



Republika e Kosovës
Republika Kosova - Republic of Kosovo

ZYRA E RREGULLATORIT PËR ENERGJI
REGULATORNI URED ZA ENERGIJU
ENERGY REGULATORY OFFICE



Final Report on USS Maximum Allowed Revenues

Response to Comments (USS)

Relevant Tariff Year 2018

DISCLAIMER

This Consultation Paper has been prepared by ERO for the purpose of informing stakeholders. It does not represent a decision by the ERO and should not be interpreted as such.

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¹ FSPE (Federata Sindikale e Punëtorëve Elektrokosova- Employees Union Federation Elektrokosova)



1 Introduction

Following the preliminary evaluation of the Application regarding the Maximum Allowed Revenues (MAR) for the Universal Service Supplier (USS – KESCO), the licensee and other stakeholders were enabled to present their comments through public consultation within a two weeks period.

With the purpose of providing a fair evaluation for USS MAR, ERO and KEDS representatives held several meetings to provide explanations regarding the calculations on preliminary evaluation. This interacting process of communications resulted in several supplements which were included in ERO's final proposal.

This document presents responses to comments submitted by interested parties, and ERO's proposal on USS Maximum Allowed Revenues.

With respect to initial evaluation of USS Maximum Allowed Revenues, ERO received comments from KESCO, KEDS/KESCO Workers Union. The comments submitted by all parties are included below.



2 Adjustments for 2016 and 2017

2.1 KESCO's Comments

Based on the data received by ERO, as well as internal analysis, USS generally agrees with ERO's evaluation; however there are some special comments regarding which it requires a review from ERO.

KESCO commented the change on the approach of adjusting the wholesale costs for 2016. Taking into account the amendments in the Rule on Determination of Revenues for Universal Service Supplier, KESCO believes that the approach is accurate, however due to the adjustments of 2016, which belong to the previous period, then ERO shall be consistent in its approach and make the adjustments according to the rules of 2011.

KESCO also agrees with ERO's approach regarding the purchase of wholesale energy from import and the handling of energy for KEK exports. However, KESCO claims that ERO did not apply the correction in import values, as informed from KESCO on 20 February 2018, following the request of ERO on additional clarification, therefore this correction shall be applied accurately during the calculation of actual wholesale costs for 2017.

USS also commented on ERO's approach regarding the application of other values on USS obligations towards KOSTT from the ones used in the USS application for MAR.

Actual MAR of 2017, used by ERO did not take into consideration the payments for licensing tax which comprise an amount of 182 thousand euros, as well as did not consider the correction for reimbursement regarding the inaccurate allocation of KOSTT tariffs for 2016, regarding which USS was damaged and as a result should be compensated.

USS noticed that ERO has calculated the actual billing for 2017, by decreasing 1.8% of VAT value for all categories in the linear form, but it should be taken into account that not all customers pay VAT, therefore ERO shall consider the net billing presented by USS, prior to applying the VAT rate.

USS claims that ERO shall not include the whole return of losses in the value of billed energy, given the impossibility of USS to collect the whole amount for energy from return of losses, as a result of court proceedings, where according to practices only 20% of the billed energy is collected within the relevant year.

2.2 ERO's Response

Retail Margin –with respect to USS claims regarding the change on the approach of calculating the adjustments of wholesale energy costs, namely, the inclusion of retail margin costs in adjustments, ERO wants to confirm that the approach used in adjustments of 2016 is the same with the one used in the first regulatory period and there are no changes as claimed by USS. Whereas, with respect to adjustments of 2017, ERO carried out the adjustments of all costs in accordance with new rules, according to which an evaluation of actual costs for electricity supply and actual revenues from billing shall be carried out. In this regard, the retail margin cost is a component included in the wholesale energy purchase costs.



