



Republika e Kosovës
Republika Kosova - Republic of Kosovo

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



Consultation Report

Annual adjustments of USS Maximum Allowed Revenues

Relevant tariff year 2024

DISCLAIMER

This Consultation Report is prepared by ERO with the purpose of informing stakeholders. The report does not represent a decision of ERO and shall not be interpreted as such.

6 February 2024



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1 Introduction

The Energy Regulatory Office is carrying out the regular annual adjustment for the Maximum Allowed Revenues (MAR) that will be recovered by the regulated companies. In this process, ERO will make the initial proposal for the updated MAR for the Transmission System and Market Operator (TSO/MO, KOSTT), Distribution System Operator (DSO, KEDS) and Universal Service Supplier (USS). This initial evaluation is based on the proposals submitted by the regulated companies as well as decisions on Maximum Allowed Revenues for the regulatory period 2023-2027.

This Consultation Report presents ERO's evaluation of the proposal for the Maximum Allowed Revenues (MAR) for the Universal Service Supplier (USS) for the relevant tariff year 2024. In evaluating the wholesale energy purchase costs, ERO has taken into account the direct costs of the Universal Service Supplier towards RES, under the Rule on the Support Scheme, the costs for purchasing energy from other generators under contractual criteria and the purchases from import.

The parties who want to express their views on the proposals of ERO, are invited to submit their written comments at ero.pricing-tariffs@ero-ks.org by 21 February 2024 at the latest. The comments can also be submitted via post at:

Energy Regulatory Office
Tariffs and Pricing Department
St. Bekim Fehmiu (former Fazita Building), 2nd floor, 10000, Pristina, Kosovo

Relevant documents

| | |
|--|---|
| USS tariff application for 2024 | https://www.ero-ks.org/zrre/sites/default/files/Publikimet/Pjesemarresit%20ne%20Treg/Furnizim/Aplikimi%20p%C3%ABr%20t%C3%AB%20hyrat%20e%20lejuara%20maksimale%20%20FSHU_2024.pdf |
| KOSTT tariff application for 2024 | https://www.ero-ks.org/zrre/sites/default/files/Publikimet/Pjesemarresit%20ne%20Treg/Furnizim/Aplikimi%20i%20OSSH-s%C3%AB%20p%C3%ABr%20MAR_2024.pdf |
| KEDS tariff application for 2024 | https://www.ero-ks.org/zrre/sites/default/files/Publikimet/Pjesemarresit%20ne%20Treg/Furnizim/Aplikimi%20i%20OSSH-s%C3%AB%20p%C3%ABr%20MAR_2024.pdf |
| Consultation Report on DSO Maximum Allowed Revenues | (link) |
| Consultation Report on TSO/MO Maximum Allowed Revenues | (link) |



2 Electricity Balance 2024

In this tariff review, ERO has used the approved balance to take into account the updated consumption and the evaluation for the supply of customers in the four northern municipalities of Kosovo. This balance should only reflect the electricity supply costs of customers who are entitled the supply under the universal service criteria. In this regard, the volumes for wholesale energy purchases for USS are:

- Energy purchases from KEK JSC;
- Energy purchases from generators connected at transmission level;
- Energy purchases from generators connected at distribution level; and
- Import

The amount of energy for export during this forecast is not considered as energy of USS, given that USS must nominate only the amounts required to cover the consumption of universal service customers. This amount of energy must be managed by the respective producer in line with dispatching priorities. The consumption of universal service customers does not include:

- The categories of customers connected at transmission level; and
- The consumption of electricity supplied by other licensed suppliers, including the supplier Elektroserver.

The following table presents the supply sources for covering the demand of USS customers.

Table 1: Electricity Balance for USS

| Energy purchases | GWh |
|---|--------------|
| Amounts supplied by KEK | 4,300 |
| Ujmani and other generators at TSO level | 515 |
| Generators at DSO level | 43 |
| Import according to balance | 140 |
| Total supplied amounts | 4,998 |
| Additional import | 45 |
| Consumption according to USS customer categories | |
| Customers 35 kV | 57 |
| Customers 10 kV | 485 |
| Customers 0.4 kV | 4,456 |
| Total consumption of USS customers | 4,998 |

Based on the current practices, the generating units, due to their age, have not been available at all times to provide the forecast demand in accordance with the time periods in forecast balances, which has resulted in the import being higher than the planned level. In 2023, the planned import for USS was 70 GWh whereas the realized import was 212 GWh, therefore, under these circumstances, ERO, in addition to the import of 140 GWh in line with the Electricity Balance, has also allowed additional import in the amount of 45 GWh for 2024 .



