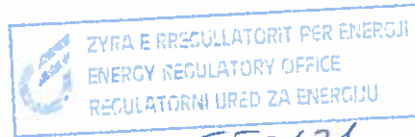


KOMPANIA KOSOVARE PËR FURNIZIM ME ENERGJI ELEKTRIKE SH.A  
KOSOVO ELECTRICITY SUPPLY COMPANY J.S.C  
KOSOVSKO PREDUZEĆE ZA SNABDEVANJE ELEKTRIČNOM ENERGIJOM D.O.O.  
KESCO SH.A.

Nr. 23 Dt. 07. 9. 2021  
HQ 1

**Ymer Fejzullahu**  
Chairman of ERO Board

**Mesut Serhat Dinc**  
Managing Director,  
KESCO J.s.c



Nr. 550171  
Data. 08.09.21

07 September 2021

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

Dear Mr. Fejzullahu,

This report summarizes response of the Universal Service Supplier (USS) to the ERO's Consultation Paper (CP) on Maximum Allowed Revenues (MAR) for the Relevant Tariff Year 2021, issued on 24 August 2021.

USS appreciates the opportunity to provide its input on important issues raised by ERO in the Consultation Paper and requires from ERO to consider standpoints on issues raised in this report prior to any final decision on MAR for the relevant tariff year 2021.

USS 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,

  
**Mesut Serhat Dinc**  
Managing Director, KESCO J.s.c



## **Comments of USS towards Consultation Report of ERO about the maximum allowed revenues for relevant tariff year 2021**

### **I. Introduction**

This report summarizes the comments of the Universal Service Supplier (USS) in the ERO Consultation Report on the maximum allowed revenues for the relevant tariff year 2021, received on 24 August 2021.

As stated in the ERO report, the estimates for the maximum allowed revenues is based on the proposals submitted by USS for the relevant tariff year 2021, which includes the period 1 April 2021 - 31 March 2022, but given the absence of the Board, such process was delayed until now, and ERO states that the differences between the estimated values and those realized during 2021 will be adjusted during the next tariff year.

It is important to clarify that USS has based its application on its proposals for regulatory parameters, on which the ERO has not yet taken a stance. As a result, the differences between the USS's initial proposal and the ERO's proposal are significant. Furthermore, the determination of maximum allowed revenues over a tariff year intends to cover all reasonable costs, therefore their assessment based on estimated data without taking into account current data and changes in electricity markets not only will give incorrect signals, but it will also endanger the financial position of the supplier.

As it is known, cost forecasting is done based on historical data and the expectation received from the signals of world markets. During 2020, the pandemic COVID-19 spread worldwide, affected import prices and consumption forecasts, both at low growth rates. In line with this development, the estimations for import prices during 2021 were made. USS when forecasting electricity purchases in 2021 used these estimated as a basis. However, current data during 2021 show a completely different trend from the initial forecast, 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 Determination of Revenues for Universal Service Supplier (USS Pricing Rule), the determination of allowable costs in the last 3 months of the financial year based on these projected data during 2020 gives incorrect signals, both for this year as well as for 2022 when major adjustments are expected. Therefore, USS proposes that the determination of the maximum allowed revenues for 2021 shall be done according to the current data realized for January-July and the forecasted volumes for the months of August-December in the approved electricity balance. Based on this it has presented its comments, which are provided in following document and kindly requests from ERO to consider this request.

## II. Purchases (buying) of electricity during year 2021

ERO in its estimations for electricity purchases for the Universal Service Supplier has used data from the Approved Balance of Electricity for year 2021, while customers connected to the voltage level of 35kV and 10kV have been treated in accordance with the stance of the Board of ERO to continue the supply of these customers by USS with regulated tariffs.

Current data show that for the period January-July sales have increased by 11% compared to the forecasted consumption in the energy balance (including consumers 35kV and 10 kV). Respectively, only for 7 first months of the year 2021, over 65% of the forecasted volume for electricity purchases have been met, out of which import increased by over 100% compared to the forecasted volumes for months, while energy from renewable sources decreased by 20%.

In this view, the Supplier has updated the data, by considering actual data for the months of January-July, to accurately reflect the need for electricity purchases, as presented in the following table.

