

	NJËSIA PËR TARIFA DHE ÇËSHTJE RREGULLATIVE	Nr.	KESCO-BCC-F-BCT-02
		Faqe	Faqe 1 prej 12
	APLIKIMI PËR TË HYRAT E LEJUARA MAKSIMALE	Versioni	1.0

**APPLICATION FOR THE MAXIMUM ALLOWED REVENUES IN 2026 FOR THE  
UNIVERSAL SERVICE SUPPLIER**

January, 2026

	NJËSIA PËR TARIFA DHE ÇËSHTJE RREGULLATIVE	Nr.	KESCO-BCC-F-BCT-02
	APLIKIMI PËR TË HYRAT E LEJUARA MAKSIMALE	Faqe	Faqe 2 prej 12
		Versioni	1.0

## Content

<b>1. Introduction.....</b>	<b>3</b>
<b>2. Electricity Balance .....</b>	<b>3</b>
<b>3. Costs of purchase wholesale energy .....</b>	<b>5</b>
<b>4. Retail cost.....</b>	<b>7</b>
<b>5. Pass-through costs.....</b>	<b>9</b>
<b>6. Adjustments and revenues correction factor.....</b>	<b>9</b>
<b>7. Maximum Allowed Revenues for 2026.....</b>	<b>12</b>

	NJËSIA PËR TARIFA DHE ÇËSHTJE RREGULLATIVE	Nr.	KESCO-BCC-F-BCT-02
	APLIKIMI PËR TË HYRAT E LEJUARA MAKSIMALE	Faqe	Faqe 3 prej 12
		Versioni	1.0

## 1. Introduction

In accordance with Annex 3 of the Rule on Determination of Revenues for Universal Service Supplier (USS Pricing Rule) and the official letter of the Energy Regulatory Office (ERO) dated 15 December 2025, KESCO, entrusted with the Public Service Obligation for the provision of electricity supply as a Universal Service, has prepared the application for the Maximum Allowed Revenues (MAR) for the year 2026.

This application presents the necessary data for the calculation of the maximum allowed revenues, including wholesale purchase costs, retail costs, pass-through costs, and adjustments for previous years. During the preparation of the application, parameter values were applied in accordance with ERO Decision No. V\_2637\_2025, dated 27 January 2025.

Since the tariff process is interactive between ERO and other licensees, this application can be further adapted to reflect costs that are related to other licensees.

The following chapters provide the necessary explanations and justifications for all required costs, which are necessary for the proper operation of the Universal Service Supplier.

## 2. Electricity Balance

The Universal Service Supplier, in accordance with the obligations arising from the Law on Electricity and the applicable rules of the Energy Regulatory Office (ERO), prepares consumption projections for its customers for the following year, based on historical consumption data, demand trends, macroeconomic factors, and structural developments in the electricity market. These projections serve as the basis for assessing electricity supply needs and for determining reasonable costs subject to regulatory review and approval.

In the recent period, the domestic market has been characterized by significant changes, including the gradual implementation of market liberalization and the process of verifying customers who meet the criteria for supply under the universal service. This process has been complex due to the nature of the legal criteria and the need for continuous verification throughout the tariff year.

At the same time, consumption by customers who continue to meet the criteria for supply under the universal service has increased. This has resulted in higher electricity procurement requirements to cover the consumption of the Universal Service Supplier (USS), in line with the legal obligation to ensure continuous and secure supply for these customers.

All of these developments have been taken into account in the preparation of the projections and the corresponding adjustments to the energy balance for the year 2026. However, considering that the energy balance for 2026 has not yet been approved, in this application the USS will use the

	NJËSIA PËR TARIFA DHE ÇËSHTJE RREGULLATIVE	Nr.	KESCO-BCC-F-BCT-02
	APLIKIMI PËR TË HYRAT E LEJUARA MAKSIMALE	Faqe	Faqe 4 prej 12
		Versioni	1.0

data from the draft energy balance submitted for approval, according to which the projected consumption for the USS in 2026 amounts to 4,665 GWh, as presented in the table below:

Voltage level	GWh
Customers connected at 35 kV voltage level	23
Customers connected at 10 kV voltage level	210
Commercial customers 0.4 kV	281
Commercial customers 0.4 kV / II	752
Household customers	3,356
Public Lighting	43
<b>Total consumption at distribution level</b>	<b>4,665</b>

The supply of electricity to universal service customers is mainly secured through domestic generation, renewable energy sources, and imports when domestic production is insufficient to meet demand. Imports are used as a necessary mechanism to cover energy shortages in the system, particularly during the winter season and in cases of outages of generating units. Therefore, the data presented in the electricity energy balance represent key elements for determining the Maximum Allowed Revenues for the Universal Service Supplier.

During 2025, the forecast of domestic electricity generation by KEK Generation in the energy balance was lower compared to previous years, as a result of the implementation of the overhaul project of the Kosova B2 generating unit, thereby increasing the need for electricity imports for universal service supply. Similarly, according to the draft electricity energy balance for 2026, KEK Generation has foreseen the continuation of rehabilitation projects of generating units, this time at the Kosova B1 unit, with a planned duration of approximately 8 months, compared to 5 months in 2025 for the B2 unit. This situation is expected to further limit the availability of domestic generation during 2026, inevitably increasing dependence on electricity imports.

In this context, also taking into account the trend of increasing consumption, the Universal Service Supplier, in accordance with its legal obligations to ensure continuous, secure, and reliable electricity supply, and in line with the principle of recognition of reasonable and justified costs under the applicable regulatory framework, has planned electricity purchases based on consumption forecasts and the hourly availability of domestic generation capacities, as presented in the table below:

Energy Balance 2026	GWh
<b>Purchases</b>	<b>4,665</b>
<i>KEK Generation</i>	3,734
<i>Purchases from BRE in contractual relationship with KOSTT</i>	495
<i>Purchases from BRE in contractual relationship with USS</i>	13
<i>Imports</i>	422

	NJËSIA PËR TARIFA DHE ÇËSHTJE RREGULLATIVE	Nr.	KESCO-BCC-F-BCT-02
		Faqe	Faqe 5 prej 12
	APLIKIMI PËR TË HYRAT E LEJUARA MAKSIMALE	Versioni	1.0

<b>Consumption</b>	<b>4,665</b>
--------------------	--------------

However, under the real operating conditions of Kosovo's energy system, the full and consistent realization of domestic generation in line with annual plans cannot be considered a guaranteed premise. In the absence of domestic generation being realized on an hour-by-hour basis as planned, the system does not provide internal alternatives for compensation, and any shortfall is directly replaced through electricity imports. This mechanism is particularly pronounced during the winter season, when a significant share of system-level consumption is covered by external sources. Consequently, any deviation from the forecast domestic generation has an immediate and unavoidable effect in increasing exposure to the import market.

The procurement of electricity through imports takes place in an environment characterized by physical constraints of the transmission network, regional competition for the same resources, and the need for intervention within very short timeframes. Under these circumstances, the Universal Service Supplier has no scope for commercial optimization, but operates under a legal obligation to guarantee uninterrupted supply, regardless of market conditions or the cost required to secure the energy.

However, the systematic transfer of this risk to the supplier level creates a fundamental mismatch between competencies, responsibilities, and the regulatory treatment of costs. Therefore, in the assessment of the energy balance and supply costs for the year 2026, it is essential that assumptions regarding domestic generation be treated with a conservative and prudent approach, reflecting the real risk of deviations and their direct impact on import requirements, based on historical production data, respectively import data, on an hourly basis.

Such an approach ensures a realistic reflection of the costs necessary to guarantee uninterrupted supply under the conditions in which the system operates, while the failure to reflect this risk in the tariff determination process creates an unrealistic expectation that the Universal Service Supplier can ensure uninterrupted supply based on assumptions that are not realized in practice, thereby silently and continuously transferring the cost of this gap from year to year. Such an approach is not in line with the regulatory principles of cost reflectivity, proportionality, and fair allocation of risk among market participants.

