



Republika e Kosovës  
Republika Kosova - Republic of Kosovo

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



# Consultation Report

## Extraordinary Review of Maximum Allowed Revenues of Electricity for Regulated Operators

### DISCLAIMER

This Consultation Report has been prepared by ERO to inform the public and receive comments from stakeholders. The report is not a Decision of ERO and should not be constructed as such.

17 January 2022



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## Summary

The Energy Regulatory Office (ERO) is in the process of Extraordinary Review of Maximum Allowed Revenues for regulated companies in the electricity sector. Extraordinary tariff reviews require a regulatory intervention to update tariff parameters in order to ensure that the allowed revenues covered through the approved tariffs fully cover the reasonable costs of providing regulated service to customers. As part of this process, ERO will update the Maximum Allowed Revenues (MAR) of the Universal Service Supplier and will regulate the MAR of Transmission System and Market Operator (KOSTT), Distribution System Operator (DSO), based in the amounts set in this process. This consultation report presents ERO's evaluation of the impact of Extraordinary Review of MAR of regulated operators on tariffs of final customers.

## Comments of stakeholders.

ERO strongly believes that public consultation is at the heart of effective regulatory policies. Therefore, ERO provides to the regulated companies and customers the opportunity to review the data and positions presented in this consultation report, with which they may disagree, and comment on them by correcting a factual error, presenting counter-arguments or providing new data which ERO may not have taken into account. The parties who want to express their opinions on ERO's position are invited to submit their written comments at [ero.pricing-tariffs@ero-ks.org](mailto:ero.pricing-tariffs@ero-ks.org), by 31 January 2022, 16:00, at the latest.

Comments can also be submitted via post at:

Zyra e Rregullatorit për Energji  
Departamenti për Tarifa dhe Çmime  
Rr.Bekim Fehmiu (ish Ndërtesa e Fazitës), kati:2  
Prishtinë, 10000, Kosovë

## Relevant documents

Rule on Determination of Revenues for Universal Service Supplier (Rule on USS Revenues)	<a href="http://ero-ks.org/2017/Rregullat/USS%20Pricing%20Rule.pdf">http://ero-ks.org/2017/Rregullat/USS%20Pricing%20Rule.pdf</a>
Rule on Maximum Allowed Revenues of Transmission System and Market Operator (Rule on TSO/MO Revenues)	<a href="http://ero-ks.org/2017/Rregullat/Rule%20on%20TSO-MO%20Revenues.pdf">http://ero-ks.org/2017/Rregullat/Rule%20on%20TSO-MO%20Revenues.pdf</a>
Rule on Determination of Maximum Allowed Revenues of Distribution System Operator	<a href="http://ero-ks.org/2017/Rregullat/DSO%20Pricing%20Rule_2017.pdf">http://ero-ks.org/2017/Rregullat/DSO%20Pricing%20Rule_2017.pdf</a>
Application for Extraordinary Review of Maximum Allowed Revenues of USS	<a href="https://www.ero-ks.org/zrre/sites/default/files/Publikimet/Pjesemarresit%20ne%20Treg/OSSH/Aplikimi%20per%20Shqyrtim%20te%20Jashtezakonshem%20te%20te%20Hyrave%20te%20Lejuara%20Maksima..._1.pdf">https://www.ero-ks.org/zrre/sites/default/files/Publikimet/Pjesemarresit%20ne%20Treg/OSSH/Aplikimi%20per%20Shqyrtim%20te%20Jashtezakonshem%20te%20te%20Hyrave%20te%20Lejuara%20Maksima..._1.pdf</a>



