



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

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



# Final Report and responses to stakeholders' comments

Input Values and Operational Expenses of USS  
(period 2022-2024)

## DISCLAIMER

This document presents the final proposal of ERO on input values and operational expenses of USS for the regulatory period 2022-2024. The document does not represent a decision of ERO.

**14 January 2022**



## Table of Contents

<b>Executive Summary .....</b>	<b>3</b>
<b>1 Final proposal on Input Values and Operational Expenses .....</b>	<b>4</b>
1.1 Final proposal on retail margin.....	4
1.2 Final proposal on Bad Debt .....	5
1.3 Final Proposal on Imbalance Sharing Factor .....	6
1.4 Final Proposal on Operating and Maintenance Costs .....	6
1.5 Final Proposal on Efficiency Factor.....	7
1.6 Final proposal on Categorization and Lifespan of Assets.....	7
<b>2 Appendix 1 - Comments of stakeholders and ERO's responses .....</b>	<b>8</b>

## List of tables

Table 1 - The analysis of the retail margin for the period 2013-2021.....	5
Table 2 –Final proposal of ERO on the USS Retail Margin.....	5
Table 3 –Final proposal on USS Bad Debt.....	5
Table 4 - Actual operating and maintenance costs .....	6
Table 5 - Total OPEX following the application of efficiency .....	7
Table 6 –Final proposal on efficiency factor .....	7
Table 7 - ERO's final proposal on categorization and lifespan of assets .....	7



## Executive Summary

This document presents the responses to comments submitted by stakeholders on Input Values and Operational Expenses (OPEX) of the Universal Service Supplier (USS) of electricity, for the tariff period 2022-2024.

Following the initial evaluation of applications regarding USS parameters, the licensee and other stakeholders had the opportunity to submit their comments through public consultation for a two-week period.

The review process of input values and OPEX for USS had to be concluded with decisions from ERO Board, by the end of March 2021, however this did not take place given that the Board was not functional until 2 August 2021, where it was completed with the appointment of two members and the chairman by the Assembly of the Republic of Kosovo. Following the completion of the Board, ERO has continued the review process of input values and OPEX for USS. ERO, based on the application of USS, dated on 1 November 2021, prepared the Consultation Report on 25 November 2021. The Consultation Report contains the initial evaluation of ERO on the application of KESCO/USS regarding Input Values and OPEX for USS. All calculations are based on historical data until August 2021, whereas the other following period is forecasted.

During public consultation, ERO has received additional important information and comments, mainly from electricity suppliers in Kosovo, which were taken into consideration in the final evaluation. Although the changes are not significant from the initial evaluation of ERO, ERO has nevertheless responded to all comments from the parties, which are presented in this document.

The first part of this report presents in a summarized manner the final proposals of ERO on input values and OPEX of USS, whereas the second part contains all the comments of the parties as well as ERO's responses. The following table presents the summarized final proposal of ERO on Input Values and Operational Expenses of USS. Whereas, the more detailed handling of all parameters is described in the Consultation Report on Input Values and Operational Expenses of USS, dated on 25 November 2021.<sup>1</sup>

### ***Final Proposal of ERO on Input Values and Operational Expenses of USS***

<b><i>ERO's proposal on Input Values and Operational Expenses of USS</i></b>	<b>Unit</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>
Retail margin	%	2.54	2.54	2.54
Bad debt	%	2.4	2.2	2.0
Imbalance Sharing Factor	%	100	100	100
Operational expenses with efficiency	€000	5,169	5,166	5,163
Efficiency factor	%	0	0.1	0.1
Categorization and lifespan of assets	Years	7	7	7
I. Furniture, office equipment; II. Work equipment, reading devices, cars, computers, IT equipment and software				

<sup>1</sup> [Consultation Report, Input Values and Operational Expenses of the Universal Service Supplier](#), published on ERO's website, on 25 November 2021.



## 1 Final proposal on Input Values and Operational Expenses

In this part of the report, ERO has presented the final evaluation on Input Values and Operational Expenses of USS, taking into consideration also the comments of the parties on ERO's Consultation Report. The Rule on Determination of Revenues for Universal Service Supplier (Rule on USS Revenues) defines that input values are determined during the Input Values review process, which according to Article 12 are:

- Retail margin
- Bad debt allowance
- Operational costs
- Efficiency factor
- Imbalance sharing factor
- Economic lifespan of assets
- Any other parameter that the Regulator may deem necessary. \*

\* During this process, the Regulator considers it necessary to determine the efficiency factor in the controllable OPEX as another input parameter. The setting of the efficiency factor is in principle the same as for other regulated operators, but during its determination the specific characteristics of supply were taken into account.

### 1.1 Final proposal on retail margin

ERO has handled all stakeholder comments regarding the retail margin and has not found any reason which would change its initial proposal. To test the USS proposal, ERO has also analysed the sample data for the period 2013-2016, but did not include the costs for the purchase of losses in the transmission and distribution network, in order to initially create representative samples and avoid inaccuracies in its prediction. Following the exclusion of costs to cover the losses, the retail margin, including the period 2013-2016 turns out to be 2.57% (details are given in the table below). The results represent a difference of 0.03% compared to the initial evaluation of ERO, which confirms that the initial evaluation of ERO is stable. Furthermore, ERO according to the same methodology has predicted wholesale energy costs for the period 2022-2024, the results of which confirm the reasonability of proposing the margin level after comparing average margin costs with wholesale costs.

