Pristina, 16 April 2025
ERO Code: V_2702_2025

The Board of Energy Regulatory Office,

Based on Article 9, paragraph 1, subparagraph 1.7; Article 15, paragraph 1, subparagraph 1.5; Article 25, Article 26, paragraph 1, subparagraph 1.2; Article 46, paragraph 1, subparagraph 1.2; Article 47, Article 48, and Article 49 of the Law on the Energy Regulator (Law no. 05/L-084); the provisions of Article 27 and Article 28 of the Law on Electricity (Law no. 05/L-085), the legal provisions of Rule no. 05/2017 on Determination of Maximum Allowed Revenues for the Distribution System Operator (Rule on DSO Revenues), Principles on Determination of Distribution Use of System Charges; Methodology on Determination of Distribution Use of System Charges; Decision V_2697_2025 of 11 April 2025 on the Maximum Allowed Revenues (MAR) for DSO and the DSO Proposal for the approval of the regulated tariffs of the Distribution System Operator, submitted on 14 April 2025,

in the session held on 16 April 2025, issued the following:

D E C I S I O N

I. **APPROVAL** - of Distribution Use of System (DUOS) Tariffs, to be implemented by the Distribution System Operator (DSO).

II. The structure of DUOS tariffs that will be implemented by DSO is provided in the following table of this decision:

Distribution Use of System Tariffs		
Voltage level	Unit	Tariff
35 kV	€c/kWh	1.74
10 kV	€c/kWh	2.33
0.4 kV	€c/kWh	3.46

III. The decision will be implemented by the Distribution System Operator (DSO), starting from 1 May 2025 until the next tariff review.

R E A S O N I N G

- The Energy Regulatory Office (ERO) on 20 December 2025, initiated the process: Annual adjustments of revenues and tariffs for regulated operators, including the Distribution System Operator (DSO).

- ERO, according to its notice, has evaluated that this process of annual updates of revenues and tariffs for the relevant tariff year 2025, aims to ensure that the Maximum Allowed Revenues (MAR) for regulated licensees are in line and in compliance with real costs and forecasts for the tariff period.
- ERO has informed that in accordance with the rules on licensees' revenues, the forecasts must be updated to take into account the differences between the forecast and realized values. Therefore, the adjustments are passed through to the following year, or the differences of year t-1 are passed through to year "t" within the framework of the relevant tariff process. It has also emphasized that following the collection of the relevant data from licensees, it will analyse and evaluate the applications of licensees to determine the real costs reflected therein.
- ERO, through the notice, has emphasized that it will publish the applications to the extent allowed by the relevant legislation, once they are considered complete and will assure all stakeholders that ERO's analyses of this data and its proposals will be published for public consultation, so that the final decisions take into account the relevant data and comments from stakeholders.
- ERO, on 24 January 2025, received the application from the Distribution System Operator (DSO), for the Maximum Allowed Revenues for the year 2025.
- During the process of reviewing the application for Maximum Allowed Revenues, within the framework of the application review process and further clarifications, ERO, through continuous correspondence, has requested from DSO JSC to provide information, update data, arguments and supporting documentation regarding all identified issues in order to have transparency for making a fair and cost-reflective tariff decision.
- Following ERO's initial evaluation of the applications regarding Maximum Allowed Revenues (MAR) for the licensee Distribution System Operator (DSO-KEDS JSC) with the realized and forecast data of the technical, economic and financial indicators, the licensee and other stakeholders had the opportunity to submit their comments through public consultation for a two-week period.
- ERO, on 14 February 2025, published the Consultation Report - Annual Adjustments of the Maximum Allowed Revenues of the DSO for the relevant tariff year 2025. Following the publication of the Consultation Report - Annual Adjustments of the Maximum Allowed Revenues for the DSO, in which the actual and forecast data of the technical, economic and financial indicators are presented, ERO invited all stakeholders to submit their comments through public consultation for a two-week period.
- The Consultation Report has presented ERO's proposals for the MAR to be recovered by the DSO during the relevant tariff year 2025. The approved Maximum Allowed Revenues will determine the Distribution Use of System tariffs, which will be charged to the users of the Distribution System. The Consultation Report for the DSO has addressed the operating and maintenance costs, the depreciation cost and the allowed return on capital for the year 2025, which will be determined by ERO during periodic reviews on a real basis (excluding inflation). Consequently, these costs should be indexed to the inflation rate during each regular annual adjustment. The Rule on Allowed DSO Revenues determines that costs must be indexed to the Harmonized Index of Consumer Prices rate, published by Eurostat for the 20 Eurozone countries, which for 2024 was 2.36%.
- The Consultation Report also addressed additional OPEX costs including the costs of operating the DSO in the four municipalities in the north of Kosovo, where based on ERO's analysis, in the review of these costs, it has analysed in detail all the costs related to the provision of services in the four

