



Ndërtesa e Elektrokosovës
Bulevardi Bill Klinton nr.3
Prishtine 10000
Republika e Kosoves

Elektrokosova Building
Bill Clinton Boulevard no.3
Prishtina 10 000
Republic of Kosovo



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

Nr. 81 Dt. 28.09.2022
HQ 1

Ymer Fejzullahu
Chairman of ERO Board

Alpin Dogan
Chief Executive Officer
KEDS j.s.c

28 September 2022

Subject: Comments of the Distribution system operator to ERO Consultative Reports on input values for the period 2023-2027

Dear Mr. Fejzullahu,

This document summarizes the comments of the Distribution System Operator to the Consultative Reports of the Energy Regulatory Office (ERO) on input values for the period 2023-2027.

DSO has prepared comments for input values such as:

- The weighted average of the Cost of Capital;
- The allowed level of losses and losses sharing factor; and
- Efficiency factor;

Due to the great importance of this process, DSO is open and ready for further discussions whenever necessary.

Best Regards,


Alpin Dogan
Chief Executive Officer

Appendix:

*Comments of DSO to the ERO Consultative report on the weighted average cost of capital (WACC),
Comments of DSO to the ERO Consultative report on the Loss reduction target,
Comments of DSO to the ERO Consultative report on the Efficiency factor.*



Ndërtesa e Elektrokosovës
Bulevardi Bill Klinton nr.5
Prishtinë 10000
Republika e Kosovës

Elektrokosova Building
Bill Clinton Boulevard no.5
Prishtina 10000
Republic of Kosovo



***Comments of Distribution System Operator to the ERO
Consultative Report on the Loss Reduction Target***

September 2022



1. Introduction

On 13 September 2022, the Energy Regulatory Office (ERO) published the Consultative Report on the Loss Reduction Target. In this consultative report published by ERO is presented the initial assessment for the loss reduction target for the transmission and distribution system for the period 2023-2027.

In following this document, DSO will present its stand regarding ERO's proposal for the loss reduction target for the regulatory period 2023-2027 and the reasons for all issues for which it does not agree with ERO's stand, together with supporting arguments.

KEDS, as a licensed Distribution System Operator is available to meet with ERO at any time to discuss the all raised issues in ERO's consultative report and the counterarguments provided in this document.

2. Comments of DSO

In the Consultative Report on the loss reduction target, ERO has proposed that the level of losses for the Distribution System Operator for the third regulatory period start at 15.1% and end at 11.1%. ERO has emphasized that the proposal for the loss target has taken into account factors such as:

- The current state of electricity supply and the unprecedented increase in import prices
- Difficulties and challenges of system operators in achieving targets in the second regulatory period (PR 2)
- Development and investment plans proposed by operators in order to reduce losses
- Regional studies and practices
- The targets defined in the Draft Energy Strategy of Kosovo 2022 - 2031 and
- The approach used by ERO to determine the level of losses in past tariff reviews

However, in the analyzes and evaluations made by ERO, it was not further argued how each of these factors influenced. ERO's proposal for loss reduction targets is based on historical data without delving into technical aspects and detailed analysis.

DSO, on the other hand has based its proposal for the permitted level of losses on arguments, technical reports, investment plans and analyzes which are reliable and achievable. Considering this, we believe that it is very disturbing and inappropriate to base the calculation for the reduction of losses only on historical data, taking into account the difficult situation in the energy sector in Kosovo as a result of the general energy crisis.

2.1. Capital Investment

The distribution system operator in the proposal for the permitted level of losses for the period 2023-2027 has based it on the realistic possibilities of reducing losses based on the investment projects which have been submitted for review and approval to ERO. According to the Investment Plan, during the



planning of the reduction of losses as a basis were taken, the reduction of losses from the projects selected for investments in MV and LV.

Medium voltage investments mainly affect the reduction of technical losses, such projects mainly include the conversion at the 20 kV level, while for the projects that do not support the conversion, projects aimed at improving safety, efficiency, reliability and technical quality are foreseen, which have major impact on sustainability and quality of supply. MV projects at the end of the regulatory period are expected to contribute to the reduction of technical losses by 0.71 pp.

