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KOMPANIA KOSOVARE PËR DISTRIBUIM DHE FURNIZIM ME ENERGJI ELEKTRIKE
KOSOVO ELECTRICITY DISTRIBUTION AND SUPPLY COMPANY
KOSOVSKO PREDUZEĆE ZA DISTRIBUCIJU I SNABDEVANJE ELEKTRIČNOM ENERGIJOM
KEDS - SH.A.
Nr. 77 Dt. 07.9.2021
HQ 1

Ymer Fejzullahu
Chairman of ERO Board

Alper Erbas
General Director, KEDS J.s.c

ZYRA E RREGULLATORIT PËR ENERGJI
ENERGY REGULATORY OFFICE
REGULATORNI URED ZA ENERGIJU
Nr. 549/21
Data. 08.09.21

07 September 2021

SUBJECT: DSO Comments to ERO Consultative Paper on Maximum Allowed Revenues for the Relevant Tariff Year 2021

Dear Mr. Fejzullahu,

Through this letter, we submit the summary of DSO's comments regarding ERO's Consultation Paper (CP) on Maximum Allowed Revenues for the Relevant Tariff Year 2021, issued on 24 August 2021.

DSO is available to meet with ERO at any time to discuss the issues raised in ERO's CP and counter-arguments provided in this report.

Sincerely,

KEDS SH.A 1

Alper Erbas
General Director, KEDS J.s.c

Comments of Distribution System Operator on ERO's consultation report for maximum allowed revenues for the year 2021

I. Introduction

In the Consultation Report on Annual Adjustments, received on 24 August 2021, the Energy Regulatory Office (ERO) has submitted the initial assessment for the updated MAR for the Distribution System Operator (DSO), based on the proposals submitted by the DSO and decisions on Maximum Allowed Revenues for the regulatory period 2018-2022.

As noted in the ERO report, the adjustment process for the relevant tariff year 2021 covers the period 1 April 2021 - 31 March 2022, but given the absence of the Board, such process delayed until now. However, ERO further states that the delay in making decisions on Maximum Allowed Revenues and tariffs for this relevant tariff year will be adjusted during the next tariff year, with which stance DSO does not agree.

Determination of the maximum allowed revenues during a tariff year is intended to cover reasonable operating costs and maintenance of their assets, while also allowing a reasonable return on their investments. The forecast of costs and revenues for a relevant tariff year is made based on historical data and the expectation received from the signals of the electricity trading markets. During 2020, the spreac of pandemic COVID-19 worldwide affected also the disruption of energy markets. Expected increase of import prices declined, as did the increase in electricity consumption. In accordance with this trend, DSO made the forecast of maximum allowed revenues for 2021, and submitted it for review and approval to ERO. However, the current data during 2021, especially after the first quarter, showed a noticeable change compared to initial forecasts, especially import prices, which marked the largest increase in recent years.

In this view, taking into account the purpose of determining the MAR in accordance with the Rule on Allowed Revenues, the determination of allowable costs in the last 3 months of the financial year based on these forecasted data during 2020 gives incorrect signals for this year as well as for predictions for 2022 when major adjustments are expected. Therefore, when determining the MAR for 2021, the DSO proposes to take into account the actual data for January-July, while for August-December to consider the volumes presented in the energy balance and expected prices. In this view, the comments presented in the following document are provided in accordance with this approach. The final proposal for the Maximum Allowed Revenues for 2021, provided in this document, presents the minimum requirement for the normal functioning of the Distribution System Operator.

II. Energy Balance

While reviewing estimation of the ERO presented in the Consultation Report, we have noticed that ERO has used the same methodology as in previous years for the calculation of Energy that is expected to enter into distribution (EED), respectively, for tariff purposes, ERO does not consider the excess level of losses during the calculation of Energy Entering into Distribution (EED). Such application is not in line with the methodology used in the approved Energy Balance, and there is no such methodology set out in the pricing rule. We agree that ERO for tariff purposes should use the approved level of losses when calculating the allowable cost of losses, however this methodology is giving incorrect estimations, while creating greater adjustments in the following year.