In addition to numerical analysis, ERO, during the determination of retail margin, has taken into account the principled regulatory aspects, as follows:

- KESCO- USS was not exposed to the risk of energy volumes, furthermore, the energy from KEK is provided with priority to USS;
- Purchases made by traders are transferred to the costs of USS;
- Total costs of USS are recognized and adjusted during tariff reviews;
- The analysis of historical data, regulatory experiences, conditions and circumstances of operation of the Universal Service Supplier.

The following table presents the numerical analysis on evaluation of the retail margin.



**Table 1 - The analysis of the retail margin for the period 2013-2021**

Wholesale cost components	SHTe7 Actual 2013	SHTe8 Aktual 2014	SHTe9 Actual 2015	SHTe10 Actual 2016	SHTe11 Actual 2017	SHTe12 Actual 2018	Actual 2019	Actual 2020	Assessment 2021	Forecast according to the linear trend		
										2022	2023	2024
KEK Generation	151,416	122,188	136,835	151,320	138,379	97,624	102,539	111,405	121,447			
Other local production	4,307	4,612	4,095	10,025	6,728	8,991	8,666	8,310	11,251			
Imports	28,448	45,509	35,417	21,852	11,143	6,683	2,898	2,459	23,287			
imbalances	-	-	-	-	-785	698	-26	-3,489	1,328			
Compensation	-	-	-	-	1,400	2,772	3,300	8,104	353			
<b>a) Total cost</b>	<b>184,171</b>	<b>172,309</b>	<b>176,347</b>	<b>183,196</b>	<b>156,866</b>	<b>116,768</b>	<b>117,377</b>	<b>126,789</b>	<b>157,666</b>			
b) Exports	-21,342	-14,851	-18,406	-31,633	-32,746	-1,079	-	-287				
c) Subsidies	-11,500	-	-	-	-	-	-	-				
d= a-b-c	151,329	157,458	157,940	151,563	124,120	115,690	117,377	126,502	157,666	151,642	159,433	167,223
USS costs without losses of OST and DSO	107,568	113,541	118,443	110,695	124,120	115,690	117,377	126,502	157,666	151,642	159,433	167,223
<b>Retail Margin</b>												
Retail Margin	3%	3%	3%	3%								
Retail margin costs	4,540	4,724	4,738	4,547	3,724	3,471	3,521	3,795	4,730			
<b>Total costs including margin</b>	<b>155,869</b>	<b>162,182</b>	<b>162,679</b>	<b>156,110</b>								
DSO losses	32.5%	30.0%	28.0%	25.8%								
LSSAt - energy entered in the DSO	4,576.1	4,327.5	4,430.0	4,554.9								
REUET - Price of losses	27.4	31.2	29.2	31.3								
OST losses	1.7%	1.8%	1.8%	1.8%								
LSSAt - energy entering the OST	6,491.9	5,916.4	6,217.8	6,551.4								
REUET - Price of losses	27.4	31.2	29.2	34.1								
Margin of OST and DSO	1,313	1,318	1,185	1,226								
<b>Net USS margin</b>	<b>3,227</b>	<b>3,406</b>	<b>3,553</b>	<b>3,321</b>	<b>3,724</b>	<b>3,471</b>	<b>3,521</b>	<b>3,795</b>	<b>4,730</b>			

Based on the given arguments, ERO evaluates that the representative sample for determining the retail margin is the data for the period 2017-2021, therefore it assumes that the retail margin remains the same as in the initial evaluation, respectively 2.54%.

**Table 2 –Final proposal of ERO on USS Retail Margin**

Final proposal	Unit	2013-2021	2017-2021
Average margin costs	€000	3,639	3,848
Trend of margin in 2022	€000	141,468	151,642
Retail margin	%	<b>2.57%</b>	<b>2.54%</b>

## 1.2 Final proposal on Bad Debt

ERO has received comments from stakeholders regarding the bad debt of USS and has provided clarifications regarding its evaluation in the part of responses to comments. ERO has not found additional arguments from the public consultation process regarding the change of the initial evaluation for the USS bad debt. Therefore, it proposes that the allowed level of bad debt for the period 2022-2024 remains that of the initial evaluation presented in the table below.

**Table 3 –Final proposal on USS Bad Debt**

Bad debt components	Analysis	2022	2023	2024
a. Accounts receivable discounted for 2020-2021		2.21%		
b. Impact of the deregulation of customers (35kV and 10kV)		0.15%		
<b>c=(a+b) Proposal for allowance of bad debt</b>		<b>2.36 %</b>	<b>2.4%</b>	<b>2.2%</b>

The regulatory objective is to provide an incentive for further improvement of accounts receivable. This incentive is based on the fact that through the bailiff process in the past, USS has had an improvement of the level of accounts receivable.



### 1.3 Final Proposal on Imbalance Sharing Factor

ERO has received comments from the stakeholders in relation to the imbalance sharing factor and has provided responses to all received comments, which did not provide arguments for changing the initial evaluation of ERO. Therefore, as emphasized in the initial evaluation, the imbalance sharing factor has currently been set at 100%, which means that all balancing costs are transferred to customers (whether positive or negative), knowing that KESCO has little opportunity to adjust energy purchases ahead of time in order to meet demand.