municipalities in northern Kosovo in comparison to the costs related to similar services in the part operated by the DSO. Based on ERO's analysis, the value of €0.362 million is contracted services related to network maintenance and new connections, while the value of €0.573 million is expenses for other services within the DSO. In total, ERO has evaluated that for 2025 these costs will be in the amount of €0.935 million.

- The Consultation Report also addressed adjustments for depreciation and return on capital investments, where during the evaluation of the application, it recognized the investments in meters received during 2024 as an investment for the installation of new meters worth €2.275 million. Due to the depreciation period of 10 years, this investment also affects the depreciation basis and return on investment in 2025. The impact of this investment on the costs allowed for depreciation in 2025 is €0.228 million, while on the return on investment is €0.157 million.
- Investments for the four municipalities in the north of Kosovo in 2024 and 2025 have also been recognized, where ERO, based on the Energy Guidelines and the Elektrosever License, in addition to the investments recognized in 2024, has evaluated that the investments foreseen in 2025 are necessary for the provision of quality services and the reduction of losses in the four municipalities in the north of Kosovo. For 2025, ERO has proposed an additional investment of €2.29 million for the DSO.
- The Consultation Report also addressed the update of the allowed costs of losses for the DSO for 2025, taking into account the Energy Balance for 2025. ERO, in order to evaluate the costs related to the purchase of losses at the DSO level, has analysed the data reported by the DSO for 2024 and the data for the forecast of the balance for 2025. Based on the DSO's Electricity Balance, the gross electricity consumption according to the ERO proposal is higher than that proposed by the DSO, because by contrast, ERO has taken into account the actual realizations of January 2025 and February 2025, which have resulted higher than those planned by KEDS.
- ERO has evaluated the performance achieved by the Distribution System Operator in 2024 in reducing distribution losses by 0.84% percentage points compared to 2023. In 2024, the DSO has reached and exceeded the loss target of 14.70% by 0.51 percentage points. In 2025, the loss target of 13.30% will be applied, according to ERO's Decision V_1636_2022 on the DSO loss reduction target. This establishment of the allowed percentage of losses is an important step in the process of further development of the energy sector in Kosovo and contributes to the stability and improvement of energy supply to customers throughout the country, including the four municipalities in the north of Kosovo.
- ERO has also evaluated that taking into account that 2024 was the first billing year in the 4 municipalities in the north of Kosovo, and the loss targets set during the review of multi-year input values for the DSO were set by considering only consumption in other municipalities of Kosovo (excluding the 4 municipalities in the north), respectively in the part of the Republic of Kosovo in which they have control, this principle will continue to apply until the next review of input values.
- ERO has also evaluated that after the normalization of electricity supply in the four municipalities in the north of the Republic of Kosovo, ERO, in accordance with the Brussels Agreement Roadmap and secondary legislation, has treated the assets and energy for the supply of the four municipalities in the north, based on the responsibilities of the Distribution System Operator and the Retail Supplier. As a result of the new circumstances created by the normalization of supply, the DSO in the past year, with the support of local and international institutions, has undertaken

several actions in investments and in operation and maintenance of the assets that supply electricity in these four municipalities in the north. This has enabled the DSO to accurately identify the energy flows in this part of the distribution system by identifying the amount of energy consumed by customers as well as losses in the distribution network.

