

Ymer Fejzullahu
Chairman of ERO Board

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

KOMPANIA KOSOVARE PËR FURNIZIM ME ENERGJI ELEKTRIKE SH.A.
KOSOVO ELECTRICITY SUPPLY COMPANY J.S.C.
KOSOVSKO PREDUZEĆE ZA SNABDEVANJE ELEKTRIČNOM ENERGIJOM D.D.
KESCO SH.A.
Nr. 17 Dt. 03.3.2023
HQ 1

Date: 03.03.2023


Subject: USS Comments on the ERO Consultative Report on Maximum Allowed Revenues for 2023

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 published on 16 February 2023.

The USS requests from ERO to consider the issues raised in this document before any final decision on Maximum Allowed Revenues for the year 2023.

Sincerely,



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

**Comments of the Universal Service Supplier to the ERO
Consultative Report on the Maximum Allowed Revenues
for 2023**

I. Introduction

The Energy Regulatory Office, dated on 16 February 2023 has published the Consultative Report on the Maximum Allowed Revenues (MAR) for the year 2023. This Report presents the initial assessment of the ERO regarding the maximum allowed revenues for the year 2023 based on the Application for the Maximum Allowed Revenues for the year 2023 for USS submitted on 23 January 2023.

The USS in the continuation of this document will review the proposal of the maximum allowed revenues according to the Consultative Report and will present the data and arguments that support the proposal of the USS for the maximum allowed revenues for the year 2023.

II. Wholesale energy purchase costs for 2023

During the assessment of electricity purchases for the Universal Service Supplier, ERO has used the data from the approved Energy Balance with changes for 2023, despite the fact that the supplier did not agree with the consumption forecast assessment, for which it also presented own arguments. Although, ERO in the assessment of purchases for 2023 is based on the predicted consumption according to the approved Energy Balance with changes for 2023, the forecast of purchases has not been applied uniformly with the forecast of consumption on a monthly basis. Considering the above, USS in this application has used the consumption data of the approved Energy Balance with changes for the year 2023, but has updated the purchase costs according to the monthly consumption forecast.

Energy purchases	GWh	€/MWh	mil€
The quantities supplied by KEK	4,206.6	29.56	124.3
Generation according to the support scheme	574.8	58.78	33.8
Generation in DSO with concession contracts	46.3	49.09	2.3
Imports	66.9	167.73	11.2
Subsidy Decision GRK 13/118			-24.6
Imbalances			1.9
Total quantities supplied	4,894.7	30.43	148.9
Retail margin 2.54%			3.78
Total wholesale costs			152.7
Consumption by categories of USS customers			
Customers 35 kV	58		
Customers 10 kV	435		
Customers 0.4 kV	4,414		
Total consumption of USS customers	4,906		

Considering the request of ERO for updating prices with inflation for RES in contractual relations, USS reflected the changes in its application, however in the consultative report it was noted that ERO did not apply the changes. As a result, USS in this application has again used the inflation-adjusted price for RES in the contractual relations with USS.

Also USS in this application has updated the import price based on the latest forecasts in the international stock exchanges. In recent years, as we know, the world is facing an energy crisis as a result of the enormous increase in import prices. The high recorded price values have resulted in liquidity consequences and increased costs in the energy sector of many European countries, including Kosovo. Because import prices continue to be high and unstable, in order to ensure sufficient liquidity in this application USS has used expected prices in international exchanges, applying also capacity costs, such as additional costs that are applied to the final price.

As the ERO also USS in the forecast of energy purchases, took into account the decision of the Government of the Republic of Kosovo no. 13/118 dated 11.01.2023 in the amount of 24.6 million € and KEK-KESH exchanges. However, in its application USS has also presented the costs per capacity for energy from KESH, which costs are necessary for the full use of this energy, otherwise, not knowing the costs of capacity endangers the bringing of energy from KESH, risking that this energy is further covered through daily import (intraday) which has a higher and unknown cost in tariffs in the relevant year.

III. Allowed retail costs

In accordance with 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 2023 is 5.1 million €.

USS, even during the public consultation process for the input values, has requested a reflection from ERO for salary increases considering the increase in prices and inflation in Kosovo, which are not considered by ERO during the adjustment of inflation.

According to the Statistics Agency of Kosovo, the average annual inflation rate for 2022 has reached the value of 11.6%.¹ This value of inflation has affected the budget of the company's employees, which during the year leaving behind has been accompanied by large requests for salary increases.

¹ Harmonized index of consumer prices, Kosovo Statistics Agency, pg.4

The supplier's salaries compared to other operators in the similar industry are much smaller, while as a result of the increase in the number of customers over the years, the volume of work for USS employees has increased. The increased volume of work, as well as the large difference in salaries between USS employees and employees in the public electricity sector, has increased the movement of qualified and professional employees and significantly endangers the operational sustainability of USS. In this sense, the salary increase for USS employees is more than necessary in order to reflect their value to the company, keeping them competitive in the electricity market.

