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Republika Kosova - Republic of Kosovo

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



Final Report – Loss Reduction Target

Third Periodic Review of Input Values for the Regulatory Period 2023-2027

Responses to Comments

STATEMENT

This report of responses is prepared by ERO with the purpose of informing stakeholders in the energy sector. The report does not represent a decision of ERO and should not be interpreted as such.

07 november 2022

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List of abbreviations

The abbreviations used in this Response to Comments paper have the following meaning:

DSO	Distribution System Operator
ERO	Energy Regulatory Office
ENCS	Energy Community Secretariat
KOSTT	Transmission System and Market Operator J.S.C
KEDS	Kosovo Electricity Distribution Service J.S.C
kWh	Kilowatt-hour
MAR	Maximum Allowed Revenues
ME	Ministry of Economy
MO	Market Operator
MYT	Regulatory Period
TSO	Transmission System Operator
WACC	Weighted Average Cost of Capital
CIGRE	The International Council on Large Electric Systems

1 Introduction

Based on the mandate given in the Law on the Energy Regulator and the approved rules on the Maximum Allowed Revenues for Transmission System Operator and Market Operator (TSO/MO-KOSTT) and Distribution System Operator (DSO/KEDS), ERO has started the process of the Third Multi-Year Tariff Review (Regulatory Period – “MYT3”) to determine the Maximum Allowed Revenues of the licensees KOSTT and KEDS for the upcoming 5-year period 2023-2027 (1 April 2023 – 31 March 2028).

On 26 May 2022, ERO sent to the licensees (KOSTT and KEDS), as well as copies to the Assembly and the Ministry of Economy, the "Letter of Initiation" to inform on ERO's Plan regarding the Third Periodic Review for the regulatory period 2023 - 2027.

In order to determine the Maximum Allowed Revenues (MAR) for TSO/MO (KOSTT) and DSO (KEDS), ERO will determine in advance the main variables of regulatory parameters (inputs) in order to ensure sufficient time and information for the parties in the public consultation process. This practice was also used in the two previous tariff reviews. The values of the regulatory parameters that will be set during the periodic review are:

- The initial level and expected rate of reductions in transmission and distribution system losses, which is the subject of this Consultation Report.
- Expected rate of efficiency improvements in operating costs of TSO and DSO.
- Weighted Average Cost of Capital (WACC) of TSO and DSO.
- The appropriate life expectancy of the assets to be used for purposes of calculating the regulatory depreciation of new investments.
- Loss sharing factor.
- Savings sharing factor which is applied to savings that exceed the efficiency factor, and
- Any other input parameters that the regulator may deem necessary.

This report will focus on the Allowed Network Losses for the TSO/MO and DSO for the period 2023 – 2027 and is issued for public consultation purposes.

ERO, on 13 September 2022, published a Consultation Report with its proposals for the Allowed Losses for the Transmission System Operator and Market Operator (TSO/MO-KOSTT) and Distribution System Operator (DSO/KEDS). Three groups of comments were received, from KOSTT, KEDS and CIGRE. All groups of comments were published on the official website of ERO along with this Report.

This Report of Responses to Comments summarizes the comments received from KEDS, KOSTT and CIGRE on the allowed losses in the transmission and distribution system, proposed for the regulatory period MYT 3.

Following the publication of this Report, ERO Board will review and approve the Target of Allowed Losses in transmission and distribution network, which will be included in the MAR for DSO and TSO/MO for the Third Regulatory Period (MYT3). The report is structured as follows:

- Section 2 provides a summary of the proposal given in the consultation report;
- Section 3 presents stakeholder comments on the Consultation Paper and ERO's responses to them;
- Section 4 provides ERO's final proposal for the Allowed Network Losses for MYT 3;
- Appendix 1 presents the tabular summary of the received comments

2 ERO Proposal in the Consultation Report

The Consultation Report on the Loss Reduction Target, published by ERO on 13 September 2022, provided ERO's proposal for the allowed network losses in the transmission and distribution system in the power system of the Republic of Kosovo. In setting the loss target in the process of the third regular periodic review for the regulatory period 2023 - 2027 (MYT 3), ERO has taken into account the following factors:

