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Application of the Distribution System Operator for Maximum Allowed Revenues for 2026

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1. Introduction

KEDS, licensed as the Distribution System Operator (DSO) by the Energy Regulatory Office (ERO), has prepared the Application for Maximum Allowed Revenues (MAR) for 2026, in accordance with Annex 7 of the Rule on Maximum Allowed Revenues of the Distribution System Operator (DSO Revenue Rule) and the guidelines provided by the ERO in its official letter dated 15 December 2025.

This application includes all data and information necessary to ensure that the presented costs are reasonable, transparent, and essential for the sustainable operation of the distribution system and for the provision of improved services to all consumers.

Through this application, the DSO aims to ensure the recovery of all operational and capital costs required for the maintenance and enhancement of the distribution network, as well as for the provision of continuous and high-quality services to consumers. Furthermore, the application is aligned with the regulatory parameters approved for the 2023–2027 period, which have been adjusted to reflect recent changes in costs and operational requirements.

The application is structured into separate chapters according to the main categories of costs and the requirements for maximum allowed revenues. Each chapter contains detailed analyses and justifications for the proposed costs. Given that the tariff-setting process is interactive between the ERO and other licensees, this application may be further adjusted in order to reflect costs that are interrelated with other licensees.

The application aims to provide a solid and sustainable basis for 2026 tariff process, ensuring that each element of the proposed costs is justified and aligned with the objective of improving services for all consumers.

This application presents the request for maximum allowed revenues for 2026, based on actual operational, capital, and loss-related costs, which have undergone significant changes due to market price fluctuations, increases in the minimum wage, and other external factors. These changes are beyond the control of the DSO and cannot be covered solely by the inflation increase approved under MYT3. Therefore, this application should not be considered a request for luxury or excessive revenues, but rather a request aimed at ensuring the minimum functioning of the network and the security of supply



2. Operating and Maintenance Costs (OPEX)

During 2022, through the periodic review, the Energy Regulatory Office (ERO) determined the operating costs for the 2023–2027 period, which were defined as a continuation of the operating costs of the second regulatory period. Although, during the process of determining these costs, the DSO consistently argued that operating expenditures would increase over the years, the ERO approved lower levels than those proposed by the DSO, thereby placing the proper functioning of the DSO’s operations at serious risk over the next five years in terms of meeting its operational and regulatory objectives.

In accordance with the DSO MAR Rule, each cost presented must be reasonable, necessary, and related to the provision of distribution services. Consequently, the DSO has submitted only those expenditures that are unavoidable for the operation of the system and that reflect market realities, including extraordinary increases in input prices, which are beyond the control of the DSO.

2.1. Operating and Maintenance Cost During 2025

During 2025, operating and maintenance expenditures increased significantly as a result of market price fluctuations that occurred beyond the control of the DSO. Although the Energy Regulatory Office (ERO) applies inflation indexation, this mechanism is insufficient to reflect the actual increase in prices, as inflation is a macroeconomic indicator that does not capture the specific and disproportionate price fluctuations in the energy sector and in technical inputs. For certain critical products and services, price increases reached up to 100% compared to 2022, which serves as the base year for OPEX under MYT3. Consequently, coverage based solely on inflation results in an under-recovery of actual operating costs, thereby jeopardizing the implementation of maintenance activities and the security of supply.

Failure to address this gap creates a direct risk that the DSO will operate with a structural under-recovery of costs, resulting in operating losses and undermining financial sustainability. This reduces the operator’s ability to meet its regulatory obligations, including adequate network maintenance and the implementation of operational plans, thereby putting at risk the quality and security of supply for consumers. In the medium term, this mismatch between actual costs and allowed revenues risks transferring financial consequences that may negatively affect the quality of services provided to consumers, which is contrary to the fundamental objectives of the regulatory framework and the public interest.

During 2025, the number of consumers connected to the distribution network and the number of suppliers active in the market increased compared to the previous year, significantly increasing the DSO’s workload in terms of meter reading, requests for new connections, verifications, and other operational services. This growth in demand imposed an additional burden on existing capacities, requiring increased operational and financial engagement. As a result, it significantly



affected the overall workload of the DSO, both in terms of meter reading, requests for new network connections, verifications and identifications, as well as the associated operating expenditures.

Furthermore, technical and operational challenges faced by KOSTT (the Transmission System Operator) have resulted in ad-hoc requests to the DSO for the allocation and distribution of capacities in overloaded areas on a daily basis. These requests have required staff to work under extraordinary conditions, including extended working hours and emergency interventions, thereby increasing operating expenditures beyond the levels allowed by the ERO. The situation in the regions of Gjilan, Prizren, and Gjakova is expected to remain challenging in the following year as well; therefore, the recognition of these costs is essential to ensure the financial sustainability of the operator.

