

KOMPANIA KOSOVARE PËR FURNIZIM ME ENERGJI ELEKTRIKE SH.A.  
KOSOVO ELECTRICITY SUPPLY COMPANY J.S.C.  
KOSOVSKO PREDUZEĆE ZA SNABDEVANJE ELEKTRIČNOM ENERGIJOM D.D.  
KESCO SH.A.Nr. 31 Dt. 08.10.2020  
HQ 1**Arsim Janova**  
act. Head of ERO Board**Mesut Serhat Dinc**  
Managing Director  
KESCO j.s.c**8 October 2020****Subject: Proposal for Input Values and other factors that determine the Maximum Allowed Revenues for Universal Service Supplier**

Dear Mr. Janova,

Energy Regulatory Office (ERO) has opened the process of reviewing the input values and other factors that determine the maximum allowed revenues for the Universal Service Supplier (USS), through its official letter no. 295/20 dated 10 September 2020.

In accordance with the requirements of the letter, USS has prepared the proposal regarding the input values for the regulatory period 2021-2023 and other factors that determine the Maximum Allowed Revenues, and through this letter we are addressing it to ERO for review purposes.

The proposals presented in the document are justified in written and are supported through calculations in excel tables which are provided as appendixes in electronic format. Due to the sensitivity of the information, these annexes should remain confidential and only for the use of ERO.

Given the significant importance of the process, let us emphasize that we are open and ready for further discussions whenever necessary.

Sincerely,

  
  
**Mesut Serhat Dinc**  
Managing Director

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***Proposal for Input Values 2021-2023 for  
Universal Service Supplier***

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## 1. Introduction

Energy Regulatory Office through its official letter no. 295/20 of the date on 10th of September 2020 addressed to KESCO as Universal Service Supplier (USS) has officially opened the process for revision of Input Values.

Considering that in the late 2016 and beginning of 2017, legislation in the electricity sector has changed to meet the legislative requirements deriving from of EU Third Energy Package, ERO has evaluated as necessary to re-evaluate the conditions of supply with universal service, respectively re-evaluate the incoming values and determination of maximum allowed revenues.

Input Values are key parameters that are used in the calculation of the regulated revenues of Universal Service Supplier. Conform Rule on Determination of Revenues for Universal Service Supplier (USS Pricing Rule), Article 9 paragraph 2, an input value review shall be held at the initiation of the Regulator. Input values comprise of the following:

1. Economic USS Related Assets Lives
2. Retail Margin
3. Bad Debt Allowance
4. Balancing Sharing Factor, and
5. Any other input parameters that the regulator may deem necessary

Conform Article 12 paragraph 4, retail margin, bad debt allowance and imbalance sharing factor are input values set for a period of 3 years.

ERO through its letter has requested from KESCO to present also allowed and actual costs, which are crucial for determination of Maximum Allowed Revenues (MAR), including operational and maintenance costs for 2017-2020 period as well as its proposal for three forthcoming years (2021-2023).

## 2. Economic Lifetime of Assets and CAPEX Request for USS

In accordance with the USS Pricing Rule, the depreciation costs are calculated using the Economic Lifespan of Assets, determined for different asset classes as approved by the Regulator during the determination of the input values. The asset's economic lifespan is considered to represent the asset's technical life expectancy, unless there is sufficient reason to consider that the asset has become redundant before that date.

Universal Service Supplier (USS) has limited capital investments, which is mainly limited to office equipment and Information Technology (IT). Prior to first Regulatory period, ERO did not issue a special decision on asset life expectancy. Instead, it applied the same lifespan of 5 years, based on the estimation of technical life expectancy for assets used by the electricity supplier. So up to now the depreciation rates are applied on the historical bases.

In 2017, ERO opened the revision process of input value for distribution and transmission operators. On its proposal for lifespan of assets in the distribution and transmission level, ERO claimed that its proposals on categorization and life expectancy of assets are based on international standards and regulatory experiences as well as licensees' proposals. For equivalent category of working equipment, IT equipment and software (which are applicable for supplier) ERO has decided that the lifespan of assets shall be 5 years.

