

Ymer Fejzullahu
Chairman of ERO Board

Mesut Serhat Dinc
Chief Executive Director
KESCO J.s.c

Date: 23.01.2023

SUBJECT: Application for Maximum Allowed Revenues for 2023

Dear Mr. Fejzullahu,

The Universal Service Supplier (USS) on 6 December 2022 has submitted to ERO its request for extraordinary review. Only on 11 January 2023, ERO officially opened the process of extraordinary review.

Taking into consideration that extraordinary review is in process, and deadline for submitting Application for Maximum Allowed Revenues for the supplier, conform USS Pricing Rule is 50 working days before the start of the forthcoming tariff Year, The Universal Service Supplier (USS) has prepared the Maximum Allowed Revenues Application for the year 2023.

KESCO remains committed to cooperation in order to reach common conclusions which are in the interest of all participants in the energy sector.

Sincerely,




Mesut Serhat Dinc
Chief Executive Director, KESCO J.s.c

	NJËSIA PËR TARIFA DHE ÇËSHTJE RREGULLATIVE	Nr.	KESCO-BCC-F-BCT-02
		Façe	Faqe 1 prej 8
	APLIKIMI PËR TË HYRAT E LEJUARA MAKSIMALE	Versioni	1.0

APPLICATION FOR MAXIMUM ALLOWED REVENUES IN 2023 FOR UNIVERSAL SERVICE SUPPLIER

January, 2023

	NJËSIA PËR TARIFA DHE ÇËSHTJE RREGULLATIVE	Nr.	KESCO-BCC-F-BCT-02
	APLIKIMI PËR TË HYRAT E LEJUARA MAKSIMALE	Faqe	Faqe 2 prej 8
		Versioni	1.0

Content

1. Introduction.....	3
2. Costs of purchase wholesale energy	4
3. Retail costs	5
4. Pass-through costs.....	6
5. Adjustments and revenues correction factor.....	7
6. Determination of MAR for the relevant year t.....	7

	NJËSIA PËR TARIFA DHE ÇËSHTJE RREGULLATIVE	Nr.	KESCO-BCC-F-BCT-02
	APLIKIMI PËR TË HYRAT E LEJUARA MAKSIMALE	Faqe	Faqe 3 prej 8
		Versioni	1.0

1. Introduction

The increase in import prices during 2021 to unprecedented levels paved the way for the opening of the extraordinary review at the end of 2021. This process was concluded in February 2022 with the decision on the Maximum Allowed Revenues for the USS, Decision no. V_1486_2022 of dt. February 7, 2022. According to this decision, the costs of purchasing energy for USS were reduced in all calculations in the amount of 100 million euros, since ERO had taken as a basis the decision of the Government of the Republic of Kosovo on the allocation of electricity subsidies for regulated consumers in the amount of 100 million euros.

Although the decision was taken in February 2022, the allocation of subsidy funds was made at the end of August 2022. In these circumstances, the supplier was put in a difficult financial position, leaving it to operate below cost from 2021. As a cause of delays in the allocation of subsidy funds, USS in July 2022, had submitted to ERO, “The Request for an extraordinary review of the Maximum Allowed Revenues”, in accordance with the USS Pricing Rule. After assessing the situation, ERO opened the extraordinary review process in August 2022, but after the allocation of the subsidy for the months of February-July, ERO officially closed the extraordinary review process on the grounds that the circumstances for extraordinary review have ceased due to budget allocation of 41 million euros for subsidizing electricity for customers regulated by the Government.

As a result of higher actual costs than those recognized in tariffs and lack of allocation of full subsidy within the financial year, USS in early December 2022 again submitted a request for an extraordinary review of the maximum allowed revenues. Following USS's request, on January 11, 2023, the ERO initiated the extraordinary review process through which it confirmed that the USS has passed the materiality threshold, as defined by the USS Pricing Rule.

This whole situation was concerned by the energy crisis spread all over the world initially as a result of the enormous increase in import prices during 2021 which then took off during 2022 as a result of Ukraine's war with Russia. This has concerned all costs to increase continuously, making it difficult for the financial stability of the USS for two whole years.

In accordance with Appendix 3 of the Rule on Determination of Revenues for Universal Service Supplier (USS Pricing Rule), KESCO as an entity licensed by the Regulator to perform Universal Service Supply has prepared the Application for the maximum allowed revenues (MAR) for the year 2023. Through the request for the maximum allowed revenues for the year 2023, USS will ensure stable operation and the highest quality services for all customers.