The aforementioned challenges and the costs associated with these services, which were not foreseen in the allowed operating expenditures for 2025, resulted in an additional increase in OPEX of 7 million euro. This increase highlights the need for a fair and comprehensive assessment by the ERO, taking into account the financial stability of the operator and its capacity to meet obligations towards consumers. In this context, the recognition of these costs as allowed is essential to ensure the sustainable and secure operation of the network, in line with the legal obligations of the DSO to ensure a reliable and resilient network (Article 28 of the Law on Electricity).

At the same time, the growing demand for services and the need for technological modernization require additional investments and maintenance for the integration of distribution management systems and advanced metering infrastructure. For this reason, the ERO should support a revision of the level of allowed operating expenditures, aligning them with the actual needs of the DSO and with the applicable legal and regulatory frameworks, in order to ensure sustainable performance and high-quality supply for consumers.

Taking into account the operational challenges, the increased demand for services, and the need for technological modernization, the ERO should consider revising the level of allowed operating expenditures, adjusting them to the actual needs of the DSO and the requirements of the legal and regulatory framework. This will ensure the financial sustainability of the operator and the protection of the public interest in securing a reliable and high-quality electricity supply.

2.2. Costs Related to Market Opening

The opening of the electricity market has created a range of new obligations and operational processes for the Distribution System Operator (DSO), which are entirely beyond the control and discretion of the DSO and were not part of regular operational activities in previous regulatory periods. For this reason, the recognition of additional operating expenditures (OPEX) directly resulting from the market opening process is essential in order to ensure the fulfilment of the DSO's legal and functional obligations.

During the preparatory phase for the opening of the electricity market, as well as during the operation of the open market, the DSO identified a number of additional costs that were neither



anticipated nor covered by the existing tariffs. These costs arose as a consequence of new operational and regulatory obligations associated with the transition to the open market, as well as from the need to ensure a stable, secure, and transparent functioning of the market. The DSO informed the Energy Regulatory Office (ERO) of these challenges already at the initial stage of market opening preparations, requesting that they be reflected in the tariff-setting process.

In practice, in order to successfully implement the opening and operation of the open market, the DSO undertook extraordinary operational activities, including on-site identification and verification of consumers, repeated verifications, disconnections and reconnections, real-time meter readings and meter state cut-offs, as well as operations outside the planned meter-reading schedules. These actions required increased staff mobilization, including operations during extended working hours and weekends, in order to fulfil all daily tasks and activities and to ensure continuity of the market process.

As market-related activities were not planned in detail within the existing tariff structure and as a result of the transition, the entire DSO organization was mobilized to meet the requirements of the process and to ensure the proper functioning of the open market. In this context, it is evident that the additional costs incurred during this process are unavoidable and necessary for the performance of the new operational tasks. Therefore, it is required that these costs be recognized and reflected in the tariff, so that the DSO is not financially exposed to expenditures that are essential for the development, stability, and efficient functioning of the open market.

The preparatory process for market opening began in May 2025 and continued intensively until June 2025, including the identification of consumers affected by liberalization, multiple on-site verifications, coordination with suppliers and relevant institutions, as well as the preparation of new systems and operational procedures. These activities intensified significantly after 16 August 2025, when a considerable number of consumers were left without a supplier, imposing the need for immediate interventions for disconnection and reconnection of consumers, as well as continuous operational readiness in the field.

It should be emphasized that these processes are entirely new for the DSO and were not part of historical daily activities on which previous OPEX forecasts were based. As a result, the DSO was forced to review its staffing structure and engage additional human resources to cover the new functions directly related to market opening, including the management of consumers without a supplier, coordination with suppliers, AAM, and continuous data updates.

Furthermore, market opening has led to a significant increase in the workload for existing staff, with a considerable number of employees working extended hours in order to meet requests for load profiles, operational data, and technical assistance to suppliers, KOSTT, and the ERO. These additional engagements have generated real and unavoidable operating costs that are directly linked to the market liberalization process. Despite staff shortages during this period, the DSO mobilized all departments to provide support for the market opening process and market stability. This mobilization and support also affected other processes, as part of the operational resources were engaged outside their regular functions, thereby limiting the capacity to handle other processes at an optimal level. Therefore, the provision of additional human resources is essential to cover the new activities. Consequently, with market opening, the DSO provides services to all



suppliers operating in the market, unlike the period prior to market opening. In this context, every supplier request requires prompt attention and treatment, which is not feasible in the absence of adequate professional staff.

