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KOMPANIA KOSOVARE PËR DISTRIBUIM DHE FURNIZIM ME ENERGJI ELEKTRIKE SH.A.
KOSOVO ELECTRICITY DISTRIBUTION AND SUPPLY COMPANY J.S.C.
KOSOVSKO PREDUZEĆE ZA DISTRIBUCIJU I SNABDEVANJE ELEKTRIČNOM ENERGIJOM D.O.

KEDS - SH.A.

Nr. 108 Dt. 28.12.2021
HQ 1

Ymer Fejzullahu
Chairman of ERO Board

Alpin Dogan
Chief Executive Officer
KEDS J.s.c

28 December 2021

SUBJECT: Application for Extraordinary Review of Maximum Allowed Revenues for the Distribution System Operator

Dear Mr. Fejzullahu,

Through this letter, we are sending the Application for Extraordinary Review of Maximum Allowed Revenues which has been prepared according to the DSO Pricing Rule and the Notification of the Energy Regulatory Office (ERO) for the opening of the extraordinary review process dated on December 13, 2021.

Due to the great importance of this process, the DSO is ready for cooperation in order to reach a common solution for all stakeholders in the energy sector.

Sincerely,


Alpin Dogan
Chief Executive Officer, KEDS J.s.c



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Application for Extraordinary Review of Maximum Allowed Revenues

Distribution System Operator

December, 2021



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Content:

1. Introduction	3
2. Financial impact of electricity prices.....	4
3. Request for maximum allowed revenues for 2022.....	6



1. Introduction

The Distribution System Operator has prepared the application for extraordinary review for the maximum allowed revenues (MAR), in accordance with the Rule for Maximum Allowed Revenues of the Distribution System Operator (DSO Pricing Rule), and the notification of the Energy Regulatory Office (ERO) dated 13 December 2021 for the opening of the extraordinary review process.

The increase in electricity prices starting from July 2021 has affected all European countries, affecting the power system of Kosovo. Energy Regulatory Office with decision no. V_1423_2021 dated 07.10.2021 has approved the Maximum Allowed Revenues for the Distribution System Operator for 2021 in the amount of € 90,513,266, which resulted in a reduction of the distribution tariff by an average of 12.5%.

Considering the reduction of tariffs for the Distribution System Operator in this period, while the import prices are extremely high compared to the prices approved by ERO during the review of the maximum allowed revenues in October 2021. Contrary to the requirements of the DSO for accurate reflection of costs, the Distribution System Operator was in a very difficult financial position, making it impossible to provide the necessary revenue against unreflected costs and necessary to cover its costs.

Faced with a situation where the growth of consumption has exceeded the forecasts of ERO that were used during the review for the allowed revenues of the DSO and also import prices have marked an enormous increase compared to the prices allowed by ERO, DSO raises the concerns of with ERO and the Ministry of Economy both for the load management and for the aggravated financial situation, requesting concrete measures and immediate actions, in order to avoid a situation where the stable operation of the DSO is impossible, but which did not give the desired effects. Therefore, according to the right granted through the legislation in force and taking into account the extraordinary conditions created around the world regarding the rapidly large increase in electricity prices, the DSO asked ERO to review the request submitted for extraordinary review on November 15, 2021, as a last resort to protect the licensee from the this situation.

Following the document, the DSO has presented the current situation and the necessary request in order to accurately reflect the costs required to ensure the consistency of DSO operations. Any change from the claim presented and argued below seriously jeopardizes the DSO's operations. The process for extraordinary review opened by the Regulator has recently been delayed, and apart from the fact that there is time until the tariffs are approved, it does not offer liquidity solutions, therefore the inaccurate non-reflection of necessary costs reflecting the tariff increase of the DSO endangers the power system in country.



2. Financial impact of electricity prices

In power systems, losses refer to the difference between the electricity entering into system and the energy distributed to the final customers and the Distribution System Operator is responsible for purchasing electricity to cover losses in the distribution network.

The total costs of allowed losses for the DSO for 2021 are 952.7 MWh or € 50.9 million, while the current data for 2021 show that the DSO has purchased 1,019 MWh of allowed losses at a cost of € 87.5 million, thus for 7% increase in volumes DSO has paid 72% more costs, not including the excess losses for which the DSO bears the financial burden. It is important to clarify that the Regulator in determining the maximum allowed revenues has used current data for January-July, respectively the comparison of costs represents the difference only for the months August-December.

