



**Republika e Kosovës**  
**Republika Kosova - Republic of Kosovo**

**ZYRA E RREGULLATORIT PËR ENERGJI**  
**REGULATORNI URED ZA ENERGIJU**  
**ENERGY REGULATORY OFFICE**



# Consultation Report on Maximum Allowed Revenues

## Annual adjustments for USS for 2023

### DISCLAIMER

This Consultation Report is prepared by ERO with the purpose of consulting stakeholders on the proposal of ERO on Maximum Allowed Revenues. The report does not represent a decision of ERO and shall not be interpreted as such.

**16 February 2023**



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## 1 Introduction

Energy Regulatory Office (ERO) is in the process of Regular Adjustment of Maximum Allowed Revenues (MAR) for the Universal Service Supplier (USS). During this process, USS MAR shall be determined to cover the supply of regulated customers.

This Consultation Report provides the proposals of ERO for MAR which reflects the forecast costs for the calendar year 2023. The approved Maximum Allowed Revenues shall determine the tariffs for final customers of electricity that will be applied for the relevant tariff year (1 April – 31 March 2023). The document shall be published along the consultation reports on Maximum Allowed Revenues of Transmission System and Market Operator (TSO/MO – KOSTT JSC) and the Maximum Allowed Revenues of Distribution System Operator (DSO – KEDS JSC), published on the electronic website of ERO.

### Comments of stakeholders

The consultation with stakeholders is essential in compilation of sustainable regulatory policies. ERO invites stakeholders, civil society, regulated companies and other interested parties to review the data and position of ERO provided in this Report, with which they may not agree, and to submit comments on them by providing facts, counter-arguments and new data which ERO may not have taken into consideration. The comments on this Consultation Report can be submitted in electronic form via e-mail at [ero.pricing-tariffs@ero-ks.org](mailto:ero.pricing-tariffs@ero-ks.org) or submitted as a hard copy at the following address:

Energy Regulatory Office  
Tariffs and Pricing Department  
St. Bekim Fehmiu (former Fazita Building, 2<sup>nd</sup> floor, 10000, Pristina, Kosovo  
Pristina, 10000, Kosovo

Comments shall be submitted by 3 March 2023 at the latest.

Following the review of the received comments, ERO shall publish the Final Report along with Responses to Comments. The comments received on this Consultation Report shall be published along with the Final Report. The report is structured as follows:

- Chapter 2 presents the energy balance;
- Chapter 3 presents the calculations of ERO on USS Maximum Allowed Revenues;

The last two years were characterized with extraordinary high prices and unprecedented fluctuations in electricity markets. The global energy crisis resulted in a significant increase of energy purchase costs to cover the losses in distribution network. The difference between the forecast and realized cost of energy purchase, exceeds the materiality threshold of 5% as set in the Rule on Maximum Allowed Revenues for the Universal Service Supplier. The extraordinary review process, and the impact on USS MAR, are explained in Chapter 4 of this report.



