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



Final Report on Maximum Allowed Revenues of TSO/MO

Responses to Comments

Third Regulatory Period (2023 – 2027)

DISCLAIMER

This document is prepared with the purpose of informing stakeholders in the public consultation process. The document shall be read alongside ERO's Consultation Report, published on 16 February 2023. The document does not represent a decision of ERO and shall not be interpreted as such.

23 March 2023

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Table of abbreviations

The abbreviations used in this document have the following meaning:

CPI	Consumer Price Index
EEX	European Energy Exchange
EUROSTAT	European Statistical Office
USS	Universal Service Supplier
MAR	Maximum Allowed Revenues
KEDS	Kosovo Electricity Distribution and Supply Company
KEK	Kosovo Energy Corporation
KESCO	Kosovo Electricity and Supply Company
KESH	Albanian Power Corporation
KOSTT	Transmission System and Market Operator of Kosovo
MFLT	Ministry of Finance, Labour and Transfers
MWh	Megawatt hours
OPEX	Operational Expenditure
DSO	Distribution System Operator
TSO/MO	Transmission System and Market Operator
PRR 3	Third Regulatory Period
OPRK	Office of the President of the Republic of Kosovo
ERO	Energy Regulatory Office

1. Introduction

Energy Regulatory Office (ERO) is in the Periodic Review Process for the Third Regulatory Period (PRR3), which includes the determination of Maximum Allowed Revenues (MAR) for the period 2023-2027. Periodic Review shall determine the Maximum Allowed Revenues for the Transmission System and Market Operator (TSO/MO-KOSTT JSC) and Distribution System Operator (DSO-KEDS JSC).

Following the initial evaluation of applications regarding the Maximum Allowed Revenues (MAR) for the licensee Transmission System and Market Operator (TSO/MO, KOSTT), the licensee and other stakeholders were enabled to present their comments through public consultation for a two-weeks period.

This document presents the responses to the comments submitted by stakeholders and the proposal of ERO regarding the Maximum Allowed Revenues of TSO/MO.

Regarding the initial evaluation of Maximum Allowed Revenues of TSO/MO, ERO received comments from the licensee (KOSTT) as well as Kosovo Energy Corporation (KEK).

The comments received from the stakeholders are published in the electronic website of ERO. This part of the document presents a summary of these comments and ERO's responses on them.

2. Comments from Kosovo Energy Corporation (KEK)

2.1 Change of energy price for recovery of transmission losses

2.1.1 KEK Comments

The Kosovo Energy Corporation (KEK) states that the current price agreement with the parties KEDS, KESCO and KOSTT expires on 31.03.2023. Due to changes in the costs of coal exploitation, electricity production from thermal power plants as well as the increase in KOSTT tariffs, KEK asks the parties to take into account the prices revised by KEK for the period 01.04.2023 - 31.03.2024 as follows:

- Electricity price for recovery of the Universal Service Supplier – 32.40 €/MWh;
- Electricity price for recovery of distribution losses – 39.54 €/MWh;
- Electricity price for recovery of transmission losses – 39.54 €/MWh;

2.1.2 ERO's response

It should be emphasized that with the legal changes that regulate the energy sector approved by the Assembly of the Republic of Kosovo in 2016, ERO has amended the secondary legislation to be in harmony with the primary legislation, therefore in this regard the production prices for the public generator KEK are not regulated by ERO since 2017, but they are subject to market criteria. The price for which the commercial parties can reach an agreement between themselves must be in accordance with the Energy Trading Procedure, Market Rules and other secondary legislation requirements.

ERO has so far not received any other request from the parties whose Maximum Allowed Revenues are subject to regulation. Therefore, in the evaluation of wholesale costs for 2023, ERO has taken into consideration the proposals of the parties that are based on current prices. However, the parties must respect the abovementioned principles in future updates of wholesale prices.

3. Referent price for RES

According to the Tariff Methodology for calculation of the referent price, ERO determines the referent price for RES, which is applied by the Market Operator for the energy sold to suppliers. The same price will be applied to the sale and purchase of energy from RES according to the regulated framework.

The referent price of Renewable Energy Sources, which will be applied for the relevant tariff year 2023, turns out to be 55.87 Euro/MWh.

4. Comments from Transmission System and Market Operator (TSO/MO, KOSTT)

4.1 Costs of ancillary services

4.1.1 KOSTT comments

From 1 April 2021, when capacities are purchased at auction by TSO, they increase with auction prices to average values of around €17/MWh during 2021, while in 2022 this value was around €20/MWh on average. Seeing this trend of growth, the value for the Cost of Ancillary Services for the years 2023 and beyond should increase to the values predicted according to KOSTT. KOSTT's request for 2023 for Auxiliary Services is €13,000,000.

4.1.2 ERO's response

In principle, ERO recognizes all justifiable costs of KOSTT so that it can perform all operating functions as an independent area. In this regard, ERO recognizes in principle all the costs of auxiliary services, but given that even in previous years there were differences between the forecast and realization of costs for these services, ERO, as in the initial proposal, proposes that the costs for auxiliary services shall be the realized average in the last two years. This proposal is based on the fact that also in the previous years KOSTT has contracted auxiliary services, but the realized costs were not always according to the plans, therefore the incurred costs were lower than the plans. Accordingly, since these costs are subject to adjustments, ERO does not consider it reasonable to change the initial evaluation of these costs.