Note: The amount required to be supplied by import is calculated as the difference of the total amount towards other sources of supply.

The recovery of losses in the transmission and distribution system are the responsibility of the respective network operators and, as can be seen, they are not presented in this table. They are handled in the Consultation Reports for the MARs of TSO/MO and DSO (see the relevant link in the introductory section of this document).

3 Wholesale Energy Purchase Costs (WHPC)

Following the determination of required supply amounts for covering the demand of USS customers, the calculation of wholesale energy purchase costs shall also be conducted. In accordance with the Rule on USS Revenues, the Universal Service Supplier is obliged to provide electricity in a transparent, competitive and efficient manner. The Universal Service Supplier must demonstrate that the electricity forecast prices that shall be procured are reasonable.

The wholesale energy purchase costs (WHPC_t) are calculated according to the formula below:

$$WHPC_t = (GENC_t + IMPC_t + IMBC_t * IMBF_t) * (1 + RETM_t)$$

Where:

GENC_t Allowed costs of energy purchase from domestic generators in relevant year *t*

IMPC_t Allowed costs of import energy in relevant year *t*

IMBC_t Net imbalance costs in relevant year *t*

IMBF_t Imbalance sharing factor in relevant year *t*

RETM_t Retail margin in relevant year *t*

A summary of wholesale costs forecast for 2024 is given in the following table:

Table 2: Energy purchases

| Energy purchases for 2024 - USS | GWh | €/MWh | mil€ |
|--|--------|--------|---------------|
| Amounts supplied by KEK | 4,300 | 29.50 | 126.86 |
| Generation according to the Support Scheme | 515 | 67.55 | 34.78 |
| Trading tariffs for MWh in ALPEX | - | - | 0.046 |
| Generation at DSO with concessionary contracts | 42.54 | 45.37 | 1.93 |
| Import | 185.17 | 105.07 | 19.46 |
| Imbalances | | | |
| Total supplied amounts | | | 183.08 |
| Retail margin 2.54% | | | 2.54% |
| USS retail margin | | | 4.65 |
| Total wholesale costs | | | 187.73 |



It is important to emphasize that in line with the Rule on USS Revenues, namely Article 17 and Appendix 3, USS is obliged to provide electricity in a transparent, competitive and efficient manner. Consequently, USS shall demonstrate that the energy purchase prices are reasonable and in line with the requirements of Article 17 of the Rule on USS Revenues.

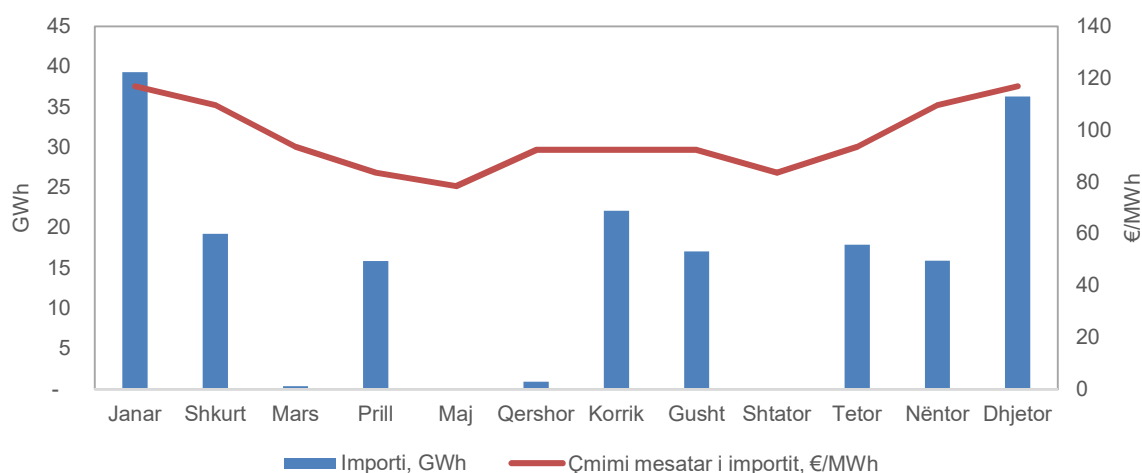
In the preliminary evaluation, ERO has foreseen the wholesale energy purchase costs based on the current prices realized in 2023, however during the public consultation period the parties shall respect the above-mentioned principles and prove that they are fulfilling all the legal, regulatory and procedural requirements that are related to wholesale energy purchase.

