



Republika e Kosovës
Republika Kosova - Republic of Kosovo

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



Consultation Report

Annual Adjustments of Maximum Allowed Revenues for KEDS

Relevant tariff year 2024

DISCLAIMER

This Consultation Report is prepared by ERO with the purpose of informing stakeholders. It does not represent a decision of ERO and shall not be interpreted as such.

6 February 2024



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1 Introduction

Energy Regulatory Office (ERO) is currently carrying out the regular annual adjustment for Maximum Allowed Revenues that will be recovered by the regulated companies. In this process, ERO will make the initial proposal for the updated MAR for the Transmission System and Market Operator (TSO/MO, KOSTT), Distribution System Operator (DSO, KEDS) and will determine the revenues of the Universal Service Supplier (USS). This initial evaluation is based on the proposals submitted by the regulated companies as well as the decision on Maximum Allowed Revenues for the regulatory period 2023-2027 for TSO/MO and DSO.

The price regulation is a tool used by ERO in order to determine the Maximum Allowed Revenues-MAR, which the regulated companies will collect for provision of regulated services. MAR is set at the level that enables the regulated licensee to recover the justifiable operating and maintenance costs of their assets and to realize a reasonable return in their investments. Also, ERO sets the efficiency targets, the loss reduction targets, improvement of performance, which aim to increase the operative efficiency of companies and provide incentives for fulfilling the targets or penalties if the companies fail to achieve them.

The basic values for MAR components are set in the periodic review, conducted in 2023 and remain valid for a five (5) year period. The current evaluation is related to the evaluation of MAR proposals, presented by the regulated companies, taking into consideration also the actual data of 2023, in order to conduct the determination of revenues for relevant tariff year 2024. This review evaluates whether the proposals of the licensees have been calculated in line with the legal and regulatory framework.

ERO invites the licensed companies, customers and other stakeholders to provide their contribution in this process, by reviewing and comments on the data and views presented in this Consultation Report in order to have the most accurate evaluation of Maximum Allowed Revenues for the Distribution System Operator (DSO/KEDS). These reports must be analysed, also referring to the final reports of the Periodic Review 2023-2027.

The parties who want to provide their eventual comments in relation to ERO's proposals, are invited to submit them in writing at ero.pricing-tariffs@ero-ks.org by 21 February 2024 at the latest.

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

Relevant documents

Final Evaluation of DSO MAR within the periodic review process – Detailed Evaluation	https://www.ero-ks.org/zrre/sites/default/files/Publikimet/Pjesemarresit%20ne%20Treg/Furnizim/Raport%20p%C3%ABrdimtar%20p%C3%ABr%20t%C3%AB%20Hyrat%20e%20Lejuara%20Maksimale%20per%20OSSH_P%C3%ABrgjigjet%20ndaj%20Komenteve.pdf
KEDS Application for 2024	https://www.ero-ks.org/zrre/sites/default/files/Publikimet/Pjesemarresit%20ne%20Treg/Furnizim/Raport%20p%C3%ABrdimtar%20p%C3%ABr%20t%C3%AB%20Hyrat%20e%20Lejuara%20Maksimale%20per%20OSSH_P%C3%ABrgjigjet%20ndaj%20Komenteve.pdf



	sit%20ne%20Treg/Furnizim/Aplikimi%20i%20OSSH-s%C3%AB%20p%C3%ABr%20MAR_2024.pdf
Consultation Report on USS Maximum Allowed Revenues	(link)
Consultation Report on TSO/MO Maximum Allowed Revenues	(link)

2 Adjustment of Maximum Allowed Revenues

Based on the Rule on Determination of Maximum Allowed Revenues for DSO, ERO has analysed all the cost components and requirements of the licensee presented in the application for Maximum Allowed Revenues. During the regular adjustment process, ERO uses the values determined during the Periodic Review Process 2023-2027 and adjusts MAR to reflect the differences between the costs that were forecast during periodic review and actual reasonable costs of the regulated operators. During this process, ERO will:

1. Index the Operating and Maintenance Costs for the Efficiency Factor which is set during the periodic review process and for annual inflation based on the Harmonized Index of Customer Prices (HICP), published for the countries of Eurozone;
2. Set the Allowed Cost of Losses (LSSCt) for DSO and update them so that they include the difference between the allowed and realized costs of losses for the previous regulatory period, which may have happened as a result of the changes in the wholesale energy purchase costs or changes in the electricity flows in the distribution system;
3. Update the DSO MAR in order to reflect the difference between the allowed and realized revenues in the previous relevant year (t-1), including the excluded revenues;
4. Set DSO MAR for the relevant tariff year t.



3 Realized and Forecast Electricity Balance

In order to evaluate the costs that are related to the purchase of losses at DSO level, ERO has analysed the data reported by KEDS for 2023 and the data for the forecast of balance for 2024. The analysis of the realized balance for 2023 and the one forecast for 2024 is presented in the following table:

Table 1: Electricity Balance

Electricity Balance in DSO	Unit	Realization 2023	Proposal 2024
Entry in DSO	GWh	6,228	6,272
Gross energy in the north	GWh	333	353
Billing in the north			232
Losses in the north			121
Entry in DSO without unbilled energy	GWh	5,895	5,920
Gross energy in the north	%	5.35%	5.62%
Technical and commercial losses in DSO	GWh	955	922
	%	15.3%	14.7%
Total losses	GWh	1,288	1,042
	%	20.7%	16.6%
Remaining energy for billing	GWh	4,941	4,998

ERO evaluates the performance achieved by the Distribution System Operator in 2023 regarding the decrease of distribution losses for 1.5% percentage points compared to 2022.

The reduction of commercial losses is in direct correlation with the energy load, consecutively the costs for recovery of losses in DSO, therefore the good relations between customers and DSO, the support from the competent authorities of order and law enforcement is a necessary mean for their reduction. Therefore, ERO encourages DSO and the competent authorities to continue their cooperation for reduction of losses in the following year as well, so that the benefits of this result can be reflected to customers.

Following the commencement of the implementation of the Guideline derived from the Bursells Agreement for the energy sector, the licensed supplier Elektrosever started the nominations for energy purchase for supply of customers in the four northern municipalities of Kosovo. ERO, in this regular review process has taken into consideration the amounts that are expected to be billed from the supplier Elektrosever, and then allocated the obligations and the revenues of suppliers and other trading parties as well.

ERO will continue to provide the required support for all licenses in conformity with its mandate on implementation of this agreement, in order to ensure security of electricity supply for the entire territory of the country.



4 Regular adjustments

In case there are differences between the allowed and realized costs during any relevant year, the Regulator carries out the adjustment of these costs.

This part presents the calculations related to regular annual adjustments during 2023. The calculation of these adjustments will be included during the determination of Maximum Allowed Revenues for the relevant tariff year 2024.

4.1 Adjustments for inflation rate

In order to carry out the calculation of adjustments related to the inflation rate, as a reference was taken the inflation rate published by Eurostat for Eurozone countries, which for 2023 was 5.41%¹. The manner for calculation of such adjustments is determined in the Rule on DSO Revenues.

In order to reflect the changes of the inflation rate through years, the data are illustrated in the following figure:

Figure 1 - HICP

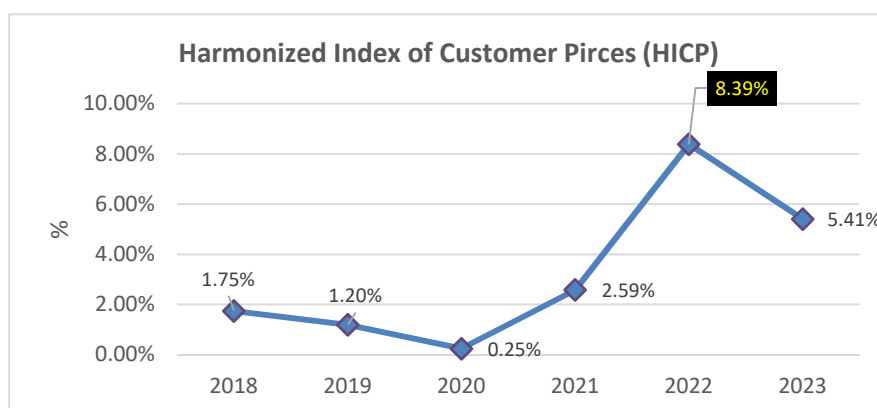
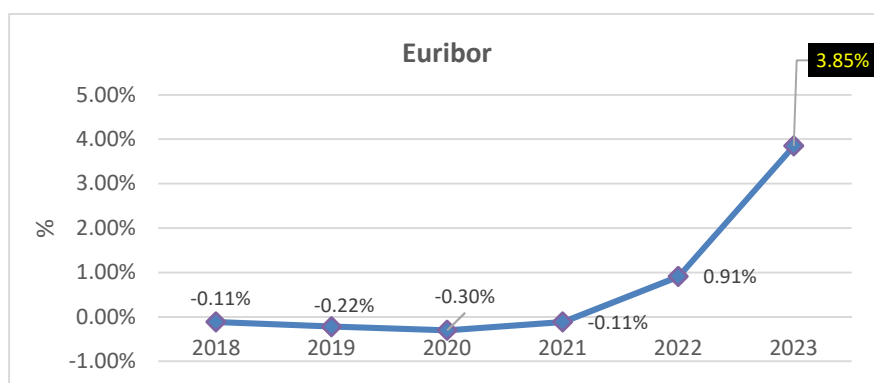


Figure 2 - Euribor



¹ Source: Eurostat,

https://ec.europa.eu/eurostat/databrowser/view/PRC_HICP_AIND_custom_4860030/default/table?lang=en
(visited on 22.01.2024)



This rate is applied in the adjustment of operating costs, depreciation and return on capital costs. Following the application of the inflation rate of 5.41% towards the above-mentioned cost components, the value of adjusted costs of € 3.27 million is derived. The adjustments resulting from the application of the inflation rate for each of the cost components allowed in 2023 were then added to the initial evaluation of costs for 2024. The details of these calculations are presented in the following table:

Table 2: Adjustments for inflation

Line	Unit	a) Allowed 2023	b) Adjustment for inflation	c) Initial evaluation 2024 ²	d=b+c Allowance 2024
OPEX-i	mil€	28.241	1.53	27.848	29.38
Depreciation	mil€	17.303	0.94	19.414	20.35
Return	mil€	14.886	0.81	16.338	17.14
Total	mil€	60.43	3.27	63.60	66.87

KEDS, in its application related to operating expenses, among other things, has emphasized that in order to prevent the migration trend, ensure operational stability and sustainability, steps have recently been taken in the energy sector to increase the wages of workers, where KEK - Generation at the end of 2023 increased wages again by nearly 15%, increasing even more the difference between workers in the same sector. Therefore, DSO proposes a 15% wage increase for 2024, which will help the operator to be able to maintain a competent and qualified workforce.

According to the Rule on Maximum Allowed Revenues, ERO has reviewed the OPEX costs (which also include personnel costs) reflecting the annual inflation rate. The inflation rate takes into account the Harmonized Index of Customer Prices published by Eurostat. The HICP value applied for 2022 to OPEX adjustments for 2023 based on Eurostat data was 8.4%, while for 2023 applied for 2024 it is 5.41%. Therefore, ERO, in line with the legal framework, has updated and will update OPEX costs (including personnel costs) to reflect inflation and such updates may be reflected by DSO in personnel salaries.