In addition, as a result of new operational requirements and technological advancement imposed by market opening, the DSO has developed and is in the process of implementing several electronic platforms for data exchange and support of market operations. In this context, the Supplier Service Interface (SSI) platform is highlighted, which enables suppliers, KOSTT, and the ERO to have direct, transparent, and standardized access to critical operational data. The development, maintenance, and operation of these platforms constitute additional operating costs that are necessary for the secure and efficient functioning of the open market.

In this framework, it is requested that the additional operating costs arising from market opening be recognized as justified, unavoidable, and beyond the control of the DSO, in accordance with the regulatory principles of cost reasonableness, coverage of legal obligations, and the assurance of operational stability of the distribution system.

2.3. Personnel Expenses

Within the category of operating and maintenance costs, personnel expenditures are also included as one of the most sensitive cost categories, directly affecting the company's operational performance by mobilizing professional staff to achieve both regulatory and commercial objectives. Salaries are among the key factors that directly influence employee motivation. In recent periods, it has become almost impossible for the DSO to motivate employees, primarily because the ERO has repeatedly left limited room for salary increases for the company's staff. Considering that the company's objective is to enhance service quality and reflect consumer satisfaction, this goal is difficult to achieve as long as professional staff at the DSO remain dissatisfied with their level of compensation compared to other companies in the same field and beyond.

Given that the average salary at KEDS is significantly lower compared to other companies in the energy sector as well as the private sector, the company has continuously received requests from employee representatives for salary increases. These requests are supported by recent developments related to wage increases in the energy sector, in the public administration of the Republic of Kosovo, as well as by the rising cost of living in Kosovo.

The proposed increase in personnel costs, aimed at raising salaries for KEDS employees, represents a necessary and proportionate measure to preserve the operational sustainability of the electricity distribution system, ensure compliance with service quality standards, and reflect the profound changes that have occurred in the labor market and in the real cost of living. This request is based on measurable operational facts, sectoral comparisons, and macroeconomic developments, and is fully aligned with regulatory principles of reasonable and efficient costs.

KEDS employees, particularly engineers and technicians, bear the heaviest operational burden in the energy sector through intensive fieldwork, 24/7 emergency interventions, continuous exposure to electrical risks, and direct responsibility towards end consumers. Despite this, their salary levels remain significantly lower compared to other operators in the sector. On average, KEDS engineers



are paid up to 30% less, while technicians up to 25% less than their counterparts in public companies, creating a persistent structural imbalance within the same regulated sector.

This imbalance has produced concrete and documented consequences in terms of retaining professional staff. In recent years, a considerable number of qualified KEDS staff, after gaining experience and professional training, have left the company and transferred to other operators or companies in the same field, mainly due to more favorable compensation conditions. This trend clearly demonstrates that KEDS is effectively serving as a “training center” for the sector, without having the real ability to retain trained staff.

In practice, KEDS is unable to offer dignified and competitive salaries even in cases where employees announce their intention to leave, not due to a lack of managerial willingness, but because of limitations arising from the existing regulatory framework regarding salary increases. The company has no legal mechanism to prevent the free movement of employees, while personnel cost levels were determined by the ERO in 2022 for the entire 2023–2027 regulatory period. This situation has severely limited KEDS’s flexibility to respond to rapid and unforeseen changes in the labor market.

Although the ERO’s decision-making in 2023 cannot be considered unjust at the time it was made, the conditions on which it was based have fundamentally changed. The labor market has undergone significant transformations, also reflected in public policies. The Government of the Republic of Kosovo has adopted important decisions to increase salaries in public administration and to raise the minimum wage, establishing a new benchmark for workforce compensation at the national level. These developments have exerted additional pressure on the private sector and regulated operators, including KEDS, further widening the existing wage gap.

At the same time, the significant increase in the cost of living has effectively reduced employees’ purchasing power. Although officially measured inflation has been reported at around 2.14% annually, the actual prices of basic goods and services have experienced much higher cumulative increases, in practical terms approaching a doubling compared to 2023. In this context, a salary of EUR 500 in 2023 provided substantially broader coverage of the basic consumption basket than the same nominal salary in 2025, implying a considerable decline in real wages.

The proposed salary increase does not represent an unjustified increase in costs or a deviation from regulatory principles, but rather a necessary adjustment to preserve operational stability, prevent the loss of human capital, and ensure service continuity. Failure to approve this request would result in significantly higher medium- and long-term costs for the system, including risks to the quality, safety, and reliability of electricity supply.