Considering that actual data for January-July show an increasing trend of consumption, DSO in this application will use the current data for the months of January-July 2021, which show a more realistic expectation of the energy entering into distribution system (EED), as it is shown in the table below:

Energy Balance in level of DSO	Unit	Proposal 2021	Comments of DSO 2021
Sales expected	GWh	4,231	4,504
Energy not supplied in North	GWh	327	353
Loses in North of Kosovo	%	6.0%	6.0%
Loses allowed	%	16.4%	16.4%
Loses allowed	GWh	894	973
Surpassed Loses	%		1.7%
Surpassed Loses	GWh		102
Total loses including North	%	22.4%	24.1%
Total loses including North	%	1,221	1,428
EED expected	**GWh**	**5,452**	**5,932**

It is important to note that only for the first 7 months of 2021, we have an increase in consumption for 11% compared to the projections, and 14% increase of unbilled supplies in the North, which affect the energy entering the level of distribution. Therefore updating forecasted data with actuals ones is necessary to ensure stable operation of the distribution system.

III. Allowed costs for purchase (buying) of losses of Distribution System Operator

The DSO agrees in principle with the method of calculating the cost of losses by ERO, however because the actual data show a big difference in the forecast of import prices, DSO requests to reflect this difference when determining the MAR for the year 2021.

When applying for maximum allowed revenues, because of lower import prices during 2020, the expectation of increase in import prices on electricity markets was lower for 2021. However, during 2021 we observed the highest increase of import prices in recent years. Only in the first 6 months, import purchases have increased to 17 million euros from 9 million as projected initially, or compared to 8.2 million as realized during 2020. While total purchases for losses during the first 6 months of 2021, including purchases from KEK, have reached to € 28.5 million, or about 70% of the costs that ERO has proposed during the review of MAR for 2021.

Taking in consideration the above mentioned one such big difference puts the DSO in a difficult financial position, by surpassing also threshold of materiality from 5% according to rule for prices of DSO.

DSO has observed that ERO in his review has kept the price of KEK unchanged, by not reflecting the request of KEK for adjustment of inflation, therefore in this documents, DSO will also use the same approach when calculation the final request for costs of losses for year 2021.

DSO MAR	Unit	Proposed 2021	KEDS Comments
Parameter of indexing			
It	%		
Allowed Losses (LSSCt)			
LSSAt	%	16.4	16.4
REUEt	GWh	5,451.6	5,931.7
WHEAt	€/MWh	46.05	61.39
LSSCat-1	mil€		
LSSCft-1	mil€	**41.17**	**59.7**

The forecasted cost of losses is in accordance with the DSO Price Rule and represents only the level of allowable losses. These costs are necessary to enable the normal functioning of the DSO in the given year and we request from the Regulator to implement the requirement of the DSO for accurate reflection of the cost of losses for 2021. The DSO already bears the burden of excess losses, so financing the sector for 1 year is outside of its financial capacities.

In the consultative report, ERO raises the issue of balancing, respectively deviations caused by the DSO. ERO states that the deviations caused by the DSO are as a result of the allocation between the DSO and the USS and they do not reflect the real costs for the parties that caused them. It is important to note that the DSO has raised its concerns regarding the methodology during the consultation process on balancing mechanisms. Respectively, considering that the level of losses approved by the regulator is done on an annual basis and they vary in the respective months and hours of the day. Due to the impossibility of measuring them on hourly basis, DSO requested from ERO and KOSTT to be treated together with USS as a balancing group, or to initially conduct a detailed study and methodology to ensure reasonable evaluation and judgment to cover all reporting and parameterization requirements, particularly in view / function of the balancing mechanism.

However, given its complexity, in the initial phase of the balancing mechanism it was suggested among all market participants that the nomination of energy purchases should be made based on the monthly coefficients from the approved energy balance, in which losses are calculated based on total consumption. Further, due to large differences in balancing values, ERO after the request submitted by the DSO, through decision V_1276_2020 dated 27 August 2020 allowed the DSO to change the coefficients on a monthly basis. Moreover, payments on behalf of imbalances are not included in end-user tariffs, in accordance with the Allowed Revenue Rule, but the DSO pays them themselves.

In this view, it is important to note that the DSO from the beginning has acted in accordance with regulations and procedures drafted and / or approved by the regulator. Furthermore, in order to fairly reflect the costs, the parties USS and DSO apply the necessary monthly corrections, according to the calculations received from KOSTT. It is important to note that in accordance with the request of ERO and the letter dated 7 July 2021, the DSO has applied the necessary corrections when calculating the final request for allowed revenues for 20201.

IV. Costs of Operations – OPEX

In estimating operating costs for 2021, ERO has reflected the increase in costs for health insurance and car insurance, which are beyond the control of the DSO, but ERO did not consider the salary increase as required by the DSO, with the justification that this reflection is done during the multi-year review.

