

Ymer Fejzullahu
Chairman of ERO Board

Nr. 07 D. 21. 2. 2024
HQ I

Mesut Serhat Dinc
Chief Executive Officer
KESCO j.s.c

Date: 21.02.2024

Subject: USS Comments on the ERO Consultative Report on Maximum Allowed Revenues for 2024

Dear Mr. Fejzullahu,

Through this letter, we are sending the Comments of the Universal Service Supplier (USS) regarding the Consultation Report of the Energy Regulatory Office (ERO) for the Maximum Allowed Revenues for 2024 published on 06 February 2024.

The USS requests from ERO to consider the issues raised in this document before any final decision on Maximum Allowed Revenues for the year 2024.

Sincerely,



Mesut Serhat Dinc
Chief Executive Officer, KESCO j.s.c

KOMPANIA KOSOVARE PËR FURNIZIM ME ENERGIJE ELEKTRIKE SH.A.
KOSOVO ELECTRICITY SUPPLY COMPANY J.S.C.
KOSOVSKO PREDUZEĆE ZA SNABDEVANJE ELEKTRIČNOM ENERGIJOM D.D.

KESCO - SH. A.

Ymer Fejzullahu
Kryesues i Bordit të ZRrE-së

Nr. 07 Dt. 21.2.2024
HQI

Mesut Serhat Dinc
Kryeshef Ekzekutiv
KESCO sh.a



Datë: 21.02.2024

Nr. 100/24
Data. 21.02.24

Lënda: Komentet e Furnizuesit me Shërbim Universal ndaj Raportit Konsultativ të ZRRE-së për të Hyrat e Lejuara Maksimale për vitin 2024

I nderuar z. Fejzullahu,

Përmes kësaj letre, po ju dërgojmë Komentet e Furnizuesit me Shërbim Universal (FSHU) lidhur me Raportin Konsultativ të Zyrës së Rregulatorit për Energji (ZRRE) për të Hyrat e Lejuara Maksimale për vitin 2024 të publikuar më 06 shkurt 2024.

FSHU kërkon nga ZRRE që të shqyrtojë çështjet e ngritura në këtë dokument përpara çdo vendimi përfundimtar për të Hyrat e Lejuara Maksimale për vitin 2024.



Mesut Serhat Dinc
Kryeshef Ekzekutiv KESCO sh.a

***Comments of the Universal Service Supplier to the ERO
Consultative Report on the Maximum Allowed Revenues for
2024***

February, 2024

I. Introduction

The Energy Regulator Office (ERO) dated February 6, 2024 has published the Consultative Report on the annual adjustments of the Maximum Allowed Revenues (MAR) for the Universal Service Supplier (USS) for the relevant tariff year 2024. This Report presents the initial assessment of the ERO regarding the maximum allowed revenues for the year 2024 based on the USS application submitted on January 22, 2024.

USS in the continuation of this document will review the assessment of ERO for the 2024 MAR as presented in the Consultative Report and will present the data and arguments that support USS's request for the 2024 MAR.

II. Allowed retail costs

According to the USS Pricing Rule, the necessary costs that enable the operation of the Supplier are also operational and maintenance costs (OPEX).

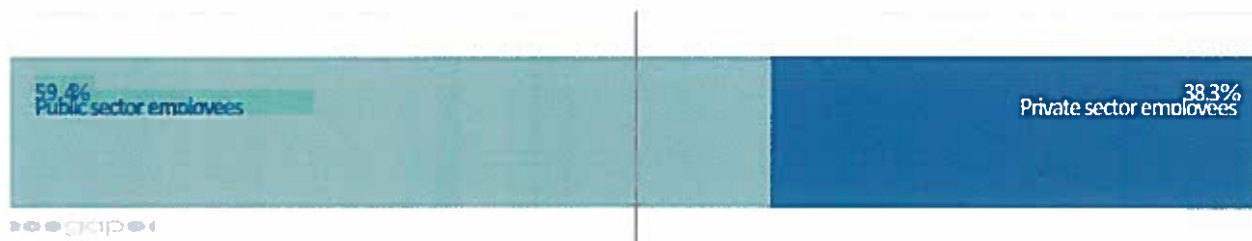
ERO by decision no. V_1476_2022 has approved the input values and operating expenses (OPEX) for the period 2022-2024. According to this decision, the approved OPEX for 2024 is 5.1 mil€. This decision did not reflect USS's request for salary increase, despite USS's concerns about salary discrepancies compared to other enterprises in the energy sector, as well as the impact of inflation on the employees' budget.

As we pointed out in the MAR application for 2024, the salaries of USS employees compared to other enterprises in the energy sector continue to be much lower. This has caused USS to face a lack of professional employees and a lack of interest in being part of the company in recent years. The situation is not expected to improve, taking into account the fact that with the liberalization of visas, the number of people interested in leaving the country has increased. This is best proven by the latest study done by the GAP Institute published in January of this year. Research findings of the GAP Institute's public opinion survey show that 27.9% of the population have plans to emigrate from Kosovo in the first quarter of 2024. The majority of aspiring migrants are young people, motivated by the expectations of higher salaries and better working conditions in the destination countries.

