



Prishtina, 5 November 2014

EXPLANATORY PAPER

on

the Reasons of Non-application by the DH Gjakova for the 2014/2015 Season Tariffs

1. Introduction

This paper aims to present relevant explanations for the reasons of non-application of the DH Gjakova for the 2014/2015 heating season tariffs. Initially, it should be emphasized that the main reason for non-application is due to the current difficult financial situation, as a consequence of a weak operational and economic-financial performance of the DH Gjakova in the previous seasons. Also, an additional reason is the insecurity about the fuel - heavy fuel oil subsidy, putting in question the beginning of this heating season.

These explanations have been given in more details below.

2. Operational and Economic-Financial Performance of the DH Gjakova

As is known, especially in the past two seasons, the operational and economic-financial performance of the DH Gjakova was very weak, which has badly affected the financial situation of the company. This presents immense difficulties to carry out real planning (projections) of costs to be included in the determination of allowed revenues and tariffs, as well as the quantities of production and supply of heat.

2.1 Operational Performance

Operational performance of the DH Gjakova, in terms of production and supply of customers with heat (thermal energy), has been very weak. Due to financial difficulties that prevented the provision of sufficient quantities of heavy fuel oil, thermal energy production was significantly lower than the one planned in the relevant tariff reviews. This influenced further the insufficient supply of customers with heat - thus, in general, the supply suffered plentiful outages and had a poor quality. As concrete example, during the previous season 2013/2014, the supply of heat started in late-November 2014 and ended in mid-February 2014, - i.e. not even a 3 full months. Even during this period the supply suffered short outages and the heat was of poor quality.



To illustrate the poor performance of the DH Gjakova in production and supplying customers with heat, below in an aggregate form have been presented the data collected during monitoring of last season 2013/2014.

Supply and consumption of heavy fuel oil - 2013/2014 season

Below, in a table form, are presented the data monitored for supply with heavy fuel oil and consumption of heavy fuel oil during the previous season.

Supply of heavy fuel oil and consumption - DH Gjakova, 2013/2014 season						
		11/2013	12/2013	01/2014	02/2014	Total
1	Quantity of heavy fuel oil supplied [ton]	87.16	98.56	328.82	56.86	571.40
2	Consumption of heavy fuel oil [ton]	65.89	83.26	288.67	97.01	534.83
3	Reserves of heavy fuel oil at the beginning of season [ton]					0
4	Reserves of heavy fuel oil at the end of season [ton]					36.57

Below is shown a comparative presentation of consumption of fuel with the planned quantities:

DH Gjakova - consumption of heavy fuel oil in 2013/2014 season			
Planned [ton]	Actual [ton]	Difference [ton]	Actual [%]
2.160	534.83	1,625.17	24.76

As can be seen from the above-mentioned data the quantity of heavy oil supply was 571 tons, while heavy fuel oil consumption was 534 tons, which compared with the planning (forecasts) represents a realization of just 24.76%.

Production, supply and system losses

Lack of financial resources to secure sufficient heavy fuel oils affected in chain the production of heat and supply of heat.

Below are presented the data collected for production and supply of heat for the last season 2013/2014.

DH Gjakova - thermal energy balance - 2013/2014 season						
Energy from fuel	Net generation of heat	Generation losses	District heating efficiency	Distribution losses		Supply
[MW _T h]	[MW _T h]	[MW _T h]	[%]	[MW _T h]	[%]	[MW _T h]
6,043.58	4,415.78	1,627.80	73.06	1,273.12	28	3,142.66

Production and supply of heat realized in 2013/2014 season was significantly lower when compared with relevant forecasts (planning) made during the tariff reviews of previous seasons. Realization of production and supply of heat is shown in the following table.



Realization of production and supply of heat - 2013/2014 season			
	Planned	Actual	% of realization
Net production of heat [MWh _T]	21.479	4.416	20.56 %
Supply of heat [MWh _T]	18.902	3.143	16.63 %

It should be noted that to the deterioration of the realization influenced the increase of production and distribution losses (26.94% losses in production and 28% in distribution).