Considering the actual lifespan of assets and developments in the IT sector, we believe that ERO shall set the lifespan of work equipment for 5 years, similar to distribution and transmission operators. However, regarding IT equipment and software, KESCO proposes that the life span shall be determined for three years. The following table represent the distribution of costs between office equipment and IT in the last three years

|           | 2018 | 2019 | 2020 |
|-----------|------|------|------|
| Equipment | 61%  | 63%  | 65%  |
| Software  | 39%  | 37%  | 35%  |

We believe that five years period for IT equipment and software is long, and these devices will not have the economic and technical value to respond to the contemporary requirements of continues chancing environment.

Since unbundling from distribution operator, KESCO supplier has faced big changes in the daily operation, including the introduction of market opening, deregulation of customers, start of prosumer's operation, balancing mechanisms, etc. Considering the limited budget allowed for capital investments and increased necessity to update the operational system of the supplier, in the upcoming years it is a necessity to allow higher budget in order to enable necessary investments in the system (billing and CRM). The following table summarizes the actual CAPEX for the period of 2018-2020 and request for 2021-2023.

|                                     | In '000€ | Y1    | Y2    | Y3    |
|-------------------------------------|----------|-------|-------|-------|
| <b>Actual (2018-2020)</b>           |          | 316   | 250   | 215   |
| <b>Requested Budget (2021-2023)</b> |          | 1,614 | 1,514 | 1,314 |

### 3. Retail Margin

Universal Service Supplier (USS) is the supplier whom the Public Service Obligation is imposed by the Regulator. In exchange for granting the exclusive right to sell electricity in a given service territory, Regulator determine what are the allowed costs of operation, how much it can charge, and what its retail margin can be.

Universal Service Suppliers worldwide are regulated companies that don't operate in a normal free market system where prices and profits are determined by the willingness of consumers to pay. Instead, they are "regulated companies" in which regulators through determination of a retail margin guarantee the companies a monetary return while also fixing prices for consumers.

Article 17, paragraph 8 of the USS Pricing Rule define that: *'Retail Margin shall be a fixed percentage that is applied to allowed wholesale energy costs and allowed wholesale capacity costs . It shall be set at such a level such that it:*

- 8.1. *Provides the USS with a reasonable profit that compensates it for the risks it assumes in providing the standard service for regulated customers. This shall be calculated with reference to the margins earned by similar utilities in countries elsewhere in Europe, taking account of the similarities between the electricity industry in those countries and that of Kosovo; and*
- 8.2. *Provides the USS with a reasonable return on its net fixed assets used in providing Standard Service to Regulated Customers. This shall be calculated with reference to the cost of capital of other licensees in Kosovo.'*

Considering the market conditions before privatization, Regulator has set the retail margin at 3%, which was applicable up to date.

A study performed by Energy Community Regulatory Board (ECRB) in December 2013 shows a similar approach being applied in all neighboring countries in relation to the application of retail margin<sup>1</sup>. As market conditions and policy priorities have changed over the years, so have changed the methods for calculation of retail margin. In this view, also retail margins applied for universal service suppliers in the neighboring countries differs, e.g. In Albania retail margin is a fixed percentage applied to the allowed wholesale energy costs, which is allowed by Regulator (determined at 3%), whereas in Macedonia the retail margin is set through an auction (similar to EU countries) which was organized in 2019 and the winning margin was 11.5%<sup>2</sup>.

A report conducted from European Commission on Energy Prices and Costs in Europe in 2019, show that in Member States generally regulate retail energy prices by using hybrid systems, where regulated prices exist within a liberalized market with competition among suppliers and opportunities for supplier switching. In regulated markets, the retail margin is also determined by regulation and sometimes the tendency of the regulators is to set their retail margin very low compared to actual net costs and too low to enable effective competition<sup>3</sup>.

Kosovo is a developing country and although has made some progress in developing a functioning market economy, the business environment still faces many challenges<sup>4</sup>. It should be also noted that although there are several licensed suppliers only one of them is active, and compared to other neighboring countries Kosovo have the lowest rate of supply to active eligible customers.