Application of DSO for Extraordinary Review of Maximum Allowed Revenues	<a href="https://www.ero-ks.org/zrre/sites/default/files/Publikimet/Pjesemarresit%20ne%20Treg/OSSH/Aplikimi%20per%20Shqyrtim%20te%20Jashtezakonshem%20te%20te%20Hyrave%20te%20Lejuara%20Maksima..._0.pdf">https://www.ero-ks.org/zrre/sites/default/files/Publikimet/Pjesemarresit%20ne%20Treg/OSSH/Aplikimi%20per%20Shqyrtim%20te%20Jashtezakonshem%20te%20te%20Hyrave%20te%20Lejuara%20Maksima..._0.pdf</a>
Application of KOSTT for Extraordinary Review of Maximum Allowed Revenues	<a href="https://www.ero-ks.org/zrre/sites/default/files/Publikimet/Pjesemarresit%20ne%20Treg/Furnizim/211223_KOSTT_Aplikacioni%20p%C3%ABr%20Shqyrtimin%20e%20Jasht%C3%ABzakonsh%C3%ABm%20e%20t%C3%AB%20Hyrave%20t%C3%AB.....pdf">https://www.ero-ks.org/zrre/sites/default/files/Publikimet/Pjesemarresit%20ne%20Treg/Furnizim/211223_KOSTT_Aplikacioni%20p%C3%ABr%20Shqyrtimin%20e%20Jasht%C3%ABzakonsh%C3%ABm%20e%20t%C3%AB%20Hyrave%20t%C3%AB.....pdf</a>
The letter of ERO on Extraordinary Review	<a href="https://www.ero-ks.org/zrre/sites/default/files/Publikimet/Pjesemarresit%20ne%20Treg/Furnizim/Shqyrtim%20i%20Jashtezakonshem%20i%20Te%20Hyrave%20te%20Lejuara%20maksimale%20per%20Operator....pdf">https://www.ero-ks.org/zrre/sites/default/files/Publikimet/Pjesemarresit%20ne%20Treg/Furnizim/Shqyrtim%20i%20Jashtezakonshem%20i%20Te%20Hyrave%20te%20Lejuara%20maksimale%20per%20Operator....pdf</a>
Determination of Maximum Allowed Revenues KEDS 2021-2022 – Responses to Comments	<a href="https://www.ero-ks.org/zrre/sites/default/files/Publikimet/Pjesemarresit%20ne%20Treg/OT/Raport%20perfundimtar%20me%20pergjigje_MAR%20KEDS%202021.pdf">https://www.ero-ks.org/zrre/sites/default/files/Publikimet/Pjesemarresit%20ne%20Treg/OT/Raport%20perfundimtar%20me%20pergjigje_MAR%20KEDS%202021.pdf</a>
Determination of Maximum Allowed Revenues KOSTT 2021-2022 – Responses to Comments	<a href="https://www.ero-ks.org/zrre/sites/default/files/Publikimet/Pjesemarresit%20ne%20Treg/OT/Raport%20perfundimtar%20me%20pergjigje_MAR%20KOSTT%202021.pdf">https://www.ero-ks.org/zrre/sites/default/files/Publikimet/Pjesemarresit%20ne%20Treg/OT/Raport%20perfundimtar%20me%20pergjigje_MAR%20KOSTT%202021.pdf</a>
Final Report on Maximum Allowed Revenues of the Universal Service Supplier, Responses to Comments	<a href="https://www.ero-ks.org/zrre/sites/default/files/Publikimet/Pjesemarresit%20ne%20Treg/OT/Raport%20perfundimtar%20me%20pergjigje_MAR%20KESCO%202021.pdf">https://www.ero-ks.org/zrre/sites/default/files/Publikimet/Pjesemarresit%20ne%20Treg/OT/Raport%20perfundimtar%20me%20pergjigje_MAR%20KESCO%202021.pdf</a>
Periodic Review of Maximum Allowed Revenues- KEDS	<a href="http://ero-ks.org/2018/Raportet/Pergjigje%20ndaj%20komenteve%20te%20KEDS_PRR2_final.pdf">http://ero-ks.org/2018/Raportet/Pergjigje%20ndaj%20komenteve%20te%20KEDS_PRR2_final.pdf</a>
Periodic Review of Maximum Allowed Revenues - KOSTT	<a href="http://ero-ks.org/2018/Raportet/Pergjigje%20ndaj%20komenteve%20te%20KOSTT_PRR2_final.pdf">http://ero-ks.org/2018/Raportet/Pergjigje%20ndaj%20komenteve%20te%20KOSTT_PRR2_final.pdf</a>



## 1 Introduction

The Energy Regulatory Office is in the process of extraordinary review of tariffs for activities in the electricity sector. Extraordinary reviews take place when there is a difference between the predicted and realized values of the tariff determination parameters, which exceeds the materiality threshold of at least 5%. Unprecedented increase of prices in the electricity markets in Europe have affected the purchase costs of electricity of the regulated retail electricity supplier in Kosovo - Universal Service Supplier, the purchase costs to recover the losses in the transmission and distribution network - increasing the costs of realized import purchase.

In the case of Kosovo, the costs of purchasing electricity have been affected by other significant events. First, the data provided suggest a significant increase in the maximum demand for electricity as well as the volume of energy consumption. In addition to this, there were significant interruptions of production by the units of TPP Kosova A and TPP Kosova B, which coincided with the electricity peak demand, which were not taken into account in the initial calculation of the tariffs.

Extraordinary reviews require regulatory intervention to update tariff parameters in order to ensure that revenues generated through approved tariffs fully cover the reasonable costs of providing regulated service to customers. Under normal circumstances, electricity imports do not constitute a large part of the costs of purchasing electricity in Kosovo. However, the combined effect of the increase in import prices, the increase in demand and the sudden interruptions of local generation units, have exceeded the materiality threshold and activated an extraordinary tariff review.

This Consultation Report presents ERO's position on the extraordinary review of tariffs to cover significant difference in electricity purchase costs and to restore electricity supply to customers. This report is published alongside another Consultation Report that aims to obtain the views of stakeholders on ERO's proposals on changing the tariff structure in order to increase the efficiency of electricity consumption.