## Relevant documents

Title of the document	Link
Law No. 05/L-084 on Energy Regulator	<a href="https://www.ero-ks.org/zrre/sites/default/files/Legjislacioni/Ligjet/LIGJI_PER_RR_EGULLATORIN_E_ENERGJISE.pdf">https://www.ero-ks.org/zrre/sites/default/files/Legjislacioni/Ligjet/LIGJI_PER_RR_EGULLATORIN_E_ENERGJISE.pdf</a>
Rule on Determination of Revenues for the Universal Service Supplier	<a href="http://ero-ks.org/2017/Rregullat/Rregulla%20per%20Vendosjen%20e%20e%20Hyrave%20per%20Furnizuesin%20me%20Sherbim%20Universal%20(%20Rregulla%20per%20te%20Hyrat%20e%20FSHU).pdf">http://ero-ks.org/2017/Rregullat/Rregulla%20per%20Vendosjen%20e%20e%20Hyrave%20per%20Furnizuesin%20me%20Sherbim%20Universal%20(%20Rregulla%20per%20te%20Hyrat%20e%20FSHU).pdf</a>
Final Report on Determination of Input Values – The level of network losses	<a href="https://www.ero-ks.org/zrre/sites/default/files/Publikimet/Pjesemarresit%20ne%20Treg/Furnizim/Raport%20perfundimtar_pergjigje%20ndaj%20komenteve_%20per%20humbje.pdf">https://www.ero-ks.org/zrre/sites/default/files/Publikimet/Pjesemarresit%20ne%20Treg/Furnizim/Raport%20perfundimtar_pergjigje%20ndaj%20komenteve_%20per%20humbje.pdf</a>
Decision V_1636_2022 Loss Reduction Target and the curve of allowed losses in PRR3 for the transmission and distribution network	<a href="https://www.ero-ks.org/zrre/sites/default/files/Publikimet/Vendimet/Vendimet%202022/V_1636_2022.pdf">https://www.ero-ks.org/zrre/sites/default/files/Publikimet/Vendimet/Vendimet%202022/V_1636_2022.pdf</a>
Final Report on Determination of Input Values – Efficiency Factor	<a href="https://www.ero-ks.org/zrre/sites/default/files/Publikimet/Pjesemarresit%20ne%20Treg/Furnizim/Raport%20perfundimtar_fakori%20i%20efik asiteti_pergjigje%20ndaj%20komenteve.pdf">https://www.ero-ks.org/zrre/sites/default/files/Publikimet/Pjesemarresit%20ne%20Treg/Furnizim/Raport%20perfundimtar_fakori%20i%20efik asiteti_pergjigje%20ndaj%20komenteve.pdf</a>
V_1635_2022 - Efficiency Factor for TSO/MO for PRR3	<a href="#">V_1635_2022.pdf (ero-ks.org)</a>
Rule on Maximum Allowed Revenues for Distribution System Operator	<a href="http://ero-ks.org/2017/Rregullat/Rregulla%20per%20te%20Hyrat%20e%20OSSH.pdf">http://ero-ks.org/2017/Rregullat/Rregulla%20per%20te%20Hyrat%20e%20OSSH.pdf</a>
Letter on Initiation of Periodic Review	<a href="https://www.ero-ks.org/zrre/sites/default/files/Konsultimet%20Publike/Tarifat%20Ngrohje%20Qendrore/Dokument%20inicies_Shqyrtimi%20P eriodik%20i%20OST-OT%20dhe%20OSSH%20(00000003).pdf">https://www.ero-ks.org/zrre/sites/default/files/Konsultimet%20Publike/Tarifat%20Ngrohje%20Qendrore/Dokument%20inicies_Shqyrtimi%20P eriodik%20i%20OST-OT%20dhe%20OSSH%20(00000003).pdf</a>
Final Report on Determination of Input Values – Weighted Average Cost of Capital (WACC)	<a href="https://www.ero-ks.org/zrre/sites/default/files/Publikimet/Pjesemarresit%20ne%20Treg/Furnizim/Raport%20perfundimtar_Pergjigje%20ndaj%20raportit%20konsultativ%20per%20WACC.pdf">https://www.ero-ks.org/zrre/sites/default/files/Publikimet/Pjesemarresit%20ne%20Treg/Furnizim/Raport%20perfundimtar_Pergjigje%20ndaj%20raportit%20konsultativ%20per%20WACC.pdf</a>
V_1634_2022 - Weighted Average Cost of Capital (WACC) for TSO/MO and DSO for the Third Regulatory Period (PRR3)	<a href="https://www.ero-ks.org/zrre/sites/default/files/Publikimet/Vendimet/Vendimet%202022/V_1634_2022.pdf">https://www.ero-ks.org/zrre/sites/default/files/Publikimet/Vendimet/Vendimet%202022/V_1634_2022.pdf</a>



