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**Ymer Fejzullahu**  
Chairman of ERO Board

KOMPANIA KOSOVARE PËR DISTRIBUIM DHE FURNIZIM ME ENERGIJE ELEKTRIKE S.H.A.  
KOSOVO ELECTRICITY DISTRIBUTION AND SUPPLY COMPANY J.S.C.  
KOSOVSKO PREDUZEĆE ZA DISTRIBUCIJU I SNABDEVANJE ELEKTRIČNOM ENERGIJOM D.O.O.  
**KEDS - S.H.A.**

Nr. 64 Dt. 29.07.2022  
HQ 1

**Alpin Dogan**  
Chief Executive Officer  
KEDS J.s.c

**29 July 2022**

**SUBJECT: The Third Periodic Review for the regulatory period 2023-2027**

Dear Mr. Fejzullahu,

The Energy Regulatory Office (ERO) has initiated the third periodic review for the regulatory period 2023-2027 on 26 May 2022 to set the Maximum Allowed Revenue (MAR) for the Distribution System Operator (DSO) for the period 1 April 2023 to 31 March 2027.

In accordance with the requirements of the Initiation Document for the Third Periodic Review, DSO has prepared the Proposal for the input values such as:

- Weighted Average Cost of Capital,
- Allowed level of losses and losses sharing factor

Electricity crises, increase of prices and inflation is expected to negatively affect the upcoming years, therefore in order to avoid any risk that could damage the financial stability and sustainability, as well efficient operation of the DSO, we request from ERO to consider the DSO's proposal

Due to the great importance of this process, DSO is open and ready for further discussions whenever necessary.

Sincerely,

  
  
**Alpin Dogan**  
Chief Executive Officer, KEDS J.s.c

Appendix

Proposal on Weighted Average Cost of Capital

Proposal of DSO for Loss reduction target 2023-2027



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## **Proposal of the Distribution System Operator for the allowed level of losses for the regulatory period 2023-2027**

July 2022



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## 1. Executive summary

Based on the Rule on Distribution System Operator (DSO) Revenues and the responsibilities given by the Law on the Energy Regulator, the Regulator (ERO) has started the third periodic multi-year tariff review (MYT3) to set the Maximum Allowed Revenues (MAR) of licensees TSO/MO and DSO for the period 1 April 2023 to 31 March 2027.

Part of the third periodic review is the determination of the input values as main parameters, which are used to calculate the maximum allowed revenues of the DSO. The input values are comprised of:

- **Allowed level of losses;**
- **Loss sharing factor;**
- Lifespan of assets;
- Weighted average cost of capital;
- The efficiency factor;
- Savings sharing factor applicable to the savings that exceed efficiency factor; and
- Any other input parameters that the Regulator may deem necessary.

This document presents the proposal of the DSO related to the allowed level of losses for the period 2023-2027, which sets the targets of reducing losses in order to offer efficient services to consumers at minimal cost.



## 2. Introduction

In energy systems losses refer the difference between the electricity entered into the system and the energy billed to end consumers, respectively it is the amount of electricity injected into the network which is consumed but not billed by end consumers. Total losses consist of two components, technical losses and non-technical losses (commercial losses). Technical losses occur naturally during passing of electricity through elements of system as are distribution lines, transformers and measuring systems. While commercial losses are caused by the actions caused in the energy system such as: interventions at the measuring point or bypassing the measuring point and consist mainly of electricity theft, etc. These categories of losses are also referred to as commercial losses.

The optimization of technical losses in the electric power distribution system is an engineering problem that includes classical and modern methods of system planning and modeling. Purpose and basic criterion of planning and modeling of transmission and distribution systems of electricity is to minimize the net present value of investment costs plus costs of technical losses. Technical losses also represent an economic loss for the country, so their optimism should be seen from the state perspective despite institutional organization of the sector and ownership of the electricity operators<sup>1</sup>.

Commercial losses represent an avoidable financial loss for the operator of electricity distribution in case the relevant legislation and institutions support the company for fighting and eliminating commercial losses. Until now, there is no positive change regarding legislation in relation to consumers who use electricity illegally and without authorization. Although the amount of electricity included in commercial losses is consumed by users that don't pay for it, experience shows that a considerable percentage of this amount decreases once the customers are requested to pay for the electricity. Such, decrease of demand (request) has accurately the same effect that it has the decrease of technical losses, respectively less electricity need to be purchased. Therefore, from perspective of country also the decrease and elimination of non-technical losses is very positive<sup>2</sup>.