Realized revenues by the DSO for 2021 are € 104.9 million, while the total quota realized reached € 121.8 million, so the DSO has carried the financial burden of about € 18.2 million (excluding costs for losses exceeded), which represents 20.10 % of allowed MAR, as shown in the following table:

DSO MAR 2021	Approved 2021	Actual 2021
OPEX	25.53	25.53
DEPC	16.21	16.21
RTN	15.94	15.94
Losses	50.88	87.54
MO&SO	1.30	1.12
Unregulated Revenues	(3.50)	(8.64)
Adjustments PR1	(1.50)	(1.50)
License Fee	0.10	0.10
KREV	(14.44)	(14.44)
MAR	90.51	121.85
Sales		104.90
KREV		18.19
Impact		20%

However, the financial impact and costs borne by the DSO do not end in December, but it continues until March 2022, when costs are expected to be reviewed during the determination of the next tariff year.

DSO forecasts for the purchase of allowed losses according to the draft balance for 2022 only for the first 3 months of 2022 are 94.4 million €, with an average import price forecast of 440.6 € / MWh, according to Hungarian market forecasts for the first quarter of 2022, while the expected revenues for the first quarter of 2022 are € 31.1 million. Respectively, the impact of KREV for 2021 and the expected costs for the first



quarter of 2022 show a cost of 112.6 million euros, with a non-coverage percentage of 72%, as presented in the following table:

Allowed Losses	15.10%
Expected EED	2,077
Avg. Price	301.06
Cost of Losses	94,409
KREV 2021	18,195
Cost for DSO	112,604
Expected revenues January-March 2022	31,096
Non-coverage	81,508
Non-coverage in %	72%

If we take into account other costs for the first 3 months of 2022, in accordance with the costs set for 2022 in the second regulatory period, the projected costs of the DSO reach the value of € 108.9 million. Respectively, considering the impact of KREV for 2021, the total costs of the DSO for the period January-March reach the value of € 127.05 million, with a percentage of non-coverage of 76%, as presented in the following table:

DSO MAR Jan-March 2022	Million €
OPEX	6.42
DEPC	4.47
RTN	4.18
Losses	94.41
MO&SO	0.57
Unregulated Revenues	(0.88)
Adjustments PR1	(0.38)
License Fee	0.06
KREV	18.19
MAR	127.05
Expected revenues January-March 2022	31.10
Non-coverage	95.96
Non-coverage in %	76%

Therefore, according to the right granted through the legislation in force and taking into account the extraordinary conditions created around the world regarding the large increase in electricity prices and in order to maintain financial stability, the DSO requires ERO to approve the fair and reasonable requests to



the DSO within the period specified 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

The global electricity crisis 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 price	Peak price
Q1 2022	384.19	492.20
Q2 2022	253.49	305.46
Q3 2022	251.82	308.84
Q4 2022	270.50	338.64

Therefore, the DSO has estimated the necessary costs for 2022, based on the expected production according to the draft balance of 2022 and the real energy expectation at the entrance of the distribution system. The expected energy at the distribution level for 2022 is 6,594 GWh, while the expected costs for the allowed losses are € 225.4 million, with an average price of € 226.3 / MWh.

Allowed Losses	15.10%
Expected EED in GWh	6,594
Avg. Price	226.3
Cost of Losses	225.4

Considering the other costs allowed under the DSO Pricing Rule, in accordance with the costs set for 2022 in the second regulatory period, the projected costs of the DSO for 2022 reach the value of € 300.5 million, as presented in the following table:

DSO MAR 2022	Million €
OPEX	25.69
DEPC	17.89
RTN	16.71
Losses	225.35
MO&SO	1.52
Unregulated Revenues	(3.50)
Adjustments PR1	(1.50)
License Fee	0.17
KREV	18.19
MAR	300.53



MAR request for 2022 is 232% higher than the approved MAR of 2021. Expected revenues with current tariffs are € 102.6 million, respectively we have a non-coverage of € 197.93 million or 66% of costs expected.

It is important to note that in order to create financial stability for the DSO, ERO during the tariff review must consider the time value of money, so it is very important to reflect in time the expected increases. In the table below you can find exactly the necessary tariff increases to rightly reflect the effect of costs versus temporary revenues. The table below assumes that the expected tariff increase will start to apply in February 2022 and will continue throughout the year.

Expected sales		Total 2022
Expected revenues		Total 2022
35 kv		1,622,692
10 kv		16,839,525
0.4 kv		282,892,502
Annual discount coefficient		1%
Total		287,587,664
Forecast MAR		Total 2022
Dep		17,890,204
Return		16,712,386
Opex		25,690,471
Kostt		1,689,051
Adj	-	5,002,938
Losses Allowed		225,351,642
Krev		18,194,898
Total		300,525,714
Annual discount coefficient		1%
Total		287,587,664

Possible delays in the fair reflection of the expected tariff will continue to further aggravate the financial stability of the DSO, and consequently the need may arise for extraordinary review again.