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KOMPANIA KOSOVARE PËR FURNIZIM ME ENERGJI ELEKTRIKE SH.A.
KOSOVO ELECTRICITY SUPPLY COMPANY J.S.C.
KOSOVSKO PREDUZEĆE ZA SNABDEVANJE ELEKTRIČNOM ENERGIJOM D.D.

Nr. 43 Dt. 09.8.2022
KESCO SH.A.
HQ 1

Ymer Fejzullahu
Chairman of ERO Board

Mesut Serhat Dinc
Managing Director,
KESCO J.s.c

09.08.2022

SUBJECT: Application for Extraordinary Review of Maximum Allowed Revenues for the Universal Service Supplier

Dear Mr. Fejzullahu,

The Universal Service Supplier (USS) has prepared the Application for Extraordinary Review of Maximum Allowed Revenues in accordance with the USS Pricing Rule and the Request for Extraordinary Review of Maximum Allowable Revenues for USS.

Given the importance of this process, USS remains committed for cooperation in order to reach a common solution for all stakeholders in the energy sector.

USS is ready at any time to meet with ERO to discuss the issues raised in this application.

Sincerely,

Mesut Serhat Dinc
Managing Director, KESCO J.s.c



***Application for Extraordinary Review of
Maximum Allowed Revenues for the
Universal Service Supplier***

August 2022

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1. Introduction

The Universal Service Supplier (USS) has submitted the Request for Extraordinary Review based on Appendix 4 of the USS Pricing Rule. The request for extraordinary review contains all the necessary data as required by the regulatory and legal framework. These data are presented in tabular form and are also argued as follows.

2. Description of Extraordinary Event

During the year 2021, the world has faced an energy crisis as a result of the enormous increase in electricity prices in international markets. Although the global economy was recovering from the COVID-2019 pandemic, large-scale price increases as well as energy availability threatened to derail it. This situation brought liquidity consequences and increased costs in the electricity sector in many European countries, including Kosovo.

Regulated companies in the energy sector in Kosovo, seeing the prevalence of high electricity prices in international markets as well as the threat to the security of supply, have submitted continuous requests to cover the significant change in electricity purchase costs. After continuous requests, ERO on 13 December, 2021 has initiated the extraordinary review for maximum allowed revenues (MAR) for regulated operators in order to reflect supply costs and maintain security of supply. The process was concluded in February 2022 with the decision on the maximum allowed revenues for the USS, Decision no. V_1485_2022 of dt. 7 February.

According to this decision, ERO assessed and approved the maximum allowed revenues for the Universal Service Supplier in the amount of 347.28 million €. Although this amount did not cover the maximum allowed revenues for the USS, the ERO in the justification of the decision argue that in the final assessment of MAR for the USS, it took as a basis the commitment for an additional subsidy of 10 million € according to the Government Decision of the Republic of Kosovo no. 05/55 on dt. 21.01.2022, as well as the Decision of the Government of the Republic of Kosovo for the additional subsidy of 90 million € according to decision no. 01/60 of dt. 05.02.2022. In other words, maximum revenues have been reduced in all calculations by 100 million €.

According to this decision on 08.02.2022, ERO also approved the retail electricity tariffs, which marked an increase only for household consumers with consumption over 800 kWh, effective from 9 February 2022.

The Universal Service Supplier through an official letter dated 11.02.2022 has raised its concerns regarding the modality of allocation and payments of this subsidy, but has not received an official

response. Faced with uncertainty, FUSS has communicated and exchanged official letters with ERO and the Ministry of Economy, and it has responded to all the requests received from the relevant institutions regarding the calculation of the subsidy value for the respective months. Moreover, the supplier dt. on 5 August 2022, he also received the official letter from the Energy Regulatory Office regarding the confirmation of the subsidy calculation and on the same day the USS sent the official invoice for the payments for the months of February-April 2022 in accordance with the decisions of the Government and in accordance with the approval of TAK regarding the preparation of the relevant invoice. Yet until today, USS has not received any reimbursement and at the same time has not received any information about when these payments can be expected.

The situation created during this period has forced USS to operate below its cost, making it very difficult and to some extent impossible to fulfill obligations to third parties.