Taking into account the documented wage imbalance in the sector, profound changes in the labor market, the real increase in the cost of living, and existing regulatory constraints, salary increases for KEDS employees should be considered reasonable, justified, and unavoidable costs. Their approval is essential to ensure the long-term sustainability of KEDS and to guarantee a safe, reliable, and high-quality service for consumers. Consequently, the need for salary increases is beyond the control of KEDS and represents a preventive measure to avoid further loss of professional staff, to motivate, and to retain existing employees. Through a revision of salaries, the company also aims to create opportunities to recruit additional professional staff from the



competitive labor market.

Failure to increase salaries for KEDS employees presents a risk of demotivation and, as has occurred recently, may lead to a further departure of a considerable number of experts from key fields in search of better compensation conditions. Employee mobility has reached concerning levels, with a continuous increase exceeding 8% annually in staff departures over the past two years. This situation will continue to create significant gaps in internal staffing capacity to deliver quality and sustainable services, while increasing recruitment and training costs and placing additional pressure on financial and managerial resources. Moreover, the instability caused by this high level of staff turnover is negatively affecting the morale of remaining staff, who are facing increased workloads, creating insecurity and demoralization. Rising inflation, challenges in workforce retention, and wage disparities with the industry market affect not only overall performance but also the DSO's ability to maintain service quality standards and meet regulatory and consumer expectations.

According to the Rule on Maximum Allowed Revenues, during the tariff review for 2025, the ERO adjusted OPEX costs (including personnel costs) by reflecting the annual inflation rate, which does not sufficiently address current realities and cost changes in Kosovo, economic challenges, and labor market dynamics. It should be noted that inflation-only adjustments do not take into account price increases of goods and services specific to the energy sector, nor rising maintenance and technology costs, meaning that actual costs are higher than the applied inflation rate. This discrepancy is further exacerbated by the application of the efficiency factor, which reduces the inflation-based cost adjustment, negatively affecting the DSO's financial capacity to meet operational and investment requirements. This efficiency factor, which assumes continuous cost optimization, does not consider real price increases in the energy and materials markets, nor the impact of increasing demands for high-quality services and infrastructure modernization. Reducing OPEX through this mechanism, particularly at the salary level, creates a mismatch between regulatory expectations and the company's real capacity to meet these obligations, thereby jeopardizing operational sustainability and service quality.

The ERO should demonstrate consideration for factors beyond the company's control regarding employees' demands for salary increases, which are an essential factor in improving living standards. By approving a salary increase for KEDS employees, the ERO would demonstrate care both for company employees and for consumers.

Each lost employee entails direct costs: recruitment, training, productivity loss, and technical risk. Furthermore, such losses have additional impacts on the operator's operational and financial performance by increasing the burden on remaining staff, raising the need for emergency services, and increasing the probability of technical errors and supply interruptions. This demonstrates that high staff turnover is not merely a human resources issue, but a factor that directly affects actual operating costs and service quality, and therefore should be considered as part of acceptable costs in the tariff calculation.



2.4. Requests for Operating Expenses 2026

The DSO is obliged to comply with the legal and regulatory frameworks and to align with European standards for network modernization, as stipulated in the EU Energy Infrastructure Directive, which requires increased costs for maintenance and system integration.

In forecasting operating expenditures for 2026, the DSO has ensured alignment with market wage levels, with the aim of reducing staff turnover and increasing employee morale. A stable and motivated workforce is essential for the safe and sustainable operation of the network, particularly in light of the technical and operational challenges that require rapid and professional responses. Furthermore, in order to enable investments in advanced technologies and network maintenance, and to guarantee higher service quality, it is necessary to address current challenges and market expectations. Accordingly, the DSO proposes an increase in operating expenditures of 5% for 2026 compared to the realized expenditure level in 2025. This increase also reflects the operational needs and nationwide scope of the DSO, the provision of services to new suppliers, and the effects of market opening and expansion. It ensures that the DSO continues to meet its strategic objectives while maintaining operational stability and addressing market expectations.

This proposed increase in operating expenditures is vital to ensure the financial and operational stability of the DSO and to meet consumer expectations and regulatory requirements. If the DSO's requests are not addressed through appropriate measures, the current internal pressures may have long-term consequences for the company's sustainability within the energy sector.

Since 2023, the Republic of Kosovo has experienced a significant increase in the statutory minimum wage, as well as several public administration wage increases, which have directly affected the cost of living and competition in the labor market. The minimum wage was EUR 170 in 2023 and increased to EUR 350 in 2024 (an increase of approximately 105%). For 2026, it is projected to increase to EUR 425 for the first six months (an increase of approximately 21.4% compared to EUR 350) and subsequently to EUR 500 from July 2026 (an increase of approximately 42.9% compared to EUR 350). This continuous increase in the minimum wage creates immediate pressure on private sector wages and, consequently, on labor costs in the energy sector, including KEDS.