### 1.4 Final Proposal on Operating and Maintenance Costs

ERO has handled the comments of stakeholders in relation to operational expenses of USS. From the review of the analysis, ERO has found that KESCO has reasons for handling the insurance costs as uncontrollable costs. As a result, ERO has adjusted the efficiency factor and OPEX, by taking into consideration the costs of insurance as uncontrollable costs. Following the change on handling the insurance costs, they will be adjusted on annual basis to take into account the differences between allowed and actual values and not through the efficiency factor.

The following table presents the classification of costs into controllable and uncontrollable to take into consideration the costs of insurance as uncontrollable costs.

**Table 4 - Actual operating and maintenance costs**

Components (€000)	2016	2017	2018	2019	2020
<b>a) Total controllable OPEX</b>	<b>3,051</b>	<b>3,480</b>	<b>4,132</b>	<b>3,541</b>	<b>3,429</b>
Personnel costs	1,784	2,036	1,670	1,953	1,939
Maintenance, Inventory and Supplies	90	80	81	88	66
Other operating costs	747	1,157	1,930*	999	900
Financial expenses	430	207	451	501	524
<b>b) Total uncontrollable OPEX</b>	<b>1,913</b>	<b>1,828</b>	<b>1,857</b>	<b>1,932</b>	<b>1,945</b>
Costs for joint services	1,063	991	1,044	1,147	1,165
Rent	473	473	473	473	473
Insurance	377	364	340	312	307
<b>Total OPEX = a+b</b>	<b>4,964</b>	<b>5,308</b>	<b>5,989</b>	<b>5,473</b>	<b>5,374</b>

*\* This line of expenses is excluded from the calculation of the average of the period.*

The table above calculates the average costs of controllable and uncontrollable OPEX, which results in OPEX allowances for the next three-year period as well as the proposed efficiency factor applied to controllable OPEX. The results of the OPEX are presented in the table below.



**Table 5 - Total OPEX after applying the efficiency**

Description	2022	2023	2024
Efficiency- $E_t$	-	0.1%	0.1%
Controllable OPEX - $OPMC_t=(OPMC_{t-1})*(1-E_t)$	3,331	3,328	3,325
Uncontrollable OPEX	1,839	1,839	1,839
<b>Total</b>	<b>5,169</b>	<b>5,166</b>	<b>5,163</b>

### 1.5 Final Proposal on Efficiency Factor

ERO, based on the comments of KESCO/USS, in the final evaluation of the Efficiency Factor towards operational expenses, has taken into consideration the handling of insurance costs as uncontrollable costs. In this regard, given that the efficiency factor is only applied towards USS controllable expenses, the insurance costs were not taken into account in its calculation. The insurance costs shall be handled through regular adjustments according to their realization and will not be impacted by the efficiency factor.

The calculation of the efficiency factor is presented in the table below:

**Table 6 –Final Proposal on Efficiency Factor**

Description	Trend	Average	Difference	Efficiency	Efficiency factor	Extrapolation	
Personnel costs	1,945	1,877	68	-	-	3,343	
Maintenance, Inventory and Supplies Insurance	69	81	(12)	12	2017	3,340	
					2018	3,337	
Other operating costs	1,191	951	240	-	2019	3,334	
Financial expenses	567	422	142	-	-0.1%	2020	3,331
<b>Total</b>	<b>3,772</b>	<b>3,331</b>	<b>441</b>	<b>12</b>	<b>-0.1%</b>	<b>2021</b>	<b>3,331</b>

### 1.6 Final proposal on Categorization and Lifespan of Assets

During the phase of public consultation process, ERO has not received comments in relation to the categorization and lifespan of assets, therefore its initial evaluation also remains the final proposal for categorization and lifespan of USS assets, as presented in the following table.

**Table 7 - Final proposal of ERO on categorization and lifespan of assets**

	Categorization of assets	Lifespan of assets (years)
I	Furniture, office equipment	7
II	Work equipment, reading devices, cars, computers, IT equipment and software	5



## **2 Appendix 1 - Comments of stakeholders and ERO's responses**





Article Reference	Commenter	Received comments	ERO's response
<p><b>Comment 1.</b></p> <p><b>Comments on ERO's proposal for Regulatory Parameters - 08.12.2021</b></p> <p><b>2. Retail margin</b></p>	<p><b>KESCO</b></p>	<p>The methodology used for setting the retail margin can give different results and is not coherent in different time periods, and at the same time does not take into account the factors that directly affect the determination of wholesale energy market costs.</p> <p>Assuming that ERO has chosen to use this methodology of determining the retail margin, then we must take into account the trend of previous years to have a more reliable trend, which is based on more historical data. Based on the methodology used by ERO, it results that the retail margin should be set at 3.45%, (KESCO also presents a table with respective data)</p>	<p>ERO, in evaluating the level of retail margin, has taken as a referent period the period between 2017-2021, as the most stable period for empirical analysis, given that the observation of data of this period presents the most representative sample in the forecast of absolute wholesale cost data for the period 2022-2024. However, ERO has also analysed the data of the period 2013-2016, according to USS comments, expanding the range of quantitative data to test the sensitivity of the margin.</p> <p>USS in its comments on the data for the period 2013-2016, in the wholesale costs has included the wholesale purchases costs for network operators, as were the purchases of energy from the Public Supplier.</p> <p>ERO, in order to design the rate of retail margin, did not include in the data sample the costs for the purchase of transmission and distribution network losses, in order to initially create a representative sample and to avoid inaccuracies in its forecast. Following the exclusion of costs to cover the losses, the retail margin including the period 2013-2016 turns out to be 2.57% (details are given in the table). The results represent a difference of 0.03% compared to the initial evaluation of ERO, this explains that the initial evaluation of ERO is stable.</p> <p>Based on the given arguments, ERO evaluates that the representative sample for determining the retail margin is the data for the period 2017-2021, therefore proposes that the retail margin shall remain the same as in the initial evaluation, respectively 2.54%.</p>