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<sup>1</sup> World Bank Group, Energy Sector Strategy, Reducing Technical and Non-technical Losses in the Power Sector, 2009

<sup>2</sup> World Bank Group, Energy Sector Strategy, Reducing Technical and Non-technical Losses in the Power Sector, 2009



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From a social point of view, commercial losses have a very negative effect, because regular consumers subsidize a part of users who manipulate the electricity they consume. There are a number of circumstances that can cause commercial losses. Classic cases are the theft of electricity from unauthorized connections and manipulation of metering devices. It is clear that these actions constitute criminal offenses that are prosecuted based on the laws in force, but in cases where the operators do not have sufficient support of the regulatory framework and the justice system acts very slowly, the operators find it very difficult to eliminate the effect of social and economic evil that cause commercial losses.



### 3. Losses through years

Reduction of losses is a result of the large capital investment and proper maintenance of the distribution system. During the privatization in 2013, DSO inherited an old, uninvested network and, respectively, a high level of losses. Losses at the end of 2012 were 32.25%, of which 16.33% were technical losses and 15.93% were commercial losses (not including losses in the north). With investments worth nearly 190 million euros since 2013, of which 175 million euros of investments are in the network, the level of losses at the end of 2021 was concluded with 18.48%, of which 12.46% technical losses and 6.02% commercial losses.

Capital investments require deep analysis and diagnosis of the system, identification of the current situation, determination of the most problematic areas, cost and benefit analysis, etc. In order to determine an allowed level of losses as reasonable and achievable by the network operators, the Regulator should in any case ensure the efficiency of the network, not only by recognizing a certain level of losses but also by stimulating the network operators to reduce them. Therefore, it is important to ensure that network operators have adequate incentives so that they make a proper effort to evaluate the costs and benefits of reducing losses and thus optimize the level of losses in the most efficient way.<sup>3</sup>

The Regulator, by decision no. V\_1019\_2018 has approved the loss reduction target for the regulatory period 2018-2022. The targets set by the Regulator for this period have been difficult to reach for DSO since they were a continuation of the level set in the first regulatory period, which were assess as quite aggressive compared to the real situation at that time. On the other hand, these targets have endangered the operation of DSO as losses above the allowed level of the Regulator have continued to create a financial burden for DSO.

The analyzes show that with investments of over 100 million euros in the first regulatory period, the level of losses has decreased by over 7 %. Similarly, during the second regulatory period 2018-2022 with investments of about €100 million, the level of losses is expected to decrease to the level of 16.9%, or about 7 % lower than the end of the first regulatory period. This clearly shows the real trend of reduction of losses and the correlation of losses with investments.

It is well known that technical losses cannot be non-existent and the costs for reducing technical losses are very high. On the other hand, studies and practices show that the reduction of

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<sup>3</sup> European Regulator Group for Electricity & Gas (2008), Treatment of Losses by Network Operators, ERGEG Position Paper for Public Consultation, Ref: E08-ENM-04-03, 2008



commercial losses is less expensive and much easier and faster compared to the reduction of technical losses. Knowing this and being a regulated company, DSO has put a lot of effort and dedication towards reduction of commercial losses, reducing them from about 16% to 6% for 10 years. However, fighting commercial losses below a certain level becomes more difficult and requires the support of law enforcement institutions. The legislative processes in Kosovo unfortunately continue to be bureaucratic and slow, which are making it impossible for DSO to fight losses at a desirable level. Moreover, if we take into consideration the country's slow economic development, high unemployment and poverty, as well as the increased prices during the last year, it is quite normal for commercial losses to slow in their reduction.

It is also important to note that the regulatory period 2018-2022 has been characterized by some extraordinary events previously unforeseen, which have had a negative impact on the reduction of losses.

Respectively, since 13 March 2020, with the first confirmed case of COVID-19 in Kosovo, the general situation in consumption behavior changed. The consumption growth trend fell in the first quarter of the year due to the pandemic restrictions issued by the government. Household electricity consumption has increased slightly, but because many commercial activities were stopped for a certain time, the consumption forecast was not as we expected, especially for large consumers.