### **3. Costs of purchase wholesale energy**

Wholesale electricity purchase costs constitute the main component of the total cost of the universal service and are directly linked to the need to secure electricity in sufficient quantities to cover the forecast consumption.

The structure of electricity purchases has been developed in accordance with the regulatory principles of expected real cost, taking into account the structural constraints of the system,

	NJËSIA PËR TARIFA DHE ÇËSHTJE RREGULLATIVE	Nr.	KESCO-BCC-F-BCT-02
		Faqe	Faqe 6 prej 12
	APLIKIMI PËR TË HYRAT E LEJUARA MAKSIMALE	Versioni	1.0

reliance on domestic generation, and the need to secure supplementary volumes through the market in cases where domestic supply is insufficient to meet demand.

For the purpose of calculating the costs of electricity purchases to cover consumption needs, the Universal Service Supplier (USS) has applied unchanged prices for domestic generation and renewable energy sources (RES) in this application. However, it should be emphasized that any change in RES prices should be reflected by the Energy Regulatory Office (ERO) in the process of calculating the Maximum Allowed Revenues of the USS.

Unlike domestic generation, electricity secured through imports represents the most sensitive component of the supply cost structure, due to direct exposure to market conditions and the significant price differential compared to domestic generation. In the tariff determination process for 2025 alone, imports were forecast to cover approximately 5% of the required energy; however, as a result of increased consumption and repeated discrepancies in the realization of domestic generation, the actual volume of electricity secured through imports doubled compared to the initial forecast. As imported electricity costs are not proportionate to domestic generation costs, the increase in import costs exceeded the allowed values during the tariff review by approximately 36 million euro.

According to the energy balance for 2026, imports account for approximately 9% of the energy required to meet the demand of the USS. Therefore, for 2026 it is required that the regulatory assessment of supply costs treat the import component in a realistic manner and in line with market conditions, in order to ensure coverage of the necessary costs for uninterrupted supply.

---

Recent market conditions have demonstrated the importance of increasing supply security and risk management in electricity procurement, particularly during periods when the domestic system faces generation shortfalls.

For this reason, in December 2025, following discussions and preliminary approval by the ERO regarding the costs of securing annual capacities, the USS participated in the annual auctions for cross-border capacity purchases, in accordance with market rules and available opportunities. Securing these capacities represents a mechanism that can reduce exposure to high prices in short-term markets and facilitate electricity supply during critical periods. Therefore, these costs should be included in tariffs as a component of the allowable costs of the Universal Service Supplier.

However, it is important to clarify that the full utilization of cross-border capacities also depends on external factors, including the actual availability of transmission corridors and technical constraints. Despite these limitations, the approach undertaken aims to contribute to supply stability and better management of market risk.

	NJËSIA PËR TARIFA DHE ÇËSHTJE RREGULLATIVE	Nr.	KESCO-BCC-F-BCT-02
		Faqe	Faqe 7 prej 12
	APLIKIMI PËR TË HYRAT E LEJUARA MAKSIMALE	Versioni	1.0

Consequently, in the assessment of purchase costs for 2026, it is essential that the import component is treated with a realistic approach, in line with the draft energy balance and observed experience, to ensure a fair reflection of the necessary costs for supply and to avoid repeatedly transferring financial gaps from year to year onto the Universal Service Supplier.

Based on the above statements and in accordance with the USS Revenue Rule, the total costs for covering the forecast consumption for the year 2026 are estimated at €229.04 million.

Description	GWh	mil€
<b>KEK Generation in %</b>	80.0%	48.1%
<b>Imports in %</b>	9.0%	29.1%
<b>Domestic RES Generation in %</b>	10.9%	14.5%
<b>Financial Components in %</b>		8.4%
<b>Wholesale Electricity Purchase Costs</b>	4,665.00	229.04

The USS emphasizes that, in the assessment of purchase costs for 2026, the Energy Regulatory Office (ERO) should treat the demand with a realistic approach, in line with the draft energy balance and actual experience, in order to ensure a fair reflection of the necessary costs for uninterrupted electricity supply.