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<sup>1</sup> ECRB, December 2013, Status Review of Main Criteria for Allowed Revenue Determination for transmission, distribution and regulated supply of electricity and gas, [https://www.energy-community.org/dam/jcr:f0feeb6e-96c9-48fd-b72e-d6cc7d8b0ef1/ECRB\\_revenue\\_determination.pdf](https://www.energy-community.org/dam/jcr:f0feeb6e-96c9-48fd-b72e-d6cc7d8b0ef1/ECRB_revenue_determination.pdf)

<sup>2</sup> Balkan Green Energy News, 2019, Austrian EVN outbids ELEM to become universal supplier <https://balkangreenenergynews.com/austrian-evn-outbids-elem-to-become-universal-supplier/>

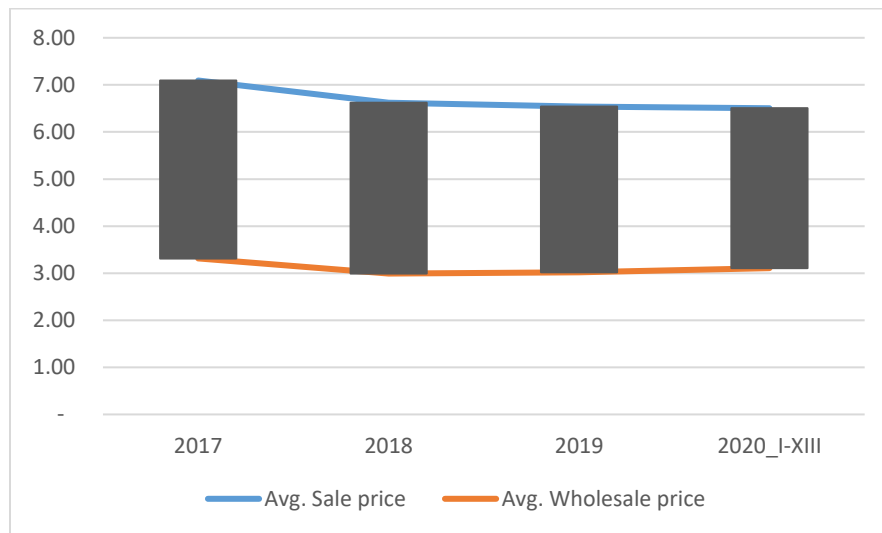
<sup>3</sup> European Commission 2019, Energy prices and costs in Europe, <https://ec.europa.eu/transparency/regdoc/rep/10102/2019/EN/SWD-2019-1-F1-EN-MAIN-PART-5.PDF>

<sup>4</sup> Progress Report for Kosovo, 2019, <https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/20190529-kosovo-report.pdf>

| Country           | No. of Customers | Supply to Active Customers | Eligible |
|-------------------|------------------|----------------------------|----------|
| <b>Kosovo</b>     | 580,975          | 16.47%                     |          |
| <b>Albania</b>    | 1,228,016        | 19.90%                     |          |
| <b>Macedonia</b>  | 742,031          | 41.42%                     |          |
| <b>Serbia</b>     | 3,651,169        | 48.60%                     |          |
| <b>Montenegro</b> | 386,966          | 93.13%                     |          |

Source: Energy Community, Facts and Figures in Electricity per country

It should be noted that deregulation of customers in 2017 has impacted the net gain of universal service supplier, as wholesale costs account for over 50% of the approved MAR, while industrial customers in the deregulated market account for 10% of the consumption in Kosovo<sup>5</sup>.



Considering future deregulation as per ERO’s guidance, the actual net gain for the universal service supplier will be even lower. In this view, considering the abovementioned, we believe that at this period, retail margin shall be determined as 3% for the next 3 years. This ratio will give incentive for the universal service supplier to continue its supply activities although customer with good paying ratios are leaving, while at the same time will provide sufficient gap for other suppliers to compete and increase the interest of customers to switch into the deregulated market.

#### 4. Bad Debt Allowance

Bad debt is an estimate and reasonable level of bad debts incurred by the Universal Service Supplier during a relevant year. According to article 16 of the USS pricing Rules, Bad debt allowance shall be set by the Regulator during the determination of input values and shall be calculated by applying this allowance in the initial MAR

<sup>5</sup> Actual data for 2019

calculation. The difference between final MAR (which includes bad-debt calculation) and initial MAR represents allowed bad debt costs for the relevant year.