Employees during the reading time could not read the meters of commercial customers because many of them were closed, which directly showed the effect on billing and energy loss. Moreover, the staff of the DSO itself has not been allowed to check the metering points for several weeks due to the risk of COVID 19. Therefore, in addition to the delays in the reading, the DSO teams could not do the proper control of activities in the ground, thus creating opportunities for abusers to manipulate metering points. This trend has also increased due to the social effect brought about by the pandemic, i.e. due to the fact that many families were left without income.

During the time of the COVID-19 pandemic, there have been significant delays in the delivery of various materials that are needed for investments in the network, and although the restrictions of the pandemic were suspended several times during the year, they were not completely removed and/or returned, thus negatively affecting our forecasts.

Moreover, due to the measures taken by the Government, DSO had to organize the work in accordance with the legal requirements and taking all the necessary preventive measures. During the March-June 2020 period, most of the planned maintenance and investment works on the 10 kV and 35 kV feeders have been postponed. Contractors also stopped work due to the



Government's decision to close all business activities and quarantine many areas. All this affected the realization of the planned investments and limited the number of controls in order to prevent the unauthorized use of electricity. In this sense, DSO was unable to achieve the goal of reducing losses in accordance with the Loss Reduction Plan for 2020. This simultaneously affected DSO's inability to meet the targets set by ERO. The impact on reducing losses as a result of the pandemic is 0.7% (composite effect).

At almost the same time with the pandemic, in the second half of 2021 Europe faced an energy crisis as a result of the enormous increase in electricity prices in international markets. During this period, DSO has been faced with a liquidity crisis, making the DSO's financial recovery after the COVID-19 pandemic impossible.

Further to the beginning of March 2022, as a result of the start of the war in Ukraine, the energy sector has been affected again with the increase in the price of electrical materials, repeated delays in their delivery as well as delays in the performance of works by contractors at DSO.

All these events have had a negative effect on the proper operation of the system, respectively they have directly affected the reduction of electricity losses in the distribution network, making it impossible for DSO to achieve the targets set by the Regulator. Given that these events were beyond the control of the DSO, they should be considered by the Regulator as reasonable costs and compensated for the impossibility of achieving the targets predetermined by the Regulator the costs of which were borne by the DSO.

It is a well-known fact that the economic crisis, price increases and inflation, including the return of tariff blocks for household consumers, will have a negative impact on the reduction of losses. Therefore, setting unrealistic loss targets harms the sustainability and operations of DSO. In these conditions when DSO has not yet recovered and when electricity prices in international markets are very high, unpredictable and unstable, setting unrealistic targets will endanger the financial stability of DSO, which is already fragile from the impact of the global energy crisis. As a result, the need to review realistic targets for the next regulatory period 2023-2027 requires attention in order to ensure energy stability in the country.

The Republic of Kosovo is a member of the Energy Community Treaty and based on the obligations of the Treaty, as part of the *acquis communautaire*, the Parliament of Kosovo has adopted various laws that regulate the energy sector in accordance with European directives. Thus, according to Directive 2009/72/EC, in regulating or approving tariffs or methodologies, ERO should ensure that distribution system operators are given appropriate incentives in the short and long term to increase efficiency, to encourage market integration and security of supply and



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support related research activities. The same principle is reflected by the Law on the Energy Regulator (articles 15.5 and 47.3).

These principles are translated into the purpose of the parameters, which are covering expenses and ensuring sufficient long-term economic stability of operators, balancing and optimizing benefits between licensees and consumers.



## 4. Loss calculation methodology

In recent years, as a result of rapid developments in urban areas, the increase in demand/load has continuously overloaded the existing feeders, thus increasing the level of technical losses. Some feeders have reached the maximum capacity of the line and at peak loads are loaded even further to a critical level, resulting in interruptions due to overloads. Therefore, DSO has taken the necessary steps through long-term investment planning, which is closely related to the targets of reducing losses for this regulatory period.

The DSO for the 2023-2027 regulatory period has directed investment projects to medium voltage projects and low voltage projects. The prioritization of investment projects were made according to these criteria:

- Improvement of Voltage Drops
- Level of losses
- Number of Unplanned Outages
- Network load
- Increased lock request
- Number of beneficiary consumers
- Demand from the District/consumers

Below is presented the calculation of loss reduction for low and medium voltage projects and the expected effect of loss reduction.

