



KOMPAJNIA KOSOVAË PËR DISTRIBUCION DHE FURNIZIM ME ENJERGJI ELEKTRIKE SH.A.
KOSOVO ELECTRICITY DISTRIBUTION AND SUPPLY COMPANY J.S.C.
KOSOVSKA PREDOVA ZA DISTRIBUCIJU I SNABEVAJE ELEKTRICNOGOM ENERGIJOM D.O.O.
KEDS - SH. A.

Nr. 16 Dt. 21.2.2024
HQ I

Ymer Fejzullahu
Chairman of ERO Board

Alpin Dogan
Chief Executive Officer
KEDS j.s.c

21 February 2024

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

Dear Mr. Fejzullahu,

This document summarizes the comments of the Distribution System Operator to the Consultative Report of the Energy Regulatory Office (ERO) on Maximum Allowed Revenues for 2024.

DSO appreciates the opportunity given to provide comments on the important issues raised in the consultative report and asks ERO to seriously consider all raised issues before any final decision on Maximum Allowed Revenues for 2024.

DSO is open and ready for further discussions whenever necessary.

With respect,


Alpin Dogan
Chief Executive Officer, KEDS j.s.c



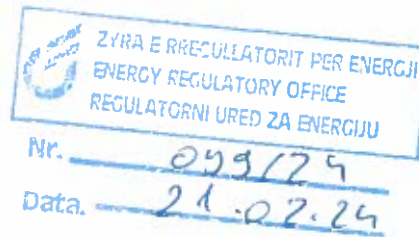


KOMPANIA KOSOVARE PËR CISTRIBUCION DHE FURNIZIM ME ENERGIJE ELEKTRIKE SH.A.
KOSOVO ELECTRICITY DISTRIBUTION AND SUPPLY COMPANY I.S.C
KOSOVSKO PREDOZILJE ZA CISTRIBUCIJU I SNABEŽENJE ELEKTRICNOM I POSLOVNO D.D.

KEDS - SH. A.

Nr. 16 Dt. 21.2.2024
HQ I

Ymer Fejzullahu
Kryesues i Bordit të ZRrE-së



Alpin Dogan
Kryeshef Ekzekutiv
KEDS sh.a.

21 Shkurt 2024

Lënda: Komentet e OSSH-së ndaj Raportit Konsultativ të ZRRE-së për të Hyrat e Lejuara Maksimale për vitin 2024

I nderuar z. Fejzullahu,

Ky dokument përmbledh komentet e Operatorit të Sistemit të Shpërndarjes ndaj Raportit Konsultativ të Zyrës së Rregullatorit për Energji (ZRRE) mbi të Hyrat e Lejuara Maksimale të për vitin 2024.

OSSH vlerëson mundësinë e dhënë për të dhënë komente mbi çështjet e rëndësishme të ngritura në Raportin Konsultativ dhe kërkon nga ZRRE që të shqyrtojë seriozisht të gjitha çështjet e ngritura para çdo vendimi përfundimtar për të hyrat e lejuara maksimale për vitin 2024.

OSSH është e hapur dhe e gatshme për diskutime të mëtejshme sa herë që është e nevojshme.

Me respekt,

Alpin Dogan
Kryeshef Ekzekutiv, KEDS sh.a.





Comments of the Distribution System Operator to the ERO Consultative Report on the Maximum Allowed Revenues for 2024

February, 2024



1. Introduction

The Energy Regulatory Office (ERO) on February 6, 2024 has published the Consultative Report on the annual adjustments of the Maximum Allowed Revenue (MAR) for the Distribution System Operator (DSO), for the relevant tariff year 2024. In this report, the ERO has presented the initial assessment for the Maximum Allowed Revenues for DSO, based on DSO's application sent on January 22, 2024.

Following this document, DSO will present its position regarding ERO's initial assessment of the maximum allowed revenues for 2024.