Other projects are foreseen mainly at the LV level, which affect both the reduction of technical and commercial losses, although it is difficult to separate them. In LV projects, according to the actual losses and based on the practices of the results of the past years, at the end of the regulatory period, they are expected to contribute to the reduction of technical losses by 0.24 pp, while commercial losses by 1.16 pp. The reduction of commercial losses is also influenced by the reading and checking of meters with 1.49 pp as shown in the following table:

	Impact on reducing Total losses (pp)	Impact on reducing Commercial losses (pp)	Impact on reducing Technical losses(pp)
LV Projects	1.40	1.16	0.24
MV Projects	0.71	0	0.71
Reading and checking	1.49	1.49	
Total	3.60	2.65	0.95

Tab 1: Impact of investments project on reducing losses

According to the 5-year investment plan (2023-2027) with a total investment of 156 million euros, technical losses are expected to reach 11.48% from 12.43%, which is the expectation for 2022, or 0.95 pp lower, while commercial losses are expected to reach 1.82% from 4.47%, which is the expectation for 2022.

The elimination of commercial losses beyond the 1.82% predicted by the DSO at the end of 2027 is an unrealistic expectation. The distribution system operator on an annual basis controls nearly 100,000 consumers, while the number of cases billed with reclaim losses is nearly 10,000 consumers per year. The annual number of cases that are processed in the courts are over 3,500, while less than 50% of them manage to be handled by the courts. On an annual basis, the number of cases that lose the right to legal prosecution is more than 50%, while in the last 3 years no abuser has been sentenced to prison. As a result of bureaucratic procedures and because the justice system acts very slowly, operators find it very difficult to fight them, including repeat abusers who misuse electricity more than one time. Moreover, with the increase in the prices of products, including electricity, developed countries have also been alarmed by the increase in the number of misuses¹, therefore any claim to reduce commercial losses beyond the DSO forecast is unfounded.

¹ EnergyLive New, August 2022, "Misuses of electricity increase with the increase in electricity prices" <https://www.energylivenews.com/2022/08/05/does-energy-crisis-exacerbate-electricity-theft/> (Last visited on 25.09.2022)



Also, if we look at the analysis of the value of investments in the face of reducing technical losses, we will see that for 1 additional percentage point, more than 120 million euro of new investments are needed, which is practically impossible, including the capacity of contractors operating in Kosovo.

Year	2023	2024	2025	2026	2027	Average	Additional
Loss reduction (%)	0.20	0.19	0.20	0.19	0.17	0.19	1.00
Investment (mil)	21.93	25.02	24.37	22.14	21.25	22.94	120.96

Tab 2: Impact of network investments on reducing technical losses

As it said above, the possibility of the Distribution System Operator to reduce losses beyond 13.3% is not realistic. We understand that in order to keep losses at a low and reasonable level, regulators create incentive mechanisms that provide rewards (or penalties) to network operators whenever losses are below (or above) a predetermined target level. These mechanisms are justified by the fact that network operators have the ability to control losses. Therefore, it is important to ensure that network operators have adequate incentives so that they make a proper effort to evaluate the costs and benefits of reducing losses and thus optimize the level of losses in the most efficient way. At the same time, this coincides with article 12 point 5 of DSO Pricing Rule, according to which *"The Loss Allowance and Loss Sharing Factor shall be sufficient to encourage the DSO to reduce Distribution Losses but not impose costs on the DSO such that its financial position is threatened."*

2.2. Energy Strategy of Republic of Kosovo

ERO in the consultative report has mentioned that in the planning of the loss target for DSO, it has taken into consideration the strategic objectives that address the reduction of losses for the period 2022-2031 according to the Energy Strategy of the Republic of Kosovo, in which it is foreseen that the losses at the level of distribution in 2024 to be 14.5% while in 2031 of 9%, and that in the period 2024-2031 it is intended that there will be no commercial loss.

Since the Energy Strategy of the Republic of Kosovo has not yet been approved, DSO considering the real situation and the effects of events such as the pandemic, the energy crisis and the general crisis as a result of the war in Ukraine, at the stage of the Public Consultation on the Energy Strategy has assessed the level of losses from 15.05% until 2024, which is in accordance with the proposal of DSO for the level of losses for the period 2023-2027 submitted to ERO. The proposal of the DSO is discussed during the meetings held for the drafting of the Energy Strategy, which is in the process of review.

Regarding commercial losses and the goal that has been set in the Energy Strategy to completely eliminate commercial losses, it is worth noting that DSO in its legal powers will undertake all actions to combat losses commercial, but their reduction also depends on factors beyond the control of the DSO, which require legal changes and continuous support from the legislative authorities, so such arguments cannot be accepted in determining the objectives.

DSO reiterates that these targets are unrealistic compared to the existing situation. Moreover, even in developed countries, commercial losses are a present phenomenon, although they are reported at the level of general losses.