### 4.1. *Calculation of loss reduction in LV projects*

The selection of LV projects was made according to the criteria predetermined by the DSO and as a result of these criteria the benefit was determined in the sense of reducing losses.

Since all LV projects are oriented towards the installation of PLC meters, to determine the final losses, the results of 258 completed projects were analyzed, comparable in the period of one year during the year 2021. To determine the loss reduction coefficient, the total amount of input energy and losses before installation of PLC meters and after installation of PLC meters was used. From the obtained results, the average coefficient was taken and all losses after investments in PLC meters will fall to 8.86%.

The table below shows the final results of the calculation of the loss coefficient.



PLC Projects	Before PLC	After PLC
Energy Entering into distribution system (kWh)	209,112,190	196,899,717
Billed Energy (kWh)	123,009,323	179,463,136
Losses (kWh)	86,102,867	17,452,424
Total losses	41.18	8.86

Table 1. Loss reduction coefficient

The selection of projects for the regulatory period 2023-2027 has included different criteria compared to the past where the highest priority is given to Transformer Stations where the losses have been higher, therefore the total losses in the selected TS are in the table below.

PLC Projects	Before PLC
Energy Entering into distribution system (kWh)	580,407,470
Billed Energy (kWh)	411,365,420
Losses (kWh)	169,042,051
Total losses	29.12

Table 2. Total losses of selected projects in LV for 2021

The following table summarizes the kWh benefit by year and the impact on reducing total losses.

YEAR	EED (kWh)		
<b>2023</b>	6,791,783,094	Benefit (kWh)	21,065,980
		Benefit (%)	0.31
<b>2024</b>	6,995,536,587	Benefit (kWh)	20,533,445
		Benefit (%)	0.29
<b>2025</b>	7,137,545,980	Benefit (kWh)	21,619,988
		Benefit (%)	0.30
<b>2026</b>	7,345,248,568	Benefit (kWh)	19,444,037
		Benefit (%)	0.26
<b>2027</b>	7,552,384,577	Benefit (kWh)	17,523,537
		Benefit (%)	0.23

Table 3. Reduction of losses from LV projects

#### 4.2. Calculation of loss reduction in MV projects

The selection of MV projects were made according to the criteria predetermined by the DSO and as a result of these criteria the benefit was determined in the sense of reducing losses.

The calculation of the reduction of losses in MV is done by analyzing the situation before and after the investment, where these calculations are obtained from the DlgSilent software. For the



existing situation, the feeders of MV are already modeled in the software, while for the situation after the investment, the proposed situation is modeled and the technical losses in the corresponding feeders are calculated.

The following table summarizes the kWh benefit by year and the impact on reducing total losses.

Year	EED (kWh)		
<b>2023</b>	6,791,783,094	Benefit (kWh)	13,364,201
		Benefit (%)	0.20
<b>2024</b>	6,995,536,587	Benefit (kWh)	8,738,601
		Benefit (%)	0.12
<b>2025</b>	7,137,545,980	Benefit (kWh)	9,907,510
		Benefit (%)	0.14
<b>2026</b>	7,345,248,568	Benefit (kWh)	9,771,970
		Benefit (%)	0.13
<b>2027</b>	7,552,384,577	Benefit (kWh)	8,493,860
		Benefit (%)	0.11

Table 4. Reduction of losses from MV projects

Considering the above and the fact that the energy sector in Kosovo is dominated by household consumers, whose payment power exceeds the possibility to reflect the level of necessary investments (especially now with the increase in the prices of materials and labor), in the following table presents the forecast of loss reduction for the regulatory period 2023-2027:

	2023	2024	2025	2026	2027
EED [MWh]	6,791,783.09	6,995,536.59	7,137,545.98	7,345,248.57	7,552,384.58
Project in MV [MWh]	13,364.20	8,738.60	9,907.51	9,771.97	8,493.86
Project in MV [%]	0.20%	0.12%	0.14%	0.13%	0.11%
Project in LV [MWh]	21,065.98	20,533.44	21,619.99	19,444.04	17,523.54
Project in LV [%]	0.31%	0.29%	0.30%	0.26%	0.23%
TOTAL [MWh]	34,430.18	29,272.05	31,527.50	29,216.01	26,017.40
TOTAL [%]	0.51%	0.42%	0.44%	0.40%	0.34%

Table 5. Total loss reduction 2023-2027



### 4.3. Calculation of loss reduction with increased reading accuracy

Besides the reduction of losses through the above mentioned investment projects, in the total reduction of losses also affects the increase in the accuracy of the reading and the recovery of losses through the control of consumers.