2. Operating and maintenance costs (OPEX)

In the application for the maximum allowed revenues for 2024, DSO has proposed an increase in operating costs, taking into account the increasing the number of customers and the need to provide better quality services. In addition, DSO has expressed concern about the lack of professional employees and the possible consequences for the company as a result of this lack, demanding an increase in salaries for employees up to 15%.

Regarding the submitted requests, ERO in the consultative report has emphasized that the OPEX costs, which include personnel costs, have been adjusted for the annual rate of inflation, therefore, ERO has updated the OPEX costs to reflect inflation, and did not consider the request of DSO for salary increase.

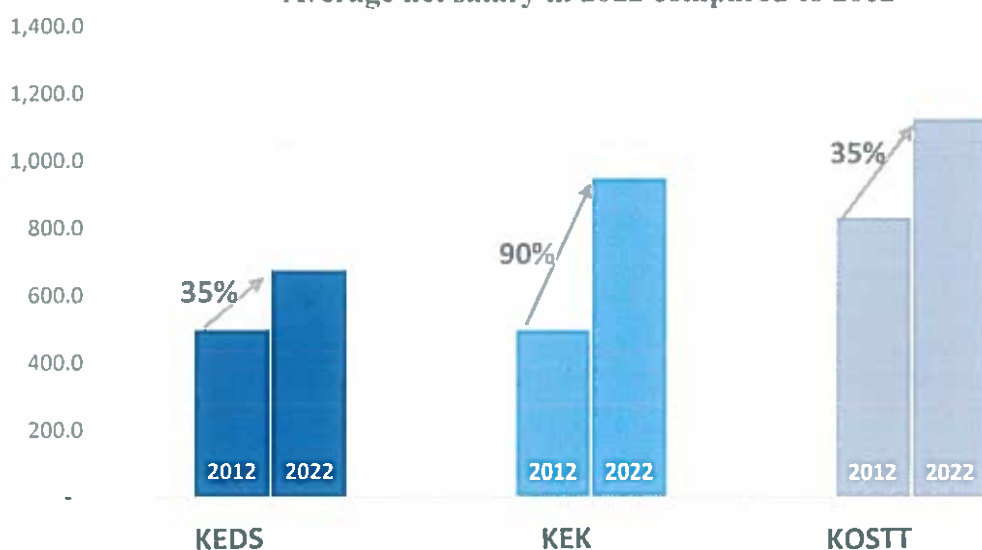
As noted in the MAR application for 2024, ERO has determined the operating and maintenance costs for the period 2023-2027, as a continuation of the operating and maintenance costs of the second regulatory period, not considering the arguments of DSO that there is an increase of operating costs over the years and the actual data provided by DSO. In addition, ERO has applied an efficiency factor of 1.5% to the allowed operating costs for the period 2023-2027. Since salaries represent the largest part of operating costs, the application of the efficiency factor directly affects the salary line, as well as impair the recognition of inflation that the company can allow.

Although DSO over the years has made salary inflation adjustments, including the salary increase done this year, this is not enough to meet the expectations of DSO employees or to harmonize them with other licensees in the energy sector.

The chart below shows the change in average salaries in 2022 compared to average salaries in 2012 in companies operating in the energy sector in Kosovo, based on data from financial statements about personnel expenses.