#### 4. Retail cost

In addition to electricity supply costs, the Universal Service Supplier (USS) also has operational obligations to ensure regular and functional services for customers, including billing processes, information provision, customer care, compliance with legal requirements, and adherence to service standards.

In recent years, operational pressure has increased as a result of the increase in the number of customers and the volume of services, new regulatory and technical requirements, the need to improve work systems and data accuracy, and the overall increase in the prices of goods and services in the market (inflation). The increase in these expenses does not represent discretionary expansion of activities, but a necessary process to fulfill legal obligations, ensure accurate customer information, and guarantee the continuity of universal supply.

The number of customers supplied by the USS continues to grow, with an annual trend of approximately 4%. This growth is directly reflected in the volume of services provided and in the costs of service provision, which increase the expansion of the customer base, the complexity of processes, and the requirements for continuous and quality service. Therefore, the USS has been obliged to adapt internal processes and invest in service improvements within the budget allowed by the ERO.

	NJËSIA PËR TARIFA DHE ÇËSHTJE RREGULLATIVE	Nr.	KESCO-BCC-F-BCT-02
		Faqe	Faqe 8 prej 12
	APLIKIMI PËR TË HYRAT E LEJUARA MAKSIMALE	Versioni	1.0

However, since March 2025, in compliance with ERO requirements related to the market liberalization for commercial customers connected at the distribution level, the USS has been required to engage additional human resources to carry out intensive information processes for over 100,000 commercial customers. As a result, overtime work and additional costs have significantly increased, including but not limited to expenses for public communication, telephony, public relations (PR), as well as logistical costs for informational materials and distribution. This process has substantially raised operational expenses, exceeding the allowed values.

Given that these additional costs are directly related to the implementation of the liberalization process at the request of ERO and are not related to voluntary expansion of activity or planned internal investments, respectively, they would not have arisen in the absence of this regulatory obligation, we assess that it is important that the operating costs incurred during 2025 are recognized and reflected as reasonable in tariff analyses and regulatory decision-making, as presented in the current data. Furthermore, on 11 June 2025, USS sent an official letter to ERO to inform about the additional costs and at the same time requesting their recognition in tariffs as reasonable costs and beyond the control of USS, for which no objections have been received. For transparency, USS in the tariff application has already deducted the operating costs related to the supplier function in the open market service from the total operating costs.

In assessing operational expenses, it is important to consider that in recent years, the real value of money has weakened significantly due to inflation and the general increase in prices of goods and services in the country. The current level of allowed operational expenses does not fully reflect these economic developments and the real purchasing power in Kosovo, creating a mismatch between approved revenues and the real costs necessary for the sustainable operation of the universal service.

It is also important to note that, following the decision of the Government of the Republic of Kosovo to increase the minimum wage to €425 from January 2026 and to €500 from July 2026, a chain effect on the operational costs of the Universal Service Supplier is expected. This decision, which is mandatory and beyond the control of the USS, will directly affect the prices of essential services provided by partner companies and subcontractors, such as physical security, cleaning, maintenance, and supporting technical services, which are necessary for the company's operation.

At the same time, developments in the labor market are also creating pressure on the company's internal structure. According to official data, the average net wage in the energy sector is approximately 20% higher than the current average wage at the USS, creating challenges in motivating, retaining professional staff, and maintaining internal competitiveness. Narrowing the gap between the minimum wage and professional wages increases the need to review the wage structure to maintain staff stability and service quality. The employees of the Universal Service Supplier are citizens of the country and constitute a key element in ensuring safe and continuous electricity supply. Failure to reflect domestic inflation and real economic developments in the allowed operational expenses risks making sustainable operation difficult and compromising the achievement of necessary quality and service safety standards in the coming years.

	NJËSIA PËR TARIFA DHE ÇËSHITJE RREGULLATIVE	Nr.	KESCO-BCC-F-BCT-02
	APLIKIMI PËR TË HYRAT E LEJUARA MAKSIMALE	Faqe	Faqe 9 prej 12
		Versioni	1.0

Our company remains committed to fulfilling its obligations, but addressing these costs is essential to ensure that operations remain sustainable and in compliance with the standards required by the regulator.