In the first regulatory period, ERO through decision no. V\_399\_2012 has determined Bad debt Allowance at 5% for 3 initial years, and at 4% for 3 forthcoming years (2012-2017). The same percentage of 4% continued to be applied up to date, although USS in each tariff review has requested a higher allowance with the justification that the allowed bad-debt allowance is lower than actual incurred one. The common mistake when calculating actual bad debt is considering all KESCO revenues. It is important to emphasize that KESCO receive payments which are not related to energy billed, whereas bad debt allowance is given on initial MAR base, and shall be calculated only on billed amounts for the relevant year. The following table shows the collection power of the Universal Service Supplier since 2017:

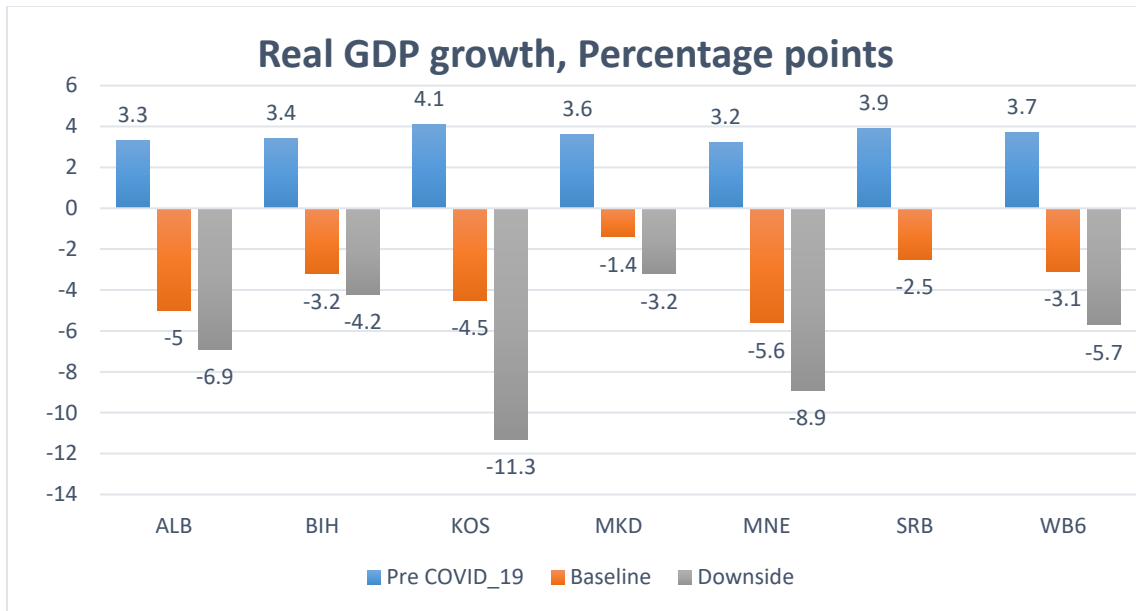
| Collection %     | 2017          | 2018          | 2019          | 2020          | Total         |
|------------------|---------------|---------------|---------------|---------------|---------------|
| <b>MAR Based</b> | <b>94.75%</b> | <b>94.84%</b> | <b>95.94%</b> | <b>92.22%</b> | <b>94.42%</b> |

As seen in the table above the actual average bad debt since 2017 is 5.58%. It should be noted that the year 2020 is an extraordinary year due to pandemic spread and quarantine effects, yet even if we exclude the year 2020 the actual average bad debt would still be higher than the allowed one.

Unfortunately, the spread of pandemic worldwide had an unprecedented effect on the company, resulting immediately negatively in the electricity bill collection rate, which further has effected also the commercial arrangements of the company. Considering that this was a Force Majeure event worldwide and that it has effected also the financial and social stability of the country, KESCO although being itself an effected company, it supported its customers through providing reliable and uninterrupted electricity supply and not applying disconnections during quarantine times, however its financial position is weaken excessively.

The expected recovery of the country, as analyzed by different international organizations, depends on the bold measures that the government will be willing and ready to take. But, unfortunately evaluation done from international institutions tell that weak political power and economic downfall do not show promising recovery soon. According to World Bank Report, conducted in April 2020, a foreseen drop in real GDP growth will be by at least 4.5%<sup>6</sup>, in the best scenario forecast.