The Consultation Report is structured as below:

- Part 2 – provides an overview of electricity prices in European markets and the effect of wholesale energy purchase costs in Kosovo;
- Part 3 - presents Maximum Allowed Revenues, proposed by ERO for the regulated sector in Kosovo;
- Support data for ERO calculations are referenced in this report.

## 2 The trends of prices and their effect on energy purchase cost

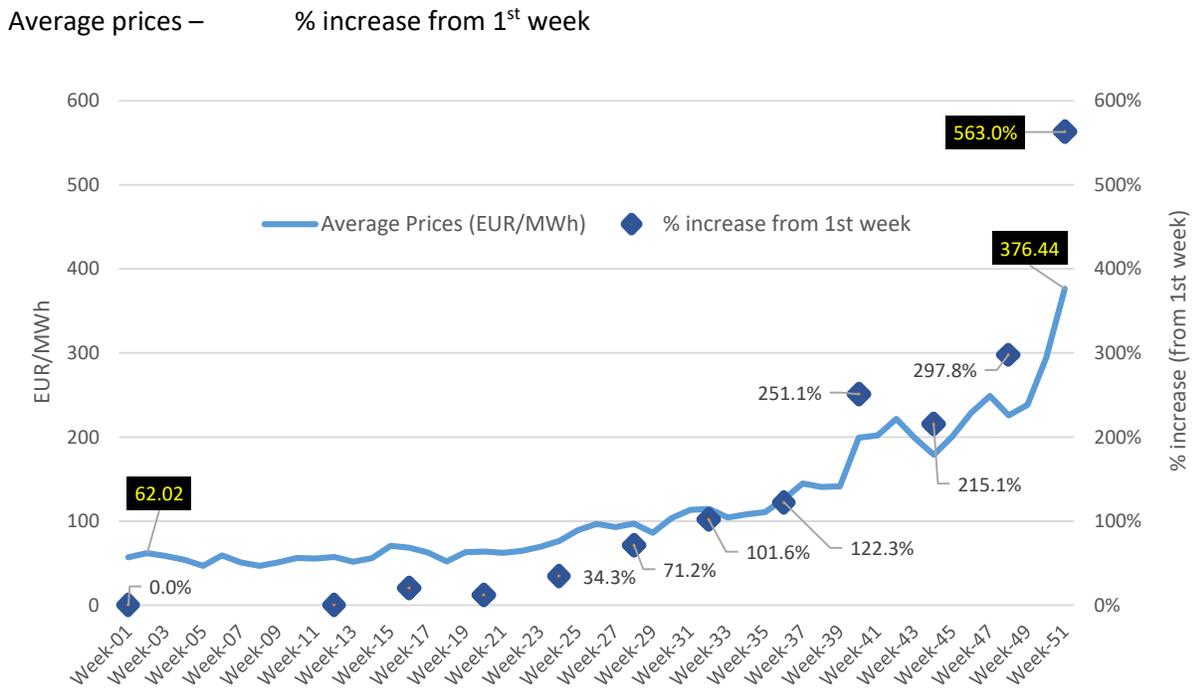
This part of the Consultation Report provides a summary of price levels and trends in European energy markets. While the purpose of this section is not to identify the causes of the energy crisis in Europe, ERO considers it necessary to identify the main factors behind the price increase and their impact on electricity purchase costs in Kosovo.



## 2.1 The trends of prices in European electricity markets

The second half of 2021 was characterized by a rapid increase of prices in European energy markets. The findings of the researches conducted in Europe suggest that this was caused by a number of factors. Rising demand for natural gas from Asia and low stockpiles in Europe led to a significant increase in natural gas prices.<sup>1</sup> Since gas-fired power plants are usually the marginal power plants needed to fulfill demand in the electricity markets, the increase in natural gas prices resulted in a similar increase in electricity prices. Studies identify other important factors such as the increase in overall energy demand related to recovery from the COVID-19 pandemic, which also contributed to the increase of prices.

**Figure 1** DAM Prices (Day-Ahead Market) in Hungarian Energy Exchange (source-HUPX)



The combined effect of these factors resulted in an unprecedented increase in the price of electricity in the European energy markets. The average weekly price of the Day-Ahead Market in the Hungarian Energy Exchange (HUPX), a market commonly referred to in the region due to liquidity and geographical proximity, reached 376.44 EUR / MWh in the 51st week of 2021. Compared to the average for the first week of 2021 (62.02 EUR / MWh), this represents an increase of 563%. There have been similar increases in other European energy exchanges, with most forecasts suggesting that price levels are unlikely to fall significantly before the end of the first quarter of 2022.

