



Prishtina, 12.10.2016

**Response to Comments Received During Public Consultation Process
for
Thermal Energy Tariff Review for DH Termokos – Season 2016/2017**

1. Introduction

In line with legal requirements, on 20 September 2016, ERO issued for Public Consultation the Draft Report: Preliminary Evaluations for Determination of Allowed Revenues for DH Termokos for season 2016/2017. Upon this, all involved stakeholders and broad public were invited to provide their comments on this Report. Also, under the consultation process, on 4 October 2016, ERO organized the public session, where the Report was introduced and answers to parties' questions were provided as well. During public consultations, ERO received written comments from DH Termokos. Responses to these comments are provided below.

2. Responses to Comments Received by DH Termokos

Comment 1: Cost of Thermal Energy from Cogeneration

a. Fixed Component (Reserved Capacities , item 12. Table No.1 of Regulatory Report);

The reserved capacity for heating season 2016/2017 is based on energetic balance for 2016 (October, November and December 2016) and the one planned for 2017 (January, February, March and April 2017).

According to these two documents, Termokos has planned and also has on its availability 37, 294 MW -electrical. The cost for this capacity, considering the current price of 19.83 €/MW, approved by ERO, is:

$$37,294 \text{ MW} \times 19.83 \text{ €/MW} = \mathbf{739,540.02 \text{ €}}$$

b. Variable component (Planned energy , Item 2. Table No.1 of Regulatory Report)

Energy planned for utilization, based on allowed capacities and efficiency coefficient $f=6.56$, for season 2016/17 shall be: 244, 648.00 MW thermal. The cost for this energy, taking into consideration the current price of 1.27€/MWh, approved by ERO, is:

$$244,648.00 \text{ MWh} \times 1.27 \text{ €/MWh} = \mathbf{310,702.96 \text{ €}}$$

*On behalf of these two components, Termokos shall pay to KEK the amount of **€ 1,050,242.98**.*

*If Annual Licensing Tax is added, in the amount of 24,401.00€, then thermal energy cost for 2016/2017 is **€ 1,074,643.98**.*



Response:

The above comment of DH Termokos is related to the value of thermal energy purchase cost from cogeneration in TPP Kosova B. Regarding this, the following explanation is provided:

- Firstly, in its initial application DH Termokos presented the amount of € 1,134,263, but did not provide details and explanations on how it was calculated.
- In our written comments dated on 15 August 2016, we required to provide details on how this cost was calculated, by providing separately thermal energy capacity component and quantity component.
- Required data and calculation details were provided in the response of DH Termokos- therefore, for the reserved electrical capacity was given the amount of 37,214 MW_{EL}, which was accepted as real and based on Electricity Balance. Whereas, in the last comments you changed this value to 37,294 MW_{EL}/h. Despite the fact that it is a small difference, ERO stands on its previous evaluations.
- Therefore, based on your forecast as well as its own calculations, ERO calculated the cost for reserved capacity, as follows:

$$37,217 \text{ MW}_{\text{EL}}/\text{h} \times 19.83 \text{ €/MW}_{\text{EL}}/\text{h} = 737,954 \text{ €}$$

- Same as for reserved electrical capacity, this value was also changed for thermal energy amount, from 244,013 MWh to 244,648 MWh, without any additional explanation.
- ERO made its own evaluations based on the data provided from you and also Energy Balance and calculated thermal energy cost, as follows:

$$244,013 \text{ MWh} \times 1.27 = 309,897 \text{ €}$$

- ERO also added to this cost the value of annual licensing tax in the amount of 24,401 € and finally the cost for the quantity of thermal energy from cogeneration, resulted in:

$$309,897 \text{ €} + 24,401 = 334,298 \text{ €}$$

- As a result, final value of thermal energy purchase from cogeneration is calculated:

$$737,954 \text{ €} + 334,298 \text{ €} = 1,072,252 \text{ €}$$

Comment 2: Electricity cost

In the previous season 2015/2016 (July 2015- June 2016), for electricity (Generation + Distribution) we paid the amount of 478,767.69€.