<sup>6</sup> World Bank, Spring 2020, The Economic and Social Impact of COVID-19, <http://documents1.worldbank.org/curated/en/457181588085856454/pdf/The-Economic-and-Social-Impact-of-COVID-19-The-Country-Notes.pdf>



Source: World Bank, Real GDP Growth Scenarios for 2020<sup>7</sup>

This analysis is also supported via a survey conducted by American Chamber of Commerce (Amcham) with business sector, which shows that 60% of respondents believe that COVID-19 crisis has jeopardized the survival of their business<sup>8</sup>. Enterprises reported financial losses (77.78%) and lack of liquidity (43.72%) as their major concerns, and recovery from these losses will take time. In addition to the business sector, crises and economic downturn has led also to significant job losses and lower incomes that will increase poverty rate in the country.

In this view, the effect of pandemic spread in the company was enormous and non-recoverable from the allowed bad-debt. Since this is a Force Majeure effect and out of supplier's control, KESCO as Universal Service Supplier has conducted an analysis of the expectation of the collection on receivables, and has revised its collection power for the next three years (2021-2023) in line with the new expectation, considering all relevant available information at the time, such as historical payment power of customers, business closure on yearly basis and the additional number of businesses closed as a result of pandemic effect. These information were used as base for calculating USS's request for Bad debt in the next regulatory period (2021-2023).

Since bad debt in an estimate and reasonable level of bad-debts incurred during a relevant year, it should be emphasized that when setting the base ratio in the first regulatory period Regulator has considered that existing situation of collection at that time with no changes going forward for the whole market. At the time of setting this parameters for the first regulatory period, customer connected to 220kV and 110 kV level and industrial customers connected to 35kV and 10 kV levels, with collection history close to 100% were

<sup>7</sup> World Bank, 2020, Kosovo's Economy Projected to Contract by 4.5 Percent in 2020 Due to COVID-19, <https://www.worldbank.org/en/news/press-release/2020/04/29/kosovo-economy-projected-to-contract-by-45-percent-in-2020-due-to-covid-19>

<sup>8</sup> Policy Spotlight 'The Economic Impact of Covid-19 in Kosovo' July 2020, <https://www.amchamksv.org/wp-content/uploads/2020/07/Recap-The-Economic-Impact-of-COVID19-in-Kosovo.pdf>



considered in the calculation. Since the market conditions have changed and market is gradually opening these customers are moving out to unregulated tariffs. Customers connected to 220 kV and 110 kV levels are already being supplied in the unregulated market. With the ERO’s Guidance for Market Liberalization in the Energy Sector in Kosovo approved in 2017 and amended further in 2018 and 2019, customer connected to 35 kV and 10 kV level are expected to be supplied with unregulated tariffs from April 2021<sup>9</sup>. In this view, when calculating and determining bad-debt ratio for the next Regulatory period, Regulator shall consider also elimination of these customers and their payment power, respectively the cross subsidy should be eliminating. Removing them from the total revenues does not change the bad debt allowance that is needed for the normal operation of the Universal Service Provider, hence the percentage should be increased as it will be calculated from a smaller revenue.

Although the list of customers that fulfill the criteria to be supplier with the universal service for customers connected in 35 kV and 10 kV level, as determined in Article 37, paragraph 2 of the Law on Electricity, was not provided by ERO, KESCO as Universal Service Supplier has used a draft list of potential customers and has calculated the collection ratio for 2019/2020 without these potential customers. Such effect was also considered when forecasting the bad-debt ratio for the next regulatory period. If the regulator, when determining the input parameters, foresees the postponement of the deregulation of customers connected in 35 kV and 10 kV level, due to the financial damages created to businesses as a result of the spread of the Covid-19 pandemic, then the regulator should consider the possibility to compensate the Universal Service Provider if market opening is enabled within the period 2021-2023. Considering the above-mentioned, the final proposal is as follows:

|                                       | 2021 | 2022 | 2023 |
|---------------------------------------|------|------|------|
| <b>Request for Bad Debt Allowance</b> | 6.22 | 5.32 | 5.12 |

Please note that this request does not consider the effects of potential second wave of pandemic spread, as well customer’s right to switch suppliers every 21 days, and their right to return to the universal service supplier (in case they fulfill the criteria), respectively misuse of potential customers to change suppliers in order to avoid their last payments in order avoid a pending disconnection. This phenomenon is very present and disturbing in countries with developed electricity markets and such concern is expected to be present in our country as well.