- The DSO, in the initial application, had proposed a value of 49.50 GWh for energy losses in the municipalities in the north. After reviewing the data and analysis, the DSO has updated the data, increasing the value of the losses to 80.25 GWh. However, following the review of this data, ERO proposes that the energy losses of 61.67 GWh reflect the real losses that can be achieved in the municipalities in the north, based on the investments undertaken in the past year and those expected to take place this year, as well as the improvement of the operating circumstances of the DSO in this part. The electricity losses in the four municipalities in the north of Kosovo, in relation to the total energy (losses + consumption) in these municipalities in 2024 were 24.50%. In the second year of operation of the DSO in the north of the country, ERO has proposed that the losses in the DSO for these municipalities in the north of Kosovo shall be reduced to 21.5% during the year 2025, through investments allowed by ERO. In order to provide incentives for the DSO to improve performance, namely to reduce losses in this part of the DSO network as a balanced benefit between the DSO and customers, ERO has proposed a loss target of 21.5% by applying a 50/50 sharing factor. This proposal by ERO for this loss target is based on the current level of losses realized in 2024, the investments made and those expected to be realized by the DSO in 2025, further possibilities for reducing losses based on improvement of the general operating circumstances.
- ERO evaluates that DSO investments in advanced metering will enable better network management and DSO losses can be further reduced, leading to increased efficiency and cost savings across the system, ensuring that sustainable loss targets are achieved and creating a basis for increased performance in the coming period.
- The Consultation Report also addressed the forecast of electricity purchase costs for imports for 2025, where ERO in the preliminary evaluation has forecast the costs of purchasing electricity to cover losses based on a) the forecast amounts of electricity purchased from KEK and imports, b) the profile of losses from historical data of the DSO, c) forecasts of electricity prices from KEK and imports, based on HUDEX (Hungarian Power Futures) data, and d) costs for capacities (capacity allocation) based on historical data. The forecast amounts of electricity purchased from KEK include the amounts released from KEK's supply under the Bulk Supply Agreement (BSA), after including the effect of customer deregulation. The forecast of the average import price (WHEAt) by ERO is presented in the Consultation Report. Therefore, after the evaluations, the forecast import prices (including cross-border costs) vary from €74.05/MWh in May to €180.3/MWh in February, reflecting price fluctuations in international markets. From ERO's analysis, the forecast average price of electricity to cover losses by the DSO during 2025 will be €96.07/MWh.
- The Consultation Report also addressed the forecast of costs for DSO losses in 2025, where based on the Energy Balance, Chapter 2.1, as well as the forecast of the average energy, Chapter 2.2, ERO has made a forecast of costs for covering allowed losses of DSO in 2025, according to the table presented in the Consultation Report. DSO has proposed a value of energy inputs of 6,223.84 GWh, which is based on the draft energy balance which has been updated from the initial application. ERO, after analysing this data, has taken into account the updated realization data for the months

of January-February 2025, where there is an increase in energy inputs at the DSO level in the amount of 6,318.31 GWh.

- The Consultation Report also addressed the adjustments for the revenue correction factor from 2024, where according to the Rule on Maximum Allowed Revenues, the revenue correction for 2024 has been conducted. The principle applied is based on the overall evaluation of allowed costs and actual realized revenues. The difference between the AACat-1 actual allowed costs of €152.501 million and the ARRt-1 realized revenues of €128.477 million, after applying the interest rate, results in €26.198 million. This difference between actual revenues and allowed costs is passed-through as an update when determining the MAR for 2025. Table 8 of the Consultation Report presents data on operating expenses (OPEX), depreciation, return on investment, and expenses for purchasing energy for losses, pass-through costs, unadjusted revenues for adjustments to allowed revenues for 2024 and the revenue correction factor (KREV). The realized cost values for 2024 are higher than those allowed in several categories, especially for purchasing energy for losses, where actual costs are around 33 million euros higher than allowed costs. KEK has not supplied the forecast amount of electricity due to the technical conditions of the power plant units and their lifespan, therefore replacing this energy with imports has caused higher costs and significantly higher prices. The KREV revenue adjustment factor will be used to update the values of the Maximum Allowed Revenues for 2025, reflecting the differences between the allowed costs compared to the revenues realized in 2024. The EURIBOR rate of 3.31% for 2024 is the interest rate that reflects the cost of short-term loans that banks apply for a one-year period. This EURIBOR rate plus the S factor which represents the value determined by ERO during periodic reviews that reflects the premium payable by the licensee on loans which serves as a basis for calculating the "It-interest rate" that they pay on loans taken to finance their investments or operations.
- The Consultation Report also addressed the adjustments for the pass-through costs in 2024, where the obligations of the DSO towards the Market Operator (MO) and the System Operator (SO) will be adjusted to reflect the differences between the forecast and realized energy volume in 2024. ERO has made the adjustments to reflect these differences. The value of these adjustments is 0.15 million (the difference between €2.56 million and €2.41 million).
- The Consultation Report also addressed non-tariff revenues in 2024, where the DSO requested from ERO to approve the application of a 50% sharing factor on revenues generated from additional services, to stimulate innovation and ensure the financial sustainability of the operator, while maintaining a fair balance between the interests of customers and operators. According to the DSO, this approach would enable support for the development of new services and would contribute to increasing the sustainability of the energy sector. ERO evaluated the sustainability of the regulatory practices followed over the years, which provide for a clear and balanced handling of unregulated revenues from excluded services. ERO has implemented, so far, a sustainable approach to protect the interests of customers and ensure a financial balance for operators. ERO, based on these practices and the current adopted rules, has emphasized that it cannot approve immediate changes in the handling of additional services revenues. Any change in regulatory policies must be made in full compliance with the principles and objectives set out earlier, in order to maintain a fair and sustainable system for all stakeholders. Therefore, the DSO's request for a 50% allocation factor cannot be approved at this stage. ERO has suggested that any possible