<p><b>Comment 2.</b></p> <p><b>Comments on ERO's Proposal for Regulatory Parameters-08.12.2021</b></p> <p><b>2. Retail margin</b></p>	<p><b>KESCO</b></p>	<p>2021 is the year where the whole world is faced with an energy crisis, which has caused a state of emergency and an extraordinary situation that has resulted in increased cost of wholesale prices. Therefore, the use of 2021 in the analysis should be taken with reserve.</p>	<p>As emphasized above, the portfolio of wholesale energy purchases for USS has an increase trend. This was also presented in the forms completed by USS and such a trend can be expected. ERO, in its evaluation for the margin level for the period 2022-2024 has not taken into consideration, the forecast costs of energy purchases for the period 2022-2024, given that the absolute value of the average of the margin in relation to the wholesale purchase costs, taking into account the circumstances (energy crisis) highlighted by USS, will be even lower.</p>
<p><b>Comment 3.</b></p> <p><b>Comments on ERO's Proposal for Regulatory Parameters-08.12.2021</b></p> <p><b>2. Retail margin</b></p>	<p><b>KESCO</b></p>	<p>The Universal Service Supplier in Kosovo faces much greater risks than suppliers in other countries, especially comparative countries such as Europe, Turkey or Ireland, which ERO has used in its comparisons. The Progress Report for 2021, evaluates that Kosovo is at an early stage of development of a functioning market economy and that the business environment still faces many challenges.</p> <p>The comparative countries differ from those applied in Kosovo, e.g. Turkey reviews regular adjustments over 3-month periods. Also, only the determination of the retail margin in the comparative countries used by ERO without considering all the regulatory frameworks and socio-economic and political situations of the countries in question is deficient and as such cannot be used as a comparative basis.</p>	<p>In the evaluation of the margin level, as described in the Consultation Report, ERO has taken into account the circumstances of the market and the exposure of USS risks to the market.</p> <p>USS' claims that in the evaluation of the margin ERO has taken into account irrelevant countries do not stand, because the regulatory practices of countries that ERO has taken into account such as: Albania, North Macedonia, Ireland, Turkey, Georgia and Moldova, explain that the approach applied by ERO is in line with such practices.</p>



<p><b>Comment 4.</b></p> <p><b>Comments on ERO's Proposal for Regulatory Parameters-08.12.2021</b></p> <p><b>2. Retail Margin</b></p>	<p><b>KESCO</b></p>	<p>It is important to note that KEK's production is not sufficient to cover the growing consumption, respectively the supplier is exposed to imports and prices that are out of his control. Moreover, the old power plants of the generating units also result in unplanned outages, which also expose the supplier to the need for import. During the middle of 2021 we witnessed an increase in import prices, which exceeded any predictability. This enormous increase in import prices negatively affected the daily operations of the supplier.</p>	<p>The assumption that the lack of energy from domestic production and therefore due to this USS is exposed to risks, are ungrounded in terms of setting the margin level, because all volumes of wholesale purchases and related costs are regulated, consequently there is no cost risk exposure.</p>
<p><b>Comment 5.</b></p> <p><b>Comments on ERO's Proposal for Regulatory Parameters-08.12.2021</b></p> <p><b>2. Retail Margin</b></p>	<p><b>KESCO</b></p>	<p>Considering the next deregulation according to ERO's instruction, the current net profit for the Universal Service Supplier will be even lower.</p> <p>KESCO believes that in this period, the retail margin should be set at 3% for the next 3 years.</p>	<p>ERO wants to emphasize that such assumption has not been verified by USS, furthermore, margin costs in an absolute value may be neutral as a result of the increase of demand from other customers and circumstances of the wholesale market.</p>



