

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

Nr. 45 Dt. 28.12.2021
HQ 1

Ymer Fejzullahu
Chairman of ERO Board

Mesut Serhat Dinc
Managing Director
KESCO J.s.c

28 December 2021

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 Notification of the Energy Regulatory Office (ERO) for the opening of the Extraordinary Review process, dated on December 13, 2021.

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***

December, 2021

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1. Introduction

The energy crisis which has affected the whole world as a result of the enormous increase in electricity prices has hampered the financial stability of the sector, which is becoming more and more difficult every day.

Universal Service Supplier since July 2021 has noticed global signals of rising energy prices. Seeing that the situation will be serious in the coming months, USS in August 2021 had sent an information letter to the Ministry of Economy (ME) a few days, before the Regulatory Office published the Consultative Report of USS Revenues for the year 2021.

In August of this year, the Energy Regulatory Office published the Consultative Report on the licensee's revenues for 2021, which did not take into account any of the actual data submitted by USS. Following the licensee's reaction to the final review of Maximum Allowed Revenues for 2021, ERO based its actual data on January-July but ignored USS requests to reflect expected import prices according to international market forecasts by setting an unrealistic price of about 60% lower than the expected price, respectively realized for the months of August-December 2021. Thus on 07.10.2021 through decision V_1424_2021, ERO approved the Maximum Allowed Revenues for the Universal Service Supplier for the year 2021 in the amount of € 290,139,654. The approved MAR for 2021 reflected the actual sales and costs for the period January-July and the expected sales and costs for the period August-December according to the approved energy balance for 2021. Although the approved MAR took as a basis the actual data January-July, only until October 2021, the costs for the purchase of wholesale energy reached the value of € 123.7 million from 117.3 as allowed.

In addition to rising prices in wholesale markets, the situation began to worsen due to an enormous increase in electricity consumption in Kosovo. This increase has led to an increase in the amount of energy that must be imported in order to cover consumption and the needs of the grid. As domestic production can not meet all the demand for electricity, the required amount of imports exceeds the quantities allowed by ERO during the regular tariff review. Additional imports also represent additional costs for USS, costs which are not foreseen in the Maximum Allowed Revenues for the relevant tariff year 2021.

In this sense, considering the ever-increasing import prices, USS had to bear the financial burden alone until the next tariff review, thus endangering its financial position. Therefore, on October 28, 2021, USS used the right granted from USS Pricing Rule and submitted the request for the extraordinary review, which was handled by the Regulator only in December 2021. Failure to handle the USS's request, raised also through official documents, endangered the financial liquidity, increasing the USS's obligations to other licensees.

ERO, only after receiving the request for extraordinary review by the Distribution System Operator on December 13, 2021, has opened the process for extraordinary review of Maximum Allowed Revenues for the TSO, DSO and USS. During this process ERO will review the applications of the licensees and will analyze all the circumstances created in the energy sector regarding the costs of the system as well as the management of security of supply.

We appreciate the opening of the process for extraordinary review and ask the Regulator to reflect fairly the expected costs in order to maintain the stability of the electricity supply.

2. Financial impact of electricity prices

During the review of the maximum allowed revenues, the estimated sales for 2021 were 4,503 GWh, respectively the approved cost for wholesale purchases in order to cover these sales was € 143.10 million. Actual data show that sales have increased by 5% in volumes, while financial costs have increased by 12% compared to those allowed, although they were based on actual data for January-July.

Purchases in MWh	Approved	Actual
KEK	4,021	4,227
Import	152	192
BRE	359	296
Total	4,531	4,714
Purchases in mil'€	Approved	Actual
KEK	118.63	124.69
Import	12.33	25.83
BRE	12.15	9.47
Total	143.10	159.99

Since the supplier's revenues cover all costs of the power system, its costs and revenues are also affected by pass through costs. Finally, as can be seen in the following table, the realized costs of the supplier have increased by 13% from those approved and compared to the billed revenues the correction factor has reached € 24.4 million or 8% of the allowed MAR, as seen in the following table:

USS MAR 2021	Approved 2021	Actual 2021
Operational Costs	6.26	6.47
Wholesale Costs	147.22	165.88
TSO Costs	17.81	20.96
DSO Costs	90.51	104.90
BRE FUND	9.91	10.45
Other Costs	18.43	19.97
FINAL MAR	290.14	328.63
ACT Revenues	295.21	306.15
KREV 2021	5.07	24.37
Impact		8%

However, the financial impact and costs borne by USS do not end in December, but the same continue to remain the burden of USS until March 2022, when the costs are expected to be reviewed during the determination of the next tariff year.