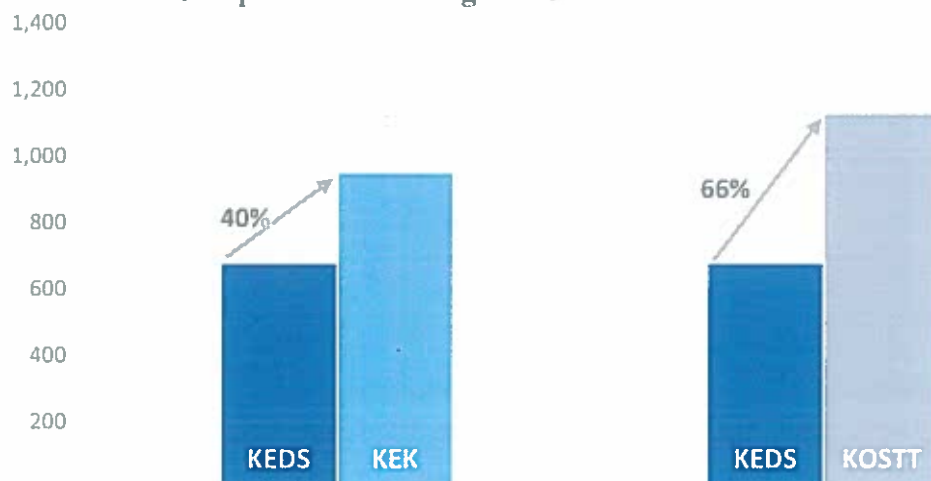
Average net salary in 2022 compared to 2012



According to the data presented in the graph, the average net salary in DSO in 2022 is 35% higher compared to 2012 when DSO was part of the management of KEK, while the average net salary in KEK had an increase of 90% compared to with the year 2012. Likewise, the average net salary in KOSTT in 2022 has an increase of 35% compared to 2012, but the average salary in KOSTT in 2012 was much higher than the average salary in DSO in 2012.

The graph below shows the changes in average net salaries between DSO and KEK and KOSTT licensees for the year 2022.

Comparison of average net salaries with other licensees



Also, according to the data in the Kosovo Agency of Statistic (KAS) during the year 2022 the average net salary according to economic activities was the highest in: Supply of electricity, gas,



steam and air conditioning with 804 euros¹, which is higher by 19% compared to the average net salary in DSO.

The disparity in salaries between DSO employees and other licensees in the energy sector has caused DSO employees to be discriminated in salaries for a long time. This has undoubtedly brought consequences for the company, since DSO for years has been faced with the departure of professional employees, jeopardizing the progress of daily operations as well as increasing the workload for current employees. In such circumstances, the pressure of employees for salary increases was inevitable.

In addition, DSO remains concerned about the departure of the qualified labor force due to the liberalization of visas. Numerous studies, highlighted also in the DSO application for the MAR of 2024, show that Kosovo is expected to experience an alarming level of labor force departure, further increasing the concerns of the DSO. Therefore, taking into account the above mentioned and starting from the current situation in the labor market, DSO reiterates the request for a 15% salary increase. This increase will ensure that DSO maintains a qualified workforce, which will enable the sustainable operation of DSO and providing quality services.

Regarding the operating and maintenance expenses in the four municipalities of the north, ERO, in the consultative report, has predicted the operating and maintenance expenses for the four municipalities in the north of Kosovo in the amount of 0.77 mil€. According to ERO, the expenses related to the provision of distribution in the northern part for the period January-March are foreseen in the Guidelines for Energy and the License of ElektroKosova, while for the period April-December are based on the costs for the provision of common services for the four municipalities of the north in relation to similar costs in the part operated by DSO.

Although DSO doesn't possess information how the evaluation of the costs is done for the period April – December 2024, the analogy used for this period cannot be relevant for predicting these costs for the northern part. In general the cost of starting to provide a service in a new area is usually higher due to the initial investment required in infrastructure and service management. The different conditions and environment in this region require special assessment. Therefore, based on these reasons, DSO requests that the assessment of operating and maintenance costs for the period April-December be made on the same basis as for the first three months of the year, reflecting the current conditions and the costs of starting operations in the northern part of the country.

¹ <https://askapi.rks-gov.net/Custom/085019af-7367-4166-966f-87cfcecf3852.pdf> page 14



3. Investment costs

The signing of the agreement for the supply of four municipalities in the north of Kosovo with the supplier Elektroserver in 2023, gives access to DSO to operate in that area, but at the same time also represents a need for additional investments from DSO. Considering this, DSO has foreseen an initial investment to start operations in this area, as described in DSO's application for the MAR of 2024. However, in the consultative report, ERO has taken into account only the costs related to meters and low voltage accompanying equipment, while other investments ERO has emphasized that will consider them only after collecting data on the existing situation of the network.