- The performance of the TSO/MO and DSO in reducing the losses under MYT2;
- Proposals received from system operators for the loss reduction target for MYT 3, including the loss reduction trend in MYT2;
- The loss-reduction targets and objectives defined in the Draft Energy Strategy of Kosovo 2022 - 2031;
- The effects of the current energy crisis and the unprecedented increase in import costs;
- Development and investment plans proposed by operators in order to reduce losses;
- The level of losses of transmission and distribution system operators in the region and beyond;
- Regional studies and reports on handling the losses;
- Regional regulatory practices on allowing the losses; and
- Protection of customers' interest and security of supply.

For the transmission system operator (TSO/KOSTT), respectively transmission network, ERO proposed two options for the loss reduction target for MYT 3, as follows:

- Option 1: If export is taken into account as a denominator in the calculation of losses in TSO, the target of losses in TSO can be proposed to be in the value of **1.67%**;
- Option 2: If as a denominator in the calculation of losses in TSO, the approach according to the regular annual reports in ERO is taken into account, the target of losses in TSO can be proposed to be in the value of **1.75%**.

In addition, ERO required that KOSTT clarifies its approach going forward during the consultation phase.

For the distribution system operator (DSO/KEDS), ERO proposed that the loss reduction target for MYT 3 be set as per the values in the following table:

Table 1 Proposed network losses for the DSO

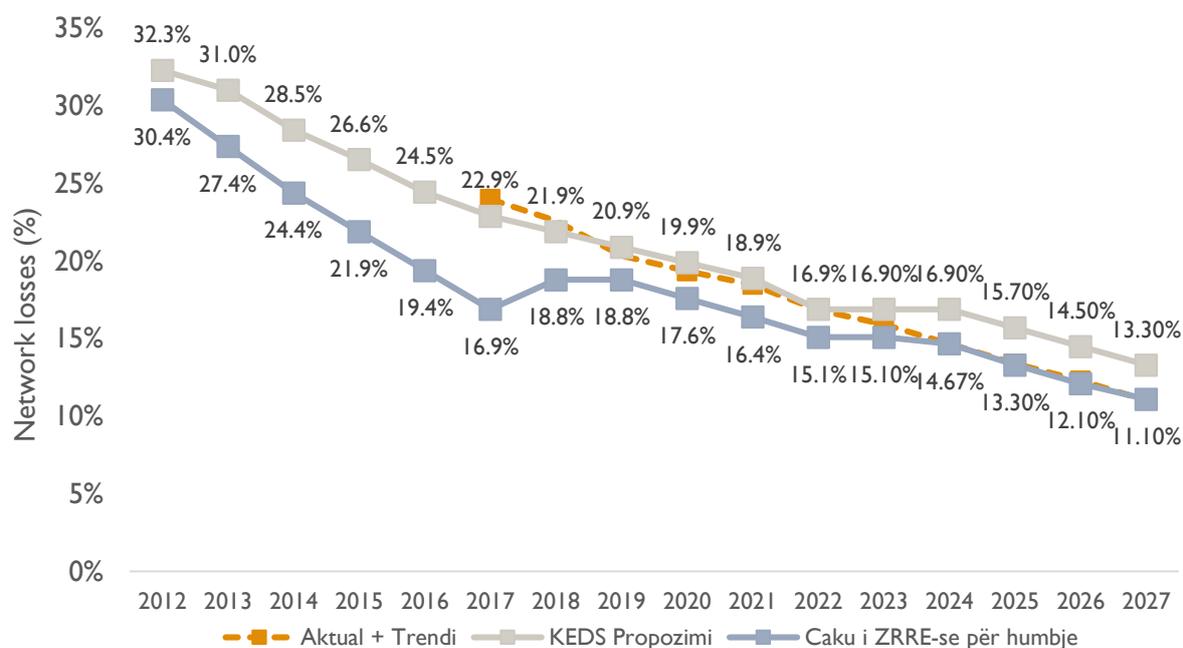
Year	MYT 3					
	2022	2023	2024	2025	2026	2027
Actual losses - Evaluated	16.9%					
The proposal of DSO		16.9%	16.9%	15.7%	14.5%	13.3%
ERO proposal		15.1%	14.7%	13.3%	12.1%	11.1%
Annual loss reduction target		0	-0.4	-1.4	-1.2	-1.0
Loss sharing factor		50%	0%	0%	0%	0%