Purchases' of energy in GWh	Proposal of ERO	Proposal of USS	Difference
Amounts supplied from KEK	3,732	4,021	8%
Purchases' from generators of RES	415	359	-14%
Import	83	152	82%
<b>Total amounts supplied</b>	<b>4,231</b>	<b>4,531</b>	<b>7%</b>

In calculating the wholesale purchases for the Universal Service Supplier, ERO used the current price for KEK purchases and did not reflect the inflation rate adjustment as applied by the Supplier after bilateral discussions with KEK generation. The same price issued by USS during calculation of purchases from KEK Generation. As per the reference price used for the purchases of electricity from RES that have a contractual relationship with KOSTT, ERO has used an estimated price which is higher for 15% compared to the actual one, hence USS will use the same when calculating purchases from RES for the remaining period.

Regarding the price for import purchases, ERO has used the average price used by the Supplier in its application, however during 2021 we witnessed an increase in import prices. After the pandemic affect in 2020, as a result of increased industrial consumption, low precipitation, high temperatures across Europe, green energy-related carbon regulations, and insufficient cross-border capacities, the import electricity prices in the international market increased hugely. Coal prices increased from 50€/ton to 169€/ton<sup>1</sup> (%238 increase), European Union natural gas import price is increased from 4USD/MMBtu to 15.49USD/MMBtu<sup>2</sup> (%287 increase) and carbon emission prices (Which has a direct effect on energy prices) is increased from 30 €/ton MMBtu to 62 €/ton<sup>3</sup> (%107 increase) just in one year.

<sup>1</sup> Source : Market Insider, <https://markets.businessinsider.com/commodities/coal-price> (Last visited on 06.09.2021)

<sup>2</sup> SourceL YCharts, [https://ycharts.com/indicators/europe\\_natural\\_gas\\_price](https://ycharts.com/indicators/europe_natural_gas_price) (Last visited on 06.09.2021)

<sup>3</sup> Source: Investing.com <https://www.investing.com/commodities/carbon-emissions> (Last visited on 06.09.2021)



**European Union Natural Gas Import Price**  
 15.49 USD/MMBtu for Aug 2021



All these changes in prices affected the import price of electricity. Therefore, while total import purchases in the consultative report are estimated at € 5.6 million, according to projected values during 2020, current data show that for January-July alone import reached to € 8 million, at an average realized price of 77.23 € / MWh. In this view, Supplier has updated the same to reflect the exact costs of purchases from imports and requires ERO to reflect the same.

The following table presents the request for electricity purchases for the needs of the Universal Service Supplier for 2021, which we request from the ERO to reflect before setting the maximum allowed revenues for 2021. Considering the abovementioned, inaccurate reflection of volumes and costs of electricity purchases will endanger the financial position of the supplier, who has closed the financial year 2020 at a loss.

Costs of buying of energy	GWh	€/MWh	€'000
Amounts supplied from KEK	4,021	29.50	118,625
Other generators in level of OST	359	33.89	12,150
Import	152	95.28	14,460
Imbalance and Compensation			-234
Margin with retail		3.00%	4,350
<b>Total costs of buying of energy</b>	<b>4,531</b>		<b>149,351</b>

ERO in the consultative report requires from the Supplier to prove that the purchase prices of energy must be reasonable and in accordance with the requirements of Article 17 of the USS Pricing Rule. For clarification, the Universal Service Supplier have always acted in accordance with the Procedure on Electricity Trading for energy purchases in a transparent and economical form. From practice and according to the received instructions, the contractual agreements between the parties are submitted to the market department in ERO on a daily basis, as soon as the same are signed between the parties. Furthermore, the Supplier in the regular monthly reports, reports in detail the purchases and winning companies, including other details as required by applicable law, and is open to provide any additional information as required and / or instructed by ERO.

Regarding the purchases from HPP Ujmani, as stated in the consultative report, HPP Ujmani after the expiration of the initial contract, has continued the sale and purchase of energy until date 31 December 2020, contrary to the Procedure for Electricity Trading. In our conversations with the representatives of HPP Ujman, which are evidenced through official communications, the Supplier was informed that will be notified in advance for the announcement of the bid, in accordance with the Procedure for Electricity Trading. Pursuant to Article 17, point 1 of this Procedure, long-term electricity trading, for the interaction with all potential bidders in the process of the electricity purchase/sale, the Purchaser/Seller will use the online Internet platform, official website or other communication means (email, fax or post) as defined in its tendering documentation.

HPP Ujmani has used partially and in a limited time the announcement of the bid and in this regard, since the proper prior notification for the tender announcement has not been made, USS was unable to submit the bid, respectively purchase of electricity from HPP Ujmani for this tariff year.