The amount of €550,000.00 is planned for season 2016/17. This increase of 15% is real and is justified with the following data:

a. *There is a planned increase of 23% of extracted energy, from 198,696.00 MWh in season 2015/2016 to 244,648.00 MWh in season 2016/2017. The increase of extracted energy determines the increase of electricity (cogeneration network pumps have to work with larger load);*

b. *Reconstructed substations (50 substations) have additional electricity expenses, since there are 100 installed pumps with the power of 0.3 kW.*

c. *We are in a dispute with KESCO regarding the accuracy of electricity metering for the Heating in previous years (KESCO claims for a correction with a coefficient of 1.76 for last 12 months). Since,*



According to KESCO, the metering group is in regular condition, it is expected that we shall receive higher electricity bills in this season.

“Therefore, the planning of € 550,000.00 for electricity cost, which represents an increase of 15% compared to the previous season is real and shall not be disputed in no account.”

Response:

- Despite the fact that the above mentioned justifications stand, ERO evaluates that this increase does not fully correspond with the addition of the number of substations, namely heating area because respective shares are significantly lower than the share of forecasted electricity cost increase.
- Regarding the dispute with KESCO for correction of electricity billing due to inaccuracies in metering, ERO thinks that, since this dispute is in the resolution phase, the result cannot be evaluated, and as a result this is not taken into account for this period. However, following the dispute resolution, the corrections shall be taken into consideration for adjustment in the next tariff review.
- As stated above, ERO evaluates that the allowed electricity cost in the amount of **€ 450,000** is sufficient to cover the overall electricity consumption for the period in question, including additional expenses due to the increase of heating area and installation of additional (new) equipment.

Comment 3: Water Cost for replenishment of heating system:

DH Termokos presented the amount of € 85,000.00 for water cost for replenishment of heating system, based on previous years (especially in the period October 2015- October 2016, where water cost was around € 83,000.00 billed and paid)

“Due to this reason, we planned water cost in the amount of € 85,000.00, which is a real amount. We shall also notify that RWC Prishtina since 2015, has been billing all substations of “Termokos” which have not been billed before. In any case, the enterprise is engaged in many repairing activities of heating system (which would reduce the existing water losses), but the old age of the system remains significant and causes current losses”

Response:

- For water cost, ERO carried out the evaluations based on forecasted consumption of 75,500 m³ by DH Termokos and actual tariffs for water services of RWC Prishtina- for water supply service: 0.88 €/ m³ and for wastewater service 0.105 €/m³.
- Based on these data, ERO calculated the cost and allowed this cost in the amount of € 75,000, and therefore considers that it is sufficient for water payments registered by RWC. As mentioned above, investments in the network and substations during this season (for which respective funds are allowed) shall positively influence the decrease of water flows through pipes and apropos decrease of water expenses.



Comment 4: Personnel Cost

Compared to previous reporting, costs of salaries are forecasted to be increased for around 17%, even though the enterprise did not provide any details regarding the increase of number of employees or average salary. The enterprise forecasted an increase of this cost due to the fact that this cost has been significantly low in the previous years and did not meet the needs for full work efficiency. Following the implementation of cogeneration project, we need extra staff in main thermal-substation in KEK, and with the new systematization extra staff is required for fulfilling the needs of the enterprise. In any case, upon the realization of cogeneration project, the demand for connection to the heating system has increased considerably, therefore an analysis for the increase of number of employees shall be made, in order to carry out effectively the services to actual and future customers, and to increase the performance of the enterprise to a desirable level as well.”

Response:

- ERO evaluated that the increase proposed by DH Termokos does not provide necessary details, such as: increase of the number of employees, raise of salaries, average salary etc. which are necessary to justify the proposed increase. There is also no significant expansion of DH Termokos operations which would imply a significant increase of the number of employees.
- ERO evaluated that an increase of 5% for this cost is justifiable, and therefore allowed the amount of **€ 786,734 €** for personnel cost ('direct labour'). It also suggests the enterprise to increase its productivity which is among the critical determiners of cost efficiency.

Comment 5: Cost of Bad Debts

Costs of bad debts are forecasted in an amount of 10% from billing for the season. Even though compared to previous years, this estimation is quite modest, always based on collection from previous years, where collection would not even exceed 70% (which would oblige the enterprise to estimate the cost of bad debts in 30% of billing). Despite that following the execution of cogeneration project, a positive movement was noticed from customers side with respect to billing, billing system in facilities affects heating abuse by many customers as well as failure to pay their obligations. Heating system in old facilities, which includes the majority of customers, does not allow us to take measures by disconnecting debtor customers which hampers the activity of collecting the revenues. Therefore, we require the proposed cost of bad debt in an amount of 10% of billing, which is an optimistic objective compared to the revenues we have had until now.”