KEDS, in its application, has predicted the costs related to the provision of the services foreseen in the Guideline on Energy and the Elektrosever license in a linear manner for the whole year based on the monthly costs resulting from the period until 31 March 2024.

In order to begin with the normalization of the electricity supply to customers in the four municipalities in the north of Kosovo and due to the absence of detailed data, ERO, following the consultation with the interested parties, have agreed in principle that the expenses related to the

² According to allowances in Periodic Review 2023-2027 linku:

https://www.ero-ks.org/zrre/sites/default/files/Publikimet/Pjesemarresit%20ne%20Treg/Furnizim/Raport%20p%C3%ABrfundimtar%20p%C3%ABr%20t%C3%AB%20Hyrat%20e%20Lejuara%20Maksimale%20per%20OSSH_P%C3%ABrgjigjet%20ndaj%20Komenteve.pdf



provision of distribution services, foreseen in the Energy Guideline and the Elektroserver license may be around €0.4mil, until 31 March 2024.

In this review, ERO has analyzed in more detail the costs for the provision of joint services for the four northern municipalities regarding the costs related to similar services in the part operated by DSO. From this analogy, it results that the annual costs are €0.5mil, respectively the costs for the April-December period are 9/12 of €0.5mil.

4.2 Investment costs

DSO, in its application, submitted a request to ERO for approval of the increase of the number of meters, taking into account that this request has a legal basis, namely as defined in the Law on Meterology. Also, as a result of the conclusion of the agreement with Elektroserver for the supply of four (4) municipalities in the North of Kosovo, there is a need for additional investments from DSO, which are not recognized in the approved investment plan for the third regulatory period (2023-2027). Since the agreement is in force from 1 January 2024, DSO is in the process of collecting data from the field regarding the existing situation, based on which the detailed plan for the required investments in the four (4) northern municipalities Kosovo will be compiled.

In its application, DSO emphasizes that it has foreseen an initial investment which is necessary for the commencement of operations, such as the costs for changing meters, rehabilitation, network expansion, etc. The costs foreseen for the installation of meters include only the meters that will be installed in the first phase, whereas the costs foreseen for the second phase are not included in this application given that from the discussions with other stakeholders involved in this process, they are expected to be funded from the European Union. However, if these costs are not covered as discussed, the same shall be included in the Maximum Allowed Revenues for 2024, since they are highly required for the normalization of supply and billing in that area.

ERO in the evaluation of capital investments for DSO, in particular for the category related to the installation of meters whether for new connections, replacement, other low voltage projects, has taken as a basis the dynamics of implementation in the previous periods (PRR1 and PRR2). Recognizing these practices, ERO had no reason to approve a significantly different number of meters in PRR3 than the one implemented in PRR1 and PRR2.

However, following the consultations with the DSO, for the year 2023, the costs of the meters have been reviewed from 3 to 4 million euros, respectively the number of allowed meters was 74,580 meters. Based on the current data reported by DSO, the number of installed meters for 2023 is 52,504, which represents a difference of 22,076 meters less than those allowed by ERO.

However, based on the requests of KEDS addressed to ERO and the Ministry of Industry, Entrepreneurship and Trade, ERO organized a tripartite meeting regarding this issue in order to compile a joint action plan. According to the information from KEDS, KEDS and MAK (Meterology Agency of Kosovo) subsequently had consultations with representatives of MAK in relation to the issue of meters - mainly about changing meters according to legal requirements related to periodic verification and then compiled a draft-Action Plan proposal, which was forwarded to MAK and then to ERO.



At this stage, ERO has evaluated that the demand for 2024 should also include the number of meters not realized during 2023, so that the overall demand for 2024 remains the same.

Also, based on customer complaints and the current situation of the quality of electricity supply in the region of Malisheva, ERO in cooperation with DSO, this year has also considered the options for improving the electricity supply in this area. Following the detailed analysis, it was concluded that the option of replacing the existing 35kV conductor (Al/St 95/15mm²) with a new ACCC Silvassa 122.7mm² conductor offers the feasible technical-financial solution of electricity supply for the customers of this area. The value of this project is expected to be €0.7 million.