<p><b>Comment 6.</b></p> <p><b>Comments on ERO's Proposal for Regulatory Parameters-08.12.2021</b></p> <p><b>3. Allowed level of bad debts</b></p>	<p><b>KESCO</b></p>	<p>Electricity supply is not like other businesses, it is a business that needs continuous and secure liquidity in order to fulfill its financial obligations for the entire electricity sector.</p> <p>Bad debt considered by the Regulator is based on the provisions presented in the Financial Statements, which are presented according to accounting principles (IFRS), while bad debt in the regulatory framework is an input parameter that assesses the power of collection, taking into account time and behaviour of customers towards their obligations.</p>	<p>According to International Financial Reporting Standards, which are also applicable in Kosovo, a bad debt is considered to be the amount owed by customers to a supplier, which is unlikely to be paid or which the creditor cannot reasonably act to repay that debt and which is rightly settled according to these standards of accounting.</p> <p>It should be emphasized that ERO with the secondary legislation "Rule on USS Revenues", has allowed Working Capital for USS to ensure sufficient financial sources, financial liquidity and to be able to make payments to suppliers, until the receipt of revenues from final customers.</p> <p>Eventual delays of payments from customers, cannot be considered as bad debts, until USS has not tried all possibilities for their collection. The category of customers who are inattentive and negligent of payments, i.e. late payment, cannot be recognized as bad debt expenses.</p>
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<p><b>Comment 7.</b></p> <p><b>Comments on ERO's Proposal for Regulatory Parameters-08.12.2021</b></p> <p><b>3. Allowed level of bad debts</b></p>	<p><b>KESCO</b></p>	<p>When assessing bad debts, the decrease in collection power over the years should be taken into account. As it can be seen in the table above, the collection power falls below 0% after the 4th year, respectively does not exceed the value of 96% even over the years, a fact that appears in the total collection taking into account the billing in the respective year. It is a fact and very clear that the maximum collection has matured and the possibilities for further improvement are negligible. Therefore, they should be considered as bad debts, in accordance with the definition given in the USS Pricing Rule, while maintaining incentives and minimizing the risk of increasing bad debt.</p>	<p>Bad debt, allowed by ERO, enables to USS to finance a reasonable deficit in revenues that cannot be collected from customer billing.</p> <p>In recent years, there has been a significant improvement in the mechanisms related to the collection of customers' bad debts. From the time of application of the bailiff mechanism, USS has realized significant revenues from bad debts. Therefore, ERO evaluates that since the beginning of allowing the bad debt of 4%, the electricity supply operation environment has significantly improved.</p> <p>Furthermore, KESCO/USS should have it clear that the input values for USS have not been reviewed in 2018, and ERO has applied to KESCO the level of bad debt of 4% also for the years 2018-2021.</p>
<p><b>Comment 8.</b></p> <p><b>Comments on ERO's Proposal for Regulatory Parameters-08.12.2021</b></p> <p><b>3. Allowed level of bad debts</b></p>	<p><b>KESCO</b></p>	<p>The actual debts that customers have to the KESCO supplier until November 2021 are over € 121.4 million and some of them are uncollectible, such as social cases in the amount of € 16.5 million, about 50% of such debts are over 37 months old and according to the table above, the collection opportunity is very small.</p>	<p>In audited financial statements, reported for 2020, the accounts receivable are lower than what USS has presented in its comments. The aspect of social cases is handled by the Government of the Republic of Kosovo, therefore this greatly reduces the risk of bad debts from this category of customers. This is also evidenced from the reporting of bad debts on annual basis in the financial statements.</p>



<p><b>Comment 9.</b></p> <p><b>Comments on ERO Proposal for Regulatory Parameters-08.12.2021</b></p> <p><b>3. Allowed level of bad debts</b></p>	<p><b>KESCO</b></p>	<p>During the final assessment it is important that the ERO also takes into account the expected changes in the tariff structure and their impact on bad debts, as well as the opening of the market, which in its proposal the Regulator has taken into account only in the first year.</p>	<p>The claim of USS that due to the increase of system costs, the costs of bad debts may increase is just an assumption. ERO states that the allowance of bad debt is carried out in relative values, which in absolute values moves in direct proportion to the allowed revenues.</p> <p>Regarding the tariff structure, ERO has not found empirical support from USS for the assumption that with the eventual change of the tariff structure the bad debt will increase.</p> <p>As for the comment of USS, on the impact of market opening, ERO has also taken into consideration the impact of the deregulation of customers of 0.15% in evaluation of bad debt.</p>