The rationale for ERO's proposal for the target of reducing losses allowed to DSO for MYT 3, is presented in the conclusions of the Consultative Report, summarized as follows:

- ERO found KEDS' claim of the impact of the pandemic in the level of losses lacked sufficient justification to merit consideration for an adjustment of the loss target;
- Consistent with the MYT2 regulatory practice, ERO noted the starting value of the allowed network losses for the first year of the MYT3 regulatory period should be equal to the allowed value in the last year of the MYT2 regulatory period. ERO noted adjusting the allowed losses upwards would effectively mean penalizing customers for the inability of the DSO to meet the allowed network losses;
- ERO made reference to the fact that the impact of the energy crisis on wholesale power purchase costs is beyond the control of the licensee or of the customers and therefore risk-sharing would need to be introduced in order to partially mitigate the impact of the crisis. The energy purchase prices in markets to cover the losses during this periodic review are significantly higher than the ones of the previous period, therefore the operators are exposed to financial risks as a result of the prices in the markets due to global energy crisis. ERO proposed a loss-sharing factor of 50% to account for the unprecedented increase in energy costs.
- ERO reviewed KEDS' proposed investment plan and suggested that in determination of the loss target for MYT3, ERO will handle the Investment Plan 2023-2027 based on the practices of MYT1 and MYT2 regarding the realized level of investments, their effects on reduction of losses, the structure of investments etc.
- ERO reviewed the strategic objectives which address the decrease of losses in the period 2022-2031, according to Draft-Energy Strategy of the Republic of Kosovo. The advantage of this referencing is the harmonization of strategic actions and objectives as determined in the primary legislation for the energy sector, but however having in consideration the regulatory mechanisms and practices that encourage the improvement of operators' performance.

ERO's proposal for allowed network losses is summarized in Figure 1, below.

Figure 1 Allowed and actual network losses (2012-2027)



3 Stakeholder comments and ERO responses

ERO Consultation Reports are published on the ERO's website for stakeholder comments. The Consultation Reports on the Loss Reduction Target have been in public discussion for two weeks and the parties have had the opportunity to address their comments to ERO. Comments were received by CIGRE NC Kosovo, KOSTT and KEDS. The inclusion of stakeholders, through public consultations, is a key element in the evaluation process of periodic review of input values, where it is ensured that this process is open, transparent, participatory, clear and reliable, where in addition to the operators, the interested parties and the public can provide a contribution as well.

The comments have been received by CIGRE NC Kosova, KOSTT and KEDS. The summarized comments of stakeholders and ERO's responses are provided below.

3.1 CIGRE NC Kosovo

3.1.1 CIGRE comments on the reports

CIGRE provided general comments expressing their concerns on the electricity sector in Kosovo, and in particular following the enormous increase of prices in the power exchanges in the region and Europe, also supporting the Development and Investment Plans, proposed by the operators in function of the decrease of losses. CIGRE provided general proposals for ERO and for system operators however these were not addressing any of the regulatory parameters under consultation. CIGRE comments are published on ERO's web-site.

3.1.2 ERO's responses to CIGRE comments

ERO generally agrees with the concerns expressed by CIGRE and these concerns have already been taken into consideration in the periodic review process. Furthermore, in relation to this issue, as required by the Rules on Revenues, ERO, following the consultation and in compliance with the regulated operators has determined the duration of the regulatory period and then initiated the periodic review process.

ERO confirms that the comments of CIGRE NC in Kosovo have not impacted the initial proposals of ERO.