Response:

- In line with provisions of Thermal Energy Pricing Rule, cost of bad debt is calculated as a reasonable share in the revenues of the enterprise (i.e. the billing value from heat sale). This “reasonable share” shall be appointed in such a manner to stimulate the enterprise to raise its efforts on increasing payment collection level from customers, but it simultaneously takes into consideration that a considerable amount cannot objectively be collected, therefore shall remain as a debt which shall actually not be realized. From what was said above, ERO thinks that the level of 5% for the bad debt is reasonable, and as a result allows bad debt cost in an amount of **273,447 €**.



- Also, local and international pricing regulatory practices determine the reasonable share of bad debts in an amount of 5%.

Comment 6: Repair and Maintenance

“In parallel with the realization of cogeneration project, the requirements for repairs from customers have also increased, such as the need for network maintenance in a more efficient manner, therefore the enterprise estimated that these expenses shall be quite high during the reporting period. It shall also be taken into consideration that until now the enterprise has only reported for seasonal period, where a significantly low value was reported due to the fact that network repairs and maintenance are mainly executed off-season”

Response:

- DH Termokos planned the amount of € 150,000 for repairs and maintenance cost- therefore a significant increase of € 90,350 or 151% compared to the realization of this cost in the last period/season 2015-2016 (€ 59,650). There is also presented an increase of €63,864 compared to the cost realized according to Financial Statements for 2015.
- Following the analysis of this cost and comparison to previous seasons, ERO evaluated that this planning exceeds the usual repair cost. Consequently, ERO evaluated that such an increase is not sufficiently justified and does not reflect the usual costs of repair that are incurred to the enterprise. Taking into consideration the increase of heating area, namely new planned connections, the provision of a quality supply and stable operations of plants, equipment and network, it is concluded that an increase of 25% compared to the cost realized in 2015 is reasonable. ERO considers that the allowed amount of **€107,670** for repair and maintenance cost in this season is reasonable and reflects the ordinary expenses of repair and maintenance that are incurred to DH Termokos for provision of district heating services. Any excess of this cost may be adjusted for the next season, if DH Termokos proves with correct data that the excess of this cost was justifiable.

Comment 7: Decrease on billing

“The real supply of customers is often lower than the supply at substation level due to technical problems inside facilities and as a lack of controlling equipment at substations.

As a result, in the cases where we have to bill with m² ,due to impossibility of real metering, we have to make a decrease on billing.

Another problem that affects quality and quantity supply, is Sun Hill area due to variation of landscape, where there is a reduction of supply for this area where a second heat exchange is applied, which results in decrease on billing.

Another problem is the fact that there is an old system in secondary network, in customers' apartments-houses, which is not maintained by customers.



There shall be a decrease on billing also in the next season 2016/2017 and in the following years, as long as there are investments on network and substations rehabilitation, especially until the rehabilitation of substations and placement of regulatory equipment is finished.”

Note ERO: In the comments provided by DH Termokos, there is also a table of decrease on billing which is not included here due to the format of the document. However, the table can be found in the document: DH Termokos Comments, which is attached to tariff review file.

Response:

- The comment/explanation of DH Termokos presented above was submitted electronically following the public consultation session and was thereafter signed by DH Termokos officials. ERO has taken this document in consideration and included it in tariff review file.
- ERO considered the above comment and evaluates it as reasonable, taking into account the problems with thermal energy metering (around 25% to 30% of substations are not metered due to the lack of meters, as well the issue on accuracy of metering), problems in secondary network which negatively affect supply quality and thermal energy supply amount, as well as the problem at Sun Hill area, where due to the variation of landscape there are obstacles in thermal energy quality supply.
- As stated above, in tariff determination, ERO applied billing determiners and was based on thermal capacity factual values and amount of supplied thermal energy (for metered customers), as well as heating area for non-metered customers. It also evaluated the realized factual billing as well as a planned increase of above mentioned parameters.
- All the above, served as a basis for calculation of metered and non-metered tariffs which are considered to be a an acceptable level, as well as sufficient to reach Maximum Allowed Revenues.

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