It is important to note that the increase allowed during the multi-year review does not reflect the demands of employees nor does it level the salaries of the DSO with other public sector licensees (KEK, KOSTT). Moreover, the salary increases in the public sector even after the multi-year tariff review, continued increase in consumer prices, inflation, and the rising cost of living in general, further increase the demand and pressure of workers. While the company, besides the pressure from its employees, faces also with the rising prices (gas, material, etc.), the efficiency factor which is applied to operating expenses (including wages), as well as the changes between allowed European inflation vs the current one in Kosovo.

The organization of work currently requires much more effort compared to the previous situation and compared to similar positions in other regulated energy entities, so the movement of professional workers and work experience to other companies in the market is complicating the operational processes of the company. In this view, during revision of operational expenses, we once again request from ERO to review the request for increase of salaries, taking into consideration that compared to electricity sector (KEK, KOSTT) employees receive 20% lower salaries.

ERO during the assessment of operating costs did not take into account the costs caused by the pandemic COVID-19, although it is known that the spread of the COVID-19 pandemic is considered a force majeure event, which has negatively affected all aspects of socio -economic in our country and worldwide. While almost all commercial businesses remained closed and most employees were relieved of their responsibilities at work, DSO employees, by risking their health, have continuously worked to fulfill their duties to ensure a regular supply of electricity to every citizen in Kosovo.

When in March 2020, the Government of the Republic of Kosovo took a decision to stimulate employees who were working diligently to overcome this extraordinary period with many risks, KEDS as licensed Distribution System Operator submitted a similar request to ERO. Respectively DSO requested that the additional costs caused by the spread of the pandemic COVID-19, and also an additional payment for employees, to be recognized in the current tariff review. ERO on May 28, 2020 through letter no. 179/20 clearly stated that all costs that are beyond the control of licensees that can be attributed to the pandemic will be recognized in the next tariff review. Despite this, in the preliminary review, ERO did not recognize them, therefore we request from ERO to reflect these reasonable costs, coherent with the official letter mentioned above.

V. Proposal for Maximum Allowed Revenues for DSO for year 2021

The below table summarizes MAR requested from DSO for year 2021, after taking in consideration all required adjustments, as they are given arguments above.

The maximum allowed revenues (mil€)	Unit	Proposed 2021	Proposal of DSO
Parameters of indexing			
Factor of efficiency	%	1.5%	
Inflation	%		
Euribor	%		
Factor - S	%		
Norm of interest - It	%		
Operational and maintenance costs (OPMCt)			
Evaluation during PRR2	€m	25.21	25.21
Allowed - OPMCt = OPMCt-1 * (1 + CPIt-1) * (1 – Et)* (1 – Pt)	€m	**25.28**	**25.28**
Additional costs of OPEX	€m	0.24	0.24
Costs of depreciation (DEPCt)			
Evaluation during PRR2	€m	16.17	16.17

Allowed - DEPCt = DEPCt-1 * (1 + CPIt-1) * (1 – Pt)	€m	**16.21**	**16.21**
Costs of return (RTNCt)			
Evaluation during MYT	€m	15.90	15.90
Allowed - RTNCt = RTNCt-1 * (1 + CPIt-1) * (1 – Pt)	€m	**15.94**	**15.94**
Obligations towards KOSTT			
Obligations towards KOSTT – forecast	€m	2.02	2.02
Obligations towards KOSTT – actual	€m		
Costs of losses (LSSCt)			
Forecast			
LSSAt	€m	16.40%	16.40%
REUEt	€m	5,451.6	5,931.7
WHEAt	€m	46.05	61.39
Forecasted cost of losses	€m	**41.17**	**59.72**
Actual			
LSSAt	%		
REUEt	GWh		
WHEAt	€/MWh		
Actual cost of losses	€m		
Adjustments			
The unregulated revenues PRR2	€m	(3.50)	(3.50)
Adjustments for PRR1	€m	(1.50)	(1.50)
Adjustment for price of losses	€m		
Correction of unbalances	€m		
The actual revenues unregulated	€m		
Tax of license:			
Forecast	€m	0.08	0.10
Actual	€m		
KREV – correction factor of revenues			
Correction factor of revenues t-1	€m	(14.49)	(12.77)
AACt-1 – actual costs for year t-1	€m		
441.ARRt-1 - actual revenues for year t-1	€m		
KREVt = (AACat-1 – ARRt-1) * (1+ It)	€m		
MAR – maximum allowed revenues	€m	**81.44**	**101.74**

DSO believes that MAR of 101.74 million € represents real costs of distribution network for year 2021. DSO is available to meet ERO at any time to discuss in further details the issues raised in this report.