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Final Report on Determination of Input Values – Level of Network Losses [https://www.ero-ks.org/zrre/sites/default/files/Publikimet/Pjesemarresit%20ne%20Treg/Furnizim/Raport%20perfundimtar\\_ pergjigje%20ndaj%20komenteve\\_%20per%20humbje.pdf](https://www.ero-ks.org/zrre/sites/default/files/Publikimet/Pjesemarresit%20ne%20Treg/Furnizim/Raport%20perfundimtar_ pergjigje%20ndaj%20komenteve_%20per%20humbje.pdf)

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Final Report on Determination of USS Input Values [https://www.ero-ks.org/zrre/sites/default/files/Publikimet/Pjesemarresit%20ne%20Treg/Furnizim/Raport%20perfundimtar%20dhe%20pergji e%20ndaj%20komenteve\\_vlerat%20hyrese%20dhe%20op....pdf](https://www.ero-ks.org/zrre/sites/default/files/Publikimet/Pjesemarresit%20ne%20Treg/Furnizim/Raport%20perfundimtar%20dhe%20pergji e%20ndaj%20komenteve_vlerat%20hyrese%20dhe%20op....pdf)

V\_1476\_2022 - Input Values and Operational Expenses (OPEX) for Universal Service Supplier (USS) of electricity for the tariff period 2022-2024 [https://www.ero-ks.org/zrre/sites/default/files/Publikimet/Vendimet/Vendimet%202022/V\\_1476\\_2022\\_.pdf](https://www.ero-ks.org/zrre/sites/default/files/Publikimet/Vendimet/Vendimet%202022/V_1476_2022_.pdf)

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## 2 Forecast Energy Balance

The energy balance is an important reference for determination of USS MAR since it presents the required energy volumes for covering the demand of regulated customers and the sources of these volumes.

The forecast energy balance for Regular Adjustment of USS MAR is calculated as follows:

- i. The basis for calculating the balance is the evaluated sales at the lowest voltage level, which represent the value of energy that must be supplied to customers after taking into account distribution production and losses;
- ii. To the value in paragraph (i) the losses in the distribution network and the production at the distribution level are added and this results in the value of energy that must be entered into the distribution network to cover the losses and the consumption of final customers;
- iii. To the value in paragraph (ii) is added the consumption in transmission, export and losses in the transmission network resulting in the total amount of energy to supply all domestic consumption and export;
- iv. The difference between the value in paragraph (iii) and the domestic production from KEK and RES generators results in the volume of energy that must be imported.

*Note: ERO has revised the balance received on 10.02.2023 by the parties to reflect the decision of the Board. The resulting balance is shown in the table below.*



**Table 1 Electricity Balance**

Electricity Balance	Unit	Proposal 2023
h= g+e+d+c – Overall demand in TSO	GWh	7,347
Generation At TSO level	GWh	6,069
g) Deviations and exchanges	GWh	334
Import	GWh	1,568
Export	GWh	526
e) Overall demand in TSO	GWh	602
d) TSO losses	GWh	133
Net demand in DSO	GWh	6,011
Generation in DSO	GWh	223
c= a+b – Entry in DSO	GWh	6,278
Unbilled energy in the North	GWh	378
Entry in DSO without unbilled energy	GWh	5,904
Unbilled energy	%	6.1%
Technical and commercial losses in DSO	GWh	994
	%	15.8%
b) Total losses	GWh	1,372
	%	21.8%
a) Energy for regulated customers	GWh	4,906



### 3 Calculation of USS Maximum Allowed Revenues

USS Maximum Allowed Revenues shall be sufficient to cover all allowed costs for supply of regulated customers. USS MAR is calculated according to the following formula:

$$USSR_t = (RETR_t + WCLC_t + WHPC_t + PSTC_t - NTFR_t + ADJ_t) / (1 - BDTA_t)$$

Ku

$USSR_t$  - Regulated revenues of the Universal Service Supplier in year t

$RETR_t$  - Allowed retail costs in relevant year t

$WCLC_t$  - Allowed costs of working capital in relevant year t

$WHPC_t$  - Allowed wholesale energy purchase costs in relevant year t

$PSTC_t$  - Pass-through costs in relevant year t

$NTFR_t$  - Non-tariff revenues in relevant year t

$ADJ_t$  - Adjustment of revenues in relevant year t

$BDTA_t$  - Allowed bad debt costs in relevant year t

Calculations of ERO for above-mentioned cost components are provided in the following sub-chapters.