3.2 Comments of the Transmission System Operator and Market Operator (KOSTT)

3.2.1 KOSTT comments

KOSTT comments are summarized below:

- KOSTT welcomes ERO's assessment that: "the losses realized by KOSTT during the past regulatory period are at an efficient level and in line with the losses realized by European and regional operators". KOSTT plans to continue effectively managing the level of losses in the future.
- KOSTT agrees with the finding of the ERO that it is mandatory that the methodology and reporting of the calculation of losses be consistent and transparent, therefore it provides clarifications for the two methods used for the calculation of losses, presenting also the mathematical expressions for the calculation of losses:

- *Method 1: If export is taken into account as the denominator in the calculation of losses in OST;*

The calculation of losses according to this method is done according to the following equation:

$$\text{Losses \%} = \text{Losses in GWh} / (\text{national consumption} + \text{export})$$

- *Method 2: If as a denominator in the calculation of losses in OST, we take into account the approach according to the regular annual reports in ERO;*

The calculation of losses according to this method is done according to the following equation:

$$\text{Losses \%} = \text{Losses in GWh} / (\text{Input Energy in KOSTT})$$

- In order to illustrate the impact of generation and consumption on the level of losses in the system, KOSTT made simulations for two cases:
 - Increasing consumption and keeping generation constant (unchanged network configuration)
 - Increasing generation and keeping consumption constant (unchanged network configuration);

- From the simulations made, KOSTT considers that the second method of assessing losses in relative terms is more optimal, since in this case the certainty of forecasting losses depends only on two factors: Network development and demand development.

In the second point of comments from KOSTT under B (Forecast of KOSTT of Losses for MYT3), KOSTT has tabulated the forecasts of losses in MYT 3 as in the table below:

Table 2 Forecast of losses of TSO in MYT 3

MYT 3					
Year	2023	2024	2025	2026	2027
Net national consumption	6878	6892	6912	6939	6950
Input in transmission (GWh)	7066	7251	7493	7571	7584
Measured losses – forecasted (GWh)	129	129	131	132	134
Losses in % (in relation to Inputs in transmission)	1.83%	1.78%	1.75%	1.74%	1.77%

KOSTT also proposes that the level of allowed losses for MYT 3 should be 1.78%. In the third point of the comments under section C (Transmission Loss Sharing Factor), KOSTT requests that the loss sharing factor be valid for the entire regulatory period 2023 - 2027, and not, as suggested by ERO, only for the first year of MYT 3.

3.2.2 ERO's responses to KOSTT's comments

ERO's responses to KOSTT's comments are as follows:

- ERO agrees with the analyses made by KOSTT, as well as the presentation of methods for calculating losses and the conclusion that the second method should be used in further calculations of the level of losses.
- ERO proposes that the target of allowed losses for MYT 3 remains as proposed in the Consultative Report, at the value of 1.75. This proposal is based on the trend of losses realized in the last years 2019, 2020 and 2021, as well as it presents an incentive for the system operator to continue operating at the existing level of efficiency.
- As presented in the Consultation Paper, ERO proposes a loss sharing factor should be 50% for the first year of MYT 3.

KOSTT's comments did not result in any changes to ERO's initial proposal.

3.3 Comments of Distribution System Operator (KEDS)

3.3.1 KEDS comments

KEDS' comments to the Consultation Paper are summarized below.

- **Comments on ERO's factors used for setting loss targets:** in the Consultation Paper 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%. KEDS notes that the analysis and evaluations made by ERO, did not provide arguments on how each of the factors

used by ERO influenced the proposed losses. ERO's proposal for loss reduction targets is based on historical data without delving into technical aspects and detailed analysis.

- **Capital Investments emphasizes:** the distribution system operator has based their losses projections on the realistic possibilities of reducing losses based on the investment projects which have been submitted for review and approval to ERO.

Table 3 *The impact of capital investment projects on the level of losses*

	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

- 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. 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 repeating abusers who misuse electricity more than one time. Moreover, KEDS argue that the increase in the prices of products, including electricity, has caused the number of electricity abusers to increase even in developed countries, therefore any claim to reduce commercial losses beyond the DSO forecast is unfounded.
- KEDS emphasize their message that the possibility of the Distribution System Operator to reduce losses beyond 13.3% is not realistic.