Thus, in general the data presented in the tables above shows a very small realization of all the main operating parameters of DH Gjakova, which adversely affects the respective forecasts for determining the allowed revenues and tariffs. More specifically, the biggest impact falls on the planning of the cost of heavy fuel oil, which presents the main cost, as well as on the planning of thermal energy (Heat) production quantities and supply of customers with heat. Therefore, this poor performance creates a discrepancy between forecasts based on a sufficient supply and the real financial situation which, in fact, cannot afford such costs. Moreover, this is aggravated by the fact that, due to objective circumstances, there are no reliable data on the amount of subsidy that will be allocated to the DH Gjakova (regarding the subsidy and impact on tariff forecasts, more details will be provided below).

2.2 Financial performance

Similarly to the operational performances, also the economic-financial performance of the DH Gjakova is very poor, where the main indicators are billing and collection, and the realization thereof has been very weak, and this applies in particular to realization of billing.

Below, in a table form, are shown the respective data of monitoring, realized in 2013/2014 season.

Billing and Collection of Payments - DH Gjakova (2013/2014 season)							
		Heating Season 2013/2014					
	Sale of heat from Group I to Customers	Heating Area [m ²]	Billed [Euro]	Collected [Euro]	Collection Rate [%]	Debt [Euro]	Debt [%]
1	Domestic	86,598.62	44,868.13	26,627.39	0.59	18,240.74	0.41
2	Commercial and Institutional	189,975.68	147,429.27	94,013.79	0.64	53,415.48	0.36
3	Total	276,574.30	192,297.40	120,641.18	0.63	71,656.22	0.37

As stated above and the table above shows that the billing is significantly lower than planned. This is mainly a consequence of non-billing for the months that there was no supply of heat (heating season started in late-November 2013 and was ended in mid-February



2014), as well as discounts in invoices for frequent outages and the quality of heat. If we refer to the allowed revenues (ie. from the sale of heat) as determined in the last tariff review in the amount of € 1,219,000 it can be seen that the realization of billing is around 16%.

Also the collection of payments from customers is not satisfactory, where the total rate of collection for both groups of customers is around 63%.

Low billing and collection have a direct impact on the difficult financial situation where the DH Gjakova is currently. Lack of sufficient financial resources to cover operational expenses, makes securing sufficient amounts of heavy fuel oil for a sustainable supply of heat impossible. Therefore, highly limited financial resources to cover operational costs, especially the costs of supply with heavy fuel oil, make it impossible to have an accurate forecast based on real financial resources (being highly limited) to cover the respective costs. Additional difficulties are caused by the matters related to the subsidy of fuels, explained below.

Subsidies

Because of financial difficulties summarized above, DH Gjakova has continuously received subsidies from the budget of Kosovo, which affected to an extent the increase of its financial ability to pay the cost of heavy fuel oil.

As an illustration was given the subsidy for the 2013/2014 season of an amount of 500,000 €. Out of this amount, it was planned that the remaining amount of 200,000 € to be used in the first part of 2014/2015 season, namely for the period 15 October - 31 December of the calendar year 2014. However, due to debts against the suppliers, outstanding from the previous periods, this amount was taken based on court decisions and respective execution proceedings.

For this reason, to DH Gjakova was promised a reallocation of subsidy through the regular budget revision which has not happened. Furthermore, due to the circumstances related to the establishment of institutions, there was no reliable indication for the amount of subsidy from the budget of Kosovo for the calendar year 2015. It should be noted that the Municipality neither promised nor delivered any subsidy.

Under these circumstances, no grounded assessment can be made for the amount of subsidies for the 2014/2015 season. Knowing that subsidies provide a big share to cover the costs, and based on the approach of not charging the customers for the costs covered by the subsidy, when determining the allowed revenues the amount of subsidy was deducted. As a result, lack of any reliable indication on the amount of the subsidy makes forecasting the subsidy highly questionable, and has a highly negative impact if this forecast is mistaken.



Taking into account the above mentioned facts, it can be concluded that a poor operational and financial performance, and unclarity regarding the subsidies, are the key factors that impeded provision of real forecasts necessary for a complete tariff application.