In this Application, are presented technical and financial data for energy purchases from local production and import, namely wholesale energy purchases, operating expenses, current expenses and adjustments for previous years, while during the determination of the maximum allowed

	NJËSIA PËR TARIFA DHE ÇËSHTJE RREGULLATIVE	Nr.	KESCO-BCC-F-BCT-02
	APLIKIMI PËR TË HYRAT E LEJUARA MAKSIMALE	Faqe	Faqe 4 prej 8
		Versioni	1.0

revenues, the parameter values were used according to the ERO decision V_1476_2022 of January 14, 2022.

2. Costs of purchase wholesale energy

The Universal Service Supplier annually forecasts sales to its customers for the coming year, using historical information and other components that affect sales, such as weather conditions and economic growth (inclusion of new customers, energy purchase indices, GDP, etc.).

According to the Draft Electricity Balance sent to ERO, the estimated sales for USS for 2023 are 5,145 GWh, as shown in the table below:

Voltage level	Total
Customers connected to the voltage level 35 kV	59
Customers connected to the voltage level 10 kV	434
Commercial customers 0.4 kV	453
Commercial customers 0.4 kV / II	766
Households customers	3,392
Public Lighting	41
Total consumption at distribution level	5,145

Energy purchases to cover the needs of USS are predicted every hour and consist of KEK generation, Renewable Energy Sources and import (when local production is insufficient to cover consumption needs).

In Kosovo, electricity production is dominated by two large thermal power plants which cover most of the demand in the country, while the remaining part is covered by Renewable Energy Sources and Imports.

Based on the forecast of consumption and hourly available capacities of local production provided in the draft energy balance for 2023, USS has foreseen energy purchases according to the source of production as in the following table:

Energy Balance 2023	GWh
Purchases	5,145
<i>KEK Generation</i>	4,321
<i>Purchases from RES in contractual relationship with KOSTT</i>	584
<i>Purchases from RES in contractual relationship with KESCO</i>	45
<i>Imports</i>	195
Consumption	5,145
Surplus / Deficit	-

	NJËSIA PËR TARIFA DHE ÇËSHTJE RREGULLATIVE	Nr.	KESCO-BCC-F-BCT-02
		Faqe	Faqe 5 prej 8
	APLIKIMI PËR TË HYRAT E LEJUARA MAKSIMALE	Versioni	1.0

The USS Pricing Rule has determined that energy costs for the regulated supplier consist of:

- Costs of energy procured from domestic generation;
- Energy import costs;
- Energy purchase retail margin;
- Net imbalance costs, subject to imbalance sharing factor;

In order to calculate the costs for electricity purchases to cover consumption needs, USS in this application has used the unchanged price for local generation. Also, in the absence of information about the reference price of RES until the stage of application, in this application the current reference price is used for the calculation of purchases from RES in the contractual relationship with the Market Operator. As for RES in a contractual relationship with the USS, according to the request of the ERO, the actual price has been updated, where the USS, in accordance with the agreements in force, has applied the inflation rate and the methodology of 2017.

USS's forecasts for electricity purchases from imports according to the draft balance sheet for 2023 are 195 GWh with an average import price forecast of 228.60€/MWh, according to the latest forecasts in international markets, although the same have shown constant variation in import prices and do not include the costs of the capacities needed to bring electricity to the country.

In accordance with the above, and according to the formula for the determination of Wholesale Purchase Costs given in the USS Pricing Rule, the total costs for covering the consumption forecast for the year 2023 as 217.8 million €.

Description	GWh	mil€
KEK Generation	4,320.7	127.5
Import	195.2	44.6
RES Production in contractual agreement with KOSTT	584.3	38.1
RES Production in contractual agreement with USS	44.5	2.2
Retail margin		5.4
Total Wholesale Energy Purchase Expenses	5,144.8	217.8

3. Retail costs

Allowed retail costs include operating and maintenance costs, corporate costs, depreciation costs and costs which are outside the control of the USS. These costs are recognized by the Regulator as reasonable and enable the Supplier to operate properly.

USS operates within the allowed budget, creating efficiencies whenever possible in certain items in order to be able to cover increased costs in other items.

	NJËSIA PËR TARIFA DHE ÇËSHITJE RREGULLATIVE	Nr.	KESCO-BCC-F-BCT-02
	APLIKIMI PËR TË HYRAT E LEJUARA MAKSIMALE	Faqe	Faqe 6 prej 8
		Versioni	1.0

Although during the review of the parameters, the Regulator has determined the operating expenses for the year 2023, USS in this application has adjusted the salary line, to reflect an increase of 5%, which resulted as a necessity after the increase in basic prices, which depleted the basket of the consumer, also confirmed according to the World Bank's update on food security "Food Security", especially in low and middle income countries, including Kosovo. As a result, during 2022, USS also faced employee's protests, which hampered the daily operations of the supplier.