The increase in the accuracy of meters also affects the increase in accurate billing. According to the analogy of the previous years, the expected benefit for the years 2023-2027 was calculated, according to the table below.

Year	EED (kWh)		
2023	6,791,783,094	Benefit (kWh)	10,187,675
		Benefit (%)	0.15
2024	6,995,536,587	Benefit (kWh)	10,493,305
		Benefit (%)	0.15
2025	7,137,545,980	Benefit (kWh)	856,506
		Benefit (%)	0.01
2026	7,345,248,568	Benefit (kWh)	881,430
		Benefit (%)	0.01
2027	7,552,384,577	Benefit (kWh)	906,286
		Benefit (%)	0.01

Table 6. Reduction of losses from increasing readings

### 4.4. Calculation of loss reduction with consumer control

Loss Control teams check about 90,000 customers during the year for inspection related to the metering system. Through such a control process, according to the analogy of previous years, the expected benefit for the years 2023-2027 was calculated, according to the table below.

Year	EED (kWh)		
2023	6,791,783,094	Benefit (kWh)	23,299,976
		Benefit (%)	0.34
2024	6,995,536,587	Benefit (kWh)	19,696,711
		Benefit (%)	0.28
2025	7,137,545,980	Benefit (kWh)	10,441,272
		Benefit (%)	0.15
2026	7,345,248,568	Benefit (kWh)	13,974,055
		Benefit (%)	0.19
2027	7,552,384,577	Benefit (kWh)	14,614,432
		Benefit (%)	0.19

Table 7. Reduction of losses by increasing control



## 5. Losses in neighboring countries

Ideally, losses at the distribution level should be between 3-6%, however, according to an analysis made by the Faculty of Engineering in Porto,<sup>4</sup> it states that in developed countries the level of losses in the distribution network is on average 10%, while in a developing country in 20%.

According to the USAID and USEA <sup>5</sup>study, in the region distribution losses have decreased from 15% in 2008 to 13% in 2018, i.e. a reduction of 3 % over a period of 10 years. The study highlights Kosovo as one of the most successful countries, reducing losses from 38% to 28% (including losses in the north), as shown in the following figure:

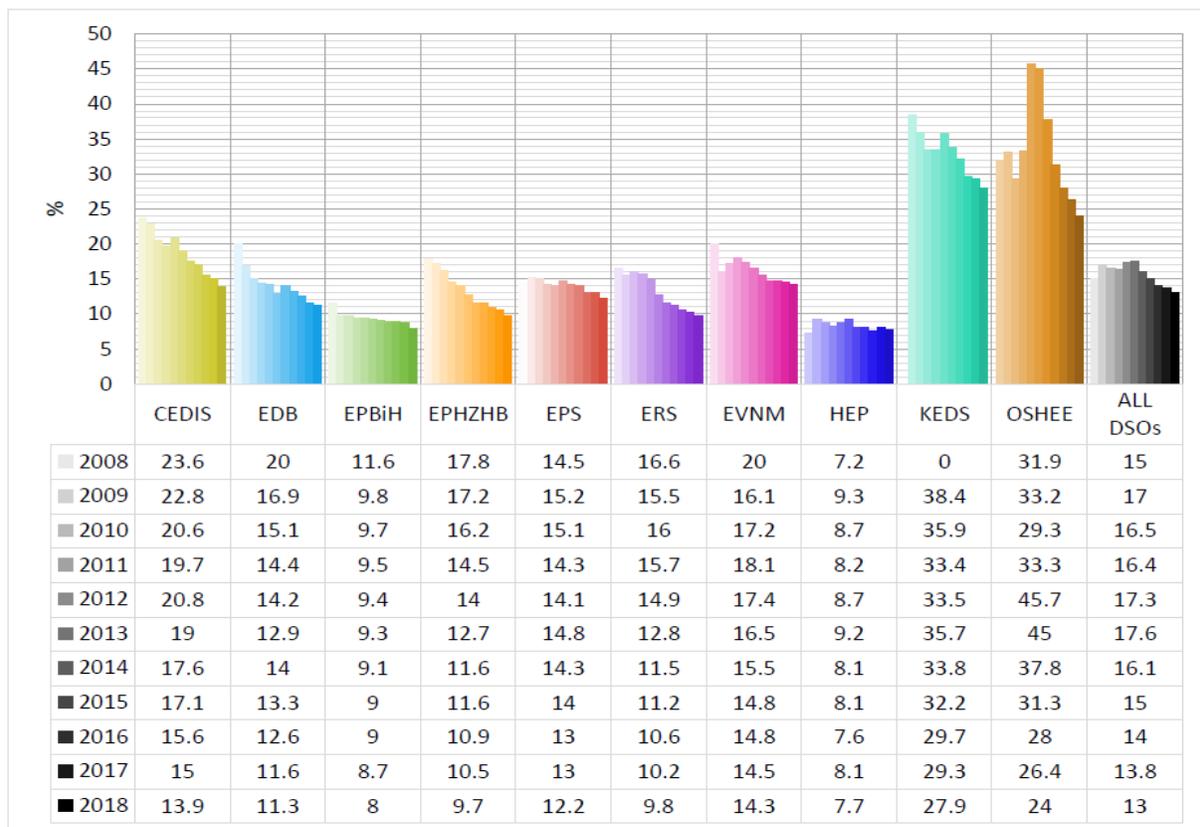


Figure 1. Losses of DSOs in Southeast Europe 2008-2018

<sup>4</sup> Figueiredo, G.A.D. Characteristics of medium voltage losses in the distribution network, Faculty of Engineering, Porto, Portugal, 2012

<sup>5</sup> USAID and USEA, South East European Distribution System Operators Benchmarking Study, Volume 3 (2008 – 2018), September 2020



If we analyze the data for Kosovo, we notice that before privatization the level of losses was reduced by 2.7%, while after 2013 until 2018 we have a reduction in losses of 7.8%, including losses in the north. Also from the study we notice that with the reduction of losses to a certain level, the trend of reduction of losses slows down.

As for the allowed level of losses in the countries in the region, they coincide with the actual losses and the regulators tend to keep them unchanged in order to provide opportunities for operators to reach their targets. As a result of the pandemic and the energy crisis, some operators have recorded an increase in the level of actual losses in recent years. Even in some countries of the region, it is observed that the loss target remains unchanged for years even when the operators have realized smaller actual losses.

Network Losses, %		Approved by NRA			Actual/Expected		
		2020	2021	2022	2020	2021	2022
<b>Georgia</b>	Energo-Pro Georgia	9.9%	9.8%	9.8%	9.4%	10.2%	10.1%
<b>North Macedonia</b>	Elektrodistribucija	12.7%	12.6%	12.4%	13.8%	13.9%	13.9%
<b>Bosnia and Hercegovina</b>	MP MH ERS	10.7%	10.2%	10.1%	10.3%	10.3%	11.9%
<b>Serbia</b>	EPS distribucija	10.8%	10.4%	10.1%	11.2%	11.2%	10.8%
<b>Montenegro</b>	CEDIS	8.5%	8.3%	8.2%	12.9%	12.4%	14.6%
<b>Ukraine</b>	D-TEK Grid						
<b>Bosnia and Hercegovina</b>	EPHZHB	14.0%	14.0%	14.0%	9.1%	9.1%	9.6%
<b>Moldova</b>	Premier Energy	7.8%	7.3%	7.5%	7.6%	7.5%	7.5%
<b>Kosovo</b>	KEDs	17.6%	16.4%	15.1%	19.68%	18.48%	
<b>Albania</b>	OSHEE	20.00%	20.50%	n/a	21.48%	20.62%	n/a

Table 8. Allowed and actual losses of DSOs in Southeast Europe (2020-2022)

Such an approach helps DSOs to overcome the compounding effect of exceeded losses, create financial stability and use the profits for larger investments.



## 6. Proposal of DSO for the allowed level of losses for the regulatory period 2023-2027

Based on the explanations and arguments offered above, the table below summarizes in detail all the technical factors that influence the reduction of losses in the third regulatory period.