Concerns about labor shortages have prompted both the private and public sectors to implement salary increases, as evidenced by data from the GAP Institute. During the year 2023, of the total

number of citizens who declared that they had an increase in salaries in 2023, 38.3% of them are employed in the public sector and 59% in the private sector.¹

Salary increases for employees in 2023 in the public and private sector



Sources: GAP Institute

In addition, we have recently seen that even in the energy sector steps have been taken to increase salaries, respectively KEK and KOSTT have increased the salaries of employees by about 15%.

The increase in salaries in other enterprises in the energy sector has further deepened the salary gap and at the same time intensified the demands of employees for higher salaries, especially considering the increased burdens and responsibilities for current employees.

It is also worth mentioning that despite the arguments presented in USS's application for MAR, ERO, in the consultative report, did not address USS's request for salary increases for its employees.

Given these circumstances, USS reiterates its request for a 15% salary increase, with the aim of harmonizing with the salaries of other licensees and at the same time reflecting their value in the company. Otherwise, USS will face sustainability and operational inefficiency challenges, ultimately affecting the quality of services provided by USS.

III. Adjustment of HP costs with concession

In the consultative report, ERO has applied cost adjustments for HPPs based on the data resulting as a difference between the price applied by USS and the one resulting from the application of the compound rate of inflation for a period of 5 years. Although USS does not agree with ERO's position, it should be noted that the adjustments applied by ERO do not coincide with the exact value of the adjustments that must be made according to ERO's instructions.

¹ GAP Institute, January 2024, Propensity to emigrate from Kosovo following visa liberalization: implications for the workforce, link: https://www.institutigap.org/documents/64525_Visa%20liberalization.pdf

Regarding the position of USS, as explained before, these adjustments will have financial and contractual implications for parties, therefore, it is imperative to consider these implications and the same to be treated to ensure fair and equitable outcomes.

IV. Trading costs in ALPEX

As mentioned in USS's Application for the maximum allowed revenues, the start of operation of the Albanian Electricity Exchange (ALPEX) will affect USS's operating costs. Since the working capital allowed by ERO according to the USS Pricing Rule, does not include operating costs in ALPEX, USS has included these costs in this application and it is required that the same be recognized by ERO in the maximum allowed revenues for the year 2024.

V. Cost adjustments for 2021

In the assessments presented in the consultative report, we noticed that ERO did not consider the cost adjustments for 2021, included by USS in the MAR application for 2024. The adjusted costs are related to the costs for imbalances, the pass-through costs and wholesale purchase costs, for which USS has also sent the relevant invoices to ERO. Accurate reflection of actual costs is an obligation and a right given in accordance with the rules in force.

As we explained in the MAR application as a result of the extraordinary review, which took place before the end of the financial year, these costs were presented as preliminary data. After closing the financial year the same shall be adjusted conform issued bills, which are already sent to ERO, hence we request once again that these adjustments be recognized in the maximum allowed revenues for 2024 conform actual data.

Moreover, USS has included also adjustments for imbalances of the year 2021, which occurred due to extraordinary circumstances that were out of USS's control. These costs are in accordance with the issued bills from the Market Operator, that USS has already paid and as such are presented also in the audited financial statements.

The abovementioned adjustments are also in accordance with the USS Pricing Rule, namely Appendix 3, point 4.5 stipulates that any change in revenues that may result from miscalculation, misreporting of realized adjusted revenues or disputes regarding annual updates, will be covered in the relevant subsequent years.

VI. The Maximum Allowed Revenues of the USS for 2024

The following table summarizes the maximum allowed revenues requested by the USS for 2024, after taking into consideration all the necessary adjustments, as argued above.

Maximum Allowed Revenues for 2024	Unit	USS request
Indexing parameters		
Interest rate I_t 2023	%	10.13%
Retail cost of suppliers		
$OPEX - OPMC_t = OPMC_{t-1} * (1 + CPI_{t-1}) * (1 - E_t) * (1 - P_t)$	€m	5.76
$Depreciation - DEPC_t = DEPC_{t-1} * (1 + CPI_{t-1}) * (1 - P_t)$	€m	0.13
Pass-through costs		
TSO costs	€m	27.58
DSO costs	€m	127.69
RES Fund costs	€m	15.44
Working capital (WCLC _t)		
$WCLC = (1 / 12) * I_t * (RETR_t + WHPC_t + PSTC_t - NTFR_t)$	€m	2.13
Energy purchase costs		
Wholesale energy purchase costs	€m	192.70
License fee		
License fee	€m	0.04
Trading costs in ALPEX	€m	0.51
Bad debt (BDTA)		
BDTA	%	2%
BDTA	€m	8.16
Revenues adjustments for USS		
Adjustments for 2023	€m	27.61
Maximum allowed revenues	€m	407.75

In conclusion, USS's request for the maximum allowed revenues for 2024 is in the amount of 407.75 mil€, necessary for the stable operation of USS, therefore before any final decision we ask ERO to reflect USS's request for maximum allowed revenues for 2024.