3.1 Import costs

ERO has foreseen the costs of energy purchase from import, based on

- the forecast amounts of electricity import from USS;
- the profile of import from the historical data of USS;
- forecast of electricity prices based on the data from European Energy Exchange (EEX – PXE Hungarian Power Futures)¹; and
- electricity import costs (allocation of capacities, network costs and cross-border transmission tariffs) based on historical data and network tariffs.

Figure 1. Average price of electricity import and forecast amounts of import



Based on these data, ERO evaluates that the average weighted price of electricity import will be 105.07 €/MWh.

3.2 Adjustments of revenues for 2023

In order to carry out the adjustments for 2023 that will be applied during the determination of USS MAR for 2024, the current costs of electricity supply to USS customers must first be evaluated.

¹ <https://www.eex.com/en/market-data/power/futures#%7B%22snippetpicker%22%3A%2223%22%7D>



Following the evaluation of these costs, the deduction should be made from the revenues that resulted from the billing in 2023 from the application of tariffs.

The difference between the revenues evaluated by ERO for 2023 and the revenues realized by USS during the same period is calculated according to the following formula:

$$ADJ_t = (AAC_{at-1} - ARR_{t-1}) * (1 + I_t)$$

Where:

AAC_{at-1} Actual allowed costs of USS in relevant year t

ARR_{t-1} Actual regulated revenues during relevant year $t-1$

I_t Interest rate for relevant year t , which is calculated based on EURIBOR plus 5%, where S presents the value determined by ERO during periodic reviews which reflects the premium payable by the licensee for short-term loans.

The value of adjustments for 2023, following the indexation for inflation results in 27.5 million euros. The details are provided in the following table.

Table 3: Adjustments for 2024

| Revenues Correction Factor - KREV | Unit | Value |
|---|-------------|--------------|
| AAC_{at-1} -Actual allowed costs of USS in relevant year t | mil€ | 414.28 |
| ARR_{t-1} -Actual regulated revenues during relevant year $t-1$ | mil€ | 389.28 |
| I_t – interest rate realized in relevant year t | % | 10.13 |
| $ADJ_t = (AAC_{at-1} - ARR_{t-1}) * (1 + I_t)$ – Revenues Adjustment Factor | mil€ | 27.53 |

This value of adjustments of €27.5 million will be passed through during the determination of Maximum Allowed Revenues for 2024.

3.3 Adjustment of HPP costs with concession

The price adjustment of HPPs with concession has started since December 2015, where at that time KESCO had requested a review of the price for one of the HPPs with concession by correctly applying the principles defined in the PPA (Power Purchase Agreement). It is unclear why the parties have applied a different approach in updating the price, therefore concluding a price which is different than the original proposal.

Given that KESCO and HPP with concession, in the price review have applied a different approach from the one provided by the PPA, ERO will carry out the:

- Adjustment of HPP costs based on the data resulting as a difference between the price applied by KESCO and the one resulting from the application of the compound rate of inflation for a five (5) year period.
- Review of the price for the remaining years of the third period (2020-2024).



The adjustment of costs is carried out taking into account the difference between the applied (actual) price and the one resulting from the compound inflation rate multiplied by the monthly amount of billed energy.

The price review is carried out as follows:

- The prices for HPP with concession, which for 2023 are lower than the price adjusted to the inflation rate, can continue to be applied same as they are by the will of the parties. In case the parties initiate the price review for the third 5-year period, they must not exceed the resulting price according to the inflation rate.
- As for the prices for HPP with concession, which for 2023 are higher than the price resulting from the application of the compound inflation rate, KESCO must apply the price resulting from the application of the compound inflation rate.

In conclusion, ERO has requested from the parties that in the light of implementing the provisions stipulated in the Power Purchase Agreement, in terms of price escalation for inflation and general interest, the price escalation should be based on the local inflation index, and the adjustment shall be carried out in line with the requirements of ERO. The corrected value which is applied in the calculation of MAR is €-0.45 million, but ERO evaluates that this value should be adjusted for three years by €-0.15 million per year.

4 Pass-through costs

The USS pass-through costs are the ones that depend on evaluations of MAR for other regulated companies, and are then passed through/included in the calculation of Maximum Allowed Revenues for USS for 2024. These are the pass-through costs from KOSTT, KEDS and any other cost which is outside the control of USS. KOSTT's pass-through costs, including the renewables sources fund, are €42.9 million whereas KEDS's pass-through cost are €127.7 million.