Regarding the planned investments for the four municipalities of the northern part of Kosovo, ERO evaluates that the costs of the first phase related to meters and low voltage transmission equipment are reasonable. As for other investments that may result later, ERO will review them only after collecting data on the existing state of the network. Meanwhile, regarding the projects of the second phase, ERO is in close cooperation with the European Union office in Kosovo to support the necessary investments in this part of Kosovo.

4.3 DSO Imbalances

KEDS, in its application, has expressed concerns about the costs of imbalances. KEDS proposes that the costs of imbalances from 2024 onwards shall be recognized by ERO as reasonable costs, with the aim of recovering them through tariffs.

ERO expresses its willingness to cooperate with the regulated companies KOSTT, KEDS, USS and other commercial parties in order to analyze the domestic secondary legislation, other regional and European practices in relation to the balancing mechanism that addresses the balancing responsibilities in the electricity market of each trading party, and then will take the necessary actions to address the required changes to the balancing mechanism and the costs related to it. However, until the future amendments to the legislation that regulates the balancing mechanism take place, ERO for 2024 will handle the costs of imbalances for TSO/MO and DSO according to the regulatory precedents applied so far.

4.4 Adjustments for pass-through costs

Due to the differences between the forecast energy and the energy realized by DSO related to DSO's obligations to the Market Operator (MO) and the System Operator (SO), ERO has made adjustments to reflect these differences. The value of these adjustments is €-0.1 million (the difference between €1.88 million and €1.82 million).

4.5 Adjustments for the cost of losses

The value of the adjusted cost for losses is €2.49 million, which results due to the difference in realized energy flows towards the forecast ones as well as the difference between the forecast and realized price. The details of the calculations are given in the table below.



Table 3: Adjustments for the costs of losses

DSO MAR	Unit	Allowed 2023	Realized 2023	Proposed 2024
Indexation parameters				
I_t	%		9.59%	
Allowed losses (LSSCt)				
LSSAt	%	15.10%	15.10%	16.61%
Actual losses			15.32%	
REUEt	GWh	6,220	6,228	6,272
WHEAt	€/MWh	81.69	83.37	70.36
LSSCat-1	mil€		78.41	
LSSCft-1	mil€	76.72		73.32
Costs according to sharing factor 50/50			0.58	
Total costs	mil€		79.00	73.32

Where:

- $LSSA_t$ are the allowed losses, which are presented as a percentage of energy entering the distribution system in relevant year t
- $REUE_t$ are the energy units (MWh) or (GWh) entering the distribution system in relevant year t
- $WHEA_t$ is the average of wholesale energy cost (€/MWh) in relevant year t
- $LSSCa_{t-1}$ is the realized cost of allowed losses in relevant year $t-1$, (calculated using the allowed losses)
- $LSSCf_{t-1}$ is the forecast cost of losses in relevant year $t-1$, (calculated using the allowed losses)
- I_t is the interest rate for relevant year t , which is calculated based on EURIBOR plus $S\%$, where S presents the value determined by ERO during periodic reviews which reflects the premium payable by the licensee for short-term loans above the EURIBOR rate