In the consultative report on the loss reduction target, ERO has predicted that the overall loss reduction target for the period 2023-2027 will be 4 pp from the initial level of 15.1% in 2023 to 11.1% in 2027, according to the preliminary trend. However, based on the forecast of ERO, if the reduction of losses within this period reaches 11.1% in 2027, then the overall target of reducing losses in the next regulatory period should be 2% in order to be in line with strategic objectives that at the end of 2031 the total losses will be at the level of 9%, and that the same would not be in harmony with the historical trend of reducing losses, as ERO bases the approach during the assessment of losses for the third period regulatory. Moreover, in the consultative report, while reviewing the trend of decreasing losses over the years, for the year 2023, the trend predicts that losses at the distribution level will be at the level of 15.9%, which also corresponds to the request of DSO to reflect the effect of the pandemic.

2.3. Pandemic effect and Energy crises

The operator of the distribution system in the proposal for the allowed level of losses has emphasized that the past regulatory period (2018-2022) was characterized by several events which had a negative effect on the achievement of the goals set by ERO.

To prevent the spread of COVID-19, governments have implemented lockdown measures unprecedented in modern society. One of the main consequences has been the paralysis of commercial and industrial sectors around the world, including the electricity sector.

Initially, the Covid-19 pandemic caused the change of general consumption behavior during 2020. Since most people were forced to organize work from home, this caused household consumption to increase beyond the predictions of the energy balance. While the closure of economic activities, according to the decisions of the Government of the Republic of Kosovo, in this period affected a large reduction in the consumption of commercial consumers. In addition, DSO staff have not been allowed to check the measuring points for weeks, which resulted in increased cases of misuse of measuring points. The inability to read the meters of commercial customers also directly affected the billing effect and the actual reflection of losses. Also during the time of the COVID-19 pandemic, as a result of worldwide government actions, there have been significant delays in the delivery of various materials needed for investments in the network, which also affected the realization of investments according to DSO forecasts. The limitation of commercial activities during this time made it impossible for the contractors to carry out the planned investments on time. In this sense, DSO found it impossible to achieve the targets set by ERO despite maximum commitment.

These effects of the pandemic have been unfairly considered unstable by ERO, although during 2020 DSO has continuously reported on the operations and impacts of the pandemic. Moreover, other countries² have reported the effect of the pandemic on increasing the number of abusers and/or losses in general

² Energy and Economy Growth, Applied Research Programm 2021 “ For businesses in developing countries, raising revenue can be challenging – and COVID-19 could make the problem worse”
<https://www.energyeconomicgrowth.org/blog/utilities-developing-countries-revenue-collection-can-be-challenging-and-covid-19-could-be> (Last visited on 25.09.2022)



as a result of isolations³. DSO has continuously repeated the negative effect that the pandemic has had and through data has argued the impact of the pandemic in reducing losses. Therefore, we consider that this pandemic effect of 0.7% should be recognized by ERO.

3. Proposal for the loss reduction target

DSO, based on the explanations and arguments provided above, has presented proposals for the loss reduction target for the period 2023-2027, which technically and practically cannot be less than 13.3% at the end of the third regulatory period.

	2023	2024	2025	2026	2027
EED	6,791,783	6,995,537	7,137,546	7,345,249	7,552,385
Evaluation of DSO					
Losses in MWh	1,079,894	1,052,828	1,031,375	1,017,317	1,004,467
Losses in %	15.90%	15.05%	14.45%	13.85%	13.30%
ERO proposal					
Losses in %	15.10%	14.70%	13.30%	12.10%	11.10%
Losses in MWh	1,025,559	1,028,344	949,294	888,775	838,315
The difference	54,334	24,484	82,082	128,542	166,152

Tab 3: Reduction of losses in terms of energy

As it was argued in the proposal of DSO for the target of allowed losses, DSO during the assessment of the reduction of losses took into account the expected flows of electricity and the level of their reduction in MWh in accordance with the investment plan and technical reports, as presented in the table above. In its proposal, ERO has not argued and has not provided any technical report that shows how the calculated energy difference will be covered with the goals proposed by ERO. If ERO has based its arguments on any technical report that presents the possibility of reducing losses in MWh beyond those presented in the DSO report, could you please share them with us.

The initial proposal of DSO, as argued in the application, in the first two years of PRR 3, should be kept equal to the current expected level of losses for 2022 (the end of PRR 2) or 16.9%. This 'standing in place' will allow DSO to recover financially as a result of the pandemic and energy crisis and achieve the expected loss reductions under PRR 2.

