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DSO Comments on the ERO Consultation Report for Extraordinary Review of Electricity Tariffs

January, 2022

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I. Introduction

The Energy Regulatory Office (ERO) on January 17, 2022 has published the Consultative Report for Extraordinary Review of Electricity Tariffs. In this report, ERO has submitted the initial estimate for the Maximum Allowed Revenues for the Distribution System Operator (DSO), based on the Application for extraordinary review of the maximum allowed revenues submitted on December 28, 2021.

Extraordinary reviews occur when the financial impact caused by an extraordinary event exceeds the materiality threshold of 5%. As noted in the ERO Consultation Report, the unprecedented increase in prices in the electricity markets has affected the costs of purchasing electricity to cover losses in the distribution network - increasing the costs of purchases made from imports. This paved the way for the start of the process for extraordinary review of electricity tariffs in order to cover the significant change in the costs of purchasing electricity and maintaining the electricity system in the country.

In this document, the DSO will present its stance regarding ERO's proposal for maximum allowed revenues according to the Consultation Report and will present the data that support the DSO's proposal for maximum allowed revenues for the period. 1 February 2022 -31 March 2023.

II. DSO Comments

During the review of ERO assessment presented in the Consultation Report, we noticed that ERO has used the same methodology as in previous years regarding energy expected to enter in the distribution (EED) considering only the allowable level of losses at the level of distribution. As noted in the past by the DSO, the application of such a methodology is not in line with the methodology used in the Energy Balance, and with the methodologies set out in the DSO Pricing Rule and as a result gives erroneous conclusions.

We agree that ERO for tariff purposes should use the approved level of losses when calculating the allowable cost of losses, however the lower energy forecast at the entry level of distribution means subsidizing part of the costs by the DSO in a relevant year and respectively larger adjustments during the following year.

Considering that energy from domestic production is provided with priority for the Universal Service Supplier (USS) and since this production is insufficient to cover the needs of domestic consumption, the DSO covers its needs mainly from imports and as a result is exposed to changes in import prices.

During 2021, purchases of energy from imports for the needs of the DSO constitutes 50% of purchases but their financial value constitutes 78% of the costs of energy purchases. Therefore, inaccurate non-reflection of energy entering to the distribution level and the burden of maintaining these costs by the

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DSO in a year when the DSO is facing a liquidity crisis is unacceptable and seriously impairs its financial recovery, which reflects in delays in payment of liabilities to other operators.

Considering the above, we ask ERO to use the expected value of sales and losses when calculating the EED for the respective year 2022, as shown in the table below:

Energy Balance in DSO level	Unit	Proposal 2022	DSO Comments 2022
Expected Sales	GWh	4,820	4,928
Unsupplied energy in the North	GWh	367	367
Losses in Northern Kosovo	%	6.%	6.%
Allowed Losses	%	15.1%	15.1%
Allowed Losses	GWh	923	965
Losses exceeded	%		2.0%
Losses exceeded	GWh		130
Total losses including North	%	21.1%	22.9%
Total losses including North	%	1,290	1,462
Expected EED	**GWh**	**6,110**	**6,390**

Furthermore, ERO in the consultative report has used a composite price for the calculation of the cost of losses, which is based on the actual price from purchases from KEK-generation and the expected import price, resulting in a final price of 108.05 € / MWh, which considers purchases from KEK and Imports.

However, the purchases from KEK were applied according to the optimistic KEK-generation scenario, where KEK is expected to produce with 3A and 2B during March. Considering that the actual price of electricity from imports is 250 € / MWh[1], the impact of the shortage of 100 MW of domestic production by replacing the same with imports results in an additional cost of 15 million € only for one month.

Impact of shortage of 100 MW from domestic production	MWh	€/MWh	€
KEK	72,000	36.0	2,592,000
Import	72,000	250	18,000,000
Impact			15,408,000

[1] Price according to HUPX market, date January 24

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Also, considering the volatility of import prices during 2021, which have been constantly changing; the upward trend of prices according to the forecasts from the Hupex market for the following days and months (2022); uncertainty of operation of KEK generating units; and the fact that ERO during the forecast did not consider cross-border prices, then the import price should reflect the expectations of international markets.

In this sense, DSO has updated the import price and the expected cost for the purchase of allowable losses is as follows:

Description	Unit	Proposal 2022	DSO Comments 2022
Indexing parameter			
It	%	7.38	7.38
Allowed losses (LSSCt)			
LSSAt	%	15.1	15.1
REUEt	GWh	6,109.8	6,389.9
WHEAt	€/MWh	108.05	137.32
LSSCat-1	mil€		
LSSCft-1	mil€	**99.69**	**132.50**

The assessment cost of losses is in accordance with the DSO Pricing Rule and represents only the level of allowable losses. These costs are necessary to enable the normal functioning of the DSO in the given year and we ask ERO to implement the DSO request for accurate reflection of the cost of losses for 2022. The DSO already bears the cost burden of losses above the allowable level, therefore financing the sector for one year is beyond any financial capacity.

III. Proposal for Maximum Allowed Revenues for the DSO for 2022

The following table summarizes the MAR required by the DSO for 2022, after considering all the necessary adjustments, as argued above.

Maximum Allowed Revenues (mil€)	Unit	Proposal 2022	DSO Proposal
Indexation Parameters			
Efficiency Factor	%	1.5%	1.5%
Inflation	%		
Euribor	%		
S Factor	%		

Inters Rate - It	%		
Operating and maintenance costs (OPMCt)			
Evaluation during PRR2	€m	24.91	24.91
Allowed - OPMCt = OPMCt-1 * (1 + CPIt-1) * (1 – Et)* (1 – Pt)	€m	**26.18**	**26.18**
Additional costs of OPEX	€m	0.24	0.24
Depreciation costs (DEPCt)			
Evaluation during PRR2	€m	17.55	17.55
Allowed - DEPCt = DEPCt-1 * (1 + CPIt-1) * (1 – Pt)	€m	**18.36**	**18.36**
Return costs (RTNCt)			
Evaluation during MYT	€m	16.37	16.37
Allowed - RTNCt = RTNCt-1 * (1 + CPIt-1) * (1 – Pt)	€m	**17.17**	**17.17**
Obligations towards KOSTT			
Obligation towards KOSTT -Forecast	€m	1.55	1.55
Obligation towards KOSTT – Actual	€m		
Costs of Losses (LSSCt)			
Forecast			
LSSAt	€m	15.1%	16.40%
REUEt	€m	6,109.8	6,389.9
WHEAt	€m	108.5	137.32
Forecast costs of losses	€m	**99.69**	**132.50**
Actual			
LSSAt	%	15.1%	15.1%
REUEt	GWh		
WHEAt	€/MWh		
Actual costs of losses	€m		
Adjustments			
Unregulated revenues PRR2	€m	(3.50)	(3.50)
Adjustment for PRR1	€m	(1.50)	(1.50)
Adjustment for the price of losses	€m		
Correction of imbalances	€m		
Actual unregulated revenues	€m		
Licensing tax:			
Forecast	€m	0.08	0.10
Actual	€m		
KREV – Revenues Correction Factor			
Revenues correction factor t-1	€m	16.24	16.57
AACt-1 – actual costs for year t-1	€m		
441.ARRt-1 - actual costs for year t-1	€m		
KREV-t = (AACat-1 – ARRt-1) * (1+ It)	€m		
MAR – Maximum Allowed Revenues	€m	**174.50**	**207.67**

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The DSO believes that the proposed MAR represents the real costs of the distribution network for 2022 and expects from ERO to reflect before any final decision.