<sup>1</sup> Publication of REKK on the factors behind the prices of natural gas  
[https://rekk.hu/downloads/academic\\_publications/rekk\\_policybrief\\_en\\_2021\\_08.pdf](https://rekk.hu/downloads/academic_publications/rekk_policybrief_en_2021_08.pdf)

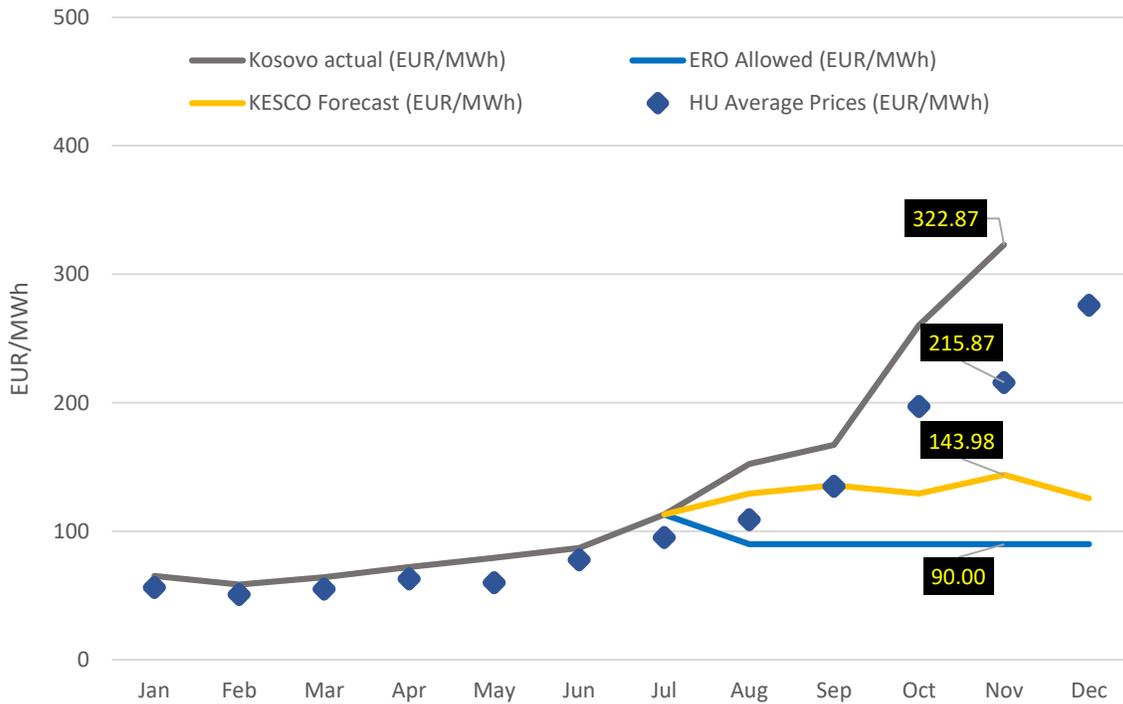


## 2.2 The effect on Universal Service Supplier from Energy Purchase Costs

As a net importer of energy, Kosovo was impacted by the increase of European electricity prices. The realized costs of wholesale energy purchase of Universal Service Supplier (USS) were significantly higher than the costs allowed by ERO, as well as the own projection required by USS.

**Figure 2** Comparison of the forecast and actual monthly cost of import

Kosovo - actual                      Allowed by ERO  
KESKO - forecast -                HUPX Average Prices –



The difference between the forecast and realized import costs is shown in Figure 2. The cost proposed by ERO on imports, included in tariffs, based on price forecasts in August, was 90 EUR/MWh for the remaining months of the year. The forecast of the Universal Service Supplier ranged between 125 EUR /MWh and 143 EUR/MWh. The actual costs of purchasing energy in November amounted to 322.87 euros, which is an increase of 257% compared to the forecast of ERO, included in the actual tariffs and an increase of 142% compared to the forecast of the Universal Service Supplier.

This is reflected in a significant difference between the allowed costs for purchase of import energy and those realized by the sector.



### **3 Maximum Allowed Revenues (MAR) for the regulated sector**

This part of the Consultation Report presents ERO's proposal on Maximum Allowed Revenues (MAR) for the period 1 February 2022 - 31 March 2023. The Extraordinary Tariff Review does not have an impact on the evaluation of parameters of fixed costs of the licensed companies and is focused on the re-evaluation of the energy balance, volumes of imported energy and costs of energy purchase from import. This part of the Consultation Report is structured as follows:

- Sub-part 3.1 presents the assumptions and input values for calculation of Maximum Allowed Revenues for licensed companies;
- Sub-part 3.2 presents the Maximum Allowed Revenues for the Transmission System and Market Operator (KOSTT);
- Sub-part 3.3 presents the Maximum Allowed Revenues for the Distribution System Operator (KEDS);
- Sub-part 3.4 presents the Maximum Allowed Revenues for the Universal Service Supplier (KESCO)