It is also important to note that as long as the number of consumers is constantly increasing, this growth is affecting the increase in costs for providing services to these customers. For more, the needs of the time in which we are living are demanding continuous improvement of the providing of services, adding the need to bring into use various technological programs, the cost of which is very high. The increase in the number of customers is affecting the increased volume of tasks and responsibilities in the workplace. Therefore, rightly USS in this application foresees an increase in salaries for employees in order to reflect their value to the company and their leveling with the salaries of other licensees of the sector.

In addition, in accordance with the USS Pricing Rule, USS will adjust for inflation the approved 2022 costs, both for OPEX and depreciation costs.

4. Pass-through costs

Pursuant to Article 18 of the USS Pricing Rule, during the determination of the MAR, the USS will cover the following costs:

- MO costs that are invoiced by MO and relate to USS Customers;
- SO costs which are invoiced by SO and relate to USS Customers;
- TNUOS costs that are invoiced by TSO and relate to USS Customers;
- Distribution Use of System costs that are invoiced by the DSO and relate to USS Customers;

Meanwhile, based on the USS Pricing Rule since there are no differences in the time limits when other licensees submit their applications, the USS will use the information that is available until the time of submission of this application, respectively will apply the actual prices to the estimated consumption for the calculation of these costs during the request for the maximum allowed revenues for the year 2023. Any changes by the ERO during the determination of the tariffs for DSO and TSO should be reflected in the final MAR for the Supplier with Universal Service.

	NJËSIA PËR TARIFA DHE ÇËSHTJE RREGULLATIVE	Nr.	KESCO-BCC-F-BCT-02
	APLIKIMI PËR TË HYRAT E LEJUARA MAKSIMALE	Faqe	Faqe 7 prej 8
		Versioni	1.0

5. Adjustments and revenues correction factor

During each tariff year the supplier foresees its costs which are approved by the Regulator. However, during the actual year there are differences between the allowed and actual costs, therefore through a correction factor these costs are adjusted reflecting the difference between the allowed and actual costs.

In accordance with the USS Pricing Rule, the 2022 revenues correction was made, and the correction factor turned out to be 47.68 million €, as shown in the table below:

Description	mil €
Approved MAR	347.28
Actual MAR	446.67
Actual sales	331.04
February-December subsidy	70.45
It	5.53%
Revenues adjustment factor (ADJt)	47.68

	NJËSIA PËR TARIFA DHE ÇËSHITJE RREGULLATIVE	Nr.	KESCO-BCC-F-BCT-02
	APLIKIMI PËR TË HYRAT E LEJUARA MAKSIMALE	Faqe	Faqe 8 prej 8
		Versioni	1.0

6. Determination of MAR for the relevant year t

The Maximum Allowed Revenues (MAR) for 2023 will be covered by Regulated Retail Tariff and only includes the costs of customers to be supplied by the Universal Service Supplier.

The table below presents a summary of the request for the Maximum Allowed Revenues for the USS for the year 2023, after knowing all the cost elements, as explained in the previous chapters and in accordance with the expression for the calculation of the Maximum Allowed Revenues in relevant year:

$$MAR_t = (RETR_t + WCLC_t + WHPC_t + PSTC_t - NTFR_t + KREV_t) / (1 - BDTA_t)$$

USS MaR for the year 2023	mil €
It	5.53%
Allowed retail costs	5.83
<i>OPMC_t</i>	5.70
<i>DEPC_t</i>	0.12
Pass-Through Costs (PSTC_t)	216.09
Costs of TSO	20.67
DSO costs	191.66
BRE fund	3.77
Working capital costs (WCLC_t)	2.03
Wholesale Power Costs (WHPC)	217.76
WHPC	212.37
Retail margin	5.39
Revenues Adjustment Factor (ADJ)	47.68
BDTA	2.20%
USS MAR	500.40

Billing determinants for 2023 are based on the sales volumes foreseen in the Draft Energy Balance. With the application of the actual tariffs on the billing determinants foreseen for the year 2023, expected revenues are in the amount of 365.16 million €.

As we mentioned above, the energy and economic crisis that characterized the year 2022 and that will continue to be present throughout the year 2023, have already seriously damaged the financial situation of USS. The USS has already faced major financial problems and needs time to recover, therefore any reflection will have a positive impact on the proper operation of the USS.

In this perspective, all the costs presented in this application are reasonable costs for which we ask the Regulator to recognize them as reasonable. USS remains committed to cooperation in order to reach appropriate conclusions, which are in the interest of all parties involved in the energy sector.