At the same time, the Government of the Republic of Kosovo has increased public administration wages several times during the 2023–2026 period. Since the entry into force of the Law on Salaries in 2023 until 2025, there have been at least four public sector wage increases, including various phases of coefficient unit increases and monthly supplements of EUR 55 applied at the beginning and mid-2025 for all public employees. Consequently, these increases have made competition for highly skilled employees in the labor market even more intense. This is additionally relevant given that KEDS employees, as key contributors to the security of electricity supply, are exposed to alternative job offers with higher wages, both within and outside the sector. In the absence of recognition of additional personnel costs, KEDS is unable to maintain staff stability and ensure service continuity at the required standards.



Taking these circumstances into account, the request for recognition of increased personnel costs within operating expenditures for 2026 through this tariff application is fair and justified. The recognition of these costs is not an unnecessary procedural request, but a necessary reflection of actual operating costs. Accordingly, the objective is to preserve the operational stability of the energy system and to guarantee uninterrupted supply and high-quality services for consumers. Without such a decision, KEDS risks losing key employees, increasing operational risk, and deteriorating service quality, thereby creating unpredictable costs for the entire energy system.

Furthermore, it is important to emphasize that the motivation for wage increases is beyond the control of KEDS, as changes in the minimum wage and public administration salaries are government decisions that impose legal and social obligations to align with new remuneration standards. In this context, the ERO has an important role in ensuring a fair and sustainable regulatory environment by allowing actual labor costs to be reflected in tariffs and not hindering the sustainable operation of the operator.

Therefore, within the framework of this application, we request the understanding and support of the ERO to recognize the increase in personnel costs as an unavoidable and reasonable factor, ensuring equal treatment with the public sector and peer companies, and thereby preserving the stability and security of supply for consumers in Kosovo.

2.4.1. Impact of the Minimum Wage Increase in the Republic of Kosovo

The increase in the minimum wage in the Republic of Kosovo, approved by a decision of the Government of Kosovo on 31 October 2025, foresees an increase of the statutory minimum wage to EUR 425.00 gross per month, effective from 1 January 2026, and to EUR 500.00 gross per month from 1 July 2026, within the framework of social and economic policies aimed at improving employment conditions and protecting the workforce.

This decision creates additional operating expenditure (OPEX) for the DSO that was not foreseen in the cost base approved under MYT3 and is entirely beyond the control of the DSO. The increase in the minimum wage affects operating costs for services contracted with third parties, where labor costs constitute a significant portion of total expenditures. Changes in the minimum wage level impact, inter alia: physical security and facility control services; cleaning and hygiene services; maintenance of buildings and facilities, including technical manual works, where existing contract prices must be revised to reflect increased labor costs. In addition, other projects involving intensive manual labor, where labor costs are a primary cost component, are disproportionately affected by legislative changes to the minimum wage.



These increases result from a legally binding decision imposing new wage conditions, exceeding the DSO's budgetary forecasts and creating extraordinary costs for the normal operation of outsourced services that support critical electricity distribution infrastructure. Consequently, the minimum wage increase should be recognized as an unavoidable cost beyond the control of the DSO, and its financial effects should be reflected in the Maximum Allowed Revenues in accordance with regulatory principles of reasonable and necessary costs to ensure continuous and high-quality service provision.

3. Depreciation and Return Costs

The Distribution System Operator's Investment Plan is designed to enable a safe and reliable supply of electricity at a reasonable price, while at the same time ensuring transparent network operation in compliance with commercial principles.

In March 2023, through Decision No. V_1711_2023, the Energy Regulatory Office (ERO) approved the Investment Plan for the third regulatory period in a total amount of EUR 122.07 million, although the DSO's proposal for the upcoming five-year period amounted to EUR 166.87 million in investments. These approved investments did not include the need for investments in the four northern municipalities, taking into account that the relevant agreement entered into force on 1 January 2024, which created the need for additional investments by the DSO.

While the DSO has based its request for depreciation and return costs on the approved Investment Plan for the 2023–2027 period and the annual plans approved by the ERO, additional necessary investments for the northern part of the network have been identified and included for 2026. These investments are required to ensure network stability and a reliable electricity supply in this area. The additional investments result from the expansion of the DSO's operational competence in the northern region, where infrastructure and services were previously inaccessible and operated under low technical and operational standards.

Furthermore, improving the condition of the network in this area is essential to address challenges related to losses, supply interruptions, and the lack of previous investments, thereby creating a sustainable foundation for network operation and consumer service. Last but not least, within this application, depreciation and return costs have been adjusted in line with the inflation rate, in accordance with the DSO Revenue Rule.