#### 3.1 Allowed Retail Costs (RETRt)

Allowed retail costs cover operating and maintenance costs, asset depreciation costs, license costs and other costs that are beyond the control of USS. RETRt costs are calculated based on the costs allowed in the previous tax year and by indexing them with the inflation rate. The inflation rate takes into account the Harmonized Index of Customer Prices published by Eurostat. The published value for December 2022 is 8.4%<sup>1</sup>.

Following are presented the retail costs and other costs outside the control of USS:

##### 3.1.1 Working Capital Costs (WCLCt)

Allowed costs for working capital cover the costs necessary to cover the time differences between the realization of expenses and the collection of invoices for the expenses incurred. They are calculated according to the following formula:

$$WCLC_t = 1/12 * I_t * (RETR_t + WHPC_t + PSTC_t - NTFR_t)$$

Where

$WCLC_t$  - Allowed working capital costs in relevant year t

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<sup>1</sup>[https://ec.europa.eu/eurostat/databrowser/view/PRC\\_HICP\\_AIND\\_\\_custom\\_4860030/default/table?lang=en](https://ec.europa.eu/eurostat/databrowser/view/PRC_HICP_AIND__custom_4860030/default/table?lang=en)



$I_t$  - presents the interest rate realized in relevant year t

$RETR_t$  - Allowed retail costs in relevant year t

$WHPC_t$  - Allowed wholesale energy purchase costs in relevant year t

$PSTC_t$  - Pass-through costs in relevant year t

$NTFR_t$  - Non-tariff revenues in relevant year t

The interest rate in the relevant year t is calculated based on EURIBOR + S% where S represents the value determined by the Regulator during the annual adjustments and which reflects the premium payable by the licensee for short-term loans.

### 3.1.2 Allowed Bad Debt Costs (BDTAt)

Allowed Bad Debt costs depend on the Maximum Allowed Revenues and the share of allowed bad debt that ERO determines during the review of input values. The value of bad debt for 2023 is set to be 2.2%.<sup>2</sup>

### 3.1.3 Retail Margin

The retail margin is a fixed percentage applied to wholesale energy purchases. In determining the USS input values for the 2022-2024 period, for the year 2023, the margin has been set at 2.54%.<sup>3</sup>

Allowed retail costs and other costs that are beyond the control of USS for the next tariff year are summarized in the following table:

**Table 2** USS Retail Costs

USS Retail Costs	Unit	Proposal 2023
Operating expenses	mil€	5.62
Depreciation expenses	mil€	0.11
Working capital costs	mil€	1.98
Bad debt costs	mil€	8.66
License costs	mil€	0.04
Retail margin costs	mil€	3.75
<b>Total retail costs</b>	<b>mil€</b>	<b>20.16</b>

## 3.2 Wholesale Energy Purchase Costs (WHPct)

Wholesale energy purchase costs represent the costs that must be covered for the purchase of energy required to supply final customers. These costs are based on the volumes contracted by USS from local capacities and import costs.

<sup>2</sup> [https://www.ero-ks.org/zrre/sites/default/files/Publikimet/Vendimet/Vendimet%202022/V\\_1476\\_2022\\_.pdf](https://www.ero-ks.org/zrre/sites/default/files/Publikimet/Vendimet/Vendimet%202022/V_1476_2022_.pdf)

<sup>3</sup> Ibidem





A summary of energy purchase costs for USS for the next tariff year is given in the following table.