Considering that USS in its application has used the current values for the months of January-July, it is important to note that during January-March the revenues of USS have been lower in accordance with the Agreement and the first Amendment of the Implementation Agreement of the Law on Economic Recovery - COVID-19 on Subsidizing the Tariff for Renewable Energy Sources. At the same time, USS has been released for the obligations to KOSTT related to RES in accordance with the aforementioned agreement.

### III. Costs of personnel

The Universal Service Supplier during the application for the maximum allowed revenues has used the Operating Expenses in accordance with the application for the regulatory parameters submitted to ERO

on October 8, 2020, for which it has not yet received an assessment. This report has presented in detail the request for operating expenses as required by ERO in letter no. 295/20 dated 19.09.2020 on the Review of the input parameters and the allowed revenues for USS. In the same application, USS has clearly stated that the request presented in this document does not include operating costs for the supply of unregulated customers, who were expected to be supplied with unregulated tariffs from April 1, 2021. Moreover, also in the audited financial and regulatory statements the Supplier has presented separately the costs for operating expenses for customers supplied with regulated and unregulated tariffs. ERO's request to present the costs related to the provision of services to unregulated customers remains unclear, therefore we kindly ask ERO to explain their request in order for the Supplier to provide the information requested by ERO upon request.

In assessment of operating costs for 2021, we noticed that ERO reflected the increase in costs for health insurance, but did not take into account the comments of USS regarding the unilateral reduction of costs for operating expenses during 2020; nor it considering the costs which were out-of- it control related to the spread of the COVID-19 pandemic, other requests for additional costs related to market opening, or workers' requests for leveling salary with other sectors.

As it is known, actual situation caused from spread of pandemic COVID-19 it is one extraordinary event. This extraordinary event was received and declared as emergency of public health in international level<sup>4</sup> and spread of pandemic<sup>5</sup> from world health organization (WHO) in the beginning of year 2020, as in similar method on 15 March was declared as emergency of public health<sup>6</sup> by the Government of the Republic of Kosovo ('GoK') through Decision no. 01/11. To date, no competent authority in the Republic of Kosovo, nor the World Health Organization has issued a decision, instruction or statement announcing the end of the pandemic and the fight against the pandemic is still ongoing, negatively affecting all socio-economic aspects in our country and worldwide. While almost all commercial businesses remained closed and most employees were periodically relieved of their responsibilities at work, the supplier's employees have consistently worked to fulfill their duties to ensure a regular supply of electricity to every citizen in Kosovo, thus endangering their health.

Hence, 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, the Supplier submitted a similar request to ERO, requesting that the additional costs caused by the spread of the COVID-19 pandemic as well as o additional payments, to be recognized in the next 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 ask ERO to reflect these reasonable costs in accordance with the official letter aforementioned.

<sup>4</sup> OBSH, Përhapja e 2019-nCOV është Emergjencë e Shëndetit Publik në nivel ndërkombëtar, [https://www.who.int/news/item/30-01-2020-statement-on-the-second-meeting-of-the-international-health-regulations-\(2005\)-emergency-committee-regarding-the-outbreak-of-novel-coronavirus-\(2019-ncov\)](https://www.who.int/news/item/30-01-2020-statement-on-the-second-meeting-of-the-international-health-regulations-(2005)-emergency-committee-regarding-the-outbreak-of-novel-coronavirus-(2019-ncov))

<sup>5</sup> OBSH, OBSH deklaroi se përhapja e Covid-19 është pandemi <https://www.euro.who.int/en/health-topics/health-emergencies/coronavirus-covid-19/news/news/2020/3/who-announces-covid-19-outbreak-a-pandemic>

<sup>6</sup> Vendimi Nr. 01/11 dt. 15.03.2020 <https://kryeministri-ks.net/wp-content/uploads/2020/03/Vendimi-nr.01-11.pdf>

Regarding the expenses for shared services which ERO has reduced unilaterally after the publication of the consultative report, it is important to note that the operating expenses for the Universal Service Supplier are approved in total and they do not comply with the annual requirements of the supplier during years, as the allowed costs are a continuation of the forecasts made during the first regulatory period and do not reflect the change in prices over the years. Thus, USS operates within the allowed budget, creating efficiency whenever possible in certain items in order to be able to cover the increased costs in other items.