In addition to the investments for the northern part of the network, which were not foreseen under MYT3, and in light of market opening and its sustainable functioning, this application also includes additional capital expenditures for 2026. These capital investments are of particular importance for the development and consolidation of the electricity market, especially in the areas of information



technology (IT), modernization of metering systems (meters), and other supporting investments. These components are essential to ensure transparency, data accuracy, efficient consumption management, and the creation of a level playing field for all market participants. Accordingly, the DSO has deemed it necessary to submit a request for the coverage of additional capital costs for 2026, which have arisen as a result of market opening and the DSO's preparation for the next phase of market liberalization.

4. Cost of Losses

A significant component of the DSO's costs is the coverage of the allowed level of losses, which constitute an important part of the company's financial and operational structure. According to regulatory provisions, the level of energy losses allowed by the Energy Regulatory Office (ERO) must be in line with the prescribed parameters and fully covered in order to guarantee the financial stability of the DSO and ensure that the provision of electricity services is not adversely affected by external factors.

Pursuant to Article 12 of the DSO Revenue Rule, the DSO is responsible for purchasing electricity to cover losses in the distribution network. The allowed loss cost represents the forecast cost of losses to be covered by the DSO in order to compensate for losses in the distribution system and is calculated using the allowed loss level determined during periodic reviews. Through Decision No. V_1636_2022, the ERO approved the loss reduction targets for the third regulatory period 2023–2027, which have been applied in the calculation of costs for the allowed loss level for 2026.

The forecast of electricity volumes for the purpose of calculating loss costs has been carried out based on the draft energy balance for 2026. Within the tariff application, the assessment of loss levels in the northern part of the network has been based on realized data and preliminary information reported by the operational contractor, which are used by the DSO for analytical and contractual performance monitoring purposes, in accordance with the competences and responsibilities defined under the relevant agreement.

In accordance with ERO guidance, generation from KEK is initially allocated to the Universal Service Supplier, while the remaining portion is allocated proportionally between KEDS and KOSTT to cover distribution and transmission losses. The forecast of volumes for purchases from KEK has been based on KEK's production plan as set out in the draft electricity energy balance for 2026, according to the version submitted by KEK.

In line with ERO legislation and rules, loss coverage must be accurate and fair to ensure that the DSO does not bear an unreasonable financial burden and can provide uninterrupted and high-quality services. When loss levels are not fully covered or are inaccurately calculated, this directly damages the DSO's financial capacity, forcing it to cover losses through electricity imports.



One of the major challenges faced by the DSO has been the inaccurate forecasting of domestic generation over the years, which has directly affected the need for electricity imports. This has caused serious implications for operations and for the ability to meet electricity demand. KEK's inability to meet its obligations under the production plan forces the DSO to import electricity at significantly higher prices.

In 2025, the DSO imported more than EUR 16 million above the level allowed by the ERO. This represents a substantial financial burden for the company, which, in addition to the high cost of imports, has increased the need for additional financial resources, pushing the DSO into losses. The increase in import costs is particularly significant given that electricity prices have been highly volatile since the global financial crisis, making budget planning and cost management even more challenging.

In addition to the increase and destabilization of electricity prices in international markets, during 2025 the DSO also faced a significant increase in cross-border capacity costs. This factor is critical for understanding the nature of the costs that the DSO must cover in order to maintain the stability of the energy system and prevent further increases in import costs that may arise due to shortfalls in domestic generation. Accurate reflection of these costs, as well as energy forecasts, is vital to ensure that the DSO does not face further financial losses.

Import price forecasts, both for energy and capacity, in international markets are expected to remain unstable during 2026; therefore, accurate forecasting is essential. In order to ensure sufficient liquidity, the DSO, in forecasting loss costs for 2026, has used expected prices in international power exchanges, including capacity costs as additional components applied to the final price.

However, on 13 January 2026, KEK submitted a letter to KEDS as request to change the electricity prices for covering the DSO's losses for the period 01.04.2026 – 31.03.2027. In this context, KEK proposed replacing the current fixed price of EUR 36.00/MWh with an hourly price referenced to the Albanian Power Exchange (ALPEX).

This change represents a shift from a fixed and predictable price to a market-based price that reflects actual electricity price fluctuations on an hourly basis. Without prejudging the requested price change, KEDS prepared the tariff application prior to KEK submitting this proposal, and due to time constraints, the new price structure has not been reflected in the initial calculations. Nevertheless, as this development constitutes new and significant information, KEDS submits this fact to the ERO for consideration during the tariff review process.