Table 4 *The impact of network investments on reducing technical losses*

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

- **Draft Energy Strategy 2022 - 2031** ERO noted in their Consultation Report that the proposed allowed network losses target for the DSO has taken into consideration the strategic objectives that address the reduction of losses for the period 2022-2031 according to the draft-Energy Strategy of the Republic of Kosovo, where it is foreseen that the losses at the level of distribution in 2024 would be 14.5% while in 2031 will be 9%, and that in the period 2024-2031 it is intended that there will be no commercial losses.

- 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 commercial losses, 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 the 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 Consultation Paper on the loss reduction target, ERO has predicted that the overall loss reduction target for the period 2023-2027 will be 4 pp linear. 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 regulatory period. Moreover, in the Consultation Paper, 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.
- **Pandemic effect and energy crises:** The DSO's presented effects of the pandemic have been unfairly considered unreasonable by ERO, although during 2020 DSO has continuously reported on the operations and impacts of the pandemic. Moreover, other countries have reported the effect of the pandemic on increasing the number of abusers and/or losses in general. 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.
- **Proposal for the loss reduction target:** based on the explanations and arguments provided above, DSO has presented proposals for the loss reduction target for the period 2023-2027, which, according to the DSO, cannot be less than 13.3% at the end of the third regulatory period.
- **The proposal for "standstill" for three years:** in its comments to the Consultation Report, DSO has proposed "standing still" for three years in the amount of 15.1%, emphasizing that such an initial goal could only be met if in the first three years of MYT 3, the allowed losses will be kept at the initial level of 15.1% and the last two years with a smaller percentage of reduction to reach the level of 13.3% in 2027.

Table 5 Loss reduction from the actual allowed base

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%

- Loss-sharing factor:** 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.

3.3.2 ERO Responses to KEDS comments

ERO responses to KEDS comments are as follows:

- ERO's factors used for setting loss targets:** ERO agrees with KEDS that the cost of losses has increased due to the energy crisis. As stated in the Consultation Paper, the unprecedented rise in costs is the reason for the introduction of the loss-sharing factor. ERO notes the rise in energy costs is a risk beyond the control of the licensee or the customers. However while this factor affects the overall cost of the losses, it cannot be used to determine the ability of the DSO to reduce the losses. The targets for reduction of losses of DSO in MYT 3 are set based on the allowed losses at the end of MYT 2, performance of DSO in MYT1 and MYT2, the effect of realized investments and real and reasonable possibilities of investments also in the coming period, based on the experiences from MYT 1 and MYT 2, regulatory local and regional practices, as well trends of reduction of losses in last years as presented in the diagram in Fig. 1 in introductory part above. As illustrated in Fig 1 of the diagram above, the trends in DSO loss reduction are consistent with the proposed ERO targets for DSO loss reduction in MYT 3.

- **Starting value of losses:** ERO has already established a position in the MYT2 periodic review that increasing the starting value of losses to match the actual performance of the regulated utility effectively means penalizing customers for the fact that the regulated utility was unable to reach its loss-reduction target. The starting value of losses should, therefore, be the value of losses which the DSO was able to achieve at the end of the regulatory period. The starting value will, therefore, be 15.1%.
- **The impact of capital investments in the loss-reduction:** ERO sets the loss reduction targets as a regulatory parameter in periodic review of multi-year tariffs taking into consideration the effect of realized investments and the real and reasonable possibilities of investments in the coming period as well, based on the experiences of capital investments implemented by DSO, along the ones allowed with Investment Development Plans. Draft-Investment Plan for the regulatory period includes: capital projects which are necessary to provide the services of the distribution system operator which are related to investments in MV and LV, control and reading of meters. Therefore, taking into account the investment projects allowed before and the ones planned to be invested in the next regulatory period, DSO has other mechanisms alongside investments that impact the decrease of commercial losses from electricity abusers. ERO has taken into account the regulatory practices that were applied in the periodic reviews in the past, as well as the practices of the regional regulators in determining the allowed level of distribution losses.
- ERO, in line with the rules on revenues, has applied the incentive regulatory mechanism for DSO and TSO/MO, allowing the licensee to retain the change in these costs as an incentive to improve the performance.
- **Draft Energy Strategy 2022 – 2031:** ERO has taken into consideration the strategic objectives that address the reduction of overall losses in the system and with special emphasis on non-technical losses for the period 2022-2031. As defined in the primary legislation for the energy sector, the regulator has the responsibility to help the sustainable development of the system in accordance with the general objectives of the energy policies. In this sense, the regulator, being a participant and consultant along with other stakeholders of the energy sector, among other things, also analyses the draft strategy. However, in its evaluation, ERO is independent, and in determining the loss reduction target, it has taken as a basis the regulatory mechanisms and practices.
- **Pandemic effect and energy crises:** ERO noted in the consultation paper that it considers KEDS' claim that the pandemic-related restrictions negatively impacted their ability to reduce offers insufficient to merit any adjustment of the loss target. ERO notes it may be possible that the pandemic effect may have caused temporary disruptions in the business operations of the utility however has not been presented evidence, to the satisfaction of the regulator, on how these disruptions caused such a significant increase in the level of losses.