The value of the subsidy calculated per consumer according to the prices sent by ERO, for the period 9 February – 30 June 2022, has exceeded the value of € 32.8 million. The lack of reimbursement of this calculated value of the subsidy, exceeds the materiality threshold of 5%, as stated in article 11 of the Rule on USS Revenues, thus enabling the opening of an extraordinary review.

USS based on the aforementioned on July 19, 2022, has submitted a request for an extraordinary review to the Office of the Energy Regulator asking to consider USS's request based on the legislation in force, in order to avoid deeper financial problems and which may endanger the security of electricity supply.

ERO on 22 July 2022, ERO informs the USS that the request for an extraordinary review has been taken into account and requests to submit the report on the financial impact of the extraordinary event.

Pursuant to this notice and in accordance with the principles set in the USS Pricing Rule, the USS has prepared the Application for extraordinary review of the Maximum Allowed Revenues taking into account the actual costs of purchasing electricity and the actual revenues for the months of January-June 2022 and the forecasts for the months of July-December according to the estimates of the ERO during the review of the maximum allowed revenues for the year 2022, except for the import price, which has been updated according to the latest forecasts of the import price in the international exchanges of energy.

3. Financial impact of the extraordinary event

The allowed cost of purchases for electricity for USS for the year 2022 is 81.12 million €, which also includes the subsidy of 100 million €, while the realized cost of purchases only for the period January-June 2022 reaches the value of 92.06 million €, or a difference of 11 million € compared to the total allowed costs in 2022.

Purchases of electricity (in thousand €)	Allowed by ERO (January-December)	Actual (January-June)
Purchases from KEK	118.37	64.25
Purchases from Import	21.80	12.15
Purchases from RES	40.94	15.66
Subsidy	(100)	-
Total	81.12	92.06

Considering the estimated costs for the short term July-December 2022, the purchase costs for electricity for the year 2022 will reach the value of 194.95 million €, or a difference of 113.83 million € compared to the costs allowed for the year 2022.

Purchases of electricity (in thousand €)	Allowed by ERO Total 2022	USS Total 2022
Purchases from KEK	118.37	122.63
Purchases from Import	21.80	40.14
Purchases from RES	40.94	32.18
Subsidy	(100)	-
Total	81.12	194.95

USS's forecasts for the period July-December 2022 were made based on the volume forecasts used by ERO for this period during the review of the maximum allowed revenues for 2022.

It is important to note that according to all forecasts in international stock exchanges, import prices are expected to reach the highest values in the last decade. USS in this application has updated the import prices for the months of July-December 2022, based on the data provided in the international exchanges. In order to avoid any situation that could endanger the security of electricity supply and the need for another extraordinary process after a few months, we ask ERO to take into account the updated import prices provided by the USS and based on market expectations.

The total costs of the USS estimated in this application reach the value of €466.11 million, which compared to the expected revenues, gives a difference of €128.73 million, respectively exceeds the materiality threshold of 5%, as presented in the following table:

MAR 2022 (in mil €)	Approved	Extraordinary review
Energy purchase costs	81.12	194.95
Other costs	266.16	271.16
MAR	347.28	466.11
Expected revenues	347.28	337.37
Materiality Threshold		128.73
Materiality Threshold in %		37.07%

Taking into account the above, the final financial impact for the Universal Service Supplier is 37.07% higher compared to the Maximum Allowable Revenue for 2022.

From the above analysis, it can be seen that the effect of the lack of reimbursement of the electricity subsidy has had the effect of exceeding the materiality threshold for the Universal Service Supplier. Taking into account the expectations of electricity prices and repairs of generating units, respectively the increase of dependence on imports, accurate reflection in accordance with market expectations is necessary to reflect the costs in a fair way. Otherwise, the single supplier can no longer bear these costs, especially since the same has already been significantly affected by the events of the end of the year 2021. As such, the Supplier asks ERO to take into account the data presented and that the failure to evaluate correctly and as accurately as possible the data presented at this stage may create deeper financial problems, which may even endanger the security of the electricity supply.

Appendix:

Detailed calculations for exceptional review