As a result of the energy crisis, the financial situation of DSO has worsened. Despite the extraordinary review which began in November 2021 to end in February 2022, DSO still remains weakened because import prices are beyond those recognized in DSO tariffs. Therefore, keeping the level of losses at the actual level would enable DSO to recover and focus on investments. Further, during the years 2025-2027, DSO foresees the reduction of losses with an annual percentage of 1.2%, which results in the level of

³ Electric Power System Research 2022, "The impact of the COVID-19 pandemic on energy islands: The case of Cape Verde" <https://www.sciencedirect.com/science/article/pii/S0378779622006885> (Last visited on 25.09.2022)



losses of 13.3% in 2027. The overall target of reducing losses for the period 2023-2027 is predicted to be 3.6pp based on the expected level of losses at the end of 2022 of 16.90%.

Year	2022	2023	2024	2025	2026	2027
Actual expected losses	16.9%					
Indicative proposal of losses in %		16.90%	16.90%	15.70%	14.50%	13.30%
Decrease in percentage points		0.00%	0.00%	1.20%	1.20%	1.20%

Tab 4: Loss reduction from actual level of losses

As has been argued and explained above, the Covid 19 pandemic has significantly affected the normal operation of the distribution system operator and consequently the reduction of losses for PRR2. Therefore, ERO must necessarily take the effect of the pandemic as a basis, considering that it was out of the control of DSO. This option is also in line with the trend of reducing losses, as presented in the ERO consultative report. However, if ERO treat with this option, it should consider that the overall loss reduction target for the period 2023-2027 should be 2.5 pp, as shown in the table below:

Year	2022	2023	2024	2025	2026	2027
Loss target in %	15.10%					
The effect of the pandemic	0.70%					
Actual expected losses	16.9%					
Indicative proposal of losses in %		15.80%	15.80%	14.97%	14.13%	13.30%
Decrease in percentage points		0.00%	0.00%	0.83%	0.83%	0.83%

Tab 5: Loss reduction considering pandemic effect

In the consultative report on the loss reduction target, ERO has predicted that the overall loss reduction target for the period 2023-2027 will be 4pp from the initial level of 15.1% in 2023 to 11.1% in 2027. Setting a target of such reduction of losses for the third regulatory period it is not realistic and would greatly harm DSO, which is now in a difficult financial position. Such an initial target could only be met if in the first three years of PRR 3, the allowed losses are kept at the initial level of 15.1% and the last 2 years with a less percentage of reduction to reach the level of 13.3% in 2027 or 1.8 pp as shown in the table below:

Year	2022	2023	2024	2025	2026	2027
Loss target in %	15.10%					
The effect of the pandemic	0.70%					
Actual expected losses	16.9%					
Indicative proposal of losses in %		15.10%	15.10%	15.10%	14.20%	13.30%
Decrease in percentage points		0.00%	0.00%	0.00%	0.90%	0.90%

Tab 6: Loss reduction from actual allowed base

As presented in all the proposals, DSO cannot reduce losses at the distribution level by more than 13.3% during the third regulatory period. Setting another target of reducing losses would make the financial situation of DSO extremely difficult. The uncontrollable increase in electricity prices as a result of the energy crisis is posing a serious threat to the operation and liquidity of regulated enterprises, especially the Distribution System Operator which is dependent on imports. The targets set in this periodic review



Ndërtesa e Elektrokosovës *Elektrokosova Building*
Bulevardi Bill Klinton nr.5 *Bill Clinton Boulevard no.5*
Prishtinë 10000 *Prishtina 10000*
Republika e Kosovës *Republic of Kosovo*



will have a greater financial impact compared to the previous regulatory periods, therefore the operation of the distribution system operator according to the targets proposed by ERO will be almost impossible.

As for the loss sharing factor, considering that the target of reducing losses in this periodical review has a greater financial impact compared to the previous regulatory period and the numerous uncertainties of the sector for the coming years, DSO considers that the sharing of excess losses or savings between consumers and DSO with a dividing factor of 50/50 for the period 2023-2027 is a proper division which helps the financial stability of the company and offers incentives to reduce losses in the future. ERO, during the examination of the loss sharing factor, should consider the correct application of the factor, since the same may give wrong results during its application in the formula for calculating the cost of losses in the maximum allowed revenues for operators.

Based on the above, the uncertainties and volatility of electricity prices, so the effects of the crisis in general in the coming years are expected to be great. In these circumstances, DSO asks ERO to carefully analyze the entire situation and possible negative results that could affect DSO, and that the failure to assess correctly and as accurately as possible can create deeper financial problems, which may even jeopardize the operations and stability of the electricity supply.