change shall be examined in more detail, based on the principles of transparency and customer protection. This is a form of in-depth consultation with all stakeholders to ensure a fair and sustainable decision. This decision is related to the fact that at this stage, there is not a sufficient need to change existing policies and no strong evidence has been identified that such a factor would bring visible benefits to the sector and customers.

- The Consultation Report also addressed the adjustments for allowed losses in 2024, highlighting that the main adjustments for 2024 relate to adjustments for allowed costs of losses. Although the DSO exceeded the loss target in 2024 by 0.21 percentage points (from 14.70% to 14.49%), the increase in costs for the purchase of allowed losses, with a large part outside the control of the DSO, has caused the increase in the overall costs of the DSO during 2025.
- ERO has emphasized that the increase in costs for the purchase of allowed losses is a result of two main causes: increased energy consumption by USS customers and the increase in the price of electricity compared to forecasts as well as the increase in cross-border capacity costs.
- ERO emphasizes that based on the Bulk Supply Agreement, the USS has priority in purchasing energy from KEK. Due to the increase in consumption by USS, KEK has not been able to supply DSO with electricity according to the forecasts for 2024. As a result, DSO has been forced to import energy at a higher price. Consumption and consequently losses at DSO have increased in months with high electricity prices. While regarding the increase in energy prices compared to forecast and the increase in cross-border capacity costs, it is emphasized that during 2024 there was an increase in prices on European energy exchanges, compared to forecasts for price stabilization. Moreover, because most countries in the region are net importers, cross-border networks are often loaded. This leads to an increase in prices for the use of cross-border lines for import. In September, the average cost of cross-border lines was €94.47/MWh, or 78.2% of the electricity price on the exchange. The difference between the forecast import prices and the prices realized during 2024 is presented in the Consultation Report. Therefore, the average energy price has increased from €63.03/MWh to €98.80/MWh, a significant increase that has directly impacted the increase in the total cost. The price increase is a consequence of various factors such as the increase in energy demand, the lack of local production, and its replacement with imported energy and the increase in prices in international energy markets. Therefore, the total realized cost has increased from €65.37 million to €97.54 million, a significant increase of €32.17 million or about 49.3% which will be adjusted to the costs of 2025.
- The Consultation Report also presented the initial proposal for the Maximum Allowed Revenues for the DSO, for the year 2025, based on Rule No. 05/2017 on Determination of Maximum Allowed Revenues of the Distribution System Operator, where the revenues proposed by ERO for the year 2025 reflect the increase in costs for the year 2025, the adjustment for inflation, interest rates, and the increase in losses, as well as a correction of the revenues allowed by ERO to ensure a fair balance between the operator and customers and after all these adjustments and factors, result in €181.574 million, a figure that is lower than the operator's initial proposal of €217.770 million.
- The Consultation Report was published for public discussion by ERO with the aim of receiving comments from stakeholders on ERO's proposals.
- During the public consultation, ERO received comments from citizens and various stakeholders, including: INDEP, civil society organizations, Green Energy Kosovo, Institutions of the Republic of Kosovo, and energy enterprises.