## 5. Pass-through costs

In accordance with the regulatory framework, an important part of the total cost of the Universal Service is made up of pass-through costs, which include costs related to the use of the transmission and distribution networks, as well as other elements defined by the applicable rules.

These costs are linked to the respective system operators and reflect the need for maintenance, stability, and network investments. Therefore, they remain a significant component of the overall tariff structure and must be treated appropriately during the tariff process, in line with the regulator's relevant decisions.

Since the timelines for the final determination of DSO and TSO tariffs are not harmonized with the USS's application deadlines for allowed revenues, and considering current market dynamics and expectations of network cost increases, the USS has applied a reasonable linear expected increase of 20% in DSO and TSO tariffs to reflect the final demand as accurately as possible. Based on the application of these assumed tariffs over the expected quantity of energy consumed, the transmission and distribution costs amount to €227.94 million.

This assumption does not represent costs caused or influenced by the Supplier, but is made exclusively for informational and transparency purposes, aiming to provide the Regulator and the public with a clear view of the potential impact of network costs (transmission and distribution) on the end-consumer bill, under the conditions in which these tariffs are determined and approved in a separate regulatory process. Any eventual change in these tariffs, approved by the ERO during the DSO and TSO tariff process, must be reflected fairly and proportionally in the final USS Maximum Allowed Revenue (MAR), in accordance with the principles of real cost reflection and regulatory neutrality.

## 6. Adjustments and revenues correction factor

In accordance with the regulatory framework in force and the principles of tariff regulation, the correction factor serves to address the differences between the allowed costs determined during the tariff process and the actual costs incurred during the tariff year, in cases where these costs have not been covered by the revenues received.

In 2025, USS faced a significant increase in actual costs, particularly as a result of higher consumption and the need for additional imports during periods when domestic production was insufficient. Since imported energy directly replaces the shortfall in domestic production and is

	NJËSIA PËR TARIFA DHE ÇËSHTJE RREGULLATIVE	Nr.	KESCO-BCC-F-BCT-02
		Faqe	Faqe 10 prej 12
	APLIKIMI PËR TË HYRAT E LEJUARA MAKSIMALE	Versioni	1.0

exposed to regional and European market conditions, the increase in supply costs has been inevitable and beyond USS's operational control. These developments reflect real market conditions and structural system constraints and, consequently, constitute a reasonable basis for applying the correction factor, aimed at recognizing the difference between justified actual costs and the revenues received through tariffs.

Furthermore, developments in the market liberalization process have created transitional challenges, both legally and operationally, directly affecting consumption planning and the management of supply profiles. As the system was not fully operationally ready to implement market opening within such a short timeframe with such a large number of consumers, the mismatches and challenges observed during this process generated costs that objectively could not have been avoided.

One of these challenges was the process of identifying consumers who meet or do not meet, the criteria for universal service supply, a process that has also been explained under operational expenses. However, beyond the increase in operational costs, the process was affected by unforeseen developments and procedural changes during the year. In particular, the notification of the temporary suspension of liberalization for August 2025 was received late and with retroactive effect, creating imbalance situations for the relevant period. Regarding this issue, USS addressed ERE through official letters dated August 4, 2025, explaining the financial and operational impact caused by this situation.

As informed to ERO, the process of identifying customers within the market liberalization framework was conducted within very short deadlines and under specific operational conditions, necessitating additional follow-up verifications. As a result, a limited number of customers who were initially removed from the Universal Service Supplier portfolio, after complaints and reviews, were confirmed to have the legal right to universal supply. Since during the relevant period these consumers were not part of the active portfolio, their energy consumption was not previously accounted for. After their return to USS's portfolio and based on metering data from the relevant operator, corrective billing was carried out. These adjustments, directly related to the transitional nature of the liberalization process, reflected technical differences between planned and actual energy, which were addressed according to the applicable electricity system mechanisms, in line with the regulatory framework in force.