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<p><b>Comment 10.</b></p> <p><b>Comments on ERO's Proposal for Regulatory Parameters-08.12.2021</b></p> <p><b>4. Operating and maintenance costs</b></p>	<p><b>KESCO</b></p>	<p>ERO in the Consultation Report has forecasted operating and maintenance costs for the period 2022-2024 according to the average costs incurred during the years 2016-2020. Considering that in 2018 'other' operating expenses are at levels outside the expense trend for the period 2016-2020, the same have not been considered in the final evaluations of ERO. However, it is important to clarify that management costs (within the item 'other costs') referred to by ERO are attributed to the market liberalization process. The market liberalization process has increased the need for external consulting, staff training and systems within the company, which has resulted in a more pronounced increase in costs compared to other years. The removal of such costs from the assumed average gives erroneous conclusions considering that other processes are waiting for us, for which the need for consultancy, as management support may increase.</p>	<p>As noted in the Consultation Report, the evaluation of the controllable OPEX was used taking into account its average level realized for the period 2016-2020 for the categories: staff costs, materials/maintenance and inventory, insurance, other operating costs and financial expenses. Considering that in 2018 other operating expenses are at levels outside the spending trend of the period 2016-2020, ERO has not found reasonability regarding these expenses, of which 1.13 million euros are expenses for management support, therefore this line of expenditure is excluded from the calculation of the average of the period. The average level of realized OPEX is treated as the base value for calculation of controllable OPEX for the period 2022-2024. Furthermore, ERO expects KESCO/USS to bring knowledge and expertise to Kosovo as one of the benefits of its privatization.</p>
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<p><b>Comment 11.</b></p> <p><b>Comments on ERO's Proposal for Regulatory Parameters-08.12.2021</b></p> <p><b>4. Operating and maintenance costs</b></p>	<p><b>KESCO</b></p>	<p>In estimating operating costs, the Regulator initially divided them into two categories: controllable costs and uncontrollable costs. In uncontrollable costs, which depend on market prices and on which USS cannot have a significant impact, ERO has included only costs for shared services and rent, leaving in the category of controllable costs the expenses of asset insurance, employees, etc., which are also determined by market prices, e.g. insurance expenses during 2021 have increased by 34%, costs which are beyond the control of USS. While the efficiency factor of 0.5% has been applied to all controllable costs (including insurance), resulting in the final proposal of ERO for operating expenses of about 5 million €/year,</p>	<p>ERO agrees with KESCO's comments on including insurance costs in uncontrollable costs.</p> <p>ERO has adjusted the efficiency factor and OPEX by taking into consideration the insurance costs as uncontrollable costs. Given that they are uncontrollable, they shall be adjusted on annual basis to take into account the differences between allowed and actual values and not through efficiency factor.</p> <p>The value of efficiency factor following USS comments, results to be 0.1% from 0.47% that was in the initial evaluation.</p>
<p><b>Comment 12.</b></p> <p><b>Comments on ERO's Proposal for Regulatory Parameters-08.12.2021</b></p> <p><b>4. Operating and maintenance costs</b></p>	<p><b>KESCO</b></p>	<p>It is important to note that unlike the TSO/MO and DSO Pricing Rules, the USS Pricing Rule does not provide the efficiency factor as an input value. We agree that the efficiency factor promotes efficiency for savings of operating expenses, but USS in the proposal sent to ERO for regulatory parameters has emphasized that it operates within the allowed budget by creating efficiency whenever possible in certain items in order to be able to cover the increased costs in other items.</p>	<p>The Rule on Determination of Revenues for Universal Service Supplier (Rule on USS Revenues) defines that input values are determined during the Input Values Review process, which, according to Article 12, paragraph 3, among others is also, "any other input parameter that the Regulator may deem necessary". Therefore, ERO considers it necessary to continue the application of the efficiency factor in the controllable OPEX as an input value. The setting of the efficiency factor is in principle the same as other regulated operators, but in determining it the special characteristics of the supply have been taken into account.</p>





