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| <b>To:</b>   | Energy Regulatory Office - ERO   |
| <b>From:</b> | Office of the President of the Republic of Kosovo – OPRK   |
|              | Comments from the Office of the President of the Republic of Kosovo in relation to the extraordinary review process for Maximum Allowed Revenues for Operated Regulators |
| <b>Date:</b> | 3 March 2023   |

The Office of the President of the Republic of Kosovo has paid considerable attention to the developments in the energy sector in the country, given that it is a strategically important sector for economic development and especially due to the fact that it has direct impact in the wellbeing of the citizens of the Republic of Kosovo.

During 2022, as a result of the increase of electricity prices in power exchanges in Europe, combined with the unfavourable situation regarding the electricity generation in the country due to depending heavily on two extremely old thermal power plants as well as due to the insufficient domestic production to cover consumption demands, there have been continuous challenges on guaranteeing the security of supply.

We recall that following the opening of the extraordinary tariff review process, at the end of 2021, the process was concluded in February 2022, with the Decision on Maximum Allowed Revenues for USS, Decision V\_1486\_2022, dated on 7 February 2022, which resulted in the increase of tariffs.

As a result, the customers of the tariff above 800 kilowatt per hour would be subject to the high tariff of 12.5 cent per kilowatt and 5.9 cent for the low tariff. Whereas, the customers who consume up to 800 kilowatt per hour in a month, would be subject to the high tariff of 7 cents and low tariff in the amount of 3 cents.

This increase of tariffs was foreseen to not impact the customers who would consume up to 800 kilowatt per hour due to the subsidy from the Government of the Republic of Kosovo. The increase of tariffs also spared the businesses in the regulated market. Despite this, the increase of tariffs generally presented a serious challenge to our citizens.

Parallel to these developments, there was an increase in the efforts of Kosovo's institutions, but also of the citizens themselves, for advancement and serious investments in energy efficiency measures. As a result of this, the Ministry of Economy reports that during the winter months the level of savings has gone from 4 to 15%, which also means a reduction in the demand for energy generation or import.

Despite the increase of tariffs in 2022 in the extraordinary review, regulated operators have argued that due to the higher current costs than the ones recognized in tariffs and due to the absence of the full allocation of the subsidy from the Government of the Republic of Kosovo, as well as inflation and the increase of operational costs within the financial year, the need to request an extraordinary review of Maximum Allowed Revenues has arisen again.

Based on this, according to preliminary evaluations of ERO, it is estimated that an increase of tariffs of 14% can be expected.

The Office of the President of the Republic of Kosovo expresses its concern on the eventual socio-economic impact that such a decision implies and the burden that it causes to the citizens and especially more vulnerable groups of society, such as pensioners, single mothers, welfare recipients and marginalized people and families.

This situation becomes even more concerning due to the fact that based on the report of KSA for 2022, compared to 2021, the annual inflation rate in December was 12.1%. Whereas the monthly inflation measured from the harmonized index of consumer prices was 0.9%, which impacted the increase in the general cost of living and the impoverishment of the customers' basket.

Taking into account the circumstances mentioned above, the OPRK recommends that in this extraordinary tariff review, the possibilities for avoiding the increase in tariffs shall be considered by encouraging inter-institutional communication and coordination in order to ensure the subsidization of additional costs that have impacted the increase of difficulties for regulated operators.

In this regard, the EU's Energy Support package for Kosovo could also contribute, through which 75 million euros have been provided to help deal with the energy crisis. According to the agreement between Kosovo and the EU, 25 million euros will go towards subsidizing energy bills and alternative heating methods, such as wood and pellets.

Therefore, the OPRK recommends that before making a final decision, the possibility of subsidization should be seriously considered, avoiding the need for a new decision of ERO, which would result in further increase of tariffs in our country.

In particular, we emphasize the importance of avoiding such a decision by ERO, given that, based on previous practices, after the decisions made in extraordinary tariff review processes, a subsequent re-evaluation has never been conducted, which eventually would affect the restoration of the original tariffs which were valid before the increase, in case of rehabilitation of the factors that initially caused the need for extraordinary review.

OPRK fully respects the independence of ERO, but encourages that the process shall be finalized following the full consideration of the socio-economic situation in the country, and at the same time not jeopardizing the stability, security and sustainability of the energy system.