It is also important to emphasize that during the June–July period, some of these customers were supplied through the Supplier of Last Resort. Therefore, any additional correction resulting from the review of this process should be proportionally reflected as a reasonable cost for USS, in accordance with the principles of regulatory neutrality and coverage of justified costs.

Finally, we emphasize that since the system was not fully operationally ready to implement market opening within such a short timeframe, the mismatches and challenges observed during this process generated costs that objectively could not have been avoided. As such, these costs

	NJËSIA PËR TARIFA DHE ÇËSHTJE RREGULLATIVE	Nr.	KESCO-BCC-F-BCT-02
		Faqe	Faqe 11 prej 12
	APLIKIMI PËR TË HYRAT E LEJUARA MAKSIMALE	Versioni	1.0

represent the natural consequences of a regulatorily mandated transitional process and should be treated as reasonable costs within the meaning of the regulatory framework in force. Failure to recognize them would create a mismatch between imposed obligations and the corresponding financial treatment, jeopardizing the coherence and institutional credibility of the liberalization process.

In accordance with the USS Revenue Rule, a correction of the 2025 revenues was made, respectively, the USS calculated the current MAR and the revenues generated during 2025. According to the calculations, the correction factor resulted in €49.69 million, which was adjusted to the 2026 MAR.

Description	mil €
<b>Approved MAR</b>	<b>435.93</b>
<b>Actual MAR</b>	<b>489.95</b>
Actual Sales	443.47
I <sub>t</sub>	6.91%
<b>Revenue Correction Factor (ADJt)</b>	49.69

In accordance with the Rule on USS Revenues, the correction factor is intended to ensure that the tariff process remains fair and balanced, preventing differences arising in one year from being continuously carried over from year to year without proper treatment, as this would jeopardize the financial stability of the universal service and, consequently, the security of supply for consumers. However, tariff data indicate that the correction factor has been carried over from one year to another for several consecutive years in significant amounts, clearly showing that the applied tariffs have not fully reflected the actual costs of providing universal service, the effects of which ultimately impact the entire electricity sector.

In this context, recognizing and properly addressing the correction factor in this tariff application is essential to restore financial balance, prevent further accumulation of differences from year to year, and ensure that USS has the financial capacity to fulfill its legal obligation to provide uninterrupted and secure supply. Including these costs in tariffs is consistent with the principles of fair regulation, transparency, and coverage of reasonable costs, as well as with the objective of ensuring the sustainable operation of universal service in the interest of consumers and the stability of the sector.

	NJËSIA PËR TARIFA DHE ÇËSHTJE RREGULLATIVE	Nr.	KESCO-BCC-F-BCT-02
	APLIKIMI PËR TË HYRAT E LEJUARA MAKSIMALE	Faqe	Faqe 12 prej 12
		Versioni	1.0

## 7. Maximum Allowed Revenues for 2026

After taking into account the expected expenses, USS's request for the maximum allowed revenues for 2026 amounts to €528.78 million.

Description	mil €
Operating and Maintenance Expenses	11.14
Purchases	229.04
Pass-Through Costs	227.94
Other Expenses	11.12
Adjustments	49.54
<b>Final Request</b>	<b>528.78</b>

This request reflects the need to cover the essential costs for:

- the supply of electricity to consumers under universal service,
- addressing the impact of imports as a higher-cost component,
- enhancing supply security during winter periods, which are considered high-risk,
- covering the necessary operational costs for the provision of quality services,
- covering pass-through costs related to the network and associated obligations,
- addressing the differences arising from the actual circumstances of the previous year, in accordance with regulatory principles.

USS considers that the proper reflection of these costs in the tariff process is essential to ensure that the universal service remains functional, sustainable, and capable of fulfilling its legal obligations to consumers. Failure to adequately reflect these costs would significantly jeopardize the stability of supply. Past experience has shown that underestimating costs creates operational difficulties, and repeating such an approach would risk generating similar challenges in the future.

USS remains ready to cooperate with ERO throughout the entire tariff process, providing all necessary clarifications, analyses, and documentation to ensure a fair and transparent assessment.