Supplier forecasts for wholesale purchases according to the draft balance for 2022 only for the first 3 months of 2022 are € 58.3 million, with an average import price forecast of € 484 / MWh, according to the Hungarian market forecast for the first quarter of 2022. If we considering the other expected costs for the first 3 months of 2022, the projected costs of USS reach the value of € 126.7 million. Respectively, considering the impact of KREV for 2021, the total costs of USS for the period January-March reach the value of € 152.1 million, with a percentage of non-coverage of 37%, as presented in the following table:

USS MAR Jan-March 2022		Mil €
Operational Costs		2.04
Wholesale Costs		60.04
TSO Costs		7.59
DSO Costs		47.28
BRE FUND		4.68
Other Costs		30.46
FINAL MAR		152.09
ACT Revenues		95.39
Non-coverage		56.70
Non-coverage in %		37.28%

For clarification, taking into account that the Regulator is in the process of reviewing the input values and the same have not been approved yet, USS in its estimates has used operating and maintenance costs according to actual realizations of 2021 adjusted for inflation rates, while the input values have remained the same as in previous years.

Moreover, in order to accurately estimate the costs of the system, USS in its estimates pass through costs has estimated an increase of 52.04% of tariffs of the DSO and the OST. This increase is based on the increase need of USS without including pass through costs. In the absence of information for other licensees, USS has used the same assumption in their assessments. Any change by ERO in setting tariffs for the DSO and the TSO must be reflected in the final MAR for the Universal Service Supplier.

Taking into account the above mentioned, according to the right granted through the legislation in force and considering the extraordinary conditions created around the world regarding the large increase in electricity prices and in order to maintain financial stability, USS requests from ERO to approve the fair and reasonable requests within the period defined above. On the contrary, the distribution of costs in the long run is not a concrete solution and it should be based on all expected costs for 2022.

3. Request for maximum allowed revenues for 2022

In accordance with the legal requirements and deadlines set out in the Rule on Energy Balance, the licensed Supplier has forecasted consumption for 2022, which were shared with KOSTT as the responsible party for compiling the Energy Balance. The previously submitted forecast has been prepared based on the actual realization by the time the document is prepared, while the rest has been estimated. However, compared to the measured data for the last five months of 2021 with the measured values for the same period last year there is an increase of 12.64%. As a result, USS in forecasting the allowed revenues for 2022 has considered the most realistic expected values of consumption.

In accordance with the expected consumption as stated above, USS has foreseen the necessary purchases for 2022, initially covering the need for domestic production, in accordance with the draft balance for 2022, while the shortages of domestic production are expected to be covered by imports.

The global electricity crisis that spread during 2021, is expected to continue throughout 2022 according to the forecasts of import prices in international markets, which are reflected in the following table:

€/MWh	Off-peak prices	Peak prices
Q1 2022	384.19	492.20
Q2 2022	253.49	305.46
Q3 2022	251.82	308.84
Q4 2022	270.50	338.64

According to the above, the costs of wholesale purchases for the needs of USS in 2022 are € 235 million for 5,081 GWh expected.

Purchase	MWh	€ mil
KEK	4,103	121
Import	316	87
RES	662	27
Total	5,081	235

The regulator in October 2021 re-opened the process of reviewing the input values, which are in the process of review. Without prejudice to the final decisions, USS in its estimates has used operating and maintenance costs according to the current realizations of 2021, adjusted for inflation rates, while the input values have remained the same as in previous years.

Moreover, in order to accurately estimate the costs of the system, USS in its estimates of pass-through costs has estimated a tariff increase of 41.38% for DSO and TSO, which increase is based on the need for increase that USS for 2022 without excluding pass-through costs. In the absence of information for other licensees, USS has used the same assumption in their assessments. Any change by ERO in tariffs determination for the DSO and the TSO must be reflected in the final MAR for the Universal Service Provider.

In accordance with the arguments presented above, the expected costs of the Universal Service Supplier for 2022 are € 479.45 million.

USS MAR 2022	Milion €
Operational Costs	7.87
Wholesale Costs	242.22
TSO Costs	26.24
DSO Costs	145.05
RES FUND	14.45
Other Costs	43.61
FINAL MAR	479.45
Expected revenues	329.80
<i>Incompatibility</i>	<i>149.65</i>
<i>Incompatibility in %</i>	<i>31.21%</i>

Expected revenues with current tariffs are € 329.8 million, respectively we have an incompatibility of € 149.65 million or 31.21% of expected costs.

It is important to note that in order to create financial stability for USS, ERO during the tariff review must take into account the time value of money, so it is very important to reflect in time the expected increases. Possible delays in the fair reflection of the expected tariff will continue to further aggravate the financial stability of USS, and accordingly the need may arise for another extraordinary review.