

Energy Community Secretariat

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Mr. Ymer Fejzullahu
Chairman
Energy Regulatory Office (ERO)

Via email: yfejzullahu@ero-ks.org, EBOARD@ero-ks.org

Vienna, 25 January 2022

REG-KS/O/alo/01/25-01-2022

Subject: ERO extraordinary tariff review in 2022

Dear Mr. Fejzullahu,

Energy Community Secretariat is pleased to see that the Energy Regulatory Office (ERO) initiated an extraordinary tariff review taking into account the significant increase in the wholesale electricity prices. As most of consumers in Kosovo* are supplied by the universal supplier, the cost reflectivity in setting the universal supply tariffs is an important principle to ensure financial stability of the electricity sector.

From the consultation document we understand that the Government has committed a subsidy of EUR 75 million, which aims at partially mitigating the 42% linear increase in the allowed revenues. Without prejudice to ERO's calculation and considering the state of emergency declared by the Government of Kosovo*, the interventions through tariff increase and subsidy seem reasonable, in one hand, to reflect the wholesale price increase, and on the other hand, to mitigate the significant impact in the retail price.

The Energy Community Secretariat would like to outline the following in relation to ERO's proposal:

- We fully support the introduction of the 'block-tariff' as a measure to incentivise electricity savings and charge more the electricity consumed above certain threshold.
- The household tariff structure proposed by ERO, taking into account the subsidy, implies an increase for consumption above 600 kWh (block) and no increase up to this threshold. We recommend that the threshold is slightly increased, while this is compensated by an equivalent increase (up to 5%) for the electricity consumed up to the threshold. The benefit is that also those that consume below the threshold would experience a small increase, which is a reflection of the increased costs of supply.
- The proposal to keep the tariffs for commercial consumers (businesses and industry) unaffected seem to be in contradiction with the cost reflectivity principle. We understand that the existing tariffs for businesses are higher than the households, however a linear increase in the tariffs for commercial consumers would facilitate market opening in future. The increase of the tariffs for this category would contribute to further mitigate the significant increase for consumers that consume more than the defined threshold (block).

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- ERO should also consider potential regulatory instruments that would incentivise the universal supplier to hedge as much as possible on forward basis their exposure to the short term prices. Amongst others, this could be done by allowing certain costs for margining forward contracts.

In summary, the Energy Community Secretariat supports the basis following which ERO has proposed the increase in tariffs.

The Energy Community Secretariat invites ERO to consider all the feedback received during this consultation period and decide based on the principles of impartiality, independence and cost reflectivity. This is very important to ensure the financial resilience of the electricity sector and moreover confirms the independence of the regulator which is crucial in such decisions that are perceived as unpopular.

Looking forward to your further information on the final decision of ERO.

Yours sincerely,



Artur Lorkowski
Director