Since the agreement is in force from January 1, 2024, DSO is in the phase of collecting data from the field on the existing situation, and based on the collected data, it reiterates that the investments foreseen in the MAR application for 2024 are necessary for the start of DSO operation in that area. Moreover these investments are related to urgent investments in villages such as: Leposavic, Dieshak, Bernjak, Bistrice, Cirkovice, therefore ERO is required to recognize the costs of these investments in the maximum allowed revenues for 2024.

4. Cost of losses

During the review of the ERO assessment presented in the Consultative Report, it was observed that the full level of energy expected to enter to the DSO level was not taken into consideration, which is not in accordance with the methodology approved in the Electricity Balance and the methodology defined in the DSO Pricing Rule. The lower entering energy forecast in the distribution level means subsidizing part of the costs by DSO in a relevant year and respectively higher adjustments during the next year, creating financing problems. DSO will calculate all entering energy in the distribution level according to the methodology approved in the Electricity Balance.

The changes with ERO proposal are presented in the table below:

| €000s Inputs for calculation | Unit | 2024 Proposal-ERO | 2024 Proposal -DSO |
|---------------------------------|--------------|----------------------|-----------------------|
| Energy entering in distribution | GWh | 6,272 | 6,301 |
| Allowed losses | % | 16.61% | 16.61% |
| Losses | GWh | 1,042 | 1,047 |
| Purchases price | €/MWh | 70.36 | 70.38 |
| Total costs | €000s | 73,321 | 73,673 |

5. Maximum Allowed Revenues for DSO for 2024

The table below summarizes DSO's Maximum Allowed Revenues for 2024, considering the justification for the cost components presented in the previous sections of this document.

| Maximum Allowed Revenues for 2024 | | ERO proposal | DSO comments |
|---|-------|---------------|---------------|
| It | % | 9.59% | 9.59% |
| Operating and Maintenance Costs (OPMCt) | | | |
| $OPMC_t = OPMC_{t-1} * (1 + CPI_{t-1}) * (1 - E_t) * (1 - P_t)$ | €m | 30.15 | 33.80 |
| Costs for ALPEX | | 0.02 | 0.02 |
| Allowed Depreciation (DEPCt) | | | |
| $DEPC_t = DEPC_{t-1} * (1 + CPI_{t-1}) * (1 - P_t)$ | €m | 20.60 | 20.70 |
| Allowed Return (RTNCt) | | | |
| $RTNC_t = RTNC_{t-1} * (1 + CPI_{t-1}) * (1 - P_t)$ | €m | 17.35 | 17.56 |
| OS and OM Obligation to KOSTT | | | |
| | | 2.73 | 2.73 |
| Allowed Losses (LSSCt) | | | |
| LSSAt | % | 16,61% | 16,61% |
| REUEt | GWh | 6,272.47 | 6,301.39 |
| WHEAt | €/MWh | 70.36 | 70.38 |
| LSACT-1 | | | |
| LSSCt | | 73.32 | 73.68 |
| Adjustments | | | |
| Unregulated Revenues | €m | -5.41 | -5.41 |
| Adjustments for unregulated revenues | | 3.82 | 3.82 |
| Adjustments (2022 & PR2) | | 0.09 | 0.09 |
| License cost | | 0.12 | 0.12 |
| KREV | | | |
| KREV | €m | -13.95 | -13.96 |
| MAR – Maximum Allowed Revenues | €m | 128.84 | 133.14 |

In conclusion, the maximum allowed revenues in the amount of 133.14 mil€ will enable the sustainable operation of DSO, ensuring financial stability, infrastructure development, and quality of services provided. Therefore, it is more than necessary for ERO to reflect before making any final decision regarding the maximum allowed revenues for 2024.