## 5. Balancing Sharing Factor

Article 17 of the USS Pricing Rule defines that wholesale energy costs that are related to supplying regulated customers, among others are comprised of net imbalance costs, which are subject to imbalance sharing factor. Paragraph 5 of the same article defines sharing factor as follows:

*“The Imbalance Sharing Factor shall be a fixed percentage that is applied to net imbalance costs to determine the sharing of these costs between the USS and regulated customers, where a value of 0%”*

<sup>9</sup> ERO letter No. 640/19 of the date 06.11.2019, Notification for the supply of electricity consumers in the market with unregulated prices

*means that all net imbalance costs are allocated to the USS and a value of 100% means that all net imbalance costs are allocated to customers. “*

Considering that Conform Article 12 paragraph 4, Imbalance sharing factor is an input value determined for 3 years period, Article 17, paragraph 6 highlights that when determining Imbalance Sharing factor, Regulator shall consider the extent to which USS is able to manage imbalances and, especially, the balance between supply from domestic generation and sustainable import, as well as demand fulfilled by USS.

There is always uncertainty in predicting customers' future demand, and therefore in buying the correct amount of energy for this. Customer demand varies throughout the year, month and across the day. If suppliers are short, they may incur costs that fall outside of the direct costs of their wholesale purchases. If they are long, they will receive a payment that could be different from their wholesale. In this view, there is upside and downside risk for suppliers depending on market conditions. In order to avoid the exposure of the suppliers towards a higher risk of not being able to recover their operational costs, Regulators support supplier by introducing an allowance. Once there's a historical trend, suppliers can better forecast and manage these costs and Regulator can decide to change the allowance (sharing factor), as it is assumed that allowing a sharing factor between supplier and customer will increase the incentives for supplier to balance more accurately.

Since the functionalization of the balancing mechanisms in Kosovo in June 2017, the imbalance sharing factor was applied as 100% respectively any benefit and/or loss from the imbalances was fully returned to or recovered from customers. The total amount that customer benefited in tariffs since then equals to €1.56 million, as shown in the table below:

| Year             | Benefit/Loss in '000€ |
|------------------|-----------------------|
| June - Dec. 2017 | 785                   |
| 2018             | (698)                 |
| 2019             | 26                    |
| Jan-Aug. 2020    | 1,444                 |
| <b>Total</b>     | <b>1,556</b>          |

Although there's a benefit for supplier to request a sharing factor, and such request is in line with the international applications, due to the limited number of participants in the market, the issue of balancing still remains complex in Kosovo. Changes from the requirements set by stakeholders in a non-advanced system from the infrastructure perspective are very hard to be implemented. Access to a limited number and types of resources, dependency on generation units which are old and not flexible, limits the ability for the system to be balanced and to have minimal costs. Moreover, considering also the market developments (prosumers, market opening and switching suppliers), we believe that imbalance sharing factor shall continue as 100% at least until the next periodic review.

## 6. Other Factors that determine Allowed Revenues for USS

ERO through its letter has requested from KESCO to present also allowed and actual costs, which are crucial for determination of Maximum Allowed Revenues (MAR), including operational and maintenance costs for 2017-2020 period as well as its proposal for three forthcoming years (2021-2023). Conform official letter, submission of application and proposal for MAR shall be sent to ERO 28 days after receiving the templates from ERO, however, up to date ERO up to date has not provided its templates.

Furthermore, ERO has neither approved the 10 years energy balance (2021-2030) nor the annual energy balance for 2021, and it has not provided the revised list of customers connected into 35 kV and the list of customer connected in 10 kV level that will be supplied with unregulated tariffs from April 2021, conform Guideline on Liberalization of the Energy Market and its amendments. Considering the abovementioned, as well as the fact that according to the Regulation in power (USS Pricing Rule) there is sufficient time until when USS shall provide its proposal for power purchase costs and retail costs to be included in the calculation of the regulated revenues for the forthcoming relevant year, KESCO will provide in Annex only actual incurred costs in the last three years.