**Table 3** USS Energy Purchase Costs

Energy purchases	GWh	€/MWh	mil€
Amounts supplied by KEK	4,215	29.50	124.4
Generation by Support Scheme	575	58.78	33.8
Generation in DSO with concessionary contracts	46	45.28	2.1
Import	59	171.5	10.0
Subsidy Decision QRK 13/118			-24.6
Imbalances			1.9
<b>Total supplied amounts</b>	<b>4,895</b>	<b>30.1</b>	<b>147.6</b>
<b>Retail margin 2.54%</b>			<b>3.7</b>
<b>Total wholesale costs</b>			<b>151.3</b>
<b>Consumption by customer categories USS</b>			
Customers 35 kV	58		
Customers 10 kV	435		
Customers 0.4 kV	4,414		
<b>Total consumption of USS customers</b>	<b>4,906</b>	<b>30.9</b>	<b>149.9</b>

ERO, in forecasting energy purchases, has taken into account KEK-KESH exchanges for January, February and half of March.

The forecast price for the purchase of energy from import is based on the data published by the European Energy Exchange (EEX-PXE Hungarian Power Futures)<sup>4</sup> for the monthly prices resulting on 9 February 2023.

ERO in reviewing the USS Maximum Allowed Revenues has taken into consideration the decision of the Government of the Republic of Kosovo No. 13/118, dated 11.01.2023, in the amount of €24.6 million.

### **3.3 Pass- through costs (PSTCt)**

The USS pass-through costs are costs that are determined for other licensees and which must be covered by USS through tariffs of final customers. These may include costs to cover TSO/MO MAR or DSO MAR.

The USS pass-through costs are based on ERO proposals for MAR of regulated networks. The pass-through costs are evaluated to be €174 million, of which costs for TSO/MO are €22 million, while €152 million are for the DSO. ERO, in the evaluation of current costs, has also taken into consideration the period January-March 2023, in which the current tariffs are applied.

<sup>4</sup> <https://www.eex.com/en/market-data/power/futures#%7B%22snippetpicker%22%3A%2223%22%7D>



### 3.4 Adjustment of USS Revenues (ADJ<sub>t</sub>)

USS Maximum Allowed Revenues are adjusted after each tariff year to reflect the difference between the actual allowed costs of USS and actual regulated revenues in the same year. They are calculated according to the following formula:

$$ADJ_t = (AAC_{t-1} - ARR_{t-1}) * I_t$$

Ku

ADJ<sub>t</sub> - adjustment of revenues in relevant year t

I<sub>t</sub> - presents the interest rate realized in relevant year t

AAC<sub>t</sub> - allowed actual costs of USS in relevant year t-1

ARR<sub>t</sub> - allowed actual revenues in relevant year t-1

Adjustment of USS Maximum Allowed Revenues for the upcoming relevant year is presented in the following table:

**Table 4 Revenues Correction Factor 2022**

Revenues Correction Factor - KREV	Unit	Value
AAC <sub>at-1</sub>	mil€	367.74
ARR <sub>t-1</sub>	mil€	331.52
I <sub>t</sub>	%	6.91
<b>KREV = (AAC<sub>at-1</sub> - ARR<sub>t-1</sub>)*(1+I<sub>t</sub>)</b>	<b>mil€</b>	<b>39.50</b>



### 3.5 USS Maximum Allowed Revenues

The USS Maximum Allowed Revenues for the next tariff year, calculated according to the formula in chapter 3 of this Report, are summarized below:

**Table 5** MAR of Universal Service Supplier

MAR of Universal Service Supplier	Unit	Application USS 2023	Proposal ERO 2023
<b>Indexation parameters</b>			
Interest rate $I_t$	%	6.85%	6.91%
<b>Supplier's retail costs</b>			
OPEX - $OPMC_t = OPMC_{t-1} * (1 + CPI_{t-1}) * (1 - E_t) * (1 - P_t)$	€m	5.70	5.62
Depreciation - $DEPC_t = DEPC_{t-1} * (1 + CPI_{t-1}) * (1 - P_t)$	€m	0.12	0.11
<b>Pass-through costs</b>			
TSO costs	€m	20.67	22.25
DSO costs	€m	191.66	151.97
RES fund costs	€m	3.77	12.37
<b>Working capital (WCLC<sub>t</sub>)</b>			
$WCLC = (1 / 12) * I_t * (RETR_t + WHPC_t + PSTC_t - NTFRT_t)$	€m	2.03	1.98
<b>Energy purchase costs</b>			
Wholesale energy purchase costs	€m	217.76	151.33
<b>License tax</b>			
License tax	€m	0.02	0.04
<b>Bad debt (BDTA)</b>			
BDTA	%	2.2%	2.2%
BDTA	€m	10.01	8.66
<b>Adjustment of revenues for USS</b>			
Adjustment of the year 2022	€m	47.68	39.50
<b>Maximum Allowed Revenues</b>	<b>€m</b>	<b>500.40</b>	<b>393.84</b>

The proposed MAR for USS for 2023 is €393.8 million, which represents the amount to be covered by regulated tariffs of retail sale. This proposal also includes the decision of the Government of the Republic of Kosovo No. 13/118, dated on 11.01.2023 for the subsidy in the amount of €24.6 million.



## 4 Extraordinary Review of USS

According to the Rule on Revenues for the Universal Service Supplier, Article 11 for Extraordinary Reviews, when realized costs differ from forecast ones to an extent of a predetermined materiality threshold which in Kosovo is set to be 5% of the Maximum Allowed Revenues, then ERO is obliged to take into account these impacts in future annual adjustments. ERO has already concluded two extraordinary tariff reviews<sup>5</sup>.

On 5 December 2022, KESCO submitted to ERO the request for the extraordinary review of retail tariffs as a result of the increase in the cost of wholesale energy and the lack of realized revenues compared to the forecast ones. Following the evaluation of costs, ERO concluded that the deviation has exceeded the materiality threshold and on 11 January 2023, notified the parties on the commencement of the extraordinary review. The application of KESCO and ERO's position on the impact of extraordinary review, are provided in this sub-chapter of the Consultation Report, structured as follows:

- Sub-chapter 4.1.1 presents the evaluation of KESCO on the extraordinary review;
- Sub-chapter 4.1.2 presents the evaluation of ERO;

### 4.1.1 Application of KESCO for extraordinary review

On 5 December 2022, ERO received the request for an Extraordinary Review of the Maximum Allowed Revenues for the Universal Service Supplier (USS). Among other things, in its request, USS states that the prevalence of high import prices, their instability and insufficient revenues have forced USS to operate below cost, making its financial situation difficult.

Based on the request of USS, the main indication for exceeding the materiality threshold is based on the lack of realized revenues and higher wholesale costs compared to forecast ones.

The following table shows the impact on MAR of the extraordinary event according to the evaluation of USS:<sup>6</sup>

**Table 6** Materiality threshold

MAR 2022	mil€
Approved MAR	347.28
Actual MAR	446.67
Actual sales	331.04
Subsidy February-December	70.45
It	5.53%
Revenues Correction Factor	47.68
<b>Impact on MAR</b>	<b>13.73%</b>

<sup>5</sup> Extraordinary Review to address the explosion at the Kosova A Power Plant (2014) and the review to address the Power Purchase Costs (2022)

<sup>6</sup> <https://www.ero-ks.org/zrre/sites/default/files/Publikimet/Pjesemarresit%20ne%20Treg/Furnizim/OSSH.pdf>



#### **4.1.2 Evaluation of ERO on the impact of increasing energy purchase costs**

ERO has reviewed the request of USS for Extraordinary Review and has agreed that the factual data prove that the materiality threshold has been exceeded and has reacted in time to initiate the extraordinary review. However, due to the date of submission of this application, and the process of its implementation, the effectiveness of the extraordinary review will be the same as that of the regular annual adjustment.

The Regulator, in conformity with the Rule on USS Revenues will take into account the ongoing impacts of extraordinary events (that exceed the materiality threshold) in regular annual adjustments.