#### **3.1 Assumptions for calculation of MAR of licensed companies**

##### **3.1.1 Energy Balance**

The energy balance for the purpose of calculating the Maximum Allowed Revenues of the energy sector is calculated as follows:

- At the generation level, the energy balance has been updated based on the new evaluations of the Kosovo Energy Corporation (KEK) regarding the availability of generating capacities, which was communicated to ERO on 16 January 2022.
- The generation from other generation units (RES, wind energy, solar and hydro power plants) is based on the working version of Energy Balance of the Ministry of Economy;
- The volume of losses at the transmission level is based on the allowed percentage of losses in the transmission network, determined during the periodic review of the existing tariff period;
- The level of losses at the distribution level is based on the allowed percentage of losses in the distribution network, determined during the periodic review of the existing tariff period;
- Sales of electricity to final customers at all voltage levels are based on the forecast of the Energy Balance of the Ministry of Economy (working version, not approved).



- The import for the needs of the Universal Service Supplier is calculated by assuming that domestic production is first allocated to cover USS consumption. The total value of imports, following the allocation for the needs of USS, is distributed to KEDS and KOSTT to cover the losses of these operators, in proportion to their level of losses.

A summary of the main parameters of the energy balance used for calculation of Maximum Allowed Revenues is provided in the following table:

**Table 1** Energy Balance used for calculation of MAR

Energy Balance	Unit	2022
<b>Production</b>	<b>GWh</b>	<b>6,149</b>
TPP Kosova A	GWh	2,114
TPP Kosova B	GWh	3,397
Wind Plants	GWh	382
Hydro Power Plants	GWh	242
Solar plants	GWh	14
<b>Demand for supply of regulated customers</b>	<b>GWh</b>	<b>5,870</b>
Demand for USS customers	GWh	4,820
Allowed losses of DSO	GWh	923
Allowed losses of TSO	GWh	127
<b>Total imports</b>	<b>GWh</b>	<b>583</b>
Import for USS customers	GWh	171
Import for allowed losses at DSO	GWh	361
Import for allowed losses at TSO	GWh	51

### 3.1.1 The electricity import

The cost of import represents a cost that is carried by the Universal Service Supplier, and is part of the costs of purchasing energy for losses for KEDS and KOSTT. The determination of the energy purchase cost from import requires the evaluation of the required volume to cover local demand and the price of the imported energy.

The volume of imported energy as well as the price of this energy are considered to be largely outside of the control of the licensed operator. The volume depends on the availability of domestic generating capacities, the generation from renewable energy sources and the customer demand for energy, whereas the import prices depend on the value of energy in international markets.

The Rule on Determination of Maximum Allowed Revenues of the Universal Service Supplier provides for annual cost updates to reflect differences between the assumed and actual value of energy purchases, symmetrically. In cases where the cost of energy purchase from imports is lower than the costs allowed by ERO, the difference is compensated with interest in the following year, and vice versa.

The cost of energy purchase from import, used to calculate the Maximum Allowed Revenues for KESCO, KEDS and KOSTT, is evaluated as follows:



- The volume of import for the needs of the Universal Service Supplier is calculated by assuming that domestic production is first allocated to cover USS consumption. The total value of imports, following the allocation for the needs of USS, is distributed to KEDS and KOSTT to cover the losses of these operators, in proportion to their level of losses;
- The forecast cost for purchase of energy from import is based on two main sources– data published from the European Energy Exchange (*EEX-PXE Hungarian Power Futures*) for monthly prices that resulted on 13 January 2022<sup>2</sup> and which were a primary source for determination of the import costs for the months January-July 2022; and the Report of the Agency for the Cooperation of Energy Regulators (ACER) in relation to the preliminary evaluation of energy prices in Europe, which contains the forecast for energy prices in wholesale European markets<sup>3</sup>;
- The monthly prices of energy import are determined as follows:
  - For the months for which there are factual data on energy prices deriving from the EEX, is used the energy value which has appeared on the EEX energy exchange portal;
  - For the months for which the above data do not exist, the monthly prices are calculated taking into account the trend predicted in the ACER report, but reflected on the factual data obtained from the EEX, based on the last month for which these data have been published (July 2022).
  - Therefore, for example, if the import price in the ACER report for December 2022 is 1.217 times higher than the price in July, then the price in December determined for the calculation of MAR is 1.217 times the value of the price resulting from the EEX data.
  - Energy prices in international exchanges do not include the costs of transmission capacities for the transfer of this energy to the domestic market. Therefore, the forecast import price must also include an allowance to reflect these costs.

A summary of the energy import costs, used for the purpose of Maximum Allowed Revenues is provided in the chart below.