However, taking into account the determination of input values for the next three years and possible changes in the market, KESCO will present below its proposal for operating expenses and its position regarding the fixed charge, as an additional issue raised by ERO in its letter.

### 6.1. Operating and Maintenance Costs

Conform USS Pricing Rule, USS is allowed to incur reasonable costs, such as operating and maintenance costs, which are necessary and enable operations of the suppliers. Since the functional and legal unbundling from distribution activities in 2015, the average operation and maintenance costs allowed for the Universal Service Supplier are 6 million €, which are in line with the average actual costs incurred from universal service supplier, as shown in the table below:

| <i>(in million €)</i> | 2017 | 2018   | 2019 | Average / Total |
|-----------------------|------|--------|------|-----------------|
| <b>Approved</b>       | 5.79 | 5.96   | 6.06 | 5.93            |
| <b>Actual</b>         | 5.60 | 6.14   | 5.62 | 5.79            |
| <b>Difference</b>     | 0.18 | (0.19) | 0.44 | 0.15            |

*\*Please note that actual OPEX excludes costs for unregulated customers*

ERO approves the operational expenses for the Universal Service Supplier in total and they don't match with the yearly requirements of the supplier over the years, as the allowed costs are continuation of the forecasts done during the first regulatory period and do not represent the reflection of price changes over the years. Nevertheless, USS operates within the allowed budget, creating efficiency whenever possible in certain lines in order to be able to cover the increased costs in other lines. Hence it was unacceptable for USS when in 2020, ERO unilaterally decided to decrease the costs for shared-served without initially give the right to the

USS to provide explanations regarding the shared services, and as such unfairly obstructed the right of the USS to respond and argue on the matter.

It should be also noted that data presented in the financial statements regarding operational costs differ from the ones allowed from ERO, such as rental expenses which from 2019 conform accounting principles (IFRS16) require to treat rental expenses as financial lease and the same ones are presented in the balance sheet as Asset usage right and lease obligation, and if the conditions are met that the same asset will be used for more than a year from the same partner, the same costs in the income statements are presented as depreciation costs - the right to use the asset.

Hence, it is very important when determining operation costs to consider the actual and justifiable costs before making any adjustments that effect over 25% of the operational costs, as well as requesting clarification and justification from the licensees. Decreasing operational costs for 25% has put the Universal Service Supplier in a very unfavorable financial position, especially for the fact that USS closed the year 2019 in loss and at the same time it faced collection problems as a result of the spread of global COVID pandemic 19, which further affected its payment capacities to cover its liabilities to other operators.

Despite the fact that the number of customers is continuously increasing, which is resulting also with the increase in costs for providing services to these customer, despite the fact that services are improving, and costs per customer increased, ERO did not allow an increased budget for operational costs even though USS has continuously requested and justified its needs. The table below shows a yearly loss USS has created per customer basis, in the last three years.

|  | 2017      | 2018      | 2019      | 2020      |
|--|-----------|-----------|-----------|-----------|
| <b>Allowed OPEX (in mil €)</b>                     | 5,787,503 | 5,957,047 | 6,060,104 | 4,594,113 |
| <b>Number of active customers (No.)</b>            | 561,827   | 579,963   | 605,694   | 621,516*  |
| <b>Average OPEX cost per customer (€/customer)</b> | 10.30     | 10.27     | 10.01     | 7.39      |
| <b>Change in avg. OPEX cost per customer %</b>     |           | -0.3%     | -2.6%     | -26.1%    |

As we can conclude from the table above, from 2017 the average loss for USS is around 10% and USS has achieved its full optimization, which has not been compensated through the given OPEX and which will be problematic to be achieved in the future if ERO does not take into account the requirements of the USS.