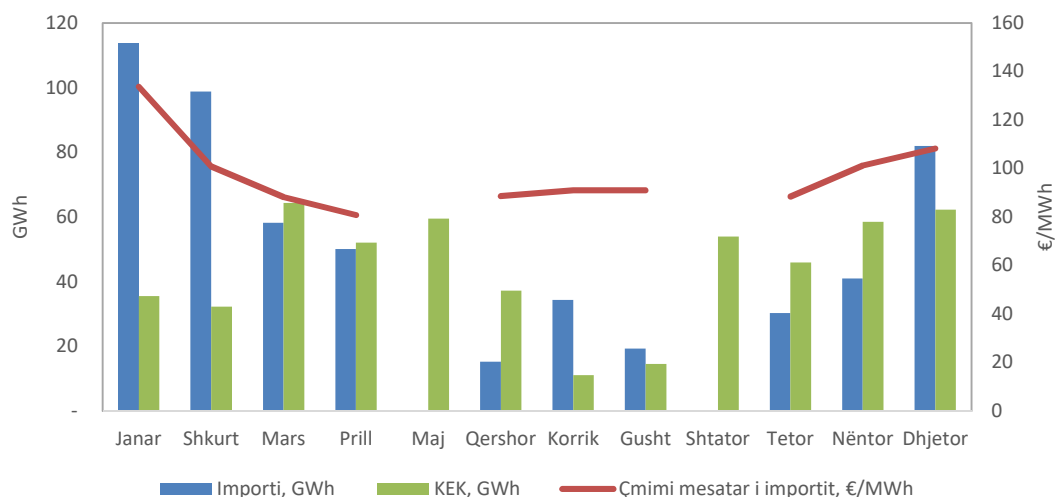
ERO in the preliminary evaluation has foreseen the energy purchase costs for recovery of losses based on a) the forecast amounts of electricity purchase from KEK and import, b) the profile of losses from the historical data of TSO, c) electricity price forecasts from KEK and import, based on data from the European Energy Exchange (EEX-PXE Hungarian Power Futures)³, and d) the energy import costs (allocation of capacities, network costs and transmission cross-border tariffs) based on historical data and network tariffs.

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



As it is known, ERO does not regulate the prices of KEK generation since 2017, therefore, given that at this stage during the public consultation process, DSO has not offered the updated agreement for the purchase of energy from KEK, ERO has used the current price. However, whenever the parties review their agreements respecting the principles defined in the legal and regulatory framework, ERO will reflect such costs in wholesale energy purchases.

Figure 3. Average electricity import price and forecast amounts of purchases from KEK and import for DSO



Based on this data, ERO evaluates that the weighted average price of wholesale energy purchase is 70.36 €/MWh.

4.6 Corrections for non-tariff revenues 2020-2022

In its application, KEDS emphasized that the data presented in the financial statements for 2021 and 2022 have been approved as a result of extraordinary reviews, and that during these processes the financial statements have not been audited, therefore also the data on unregulated revenues are presented as preliminary data. The adjustments applied for these years are in accordance with the invoices issued for these services and the presentations in the audited financial statements, which have already been submitted to ERO.

In the preliminary evaluation, ERO has taken into consideration the data according to the evidence presented by DSO, from where it results that the corrections for unregulated revenues for the years 2020-2022 are €3.78 million, including the interest rate for the years 2020-2022 and which results in the amount of €3.82 million.

The following table presents the details of these corrections:



Table 4: Corrections of unregulated revenues

Unregulated revenues mil €	2020	2021	2022
Approved	6.61	8.64	8.08
Actual	6.43	6.44	7.43
It 2020	7.3%		
It 2021	7.1%	7.1%	
It 2022	8.5%	8.5%	8.5%
It 2023	9.6%	9.6%	9.6%
Total	0.25	2.80	0.77

4.7 Adjustments for revenues correction factor

In line with the Rule on Maximum Allowed Revenues, the correction of revenues for 2023 was carried out. The applied principle is related to the overall evaluation of actual allowed costs and actual realized revenues. These calculations are conducted according to the following formula:

$$KREV_t = (AAC_{at-1} - ARR_{t-1}) * (1 + I_t)$$

Where:

AAC_{at-1} Actual Allowed Cost as determined in Relevant Year t-1

ARR_{t-1} Actual Regulated Revenues in Relevant Year t-1

I_t Interest rate for relevant year t, which is calculated based on EURIBOR plus 5% where 5 presents the value determined by ERO during periodic reviews which reflects the payable premium by the licensee for short-term loans.