Based on the above, the forecast cost of losses for the DSO for the year 2026 amounts to EUR 107.1 million, as presented in the table below:



| Inputs for Calculation | Unit | 2026 |
|---------------------------------|-------------|----------------|
| Energy Entering to Distribution | GWh | 6,601.26 |
| Allowed Losses | % | 12.10% |
| Losses | GWh | 914.52 |
| Purchase Price | €/MWh | 117.45 |
| Cost of Losses | mil€ | 107,080 |

In order to preserve the sustainability of the energy sector and of the DSO, it is essential to ensure an accurate reflection of the allowed loss costs. A rigid stance by the Energy Regulatory Office (ERO) aimed at maintaining low cost levels, contrary to market realities and external factors, is negatively affecting the financial stability of the DSO. First, if domestic generation forecasts are not realized as planned, this increases the need for electricity imports, thereby raising costs and imposing additional financial burdens on the DSO that cannot be covered within the framework of allowed revenues.

Full support for the recovery of these costs is vital to ensure that the DSO can provide reliable and sustainable services to consumers, as well as to prevent the risk of insolvency and destabilization of the energy sector. Only through proper cost management and accurate energy planning can a sustainable future for the DSO and the energy sector as a whole be ensured.

5. Other Costs

Other components of the Maximum Allowed Revenues (MAR) also include non-tariff revenues, obligations towards the Market Operator and the Transmission System Operator, as well as any other reasonable costs related to the provision of distribution system services.

5.1. Unregulated Revenues

The DSO remains committed to fulfilling its regulatory objectives and ensuring a stable and high-quality supply for all consumers. In line with the principles of transparency and efficiency, the process of determining Maximum Allowed Revenues (MAR) plays a fundamental role in creating a sustainable and incentive-based financial environment for the company's operations. Among other aspects, this process also includes the treatment of revenues generated from excluded services, which are classified as unregulated revenues.

In the determination of Maximum Allowed Revenues, the Energy Regulatory Office (ERO) deducts revenues generated from excluded services, which are recognized as unregulated revenues. The unregulated revenues forecasted within the MAR for the third regulatory period amount to EUR 5.41 million for the year 2026.



The DSO is committed to maintaining the highest standards of service and compliance within the regulatory framework. In line with this commitment, the DSO has also identified opportunities to diversify its non-tariff service offerings by providing additional services beyond those currently deducted from MAR. However, the full deduction of these revenues from MAR effectively reduces the incentive for the DSO to explore and invest in this area.

It is essential to understand the impact of regulatory mechanisms on the financial stability of the DSO and its ability to invest in service and infrastructure development. Therefore, in order to address this opportunity and promote innovation in the sector, the DSO proposes the application of a 50% sharing factor on revenues generated from these additional services. The DSO believes that a 50% sharing factor strikes a fair balance between encouraging innovation and delivering benefits to end consumers, while remaining compliant with the regulatory framework. This approach would enable the DSO to benefit from the additional revenues generated, while simultaneously contributing to the overall growth and sustainability of the energy sector. At the same time, it would ensure that consumers benefit from improved investments and service quality, while safeguarding the operator's financial sustainability, particularly in a period characterized by increased financial challenges and significant capital investment needs.

The Law on Electricity emphasizes the importance of promoting operational efficiency and innovation, providing a solid basis for supporting this approach. The proposed 50% sharing factor is aligned with these objectives and ensures that additional revenues are used in a fair manner to support the operator's financial sustainability. Furthermore, the rules approved by the ERO provide the necessary scope to address this issue and to maintain a balance between the operator and consumers. The implementation of this sharing factor would have a positive impact not only on the DSO's liquidity, but also on overall sustainability and the improvement of the energy sector.

In this context, the DSO has applied a 50% sharing factor to the forecasted costs and calls upon the ERO to carefully and objectively consider this proposal during this year's review, recognizing the positive impact it would have on the long-term development and stability of the energy sector. A fair and balanced decision will contribute not only to the well-being of the operator, but also to the long-term benefit of consumers and all stakeholders.

5.2. Obligations towards the Market Operator and the System Operator

During the process of determining the allowed revenues for the year 2026, it is essential to recognize the DSO's costs towards the Market Operator and the System Operator as necessary expenditures for network operation and for ensuring continuous and sustainable service provision to consumers. As such, these costs are directly linked to the DSO's legal and operational obligations.

The forecast costs for the DSO's obligations towards the Market Operator and the System Operator for 2026 amount to EUR 4.26 million. These costs have been projected based on the currently



approved tariffs and the forecast losses for 2026. Any changes in the Transmission System Operator's tariffs should be reflected by the ERO prior to the determination of the final MAR for the DSO.