<p><b>Comment 13.</b></p> <p><b>Comments on ERO's Proposal for Regulatory Parameters-08.12.2021</b></p> <p><b>4. Operating and maintenance costs</b></p>	<p><b>KESCO</b></p>	<p>OPEX allowed by the Regulator since 2011, adjusted further only for inflation rate and a small increase during 2018, is not enough to cover operating costs that include: modernization of the call center, improvement of customer service (which is achieved through new equipment and programs, training of employees, etc.). Therefore, even if we compare the current operating costs from 2018 to 2021, there is a difference of 23%, which proves that USS has reached the maximum optimization, for which losses USS is not compensated through the given OPEX and which will be problematic to achieve if ERO applies the efficiency factor.</p>	<p>ERO has also handled all the costs related to USS, by dividing operational expenses from capital ones. In this regard, ERO evaluates that modernization of the call center, improvement of customer service (which is achieved through new equipment and programmes) is part of capital expenses (CAPEX) and shall be handled through the depreciation of assets. Also, ERO has handled the categorization and lifespan of assets as an input value during this process, in line with the Rule on USS Revenues.</p>
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<p><b>Comment 14.</b></p> <p><b>Comments on ERO's Proposal for Regulatory Parameters-08.12.2021</b></p> <p><b>4. Operating and maintenance costs</b></p>	<p><b>KESCO</b></p>	<p>ERO in its evaluations did not take into account the request of USS for salary increase, with the reasoning that the costs of KESCO staff were updated during the tariff review in 2018 in order to be comparable to the costs of staff of other licensees. USS reiterates that the update of these costs did not reflect the levelling of salaries with other licensees, which are at least 25% lower when compared to other public licensees in the energy sector. Considering the importance of the process we are in and the impact that the determination of parameters is expected to have for the next three years, we ask ERO to reflect the costs required by USS as we consider that the difference in salaries for employees is unfair in relation to other licensees and at the same time it will prevent qualified employees from leaving the company.</p>	<p>KESCO's claims that ERO did not take into account the request of USS for staff costs do not stand, as ERO has reviewed staff costs, and even applied the composite inflation rate for the entire period 2016-2020, in order to reflect the time value of these costs. This has resulted in an increase in the category of staff costs of about 51 thousand euros.</p> <p>In the same way, USS should transfer such an update on the inflation rate to personnel costs. Furthermore, ERO in accordance with the legal framework will update OPEX costs to reflect inflation in the coming years. When we consider that the inflation rate for 2021 may be around 5%, it means an increase in personnel costs of about 5% in the next tariff year.</p> <p>It is worth mentioning that in order for the staff costs of KEDS and KESCO to be comparable with the staff costs of other licensees in the energy sector, ERO within the periodic review for the regulatory period 2018-2022 has updated the staff costs for KESCO in the amount of 251 thousand euros, and for KEDS and KESCO in total in the amount of about 2.3 million euros.</p>
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<p><b>Comment 15.</b></p> <p><b>Comments on ERO's Proposal for Regulatory Parameters-08.12.2021</b></p> <p><b>4 Operating and maintenance costs</b></p>	<p><b>KESCO</b></p>	<p>Considering the above-mentioned and the analysed needs in detail regarding the requirements for the expected developments in the next three years, the OPEX proposed by USS to ensure stable and functional operation during the years 2022-2024 is as presented below, which is justified also in the proposal for input values by USS:</p> <table border="1" data-bbox="443 658 906 730"> <thead> <tr> <th>Year</th> <th>2022</th> <th>2023</th> <th>2024</th> </tr> </thead> <tbody> <tr> <td>OPEX</td> <td>6.80</td> <td>6.87</td> <td>6.89</td> </tr> </tbody> </table>	Year	2022	2023	2024	OPEX	6.80	6.87	6.89	<p>ERO has carefully analysed all categories of operating costs and has proposed a reasonable level of OPEX for USS, based on the historical data of USS, as well as the reasonability of realized costs. USS, on the other hand, has not been able to prove that the required level of operating costs is justified based on solid data, but has made its claims based on assumptions unsubstantiated with acceptable evidence. However, ERO in the final proposal, has reviewed the principle of handling insurance expenses as uncontrollable expenses, changing the efficiency factor from 0.47% to 0.1%. while insurance costs will be updated on annual basis, according to their realization.</p> <p>The final proposal for USS OPEX is as follows:</p> <table border="1" data-bbox="983 1010 1426 1106"> <thead> <tr> <th>Year</th> <th>2022</th> <th>2023</th> <th>2024</th> </tr> </thead> <tbody> <tr> <td>OPEX €'000</td> <td>5,169</td> <td>5,166</td> <td>5,163</td> </tr> </tbody> </table>	Year	2022	2023	2024	OPEX €'000	5,169	5,166	5,163
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Article Reference	Commenter	Received comments	ERO's response
<p><b>Comment 1.</b></p> <p><b>Comments on Consultation Report for USS parameters</b></p> <p><b>Referring to page 7 of the Consultation Report</b></p>	<p><b>Fuente Dynamics</b></p>	<p>ERO during the review and proposal for the retail margin, as one of the review criteria takes into consideration the purchases made by traders, the costs of which are transferred to USS. However, the report lacks an analysis on which purchases made by traders should be taken into consideration for the needs of the USS. For the purposes of this analysis, we consider it important to identify the volume of necessary energy purchases by traders for the needs of USS in accurate amounts. It is equally important that these purchases shall be separated from purchases to cover the losses in the distribution network. We consider that as long as KESCO continues to organize purchases for KEDS, it will be almost impossible to separate these costs for these two purposes. In addition to this, the separation becomes even more difficult when the required amount for final customers is provided by KEK through the Bulk Supply Agreement - an agreement which according to our information is still in force. Based on this narrative, we consider it premature for ERO to take into account "purchases made by traders and the costs of which are transferred to USS" to determine the margin, respectively that this circumstance affects the determination of the margin.</p>	<p>Despite the fact that the majority of the issues raised by Fuente Dynamics are not directly related to the determination of USS parameters, ERO has responded to all the comments.</p> <p>ERO has analysed all realized historical data, which are related to the determination of USS parameters. Whereas, it is impossible to have precise data for the forecast of electricity purchases through traders. It should be understood that the main determinant of the level of retail margin for USS is the wholesale energy purchase cost, which is realized from domestic generation and import. This is clearly defined also in the Rule on USS Revenues.</p> <p>ERO uses the mechanisms of the electricity system and accurately identifies all wholesale energy purchases from USS. ERO also correctly identifies all electricity purchases made for the needs of the distribution network and allocates the relevant costs to the maximum allowed revenues for the DSO according to the allowed level of distribution network losses.</p> <p>In relation to the division of costs between regulated and unregulated customers, ERO has obliged KESCO to keep separate accounts for these two activities and requests continuous reporting, including daily reporting regarding energy purchases for all purposes.</p>