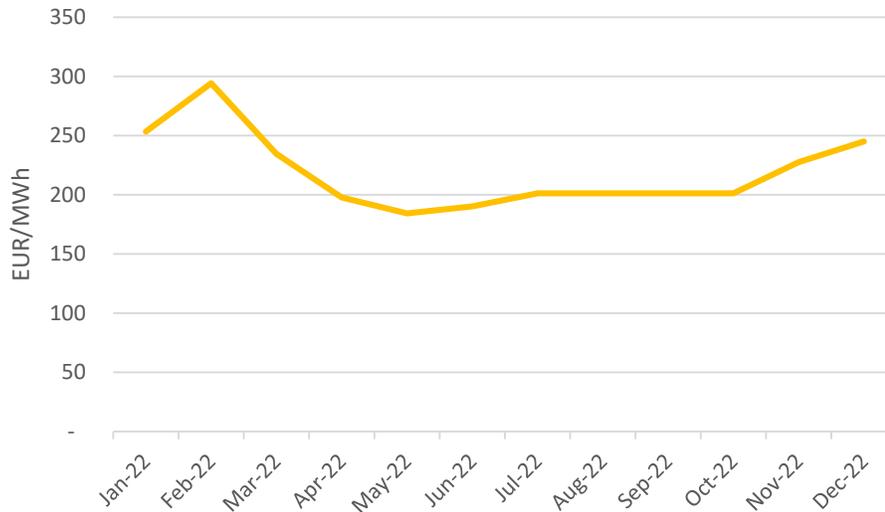
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<sup>2</sup> Source: European Energy Exchange - <https://www.eex.com/en/market-data/power/futures#%7B%22snippetpicker%22%3A%22EEX-PXE%20Hungarian%20Power%20Futures%22%7D>

<sup>3</sup> ACER: Preliminary assessment of Europe's high energy prices and the current wholesale electricity market design [https://extranet.acer.europa.eu/official\\_documents/acts\\_of\\_the\\_agency/publication/acer's%20preliminary%20assessment%20of%20europe's%20high%20energy%20prices%20and%20the%20current%20wholesale%20electricity%20market%20design.pdf](https://extranet.acer.europa.eu/official_documents/acts_of_the_agency/publication/acer's%20preliminary%20assessment%20of%20europe's%20high%20energy%20prices%20and%20the%20current%20wholesale%20electricity%20market%20design.pdf)



**Table 2** The price of import on calculation of Maximum Allowed Revenues



### 3.2 The Maximum Allowed Revenues of the Transmission System and Market Operator (KOSTT)

The Maximum Allowed Revenues for the Transmission System and Market Operator (KOSTT) are provided in the table below.

**Table 3** Maximum Allowed Revenues of KOSTT

Maximum Allowed Revenues	Allowed 2021	Proposed KOSTT 2022	Proposed ERO 2022
<b>Indexation parameters</b>			
Efficiency factor	1.5%	1.5%	
HICP		5.0%	
Euribor		-0.5%	
S Factor		7.6%	
Interest rate - It		7.1%	
<b>Operating and maintenance expenses (OPMct)</b>			
Evaluation during PRR2 €m	7.09	6.99	6.99
Allowed -OPMct = $OPMct-1 * (1 + CPI_{t-1}) * (1 - Et) * (1 - Pt)$ €m	<b>7.11</b>	<b>7.35</b>	<b>7.35</b>
Adjustments of maintenance costs: €m			
Actual €m			
Difference by applying sharing factor 50/50 €m			



Adjustments for OPEX for Vallaq €m			
<b>Depreciation costs (DEPct)</b>			
Evaluation during PRR2 €m	11.71	12.08	12.08
Allowed - DEPct = DEPct-1 * (1 + CPIt-1) * (1 – Pt) €m	<b>11.74</b>	<b>12.67</b>	<b>12.67</b>
<b>Return costs (RTNct)</b>			
Evaluation during PRR2 €m	10.85	11.09	11.09
Allowed - RTNct = RTNct-1 * (1 + CPIt-1) * (1 – Pt) €m	<b>10.88</b>	<b>11.63</b>	<b>11.63</b>
<b>Costs of losses (LSSct)</b>			
<b>Forecast</b>			
LSSAt	1.78%	1.78%	1.78%
REUEt GWh	6,944	7,376	7,376
WHEAt €/MWh	55.78	111.86	108.16
Forecast cost of losses €m	<b>6.54</b>	<b>13.94</b>	<b>13.48</b>
<b>Actual</b>			
LSSAt	1.78%	1.78%	1.78%
REUEt GWh			
WHEAt €/MWh			
Actual cost of losses <sup>4</sup> €m			
<b>Fund</b>			
Forecast €m	<b>16.98</b>	<b>10.94</b>	<b>10.94</b>
Actual €m (initial evaluation)			
Actual €m (final evaluation)			
<b>Ancillary services</b>			
Forecast €m	<b>9.53</b>	<b>12.87</b>	<b>7.00</b>
Actual €m			
<b>Adjustments</b>			
Unregulated revenues			
Forecast €m	(0.06)	(0.06)	(0.06)
Actual €m			
Revenues from ITC Mechanism			
Forecast €m	(3.60)	(3.60)	(3.60)
Actual €m			
Adjustments for (2017 and PR1)	(1.26)	(1.26)	(1.26)
Revenues from KEK:			
Forecast €m	(3.33)	(3.33)	(5.92)
Actual €m			
<b>KREV –Revenues Correction Factor</b>			
Revenues Correction Factor t-1 €m	(15.59)	(16.62)	(16.62)