The difference between AAC_{at-1} actual allowed costs of €136.32 million and ARR_{t-1} realized revenues of €149.05 million, following the application of the interest rate, results in €-13.95 million. This difference between allowed revenues and actual costs is passed through as an update during the determination of MAR for 2024.

5 Proposal for DSO Maximum Allowed Revenues

Maximum Allowed Revenues for DSO are calculated according to the following formula:

$$MAR_t = OPMC_t + DEPC_t + RTNC_t + LSSC_t + LICC_t - NTFR_t + ADJ_t + KREV_t,$$

Where:

MAR_t Maximum Allowed Revenues in relevant year t

$OPMC_t$ Allowed operating and maintenance costs in relevant year t

$DEPC_t$ Allowed depreciation in relevant year t

$RTNC_t$ Allowed return on capital in relevant year t



$LSSC_t$	<i>Allowed cost of losses in relevant year t</i>
$LICC_t$	<i>Licensing tax cost in relevant year t</i>
ADJ_t	<i>Adjustment of costs</i>
$KREV_t$	<i>Revenues correction factor in relevant year t</i>

The calculation of each of these components is calculated below.



Table 5: Proposal of DSO (KEDS) MAR after the adjustments

Maximum Allowed Revenues (mil€)	Unit	Allowed 2023	DSO Proposal 2024	ERO Proposal 2024
Indexation parameters				
Efficiency factor	%	1.5%	1.5%	1.5%
Inflation	%	5.41%	5.40%	
Euribor	%	3.85%	-	
S factor	%	5.74%		
Interest rate - It	%	7.4%		
Operating and maintenance costs (OPMCt)				
Evaluation during PRR2	€m	-	27.85	27.85
Allowed- OPMCt = OPMCt-1 * (1 + CPIt-1) * (1 – Et)* (1 – Pt)	€m	28.24	32.21	29.38
Additional OPEX costs – services in the north	€m		1.60	0.77
Costs for ALPEX			0.02	0.02
Depreciation costs (DEPCt)				
Evaluation during PRR2	€m	-	19.41	19.41
Allowed - DEPCt = DEPCt-1 * (1 + CPIt-1) * (1 – Pt)	€m	17.30	20.78	20.60
Return costs (RTNCt)				
Evaluation during MYT	€m	-	16.34	16.34
Allowed - RTNCt = RTNCt-1 * (1 + CPIt-1) * (1 – Pt)	€m	14.89	17.60	17.35
Obligations towards KOSTT				
Obligations towards KOSTT -forecast	€m	1.88	2.15	2.73
Obligations towards KOSTT – actual	€m	1.83		
Costs of losses (LSSct)				
Forecast				
LSSAt	€m	15.1%	16.61%	16.61%
REUEt	€m	6,219.8	6,301.4	6,272.5
WHEAt	€m	81.69	85.54	70.36
Forecast cost of losses	€m	76.72	89.53	73.32
Actual				
LSSAt	%	15.10%		
REUEt	GWh	6,228.4		
WHEAt	€/MWh	83.37		
Actual cost of losses with sharing factor	€m	79.00		
Adjustments				
Adjustments PRR2 (in 2023 KREV _{t-1} included)	€m	(5.41)	(5.41)	(5.41)
Adjustments for 2022	€m	0.09	0.09	0.09
Actual unregulated revenues (included in KREV)	€m	-	(5.03)	(5.03)
Corrections of unregulated revenues 2020-2022			3.78	3.82
Licensing tax:	€m			
Forecast	€m	0.09	-	0.12
Actual	€m	-	-	
KREV – Revenues Correction Factor				
Revenues Correction Factor t-1	€m		(13.81)	(13.95)
AACT-1 – actual costs for the year t-1	€m		136.32	
ARRt-1 - actual costs for the year t-1	€m		149.05	
KREVt = (AACat-1 – ARRT-1) * (1+ It)	€m		(13.82)	
MAR – Maximum Allowed Revenues				
	€m	133.81	148.53	128.84