4 ERO’s Final Proposal for Allowed Network Losses under MYT3

This section of the report provides an overview of ERO’s final proposal for the loss reduction target under MYT3.

4.1 Allowed Network Losses for the Transmission System (KOSTT)

Based on the comments provided by the licensee, and ERO responses provided under Section 3.2 of this report, Allowed Network Losses for the Transmission System are the following:

- Allowed Network Losses for the Transmission System are set to 1.75% annually.
- The loss-sharing factor is set to 50% and will be applied only for the first year of the regulatory period (2023).

4.2 Allowed Network Losses for the Distribution System (KEDS)

Based on the comments provided by the licensee, and ERO responses provided under Section 3.3 of this report, Allowed Network Losses for the Distribution System are the following:

Year	MYT3					
	2022	2023	2024	2025	2026	2027
Actual losses - forecast	16.9%					
DSO proposal (initial proposal)		16.9%	16.9%	15.7%	14.5%	13.3%
DSO proposal (review)		15.1%	15.1%	15.1%	14.2%	13.3%
ERO proposal		15.1%	14.7%	13.3%	12.1%	11.1%
Annual loss reduction target		0	-0.4	-1.4	-1.2	-1.0
Loss sharing factor		50%	0%	0%	0%	0%

Annex 1: Summary of stakeholder comments and ERO responses

Appendix 1	ERO response	Impact in initial proposal
<p>KOSTT</p> <p>KOSTT agrees with the statement of the ERO that it is mandatory that the methodology and reporting of the calculation of losses be consistent and transparent, therefore it provides clarifications for the two methods used for the calculation of losses, presenting also the mathematical expressions for the calculation of losses:</p> <ul style="list-style-type: none"> ○ <i>Method 1: If export is taken into account as the denominator in the calculation of losses in OST;</i> <p>The calculation of losses according to this method is done according to the following equation: <i>Losses % = Losses in GWh/(national consumption + export)</i></p> <ul style="list-style-type: none"> ○ <i>Method 2: If as a denominator in the calculation of losses in OST, we take into account the approach according to the regular annual reports in ERO;</i> <p>The calculation of losses according to this method is done according to the following equation: Losses % = Losses in GWh / (Input Energy in KOSTT)</p>	<p>ERO agrees with the analysis made by KOSTT, as well as the presentation of methods for calculating losses and the conclusion that the second method should be used in further calculations of the level of losses.</p>	<p>There is no impact on ERO's initial proposal.</p>

From the simulations made, KOSTT considers that the second method of assessing losses in relative terms is more optimal, since in this case the certainty of predicting losses depends only on two factors: Network development and demand development