<p><b>Referring to page 10 of the Consultation Report</b></p>	<p><b>Fuente Dynamics</b></p>	<p>We consider that the number of customers connected to the 35kV and 10kV networks qualified for the criteria referred to in Article 37.2 of the Law on Electricity must be an accessible, transparent and public database. From the discussions during 2021, we want to remind that ERO was committed to publishing this data for the convenience of interested suppliers and customers. Regardless of how ERO may have chosen to provide this data, under normal circumstances it should be KESCO's obligation to provide access to them. In addition to the permanent need for suppliers and customers to have access to this data, it is a very important information in calculating the effect of deregulation on the collection rate - without being forced to make reviews and proposals based on hypothesis.</p>	<p>First, we will respond to the comment which is directly related to the level of non-collection. ERO has carefully analysed the impact of the deregulation of customers connected to the level of 35 kV and that of 10kV, in the bad debt for USS. The impact turned out to be (-0.15%) and it was incorporated in setting the level of bad debt for USS.</p> <p>Whereas, as for the database, despite not being related to the issue of parameters, ERO clarifies that it has provided information related to the deregulation of electricity customers to all licensed suppliers in Kosovo. The manner chosen by ERO is also analysed in detail, taking into consideration the protection of personal and commercial data of the customers in question. As for the customer database, it should be taken into account that the database for all metering points and all information related to them, including electricity consumption for all these metering units, is stored and managed by the Agent for Administration of Measurement (AAM). This is clearly defined by the Market Rules. Furthermore, there are a number of other rules which regulate the issue of possession, storage and management of the electricity customers' database which protect customers as well as other market participants from the illegal use of such data. This elaboration was made for the purpose of informing Fuente Dynamics, that KESCO has no mandate to provide information about its customers to any third party.</p>
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<p><b>Referring to page 12 of the Consultation Report</b></p>	<p><b>Fuente Dynamics</b></p>	<p>We do not consider that a fully operational ALPEX would expose KESCO to a greater risk of imbalances. On the contrary, we see that the operationalization of ALPEX will increase KESCO's ability to better manage imbalances, as it will have access to a domestic market without adding additional costs to transmission capacities. On the other hand, the predictive ability for consumption is not affected by the operationalization of ALPEX.</p> <p>In the meantime, the balancing market can only be called joined with Albania as long as KOSTT is in the TSO regulatory area at the end of the day. So the price of imbalances does not change with the operationalization of ALPEX as long as KOSTT does not change the methodology for its calculation - where instead of the HUPX base price is considered the price in the day-ahead market in ALPEX.</p>	<p>We consider that the comment of Fuente Dynamics was taken from the context, because ERO, on the contrary, clarified through the Consultation Report that <i>“The establishment of ALPEX is expected to address many of the limitations faced by the electricity market in Kosovo, giving the opportunity to enter a much larger market with more flexible capacity of supply”</i>.</p> <p>On the other hand, ERO takes care that based on the changes in the market structure, to also adapt the part of the secondary legislation related to it.</p>
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<b>Referring to page 12 of the Consultation Report</b>	<b>Fuente Dynamics</b>	<p>We consider again that this conclusion is based on the hypothesis that ALPEX will be the platform to manage imbalances at a lower cost. It is unclear why the hypothesis relies on lower costs, this in particular because there is a lack of energy on both sides. In addition, ERO should keep in mind that the costs of CER or “green certificate” that KEK needs at the time of trading on the stock exchange are impossible to be avoided.</p>	<p>From the comment of Fuente Dynamics, it is noticed that the issue of balancing costs has been placed in the wrong context, or has not been understood correctly. The Regulator's approach to universal service regulation issues differs from that of any commercial supplier. The Regulator takes care that the provision of universal service is carried out at the most reasonable costs by addressing all cost parameters in regulatory terms. On the other hand, any access to a more liquid market, in principle, will provide more favourable opportunities for managing energy demand, even if it is for the purposes of balancing the demand. ERO is not based on untested hypotheses, therefore it cannot handle the issue of the imbalance sharing factor for USS differently until the market conditions have not changed. This is a matter of principles and not absolute.</p>
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<p><b>Referring to page 12 of the Consultation Report</b></p>	<p><b>Fuente Dynamics</b></p>	<p>We consider this measure as a discriminatory measure towards other operators for the following reasons. Through it, ERO motivates KESCO to regulate the position of imbalances, while all other operators are not allowed any imbalances by KOSTT at all. This measure discriminates against other operators who have the same difficulties from KESCO. In particular, we see the way for this measure to be considered in relation to the beginning of market liberalization. Therefore, the question arises, how will a different supplier from KESCO act - to be obliged to balance itself, to pay, or to be charged by that operator all the balancing costs to customers.</p> <p>In addition to this, we consider that there is a discriminatory basis, given that KESCO itself will exit to the open market. If the imbalance sharing factor is 100% then the question arises as to how the imbalances caused by tariff customers will be identified in relation to those caused by non-tariff customers since KESCO has only one balancing group.</p>	<p>Initially, ERO wants to clarify that there is no discrimination in relation to other market participants on handling the balances for USS. The commentator did not take into account that any eventual benefit that USS may have from the balancing mechanism will be returned to universal service customers. Furthermore, the balancing account of USS, in recent years, in average, has been positive in favour of customers. Despite this, USS has not been entitled to any benefit from this part, but they were all returned to customers. Otherwise, the costs would be covered by customers. Whereas a commercial supplier, will be able to internalize all the risk aspects of imbalance in the price or share the risk with customers, according to independent evaluation.</p> <p>As mentioned above, ERO has taken care that KESCO maintains separate accounts for deregulated and regulated customers. Furthermore, KOSTT precisely identifies all imbalances from different activities for all parties and charges the respective costs to parties. In this context, ERO and KOSTT treat the regulated KESCO as a divided entity from the unregulated KESCO, therefore there is no discrimination towards any other operator in the electricity market in Kosovo.</p>
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<b>Referring to page 13 of the Consultation Report</b>	<b>Fuente Dynamics</b>	We consider that imbalances are not dependent on ALPEX and there is no correlation between the day-ahead market or intraday market and the imbalance caused in the market. The same possibility to do intraday regulation exists today.	We cannot say that the same opportunity for intra-day balancing for operators in the market of Kosovo or even Albania exists today. The full operation of ALPEX will provide operators with access to different and more commodities of electricity, which necessarily facilitates the balancing of the needs of operators.
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