The recognition of these costs as part of the allowed revenues is critical to ensure that the DSO has the necessary financial resources to meet these obligations and to avoid any negative impact on network operation or on the quality of services provided.

6. Revenue Adjustment Factor – KREV

In accordance with the Rule on Maximum Allowed Revenues, the DSO has applied the revenue adjustment for the year 2025, which is calculated by determining the difference between the forecast values for the 2025 tariff year and the actual realized values.

For the first time since privatization, the DSO achieved the allowed loss level during 2025, an achievement that demonstrates its commitment to improving operational efficiency. However, due to inaccurate forecasting of domestically generated energy, the need arose to cover demand through electricity imports. High import prices resulted in additional costs exceeding EUR 16 million compared to the level allowed by the ERO, which has complicated operations and placed a significant burden on the DSO's financial position.

Although the tariffs approved for 2025 began to be applied in practice from May 2025, for the purposes of tariff calculation and determination of allowed revenues they were assumed to be applicable from January 2025. Meanwhile, during the period January–April 2025, the DSO continued billing consumers based on the 2024 tariffs, which were significantly lower than the tariffs approved for 2025. As a result, the revenues realized during this period did not reflect the cost levels assumed in the tariff decision, creating an immediate financial gap for the operator.

The continued application of this approach over the years creates a cumulative negative effect for the DSO, as revenue shortfalls resulting from delays in tariff implementation are not fully and symmetrically compensated through tariff adjustment mechanisms. In practice, this results in the transfer of financial risk to the operator, contrary to the principles of financial stability and full cost recovery.

As a direct consequence of this mismatch, the DSO was unable to fully cover the actual cost of imported energy during the respective year, resulting in a financial gap exceeding EUR 41.86 million, as evidenced in the relevant financial analysis.

For these reasons, it is considered essential to review the treatment of the tariff implementation period within the tariff model, with the aim of aligning regulatory assumptions with operational reality and ensuring the timely and full reflection of actual costs in tariffs.



| Revenue Adjustment Factor - KREV | Unit | 2026 |
|---|-------------|--------------|
| AACat-1 | mil€ | 203.77 |
| ARRt-1 | mil€ | 165.39 |
| It | % | 9.05% |
| KREV = (AACat-1 - ARRt-1)*(1+It) | mil€ | 41.86 |

It is important to emphasize that the financial burden created by unforeseen costs is placing significant pressure on the DSO's liquidity and operational stability. Any failure to accurately and fully reflect these costs increases operational risk and reduces the capacity to make necessary investments in infrastructure and services. Moreover, delays or deviations in recognizing actual costs from year to year are creating uncertainty in financial and operational forecasts, thereby hindering long-term planning.

To ensure a stable and sustainable environment for the provision of electricity supply, it is essential that the Energy Regulatory Office (ERO) fairly recognizes and reflects these costs in the allowed revenues for 2026. In addition, the accurate reflection of current tariffs during the first quarter is crucial to ensure a more equitable representation of costs and to avoid imbalances arising from discrepancies between tariff years. Timely and accurate cost reflection will contribute to a more stable and fair system for all parties involved.

7. Maximum Allowed Revenues for 2026

Taking into account all the costs presented in the preceding sections and in accordance with the formula set out in Annex 1 of the DSO Revenue Rule, the DSO has calculated the request for Maximum Allowed Revenues for the year 2026 as follows:

| Maximum Allowed Revenues-MAR | 2026 (mil€) |
|--------------------------------|---------------|
| OPEX | 39.39 |
| Depreciation | 24.61 |
| Return | 20.08 |
| Cost of Losses | 107.46 |
| KOSTT Obligations | 4.26 |
| Unregulated Revenues | 0.09 |
| Adjustments for MYT 2 | (2.70) |
| Revenue Adjustment Factor_KREV | 41.86 |
| MAR | 235.05 |



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The DSO's request for Maximum Allowed Revenues for the year 2026, in the amount of EUR 235.05 million, ensures the sustainable operation of the Distribution System Operator, enables the provision of higher-quality services to consumers, and preserves the financial stability of the DSO. In this way, it will be possible to deliver improved services to consumers, including the coverage of network losses and the guarantee of uninterrupted electricity supply.

Any tendency to reduce the DSO's requested amount would jeopardize the DSO's financial liquidity and the sustainability of electricity supply. Moreover, it would negatively affect the DSO's ability to meet its obligations and would undermine the confidence of consumers and investors in the energy sector.

In this context, we request a fair and full reflection of the costs necessary for the operation of the DSO, in order to ensure the stability and sustainability of electricity supply in the future. A fair and accurate determination of allowed revenues is key to guaranteeing a sustainable and reliable energy sector for consumers and for the economy of Kosovo.