KOSTT	KOSTT also proposes that the level of allowed losses for MYT 3 should be 1.78% (this is illustrated from KOSTT with table for forecast of losses for MYT 3)	ERO proposes that the target of allowed losses for MYT 3 remains as proposed in the Consultative Report, so at the value of 1.75 %. This proposal is based on the trend of losses realized in the last years 2019, 2020 and 2021, as well as it presents an incentive for the system operator to continue a good performance..	There is no impact on ERO's initial proposal.
KOSTT	KOSTT requests that the loss sharing factor be valid for the entire regulatory period 2023 - 2027, and not, as suggested by ERO, only for the first year of MYT 3.	ERO proposes that due to the current difficult situation of electricity supply, as well as the enormous increase in import prices, the loss sharing factor should be 50% for the first year of MYT 3.	There is no impact on ERO's initial proposal.
KEDS	Comments on ERO's factors used for setting loss targets; in the Consultation 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: <ul style="list-style-type: none"> - The current state of electricity supply and the unprecedented increase in import prices 	ERO's factors used for setting loss targets; ERO considered all of the factors listed in the consultation report; thus, taking these factors into account, ERO proposed a sharing factor of 50% for the first year of MYT 3, and followed the policies outlined in the Draft Energy Strategy 2022-2031 for reducing distribution network losses. Furthermore, ERO is mandated by law to monitor the performance of licensed activities based on approved investments and	There is no impact on ERO's initial proposal.

Appendix 1	ERO response	Impact in initial proposal	
<ul style="list-style-type: none"> - Difficulties and challenges of system operators in achieving targets in the second regulatory period (PR) - 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 <p>However, in the analysis 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 analysis 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.</p>	<p>development plans, as well as the maximum allowed revenues. ERO has approved all loss reduction projects and programs in MYT 2 and expects that investments in the distribution system will result in the achievement of allowed losses. Failure of DSO to meet set loss targets results in additional costs for customers.</p> <p>The targets for reduction of losses of DSO in MYT 3 are set based on the allowed losses at the end of MYT 2, performance of DSO in MYT1 and MYT2, regulatory local and regional practices, as well trends of reduction of losses in last years as presented in the diagram in Fig. 1 in Introduction part above. As illustrated in Fig 1 of the diagram above, the trends in DSO loss reduction are consistent with the proposed ERO targets for DSO loss reduction in MYT 3.</p> <p>Furthermore, ERO anticipates that KEDS will perform at the level of regional DSOs in terms of distribution network loss reduction, as showed in diagram in Fig. 2</p>	<p>There is no impact on ERO's initial proposal.</p>	
KEDS	<p>Capital Investments; 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</p>	<p>ERO sets the loss reduction targets as a regulatory parameter in periodic review of multi-year tariffs taking into consideration the effect of realized investments and the real and</p>	<p>There is no impact on ERO's initial proposal.</p>

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, as shown in Tab. 1.

- 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

reasonable possibilities of investments in the coming period as well, based on the experiences of capital investments implemented by DSO, along the ones allowed with Investment Development Plans. Draft-Investment Plan for the regulatory period includes: capital projects which are necessary to provide the services of the distribution system operator which are related to investments in MV and LV, control and reading of meters. Therefore, taking into account the investment projects allowed before and the ones planned to be invested in the next regulatory period, DSO has other mechanisms alongside investments that impact the decrease of commercial losses from electricity abusers. ERO has taken into account the regulatory practices that were applied in the periodic reviews in the past, as well as the practices of the regional regulators in determining the allowed level of distribution losses. ERO, in line with the rules on revenues, has applied the incentive regulatory mechanism for DSO and TSO/MO, allowing the licensee to retain the change in these costs as an incentive to improve performance.

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	<p>misuse electricity more than one time.</p> <p>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.</p> <p>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.</p>		
KEDS	<p>Draft Energy Strategy 2022 - 2031; 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.</p>	<p>ERO has taken into consideration the strategic objectives that address the reduction of overall losses in the system and with special emphasis on non-technical losses for the period 2022-2031. As defined in the primary legislation for the energy sector, the regulator has the responsibility to help the sustainable development of the system in accordance with the general objectives of the energy policies. In this sense, the regulator, being a participant and consultant along with other stakeholders of the energy sector, among other things, also analyses this aspect. However, in its evaluation, ERO is independent, and in determining the loss reduction target, it has taken as a basis the regulatory mechanisms and practices.</p>	<p>There is no impact on ERO's initial proposal.</p>