Considering the abovementioned statements and needs analyzed in detail regarding the requirements for the expected developments in the next three years, the required OPEX proposed by USS which ensures stability and functional operation during 2021-2023 is as follows:

|                     | Base year | 2021 | 2022 | 2023 |
|---------------------|-----------|------|------|------|
| <b>OPEX Request</b> | 5.79      | 6.20 | 6.30 | 6.40 |

\*Base year represents the average of the actual costs in 2017-2019 period

The detailed request for OPEX is given in the Appendix, however it should be noted that the increase in OPEX requests results from several factors, summarized as follows:

1. Investing in new billing system requires also additional training for supplier's employees

2. The need of the supplier to be equipped with vehicles, which assets belonged to the distribution operator since the legal unbundling. Car usages mean additional costs for security, maintenance and fuel
3. The spread of the Covid-19 pandemic has fluctuated insurance prices, as well as it has increased the need for additional security
4. In order to benefit from lower import costs, including longer-term import agreements, the need for bank guarantees and their financing costs increases.
5. The constant change of the electricity market and the introduction of new demands in line with European developments, is also increasing the need for internal consulting and better information of citizens about changes in services provided.

Please note that this budget does not consider the operational costs for unregulated customers that are expected to be supplied with unregulated tariffs from April 2021. Considering the uncertainties of market liberalization, due to the damaged position of businesses as a result of the spread of COVID-19, it should be clarified that KESCO has allocated 45,000 euros from the expected operating costs for unregulated customers, which are decreased from the initial OPEX forecast. Once the market liberalization is enabled and customers connected in 10kV and 35kV level start operating in the open market with unregulated tariffs, KESCO is planning to hire new employees that will be directly dealing with unregulated customers. This will also enable easier monitoring of the regulated and unregulated costs, as requested with KESCO's license and other primary and secondary legislations in power.

## 5.2. Fixed Charge

Given the legal rights set in Article 48 of the Law on Energy Regulator, Regulator shall approve tariffs for regulated services based on tariff methodologies for regulated tariffs, and proposals for tariff revisions submitted by energy enterprises.

In setting tariffs, ERO should follow the principles of regulation, which besides "economic" regulation, should be focused also on prices, quality of service, security of supply and investments. Nonetheless, it should also take into account the social aspect, environment, health, and affordability of prices by customers.

In the ERO Guidance on Tariff Calculation approved in 2007, fix-charge (customer charge) expressed in €/customers aims to cover cost of enabling supply per customers<sup>10</sup>. Initially tariff structure has been approved by the Board of ERO during tariff review in March 2007, which was considered as complicated and not-easily understandable for majority of customers. The initial tariff structure was subject to assessment by the ERO since September 2013, and it changed only in 2017 when ERO approved the Guidance for Market liberalization. New tariff structure approved in April 2017 removed the difference between seasonal tariffs,

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<sup>10</sup> ETR2 – Udhezimi per Llogaritjen e tarifave, 2007, [http://ero-ks.org/Price%20and%20Tariffs/Price%20and%20tariffs%202007/Price%20and%20Tariffs%2016\\_10\\_07/ETR2\\_Tariffs\\_Calculation\\_Guidance\\_alb.pdf](http://ero-ks.org/Price%20and%20Tariffs/Price%20and%20tariffs%202007/Price%20and%20Tariffs%2016_10_07/ETR2_Tariffs_Calculation_Guidance_alb.pdf)

and block tariffs for household customers. As per the application of the fix-charge in the tariff structure, the same is inherited from the first proposed tariff structure, and it was never subject of change.

With the initiation of the functional and legal unbundling between distribution and supply activities in 2015, the function of meter reading and disconnection/re-connections, were transferred to DSO (KEDS) as foreseen also in the DSO's license.

Considering that idea of the fix-charge is covering the costs that goes towards making the supply service available and mainly it is related to the distribution function, we as universal Service Supplier propose the removal of this charge. In this way, customers will pay only when they use and how much they use electricity.

In 2016, Ofgem removed the requirement for tariffs to have a standing charge (fix charge) following recommendations by the Competition and Markets Authority, and today in majority of the countries suppliers are no longer required to have standing charges.

It should be clarified that from Supplier's perspective removal of fixed charge doesn't mean additional revenues or benefits, but from customer's perspective analysis show that customers that use less energy will benefit positively from the removal of fix-charge. Moreover customer will pay for energy only when they use it and that unit rates can be reduced once a certain amount of electricity has been used.

## **7. Conclusion**

KESCO as a Universal Service Supplier has presented its proposals and justifications regarding the input parameters for the period 2021-2023, and kindly asks ERO to consider all comments and arguments presented when determining the input values for the next regulatory period of FSHU's.