<sup>4</sup> Adjusted for the load in the North



AACT-1 – actual costs for year t-1 €m			
ARRt-1 - actual revenues for year t-1 €m			
<b>KREvt = (AACat-1 – ARRt-1) * (1+ It) €m</b>			
<b>Maximum Revenues without Fund costs (Net KOSTT)</b>	<b>28.84</b>	<b>40.55</b>	<b>32.12</b>
<b>RES Fund Costs<sup>5</sup> (net = 16.98<sub>t</sub> – 6.88<sub>t-1</sub>)</b>	<b>10.10</b>	<b>3.98</b>	<b>3.98*</b>
<b>MAR – Maximum Allowed Revenues - total - €m</b>	<b>38.94</b>	<b>44.53</b>	<b>35.61</b>

\* Net costs of the RES Fund are calculated as a difference of the costs forecast for 2022 in an amount of 10.94 mil€ and costs adjusted for 2021 in an amount of 7.02 mil€.

The ancillary services during the period 2007-2010, in an amount of €5.9 million are reflected in the allowed revenues of KOSTT. For the same amount, the costs related to ancillary services for 2022 were adjusted.

### 3.3 The Maximum Allowed Revenues of the Distribution System Operator (KEDS)

The Maximum Allowed Revenues for the Distribution System Operator (KEDS) are provided in the table below.

**Table 3 KEDS Maximum Allowed Revenues**

Maximum Allowed Revenues (mil€)	Unit	Allowed 2021	KEDS proposal 2022	ERO proposal 2022
<b>Indexation parameters</b>				
Efficiency factor	%	1.5%	1.5%	1.5%
Inflation	%		5.0%	
Euribor	%		-0.5%	
S- factor	%		7.6%	
Interest rate - It	%		7.12%	
<b>Operating and maintenance costs (OPMct)</b>				
Evaluation during PRR2	€m	25.21	24.91	24.91
Allowed - $OPMct = OPMct-1 * (1 + CPI_{t-1}) * (1 - Et) * (1 - Pt)$	€m	25.28	25.46	26.18
Additional costs for health insurance	€m	0.24	0.24	0.24
<b>Depreciation costs (DEPct)</b>				
Evaluation during PRR2	€m	16.17	17.55	17.55
Allowed - $DEPct = DEPct-1 * (1 + CPI_{t-1}) * (1 - Pt)$	€m	16.21	17.89	18.36
<b>Return costs (RTNct)</b>				
Evaluation during MYT	€m	15.90	16.37	16.37
Allowed - $RTNct = RTNct-1 * (1 + CPI_{t-1}) * (1 - Pt)$	€m	15.94	16.71	17.17
<b>Obligations towards KOSTT</b>				
Obligations towards KOSTT- forecast	€m	1.30	1.52	1.55
Obligations towards KOSTT - actual	€m			

<sup>5</sup> The value of 6.88 is calculated as = 6.41\*(1+7.3%); where 6.41 is the correction for 2020, whereas 7.3% is the interest rate



### Costs of losses (LSSct)

#### Forecast

LSSAt	€m	16.40%	15.10%	15.10%
REUet	€m	5,809	6,593.8	6,109.8
WHEAt	€/MWh	53.41	226.3	108.05
Forecast cost of losses	€m	<b>50.88</b>	<b>225.32</b>	<b>99.69</b>

#### Actual

LSSAt	%	16.40%	15.1%	15.1%
REUet	GWh	6,260		
WHEAt	€/MWh	84.47		
Actual cost of losses	€m	<b>86.71</b>		

#### Adjustments

Unregulated revenues PRR2	€m	(3.50)	(3.50)	(3.50)
Adjustments for PRR1	€m	(1.50)	(1.50)	(1.50)
Actual unregulated revenues	€m			
Licensing tax:				
Forecast	€m	0.17	0.17	0.08
Actual	€m			

#### KREV – Revenues Correction Factor

Revenues Correction Factor t-1	€m	(14.44)	18.19	16.24
AAct-1 – actual costs for year t-1	€m	121.02	121.85	
ARRt-1 - actual revenues for year t-1	€m	105.86	104.90	
<b>KREvt = (AAct-1 – ARRt-1) * (1+ It)</b>	€m	<b>16.29</b>		