Considering the above-mentioned and the needs analyzed in detail, the OPEX proposed by USS to ensure stable and functional operation during the years 2023 is worth 5.71 million €.

USS in this report has applied the inflation rate of 8.39% according to the inflation rate used by ERO based on *Eurostat* data in the adjustments of depreciation costs and OPEX approved for 2022.

IV. Pass-through costs (PSTCt)

USS's pass through costs are costs that are determined to other license and which should be covered by USS through end customers tariffs for the services that the customers accept.

USS in this report has set the pass through costs according to the assessment of ERO in the consultative report.

V. Adjustments and revenues correction factor

ERO in the consultative report has estimated the adjustments for 2022 in the amount of 39.5 million €. In the adjustments for 2022, ERO did not consider the updated adjustments for 2021 which included all the final costs incurred during 2021 and which were not reflected in the approved MAR for 2022, taking into account that it was an extraordinary process and the data of December 2021 were preliminary.

ZRRE në raportin konsultativ ka vlerësuar përshtatjet për vitin 2022 në vlerë prej 39.5 milion. Në përshtatjet për vitin 2022, ZRRE nuk ka marr parasysh përshtatjet e përditësuar për vitin 2021 të cilat kanë përfshirë të gjitha kostot finale të shkaktuara gjatë vitit 2021 e të cilat nuk janë reflektuar në HLM të aprovuar për vitin 2022, marrë parasysh se ishte proces i jashtëzakonshëm dhe të dhënat e muajit dhjetor 2021 ishin preliminare.

In the updated adjustments for 2021, USS has also included the costs for imbalances which ERO did not recognize as realized costs for 2021 during the process for determining the MAR for 2022. As we emphasized during last year's tariff process, USS cannot be held responsible for the

deviations in the electrical system since they were caused as a result of the state of emergency created in the country.

The costs caused by the imbalances are related to the energy used by the end customers for the supply and such a burden cannot be charged to the supplier, especially considering that these costs have already been paid to the operator (KOSTT). Moreover, the USS Pricing Rule foresees the coverage of these costs and their non-recognition in the final tariffs is contrary to the rule.

It should be noted that on 16 November 2022, ERO, through decision no. V_1618_2022, imposed a fine on USS, also addressing the issue of imbalances. Despite the inconsistency in the stance regarding the fine, since the situation created was the result of the state of emergency, the ERO has penalized the USS through the imposed fine, therefore the non-recognition of the costs means the imposition of a double penalty for the same issue.

Considering the above, USS once again requests that these costs be recognized by ERO, otherwise, as long as such cost incurred and consumed by the end customers, is not recognized as defined in the USS Pricing Rule approved by ERO itself, then the imbalance obligations will not be able to be paid to the operator in the same value.

Based on the above, the adjustments for 2022 are as follows:

Revenues correction factor - KREV	Unit	Value
AACat-1	mil€	372.29
ARRt-1	mil€	331.04
I _t	%	6.91
KREV = (AACat-1 - ARRt-1)*(1+I_t)	mil€	44.10

VI. Proposal for the Maximum Allowed Revenues of the USS FOR 2023

The following table summarizes the maximum allowed revenues requested by the USS for 2023, after taking into consideration all the necessary adjustments, as argued above.

MAR of the Universal Service Supplier	Unit	Proposal of the USS 2023
Indexing parameters		
Interest rate I_t	%	6.91%
Retail costs of suppliers		
$OPEX - OPMC_t = OPMC_{t-1} * (1 + CPI_{t-1}) * (1 - E_t) * (1 - P_t)$	€m	5.71
$Depreciation - DEPC_t = DEPC_{t-1} * (1 + CPI_{t-1}) * (1 - P_t)$	€m	0.12
Pass-through costs		
TSO Costs	€m	22.25
DSO Costs	€m	151.97
RES Fund Costs	€m	12.37
Working capital (WCLCt)		
$WCLC = (1 / 12) * I_t * (RETR_t + WHPC_t + PSTC_t - NTFR_t)$	€m	1.99
Energy purchase costs		
Wholesale energy purchase costs	€m	152.74
License fee		
License fee	€m	0.04
Bad Debt (BDTA)		
BDTA	%	2.2%
BDTA	€m	8.80
Revenues adjustments for USS		
Adjustments for 2022	€m	44.10
Maximum allowed revenues	€m	400.09

In order to reflect the expected costs, necessary for the safe operation of the USS, 400.09 million € are needed. Any reflection lower than the required costs will endanger the stable operation of USS, which for more than two years has faced liquidity problems as a result of the Covid pandemic and the energy crisis.

USS's purpose is undoubtedly to provide high quality services to its customers and USS is constantly working in this direction, so in order to further fulfill its purpose and objectives, USS needs the necessary operating costs to be allowed by the Regulator.