In accordance with the USS Pricing Rule, the USS is permitted to incur reasonable costs, such as operating and maintenance costs (OPEX), which are necessary to enable the supplier to operate. Since the functional and legal unbundling of the distribution activity in 2015, the average operating and maintenance costs allowed for the Universal Service Supplier are 6 million € on average, which are in line with the current average costs incurred by the Universal Service Supplier, as shown in the table below:

<i>(in million €)</i>	2017	2018	2019	Average / Total
<b>Costs approved</b>	5.79	5.96	6.06	5.93
<b>Costs actual</b>	5.60	6.14	5.62	5.79
<b>Difference</b>	0.18	(0.19)	0.44	0.15

*\*Please have in consideration that actual costs of OPEX don't include costs for unregulated customers*

Therefore, it is very important to consider actual and justifiable costs when determining operating costs before making adjustments that affect over 25% of total operating costs. The reduction of operating costs by 25% has put the Universal Service Supplier in a very unfavorable financial position, especially due to the fact that USS has ended 2019 with loss and at the same time during 2020 faced collection problems, as a result of the spread of the global COVID-19 pandemic, which further affected its payment capacities to cover its liabilities to other operators.

In this sense, the Supplier has updated the request for operating expenses, which it has adjusted to the expenses incurred / realized during 2020 reflected in the Financial and Regulatory Statements as a minimum requirement for the operation of the supplier.

It is important to emphasize that data presented in the financial statements regarding operating costs differ from those allowed by ERO, such as rent expenditures which from 2019 (including 2020) in accordance with accounting principles (IFRS 16 ) require the treatment of operating lease expenses as finance lease and the same in the Balance Sheet are presented under the item 'Assets use rights and lease obligations'. Respectively, the costs of rent as part of the shared services have not been taken into account by the ERO when deducting these costs and in this sense, in accordance with the agreement between the parties, we request that it be adjusted during the review of the supplier's request.

It is important to note that actual OPEX costs for the year 2020 are higher than the allowed cost of OPEX from the Regulator that does not consider these justified costs, by risking the financial stability of the public supplier.

Finally, in accordance with the above-mentioned, the demand for operating expenses for 2021 is 6.12 million €, including capital expenditures allowed for the supplier.

#### IV. Pass-through costs

USS has noticed that ERO has calculated less cost for USS obligations for the use of the transmission and distribution network, but for which it has not provided detailed information. Considering that the current data for the months of January-July are higher than the estimates of ERO, USS in its report has presented the actual values realized for 2021, while for the remaining months without knowing the exact estimates of ERO has used the current prices. Therefore, after the accurate calculation of prices for the network operators, the same should be reflected by ERO in the remaining months, before setting the Maximum Allowed Revenues for 2021.

#### V. Actual regulated revenues and calculation of correction factor – KREV

In calculating the actual costs for 2020, in accordance with the USS Pricing Rule, ERO in difference from the values presented in the Supplier's request, did not take into account the costs affected by the spread of the COVID-19 pandemic. According to the justifications presented in part four (IV) of this document, the supplier in the calculations presented in this document will take into account the costs incurred as a result of the spread of the pandemic, as they occurred outside the control of the supplier.

Regarding the changes in the values of the supplier's obligation to the Transmission Operator (TSO), it is important to clarify that the amount of € 15.22 million is in line with the payments made by the supplier to the TSO on a monthly basis, as shown in audited financial and regulatory statements. Monthly invoices in the amount of 15.22 million euros have been submitted to ERO, but if necessary we can re-submit them in order to reflect the exact cost that the supplier has paid to the TSO. In this view considering the above, the value of adjustments for 2020 results in 5.51 million €.

Another issue raised by the ERO is the difference between the amount of energy purchased (wholesale) and the amount of energy billed to final consumers during 2020. The ERO further raises its concerns about the method used nominations, which is resulting that parties USS and DSO do not have uniform results but one party continuously pulls, while the other party continuously pushes in the system.

It is important initially to emphasize that the nominations between USS and DSO are made in accordance with the guidelines and regulatory procedures in force. Nominations and then hourly realizations between USS and DSO are divided according to the coefficients, as approved by the regulator through decision V\_1276\_2020 dated 27.08.2020. Furthermore, the revenues generated by USS through the balancing mechanism, the supplier returns through annual adjustments to the final consumer by applying the interest rate, in which case the final consumer is benefiting. This issue has been discussed also with the ERO, but until the current methodology is changed, companies are obliged to act conform guidance and regulations in power.