Import Costs -in the initial application submitted by USS regarding MAR, the value of import was presented as a total of imports for the three licensees (USS, KOSTT and KEDS) in an amount of 48.4mil€. However, the division of import according to licensees, which included the import for losses in Transmission and Distribution created some versions, which time after time were subject to corrections that brought the allocation of import costs between the licensees, despite that the total in system costs has remained the same. In this regard, the documents dated on 20 February which KESCO required to be considered by ERO, do not represent the real value of USS import, however, ERO has analyzed the import costs for USS and presented them in the final report of USS MAR.

Billing between KESCO and KOSTT - ERO received different data from KESCO and KOSTT during the calculation of USS MAR, therefore it conducted the preliminary evaluation based on ERO's conviction. Following the receipt of comments from USS, ERO reviewed and verified the billings in monthly basis between the parties and presented the amendments in the final proposal for USS MAR. Regarding the reimbursement of USS for 2016 which is related to the inaccurate allocation of KOSTT tariffs for 2016, ERO, through the revenues correction factor (KREV) towards KOSTT compensated USS in the amount of 1 mil€ , and the compensation required by KESCO would represent a double compensation, therefore, in relation to this, ERO provided KESCO with *Excel* data which included the correction of 2016.

License Costs - ERO has taken into account the USS comment regarding the non inclusion in the initial proposal and carried out the adjustments of license costs for 2017. In addition to this, ERO compensated also the 2016 license costs in an amount of 8 thousand euros.

Billing - There is a difference of around 3 mil€ regarding the billing of realized energy, presented by ERO compared to the one presented by USS, whereas with respect to non-inclusion or release from VAT in billing of some customers, ERO decreased from billing the VAT value in calculation of billing. As commented by USS, some customers were released from VAT, which will impact the increase of net billing only.

Return of losses—The revenues and expenses are based on the accrual principle, which means that they are registered at the moment happening and not if they are collected. Therefore, ERO handles the return of losses as revenues at the moment they are registered as such, whereas they are subject to bad debt in case they are not collected according to applicable laws. ERO encourages USS to make continuous efforts in increasing collection and improve the technical aspect of handling the return of losses.

Adjustments for CAPEX 2013-2017- ERO, for the regulatory period 2013-2017 allowed capital investments in an amount of 1.97 mil€ for the activity of supply. Following the collection and analysis of data presented by USS and financial statements, it is concluded that the realized level of CAPEX for this period is in an amount of 0.5 mil€. Such corrections include also the correction of allowed depreciation for 2014 referring to KESCO's comments of that time. Same as for other adjustments, the calculations were carried out by taking into account the time value of money. The value of adjustments (for PRR 1) for CAPEX is 0.13 mil€. The correction for these adjustments will be applied during the relevant tariff year 2018.



Within the review of CAPEX for PRR1, ERO also reviewed the value of the Regulatory Asset Base of USS, and calculated the opening value of 2018 and the allowed depreciation for this year. The value of depreciation costs for 2018 is 0.106 mil€.

2.3 KESCO and FSPE's comments on personnel costs

The union requested that operational expenses shall take into account the levelling of wages, namely was required to take into account that in KEDS/KESCO, since 2013, there are still hundreds of job positions whose wages are not levelled according to the position. Also, the comments from the union emphasize the difference between the level of salaries in KEDS and other licensees in the energy sector.

2.4 ERO's Response

Even though KESCO and FSPE's comments are presented only in KEDS Consultation Paper, given that those comments also address issues that are related to KEDS and KESCO's personnel costs, ERO shall handle them also as comments towards USS Consultation Paper and shall provide responses for them as well.

ERO has also taken into account the request of FSPE and allowed additional costs for KESCO's personnel in an amount of 251 thousand Euros, which is related to the increase of personnel costs, including the costs on work experience. Given that ERO has already included 2.05 mil€ in KEDS allowed revenues and 0.25 mil€ in KESCO's revenues, the total amount of 2.3 mil€ of additional personnel costs of the licensees KEDS and KESCO is acceptable compared to the personnel costs of other licensees in the energy sector.