4.2 ITC Mechanism

4.2.1 Comments of KOSTT

Revenues of 1,36 €mil from transit are presented in continuity for the entire period 2023-2027, which is a very large value compared to realization. For comparison, you can find in the following table the net revenues (+ sign) and net expenses (- sign) from transit by years:

Table 1. Revenues from ITC 2016 - 2022

Years	Net revenues from ITC (2016 – 2022)
2016	€ + 225,257.26
2017	€ + 68,702.59
2018	€ + 1,035,974.62
2019	€ + 499,464.83
2020	€ - 28,128.59
2021	€ +168,768.45
2022 (preliminary data until 2022)	€ - 640,746.77

4.2.2 *ERO's response*

ERO has reviewed the planned revenues from ITC, and has corrected the forecasts to 207 thousand euros, which represents the average realized in the period 2018-2022.

4.3 Costs of losses

4.3.1 *Comments of KOSTT*

The costs of Transmission Losses for the year 2022 were €14,889,462. The value of €13,257,705 reported in the Reporting Forms sent to ERO dated 22 November 2022 was the value realized for ten months and two months of planning.

4.3.2 *ERO's response*

ERO, following the receipt of the latest information from KOSTT, has analysed energy purchases for covering the losses in TSO. Based on the data, the cost of €14.9 million also includes the costs for covering the losses in the four northern municipalities, therefore in order to calculate the average price for the purchase of losses in the TSO that must be reflected in the regulated tariffs of the TSO, ERO has excluded the costs related to the supply of the north, as a result the average price for covering the losses in TSO remains the same as in the initial proposal.

4.4 Costs of other operating expenses

4.4.1 *Comments of KOSTT*

Based on the investment plan for the tariff period 2023-2028, 4 new substations will be functionalized for which, according to the current systematization, 4 workers must be hired for each substation, which will affect the increase in the number of workers starting from 2024.

In relation to the increase in staff according to the implementation of the Investment Plan 2023-2027, we propose to ERO to review the possibility of increasing other operating expenses starting from 2024 by 5-6% according to the table.

4.4.2 *ERO's response*

ERO has adjusted SO costs to address additional staffing needs in the initial evaluation of 50,000 euros so that KOSTT can responsibly carry out additional activities in its operation as an independent area. Therefore, SO OPEX remains unchanged compared to the initial evaluation.

4.5 Capital costs 2023-2028

4.5.1 *Comments of KOSTT*

In the 2023-2027 Investment Plan, KOSTT has provided a budget line of 160,000 euros for the *project with ID 061*: Improvement of the Insulation of the 220 kV Side in SS Kosova A. Since the value foreseen in 2022 of 160,000 euros has not been managed to be contracted and has failed as a budget line, we request that the foreseen value in the 2023-2027 investment plan be increased by the same amount, i.e. by 160,000 and in total be worth 320,000 euros.

4.5.2 ERO's response

ERO has accepted the comment of KOSTT and has updated the capital investments for the project requested by KOSTT. Due to this change, the depreciation and return costs derived from the capital project have also been adjusted.

5. Summary of TSO/MO MAR (KOSTT)

Following the evaluation of the available data and the ones presented by the parties involved in the process, as well as taking into account the comments received by the parties during the public consultation process and the decisions of the ERO Board on the input values for PRR3, ERO's final evaluation and proposal for the Maximum Allowed Revenues for the Transmission System and Market Operator (KOSTT) for the third regulatory period 2023-2027 is as follows:

ERO's proposal for €000s	PRR3				
	2023	2024	2025	2026	2027
	Proposed	Proposed	Proposed	Proposed	Proposed
Transmission System Operator (OST)					
Opex Base	5,923	5,835	5,749	5,664	5,581
Depreciation	11,061	11,465	11,855	12,624	12,978
Allowed return	9,307	9,617	9,787	10,105	10,227
Non-tariff revenues- allocation of capacities	-8,310	-8,310	-8,310	-8,310	-8,310
ITC	-207	-207	-207	-207	-207
Adjustments Capex- PRR2	-1,963	-1,963	-1,963	-1,963	-1,963
Adjustments PRR2 and year 2022	-2,077	-2,077	-2,077	-2,077	-2,077
Total	13,734	14,360	14,834	15,837	16,229
System Operator (OS)					
Opex Base	1,716	1,691	1,666	1,641	1,616
Costs of losses	13,308	13,308	13,308	13,308	13,308
Costs of ancillary services	8,638	8,638	8,638	8,638	8,638
Depreciation	1,879	2,391	2,290	1,420	1,571
Allowed return	556	823	888	875	871
Non-tariff revenues	-	-	-	-	-
Adjustments CAPEX PRR2	-425	-425	-425	-425	-425
Adjustments PRR2 and year 2022	-946	-946	-946	-946	-946
Total	24,727	25,481	25,420	24,512	24,634
Market Operator (OT)					
Opex Base	256	252	249	245	242
Depreciation	0	0	0	28	56
Allowed return	62	45	29	22	20
Renewable sources fund	20,929	20,929	20,929	20,929	20,929
Adjustments for PRR2	-5.2	-5.2	-5.2	-5.2	-5.2
Adjustments PRR2 and year 2022	-5.9	-5.9	-5.9	-5.9	-5.9
Total	21,236	21,215	21,195	21,212	21,235
HLM KOSTT	59,697	61,056	61,449	61,561	62,098

As it has been continuously emphasized, the components of the costs of the Maximum Allowed Revenues are adjusted on annual basis according to the provisions provided in the rules on revenues in order to reflect the reasonable costs of service and electricity supply for the respective year.