in relevant year t*
ADJt	*Adjustment of costs*
$KREV_t$	*Revenues Correction Factor in relevant year t*

The detailed calculation of each of these components is provided below.

The table shows an increase in costs for 2025, reflecting inflation, interest rates and increased losses, but also a correction of revenues allowed by ERO to ensure a fair balance between the operator and customers.

The revenues proposed by ERO for 2025 after all these adjustments and factors result in €181.574 million, an amount that is lower than the operator's initial proposal of €217.770 million.

Figure 6. Proposal for DSO MAR (KEDS) after adjustments

Maximum Allowed Revenues (mil€)	Unit	Allowed 2024	DSO Proposal 2025	ERO Proposal 2025
Indexation Parameters				
Efficiency factor	%	1.50%		
Inflation	%	2.36%		
Euribor	%	3.31%	-	
S - Factor	%	5.74%		
Interest Rate - It	%	9.05%		
Operating and Maintenance costs				
Evaluation during PRR2	€m	27.848	27.460	21.461
OPMCt = OPMCt-1 * (1 + CPIt-1) * (1 – Et)* (1 – Pt)	€m	29.376	37.36	28.155
Additional OPEX costs – services in the north	€m	0.924	2.99	0.935
Additional costs for OPEX				0.157
Depreciation costs (DEPCt)				
Evaluation during PRR2	€m	19.414	21.541	21.541
Allowed - DEPCt = DEPCt-1 * (1 + CPIt-1) * (1 – Pt)	€m	20.600	22.634	22.629
Return costs (RTNCt)				
Evaluation during MYT	€m	16.338	17.720	17.720
Allowed - RTNCt = RTNCt-1 * (1 + CPIt-1) * (1 – Pt)	€m	17.354	18.621	18.616
Obligations towards KOSTT				
Obligations towards KOSTT- forecast	€m	2.409	2.570	3.585
Obligations towards KOSTT– actual	€m	2.563		
Costs of losses (LSSCt)				
Forecast				
LSSAt	€m	0.166	0.141	0.143
REUEt	€m	6,262.237	6,193.10	6,318.310
WHEAt	€m	63.030	117.50	96.065
Forecast cost of losses	€m	65.371	102.60	86.652
Actual				
LSSAt	%	0.158		
REUEt	GWh	6,258.271		
WHEAt	€/MWh	98.803		
Actual Costs of Losses (sharing factor)	€m	97.574		
Adjustments				
Adjustments PRR2 (in 2023 $KREV_{t-1}$ included)	€m	-5.408	-2.700	-5.408
Adjustments for 2022	€m	0.089	0.089	0.089
Actual unregulated revenues (KREV)	€m	-5.838		
Corrections of unregulated revenues 2020-2022		3.819		
Licensing Tax:	€m			
Forecast	€m	0.018		
Actual	€m			
KREV – Revenues Correction Factor				
Revenues Correction Factor t-1				
AACt-1 – Actual costs for year t-1	€m		159.150	152.470
ARRt-1 - Actual revenues for year t-1	€m		128.480	128.477
KREVt = (AACat-1 – ARRt-1) * (1+ It)	€m	-13.959	33.610	26.164
MAR – Maximum Allowed Revenues	€m	120.592	217.74	181.574