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KEDS	<p>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.</p>	<p>The advantage of this referencing is the harmonization of objectives and strategic actions.</p>	<p>There is no impact on ERO's initial proposal.</p>
KEDS	<p>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 commercial losses, 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;</p>	<p>ERO agrees with this position and notes the external circumstances in this regard have not changed from previous regulatory periods.</p>	<p>There is no impact on ERO's initial proposal.</p>
KEDS	<p>Pandemic effect and energy crises; The DSO's presented 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 countries have reported the effect of the pandemic on increasing the number of abusers and/or losses in general, as a result of isolations. DSO has continuously repeated the negative effect</p>	<p>ERO noted in the consultation paper that it considers KEDS' claim that the pandemic-related restrictions negatively impacted their ability to reduce offers insufficient to merit any adjustment of the loss target. ERO notes it may be possible that the pandemic effect may have caused temporary disruptions in the business operations of the utility however has not been presented evidence, to the satisfaction of the</p>	<p>There is no impact on ERO's initial proposal.</p>

Appendix 1	ERO response	Impact in initial proposal	
	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;	regulator, on how these disruptions caused such a significant increase in the level of losses.	
KEDS	<p>Proposal for the loss reduction target; based on the explanations and arguments provided above, DSO 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.</p> <p>In Tab. 3 KEDS presented the reduction of losses in terms of energy</p>	<p>ERO is mandated by law to implement national policies in energy sector, to license and monitor the regulated activities in energy sector, as well to protect the interest of consumers of energy sector. In setting the targets for reduction of losses of system operators in MYT3, ERO has taken into account the following elements:</p> <ul style="list-style-type: none"> - Targets set in national policy documents. - Achievements of targets set by ERO for reduction of losses in MYT2 – performance of system operators. - Analyses of actual trend on reduction of losses. - Regulatory practices. - Approved and planned development and investment plans. - Current difficult conditions in energy sector 	There is no impact on ERO's initial proposal.
KEDS	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 planning the target of losses, the effect of PLC and meters should also be taken into consideration. ERO has commented the Preliminary Investment Plan addressing the issues which are related to the PLC and installation of meters, among others to reflect	There is no impact on ERO's initial proposal.

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<p>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;</p>	<p>their effect on reduction of losses in MYT3. The Preliminary Investment Plan of DSO for the period 2023-2027 foresees that the majority of investment projects in the low voltage network, in addition to improving the quality of electricity supply at this level, will also have effect in the decrease of losses in 0.4 kV assets. As has been explained in the previous responses, some aspects/practices, analysis, even based on DSO information have been taken into consideration in determination of the target of losses.</p>		
KEDS	<p>The proposal for “standstill” for three years: in its comments on the Consultation Report, DSO has proposed “standstill” for three years in the amount of 15.1%, emphasizing that such an initial goal could only be met if in the first three years of MYT 3, the allowed losses will be kept at the initial level of 15.1% and the last two years with a smaller percentage of reduction to reach the level of 13.3% in 2027.</p>	<p>It is not clear why KEDS expects that there will be a rate of loss reductions. If nothing else, it would be expected that the benefits of past investments, experience and managerial commitment in intensifying cooperation with Kosovo's judicial authorities would allow a reduction of losses at least according to the current trend, so that the allowed level in DSO at the end of the period to be comparable at least with the current average level of losses in the region.</p>	<p>There is no impact on ERO's initial proposal.</p>
KEDS	<p>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,</p>	<p>ERO agrees with KEDS that the cost of losses has increased due to the energy crisis. As stated in the Consultation Paper, the unprecedented rise in costs is the reason for the introduction of the loss-sharing factor. ERO notes the rise in energy costs is a risk beyond the control of the licensee or the customers. However while this factor affects the overall cost of the losses, it</p>	<p>There is no impact on ERO's initial proposal.</p>

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during the years 2025-2027, DSO foresees the reduction of losses with an annual percentage of 1.2%, which results in the level of 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%.

cannot be used to determine the ability of the DSO to reduce the losses.