	2022	2023	2024	2025	2026	2027
Emërshkrimi	Value	kWh	kWh	kWh	kWh	kWh
Forecast EED	6,593,964,169	6,791,783,094	6,995,536,587	7,137,545,980	7,345,248,568	7,552,384,577
Benefit of LV investments (kWh)	24,298,768	21,065,980.13	20,533,444.99	21,619,988.19	19,444,036.84	17,523,537.42
Losses decrease (%)	0.37	0.31	0.29	0.30	0.26	0.23
Benefit of MV investments (kWh)		13,364,200.56	8,738,600.54	9,907,510.00	9,771,970.00	8,493,860.00
Losses decrease (%)		0.20	0.12	0.14	0.13	0.11
Forecast benefit (reading ratio) (kWh)	13,181,334	10,187,674.64	10,493,304.88	856,505.52	881,429.83	906,286.15
Losses decrease (%)	0.20	0.15	0.15	0.01	0.01	0.01
Forecast benefit(Costumer control) (kWh)	35,000,000	23,299,976	19,696,711	10,441,272.17	13,974,055	14,614,432
losses decreases (%)	0.53	0.34	0.28	0.15	0.19	0.19
Losses total (kWh)		1,079,893,511.96	1,052,828,256.33	1,031,375,394.05	1,017,316,926.61	1,004,467,148.77
Losses %	16.90	15.90	15.05	14.45	13.85	13.30
Reducing Losses (kWh)		67,917,831	59,462,061	42,825,276	44,071,491	41,538,115
Reducing Losses %		1.00	0.85	0.60	0.60	0.55

Table 9. Proposal of losses 2023-2027 with associated details

In the handbook prepared by PA Consulting Group from USAID in November 2004, it is stated that the critical conditions for success in sustainable reduction of losses in electricity distribution come from a comprehensive review of international experiences in developing countries. Among other things, one of the critical conditions is the holistic approach, where it is said that success depends in part on the creation and motivation of institutions to fulfill their roles in a restructuring of the sectoral environment. Accordingly, the approach used by Regulators should include technical aspects, human processes and capacities, and willingness to produce results. Targeting one aspect without considering how this element interacts or affects the balance of the sector can bring ineffective, suboptimal or even destructive results.

In the current situation prevailing in Europe, as a result of the energy crisis, many operators of the distribution system, even in developed countries, are not able to cover their service costs, and much less the needs for new investments. With the continuous increase in the consumption of electricity, which is increasing beyond the level of economic growth, producers decide that they are less able to cover the demand for energy, which is resulting in an increased need to import electricity.



Kosovo, as a country dependent on imports, is directly exposed to price changes. In recent years, we have witnessed enormous increases in energy prices, which have negatively affected the entire electricity sector, especially the distribution sector, which is dependent on imports.

The aggressive target of the allowed level of losses that have been set in the first regulatory period caused uncovered costs for the Distribution System Operator, the consequences of which have been passed on in the following periods as well.

The impossibility of reaching the target of losses as a result of the pandemic and further energy crisis, caused about 60 million euros of losses only during the years 2020-2022, namely even though the difference in energy volumes is decreasing over the years due to the increase in the price of electricity the cost is increasing, further worsening the already delicate financial position of the Distribution System Operator. The uncontrollable increase in electricity prices is simultaneously posing a serious threat to the operations and liquidity of licensed companies and if the necessary steps are not taken to mitigate the effect of the crisis on the companies, the risk that threatens the security of electricity supply in Kosovo it is inevitable.

Therefore, in order to mitigate the financial effect, DSO proposes that the indicative level of losses for the third regulatory period be as follows:

	2022	2023	2024	2025	2026	2027
Loss target in %	15.10%					
Pandemic effect	0.70%					
Actual expected losses	16.9%					
Indicative proposal of losses in %		16.90%	16.90%	15.70%	14.50%	13.30%
Decrease in percentage points		0.00%	0.00%	1.20%	1.20%	1.20%

As per the loss sharing factor, DSO proposed the same to remain as zero.

Correlation between electricity prices and unauthorized use of electricity (theft) is linear, therefore ERO before taking any decision should take into consideration the fact that rapid increase in electricity prices will effect also the commercial losses in the country. Knowing that losses cannot be fought or stopped only with the operations and capacities of the DSO, ERO should carefully analyze the entire situation and the possible negative results that may affect not only DSO but the entire electricity sector in Kosovo, considering that DSO plays an important role in the whole electricity market chain.