5 Supplier retail costs

Allowed retail costs are calculated as the sum of allowed operating and maintenance costs (OPMCt), depreciation costs (DEPCt) and license costs (LCICt). The proposed retail costs for USS for 2024 have taken as a starting point the costs allowed in 2023 and indexed for the inflation rate, in the amount of 5.41%². The value of USS retail costs for 2024 is foreseen to be €20.44 million. Other components of retail costs such as retail margin, bad debt and working capital are calculated based on the formula set in the Rule on USS Revenues. The details of these retail costs are presented in the following table:

² Source: Eurostat,
https://ec.europa.eu/eurostat/databrowser/view/PRC_HICP_AIND_custom_4860030/default/table?lang=en
(visited on 22.01.2024)



Table 4 – USS retail costs

| USS retails costs | Unit | Proposal 2024 |
|--------------------------------|-------------|---------------|
| Operating expenses | mil€ | 5.47 |
| Depreciation expenses | mil€ | 0.13 |
| Costs of working capital | mil€ | 2.10 |
| Bad debt costs | mil€ | 8.03 |
| Licensing costs | mil€ | 0.04 |
| ALPEX_ Trading tariffs for MWh | | 0.02 |
| Retail margin costs | mil€ | 4.65 |
| Total retail costs | mil€ | 20.44 |

6 Maximum Allowed Revenues

The MAR proposed for USS for 2024 is €401.51 million, which represents the amount that will be recovered from the regulated tariffs of retail sale. The details for the calculation for the proposed MAR are provided in the following table:

Table 5 - MAR proposed for 2024

| MAR proposal for USS | Unit | Allowed ERO 2023 | USS Application 2024 | Proposal ERO 2024 |
|--|------|------------------|----------------------|-------------------|
| Indexation parameters | | | | |
| Interest rate It | % | 10.13 | | |
| Efficiency factor | % | 0.1% | 0.1% | 0.1% |
| Supplier retail costs | | | | |
| $OPEX - OPMC_t = OPMC_{t-1} * (1 + CPI_{t-1}) * (1 - E_t) * (1 - P_t)$ | €m | 5.62 | 5.76 | 5.47 |
| $Depreciation- DEPC_t = DEPC_{t-1} * (1 + CPI_{t-1}) * (1 - P_t)$ | €m | 0.12 | 0.13 | 0.13 |
| Depreciation- Actual | €m | 0.12 | | |
| Pass-through costs | | | | |
| Allowed costs TSO | €m | 23.15 | 24.47 | 27.53 |
| Actual costs TSO | €m | 22.51 | | |
| Allowed costs DSO | €m | 149.34 | 142.57 | 127.69 |
| Actual costs DSO | €m | 149.05 | | |
| RES fund costs | €m | 11.77 | 16.51 | 15.39 |
| Actual costs for RES fund | €m | 11.89 | | |
| Working Capital (WCLCt) | | | | |
| $WCLC = (1 / 12) * It * (RETR_t + WHPC_t + PSTC_t - NTFR_t)$ | €m | 1.97 | 2.15 | 2.10 |
| WCLC -Actual | | 3.06 | | |
| Energy Purchase Costs | | | | |
| Retail margin | % | 2.54% | 2.54% | 2.54% |
| Wholesale Energy Purchase Costs | €m | 158.15 | 184.67 | 187.73 |
| Actual Wholesale Energy Purchase Costs | €m | 173.51 | | |



| | | | | |
|-------------------------------------|-----------|---------------|---------------|---------------|
| Costs according to ALPEX tariffs | | | 0.019 | 0.019 |
| Licensing tax and ALPEX | | | | |
| Allowed licensing tax | €m | 0.04 | | 0.0407 |
| Actual licensing tax | €m | | | |
| Bad debt (BDTA) | | | | |
| BDTA | % | 2.20% | 2% | 2% |
| BDTA-Allowed | €m | 8.79 | 8.20 | 8.04 |
| BDTA-Actual | €m | 9.12 | | |
| Adjustment of revenues for USS ADJt | | | | |
| Adjustments for HPP costs | | | | -0.15 |
| Adjustments of the year 2023 | €m | 39.49 | 25.66 | 27.53 |
| Maximum Allowed Revenues | €m | 398.44 | 410.15 | 401.51 |