USS has raised all these concerns regarding the nomination methodology and the calculation of deviations during the consultation process for balancing mechanisms, until a detailed study is conducted and methodology to ensure reasonable assessment and judgment to cover all reporting and parameterization requirements, but these were not taken into account.



With the aim of properly reflecting the costs, the parties USS and DSO apply the necessary monthly corrections, according to the calculations received from KOSTT. It is important to emphasize that conform ERO's request and official letter dt. 7 July 2021, USS has applied the necessary correction, which were taken into consideration during the calculation of the final request for Maximum Allowed Revenues for 2021. The supplier is open to discuss the change of the current methodology, but until then it should be re-emphasized and clarified that USS acts in accordance with the procedures drafted and / or approved by the regulator.

## VI. Bad debt

Bad Debt is an assessment and reasonable level of bad debts incurred by the Universal Service Supplier during a respective year. Pursuant to Article 16 of the USS Pricing Rule, allowable bad debt costs will be set by the ERO when determining entry values and will be calculated by applying the allowable level of bad debt in the initial MAR calculation.

In September 2020, ERO requested the review of regulatory parameters for the Universal Service Supplier. In accordance with ERO's request in October 2020, USS applied for 3-year regulatory parameters, including Bad Debt. However, as a result of the non-completion of the ERO board, the USS request was not reviewed to date. Respectively, ERO in the consultation report for the maximum allowed revenues for 2021 has used the same level of bad debts as in recent years.

It is important to clarify that the common error when calculating the level of current bad debts is the consideration of all Supplier revenues. As it is known, the supplier also accepts payments which are not related to the billed energy, while the level allowed for bad debts is allowed on the basis of the initial MAR and as such should be calculated only in the billed amounts of electricity for the respective year.

USS constantly argued that the current ratio is higher, also expressing concern that the level of bad debt will increase further when we consider that customers connected at the level of 35 kV and 10 kV will operate in the unregulated market, as USS will remain mainly with irregular payers, who tend to delay and / or refuse their payments of bills received. Considering the strict regulations for disconnection for customers which submit complaints, as well as the bureaucratic and slow work of the courts in Kosovo, operations will become impossible to handle within the respective tariff year.

Moreover, the spread of the pandemic worldwide during 2020 had an unprecedented effect on the company, immediately resulting negatively in the collection ratio from electricity bills, which further affected the commercial activities of the company. Considering that this was a force majeure event all over the world and that it has negatively affected the financial and social stability of the country, USS, even though it was a negatively affected company, supported its customers by providing supply reliable and uninterrupted of electricity and by not applying disconnections during the quarantine period, despite the fact that the financial position of the company was severely weakened.

In this view, the effect of the pandemic spread in the company was large and irreparable from the allowable level of bad debts. Since this is a force majeure effect and out of the supplier's control, the Universal Service Supplier has presented the effect of the pandemic in its request for the permitted level

of bad debt for 2021, conforming to the analysis presented in the request for regulatory parameters, which has been done in accordance with new expectations and taking into account the information available at the time such as: historical data on the possibility of payment by consumers, the number of closed businesses on an annual basis and the number of closed businesses as a result of the pandemic effect.

## VII. Final proposal for maximum allowed revenues for year 2021

Taking into account the above mentioned, the final proposal for the maximum allowed revenues for year 2021 for USS, which should be considered by ERO are € 316.16 million, the details of which are presented in the following table:

Proposal for USS for year 2020	mil €
It	6.85%
<b>Allowed costs with retail</b>	<b>6.12</b>
<i>OPMCt</i>	6.01
<i>DEPCt</i>	0.11
<b>Carrying costs (PSTCt)</b>	<b>137.66</b>
Payments for OST	21.51
Payments for DSO	104.21
Fund for BRE	11.94
<b>Working Capital (WCLCt)</b>	<b>1.67</b>
<b>Buyings with wholesale (WHPC)</b>	<b>149.35</b>
<b>Payment for license</b>	<b>0.03</b>
<b>Correction Factor (ADJ)</b>	<b>5.51</b>
Bad debt	5.0%
<b>The maximum allowed revenues 2021</b>	<b>316.16</b>

The Maximum Allowed Revenues required for 2021 reflect the current expected costs for 2021 taking into account the current data for months January-July and, while for August-December it used the forecast volumes in the approved energy balance and prices expectations in the upcoming months. USS believes that the required costs for year 2021 are reasonable and as such should be considered by ERO during the final decision-making process.