3 USS Maximum Allowed Revenues for 2018

3.1 KESCO's Comments

Generally, USS agrees with the approach used by ERO regarding the proposal for forecast costs for 2018, however it claims that some aspects, such as the level of bad debt, shall be reviewed by ERO and shall be in the value of 6% taking into consideration the changes in the market, namely the decrease in the number of industrial and commercial customers- who are regular payers. From 2018, USS has remained mainly with customers who have tendencies to delay or refuse the payment of received bills, therefore, considering the fact that the new law prohibits the disconnection of customers who make a complaint at the relevant institution until a decision by the court is issued, and taking into account the slow proceedings of courts in Kosovo, the operations will become impossible to handle.

3.2 ERO's Response

The Regulator during the determination of Revenues for KESCO allows a reasonable level of bad debt, based on historical data and expectations for performance improvement. Also, an important factor in determining the level of bad debt is the comparison with other operators in the countries of the region and other countries with similar regulatory and economic characteristics. Therefore, ERO



encourages the operator to make efforts to maintain the level of bad debt below the permitted level.

Despite KESCO's concerns about deregulation of prices and its impact on the increase of bad debt, ERO considers that KESCO's claims are not reasonable at this time. In future reviews of the parameters, ERO will, among other things, also review new circumstances created after deregulation.

ERO considers that the allowed level of bad debt of 4% is reasonable and proposes that this level shall continue for this relevant tariff year as well.



4 Final Proposal on USS Maximum Allowed Revenues for 2018.

Following the evaluation of all available data and other data presented by parties included in the process and stakeholders, as well as following the comments received from KESCO and FSPE during public consultation, the final evaluation and final proposal of ERO on Maximum Allowed Revenues for Universal Service Supplier (USS) for 2018 is as follows:

MAR of Universal Service Supplier	Unit	2018
Indexing Parameters		
Inflation Rate		1.4%
Inflation Rate It	%	6.9%
Suppliers Retail Cost		
$OPEX - OPMC_t = OPMC_{t-1} * (1 + CPI_{t-1}) * (1 - E_t) * (1 - P_t)$	€m	5.96
$Depreciation - DEPCt = DEPCt-1 * (1 + CPI_{t-1}) * (1 - Pt)$	€m	0.11
ADJUSTMENTS CPI 2017	€m	0.09
Pass-Through Costs		
TSO Costs	€m	20.29
DSO Costs	€m	83.46
RES Fund		2.50
Working Capital (WCLCt)		
$WCLC = (1 / 12) * It * (RETRt + WHPCt + PSTCt - NTFRt)$	€m	1.28
Energy Purchase Costs		
Total Energy Prurchase	€m	110.49
License Tax		
License Tax	€m	0.06
Adjustments		
Adjustments 2017	€m	-17.10
Adjustments 2016		-1.52
Adjustments for CAPEX-PRR ₁		0.13
Bad Debt (BDTA)		
BDTA	%	4.0%
BDTA	€m	8.57
FINAL MAR	€m	214.32

Due to the entry into force of tariffs of the licensees (KOSTT, KEDS and USS) from October and not from April, ERO shall handle the difference between its evaluation for Allowed Revenues required for USS and the revenues that USS is expected to collect from tariffs as a balancing means. This change will be allocated to the Tariff Balancing Account (TBA). The balance of this account will be adjusted by not taking into account the interest rate from this adjustment, which results as a delay in the entry into force of the tariffs according to the foreseen time is out of control of the licensees. In the following tariff year, TBA will be available and, according to ERO's assessment, will be used to mitigate or eliminate tariff increases. Any unused part of TBA or any TBA supplement, as a result of ERO's decisions, will be carried over in future years.

The value to be credited as a balancing tariff account is € 9.5million, which would have the effect of smoothing the excessive rise in tariffs in the future.