#### MAR – Maximum Allowed Revenues

	€m	<b>90.51</b>	<b>300.53</b>	<b>174.50</b>
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### 3.4 Maximum Allowed Revenues of Universal Service Supplier (KESCO)

The Maximum Allowed Revenues of the Universal Service Supplier (USS) are provided in the table below:

*MAR for Universal Service Supplier*

MAR of Universal Service Supplier	Unit	Allowed 2021	USS Application 2022*	ERO Proposal 2022
Indexation parameters				
Interest rate $I_t$ (t-1)	%	6.85%		5.53%
Retail costs of the supplier				
$OPEX - OPMC_t = OPMC_{t-1} * (1 + CPI_{t-1}) * (1 - E_t) * (1 - P_t)$	€m	4.6	5.29	5.29
Correction for OPEX of 2020 and 2021	€m			0.42
$Depreciation - DEPC_t = DEPC_{t-1} * (1 + CPI_{t-1}) * (1 - P_t)$	€m	0.1	0.1	0.1
Pass-through costs				
TSO Costs	€m	17.8	26.24	18.34
DSO Costs	€m	90.5	145.05	174.50
RES Fund Costs	€m	9.9	14.45	3.54
Working Capital (WCLCt)				
$WCLC = (1 / 12) * I_t * (RETR_t + WHPC_t + PSTC_t - NTFR_t)$	€m	1.5	2.48	2.22
Energy Purchase Costs				
Wholesale Energy Purchase Costs	€m	147.2	242.22	186.10
Licensing Tax				
Licensing Tax	€m	0.03	0.07	0.07
Bad Debt (BDTA)				
BDTA	%	4%	4%	4%
BDTA	€m	11.6	19.18	12.52
Adjustments of revenues for USS				
Adjustments of 2021	€m	6.8	24.37	43.56
<b>Maximum Allowed Revenues</b>	<b>€m</b>	<b>290.14</b>	<b>479.45</b>	<b>446.67</b>

\*Note: In their application, KESCO/USS did not include all pass-through costs of KEDS/DSO in the amount of € 300mil, but only costs in the amount of € 145mil. Also KESCO/USS, after the initial application, has submitted to ERO additional updated information regarding the costs of deviations, adjusted revenues from billing related to the subsidy, as well as adjusted costs for the month of December for wholesale energy purchases.

### 3.5 Other factors that have affected the value of allowed revenues

This part of the Consultation Report summarizes the adjustment of Maximum Allowed Revenues which are not included in the common adjustments of revenues included in the MAR tables.



### **3.5.1 The remaining liabilities of KEK towards customers**

The remaining liabilities of KEK towards customers for the allowed return and the depreciation for the investments that have not been realized, are completely allocated in KOSTT tariffs in an amount of € 5.9 million.

### **3.5.2 Allowed costs of ancillary services 2007-2010**

The difference between the allowed and realized values for ancillary services during the period 2007-2010, in an amount of €5.9 million were reflected in the allowed revenues of KOSTT. For the same amount, the costs related to ancillary services for 2022 were adjusted.

### **3.5.3 Deviations of parties in relation to nominations**

During December, the Universal Service Supplier (USS- KESCO) has sub-nominated consistently in relation to their consumption, and as a result, Kosovo Power System has withdrawn electricity from neighbouring countries in an unauthorized manner.

For this energy withdrawn in an unauthorized manner, KOSTT has evaluated that the cost billed to USS for the deviations caused is €17 million and this cost includes the penalty factor for the deviation of 1.3 applied to the imbalance costs, which reflects the fact that the offer to cover deviations has not been activated. Given that USS has deviated systematically and intentionally, ERO will not include in the tariff the penalty that USS has to pay. The impact of the penalty will be covered by USS and will not be carried by customers.

### **3.5.4 Subsidies from the Government of Kosovo (2021)**

The Maximum Allowed Revenues were adjusted to reflect the subsidy which was allocated by the Government of the Republic of Kosovo, in December 2021, in an amount of €20 million.

### **3.5.5 Correction of the difference between costs and revenues**

All differences between actual revenues and actual costs for 2021 and in accordance with the Rule on Maximum Allowed Revenues are reflected in the following year 2022 for each regulated licensee.

### **3.5.6 Change of input parameters**

The Board of Energy Regulatory Office, in the session held on 14 January 2021 approved new input parameters for calculation of tariffs of the Universal Service Supplier. This decision has approved the following input parameters:

- The retail margin applied in the wholesale energy purchase costs is reduced from 3% to 2.54%;
- Bad debt is reduced from 4% to 2.4%; and,

In addition to these changes, ERO has also approved operating costs and efficiency factor, which have affected the level of allowed revenues of licensees. New input parameters are applied for 9 of the 12 months of the following tariff year.