- The Distribution System Operator submitted comments on 28 March 2025, to the Consultation Report on the Annual Adjustments of Maximum Allowed Revenues for KEDS.
- ERO analysed in detail all the received comments and considers them to be an important part of the public consultation process. ERO has received several similar or identical comments from different citizens, while in the Final Report (Responses to Comments) published by ERO on 11 April 2025, the comments and responses to each of the issues raised by citizens and stakeholders were presented, and after the analysis and professional evaluation, it published written responses which were included in the Final Report.
- The Final Report on the Review of Maximum Allowed Revenues for DSO, also includes updated data from DSO, which after analysis by ERO were taken into consideration in the final evaluations and responses to comments from stakeholders on the issues raised and the final evaluations.
- ERO, in the Final Report has addressed the final proposal for the DSO's Maximum Allowed Revenues (MAR) to be collected from regulated tariffs. The MAR reflected in this chapter takes into account the Responses to Comments (See Annex 1 for all Responses to Comments - Final Report). ERO, during the consultation process has reviewed the estimated costs for loss purchases, through the review of prices in the HUDEX advance contract market, as well as by reviewing the forecast costs of cross-border capacities. The forecast purchase amounts and the profile of energy purchases from KEK and from imports remain unchanged. For the initial forecast of the price for TSO import purchases in 2025, ERO relied on the results of the auction on HUDEX, dated on 6 March 2025. ERO has updated these forecasts with the results of the auction for long-term contracts (monthly and quarterly), dated on 4 April 2025 in HUDEX.
- ERO, in the final report on the forecast of cross-border capacity costs was based on the average data realized for cross-border capacities during 2024 and 2023. After the consultation process, ERO evaluated that the costs of cross-border capacities in September 2024 were outside normal market values, and were reviewed based on linear interpolation between August and October 2024. ERO also compared this average with those realized in 2022, and evaluates that the average of 2024 and 2023 represents expected values of cross-border costs during 2025. After reviewing these two components, the forecast average price of purchasing energy from imports for the DSO has decreased from €147.01/MWh to €145.76/MWh. The forecast average price of total energy purchases has decreased from €96.07/MWh to €95.39/MWh. Consequently, the total forecast costs for energy purchases by the TSO have been reviewed from €86.652 million to €86.039 million. It has also addressed the reviewed cost forecasts for obligations towards the TSO and MO, where the calculation of obligations for 2025 towards the SO and MO is made based on the estimated tariffs of the SO and MO for distribution, and the volumes of distribution purchases for loss coverage. Therefore, during the consultation process, ERO has reviewed the MAR for the TSO (Chapter 3), based on which the forecast tariffs of the TSO have also changed. As a result, the obligations of the DSO towards the MO and the SO have also been reviewed.
- Therefore, the Maximum Allowed Revenues to be collected by the Distribution System Operator (DSO) for the relevant tariff period of 2025 are in the amount of €180,652,995, as determined by Decision V_2697_2025, of 11 April 2025.
- The DSO, based on point III. of the enacting clause of Decision V_2697_2025, of 11 April 2025, is obliged to prepare and submit to ERO the proposal for approval of the tariffs for the Distribution Use of System for the year 2025.

- ERO on 14 April 2025, received from the DSO the proposal for Distribution Use of System Tariffs.
- ERO has evaluated the tariffs proposed by the DSO and has concluded that the tariffs have been calculated in accordance with the Methodology on Determination of Distribution Use of System Charges. The DSO's proposal for DSO tariffs is based on ERO's decision on Maximum Allowed Revenues V_2697_2025, dated on 11 April 2025.
- ERO has evaluated the proposal for Distribution Use of System Tariffs and has concluded that the tariffs fairly reflect the reasonable costs of providing the relevant services.
- The ERO Board, following the evaluation and analysis of the proposal for Distribution Use of System tariffs, based on decision V_2697_2025, dated on 11 April 2025, on the Maximum Allowed Revenues for the DSO and the Methodology on Determination of Distribution Use of System Charges, has evaluated that the DSO tariffs have been calculated for the service costs for the relevant tariff year 2025, and based on the legal provisions mentioned in the introductory section of this Decision, has decided as in the enacting clause of this Decision.

III. The decision is issued and published in official languages of the republic of Kosovo

IV. The decision enters into force on the date of approval by ERO Board and will be published on the official website of ERO.

Legal advice: The party dissatisfied with this decision may initiate an administrative dispute at the competent court, within thirty (30) days from the day of receipt of the decision or the date of its publication on ERO's website, whichever occurs last.

ERO Board:

____

Ymer Fejzullahu, Chairman

____

Lutfije Gashi, Member

____

Gani Buçaj, Member

____

Arta Isufi, Member

____

Adnan Preniqi, Member

This decision is sent to:

- KEDS,
- KESCO,
- KOSTT, and
- ERO Archive.