ANNUAL REPORT OF THE ALBANIAN ELECTRICITY REGULATORY AUTHORITY FOR 2007

Message of ERE Chairman

Bujar Nepravishta
Chairman

Dear reader,

The year 2007 marks the 12th year of activity for the Albanian Electricity Regulator (ERE). In this year ERE has taken forward its profile as an independent and impartial institution, with a transparent activity, qualified expertise and greater sensitivity to the customer concerns in the electricity sector.

This year marks from the other side, the most difficult historical year in power sector, because the domestic electricity generation due to the extraordinary dry weather marked the lowest historical value with only 2,8TWh, while the imports reached the highest historical level ever with 2,9TWh. Although the financing from the Albanian Government were guaranteed, it was the lack of capacities in the transmission interconnection lines that did not make this possible and which brought about load sheddings in the electricity supply with an average of more than 3 hours per day.

It is important to emphasize that thanks to a good management of the hydrological reserve and an optimal coordination of

electricity imports by KESH it was made possible that the effects of the energy crises are smoothened considerably, and the supply of customers with electricity for 2007 resulted 2,5% lower than the average of the last 5 years. An important priority in ERE's work for this year have been the development of tariff principles for tariff customers by introducing new concepts of peak and off peak tariffs, the use of tariff mechanism to discourage the use of electricity for heating, the assessment of capacity and energy tariff components, the introduction of a fixed fee for customers with no consumption of electricity etc. ERE also has paid attention to the assessment of the impact in the country economy of the lost load for 1kwh. For 2007 no doubt the main challenge encountered by the electricity sector and the whole Albanian society was the challenge for loss reduction of losses in general, especially non technical losses. The efforts to equip with meters the customers to reduce significantly the losses unfortunately has not been very successful, although in the last months there has been a positive trend. The year 2007 marks the start of an important engagement of ERE, that in collaboration with a qualified assistance funded by USAID, started work for the development of the new regulatory framework in the electricity sector that will serve also to the process of privatization of the Distribution Public Company. During 2007 ERE has had an intensive activity at international level, by participating in many international conferences for energy, and in the energy Community Forums for South East Europe, ERRA, MEDREG, and in the periodic meetings of tariff and licensing Committees and Legal working group of ERRA. In this frame ERE has paid attention to the qualification of the staff in the regulatory trainings in Budapest and Florence funded with its own budget but also with the support of ERRA and other sponsorships.A priority in ERE's work for 2007 has been the cooperation and mutual support with other Regulators in the region. Partnership and cooperation agreements have been signed with the Italian, Greek and Turkey regulators which were accompanied by common programs and activities which started within the year.2007 marks for ERE a new level of its positive impact of its role as a regulator in the electricity market, a further increase of its authority to the licensees and the public. The Board of Commissioners and staff of ERE for 2007 showed a higher level and a greater ethic, moral and professional maturity which are an important guarantee for further success.

Bujar Nepravishta

Chairman

Board of Commissioners

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Tariffs and Pricing Dept.

Legal issues and Public Relations Dept.

Licensing and Monitoring of Market Dept.

Administation, Finance and Foreign Relation Dept.

INTRODUCTION

The Albanian Electricity Regulator in accordance with the "Power Sector Law" has prepared the Annual Report for the situation of the Electricity Sector and ERE's activity for 2007, which was presented to the Parliament Committee of Productive Activities, Trade and Environment.The Report makes an objective analysis of the Public and Private Electricity Sector for 2007 and at the same time makes the respective evaluations on how the energy situation has been managed during the last year.
In addition to the above mentioned analysis, this report presents the main principles, based on the scientific methodologies that take into consideration the concrete conditions of our country, in developing a leading strategy in the process of electricity tariff and price reform in our country.This Report expresses also the reflections of ERE on the last year's Resolution of the Parliament regarding the activity of ERE for 2006.

An important piece of the Report is the activity of ERE for 2007 in all its aspects, regarding licensing and monitoring of the market and of the licensees, in developing the legal regulatory framework, on the further liberalization of the electricity market and on a successful privatization of the electricity distribution sector.This Report also draws the attention on the situation in the regional market of electricity due to the lack of transparency in the distribution of the transmission capacities where our country is the most discriminated and suffers abusively the highest prices in the region for electricity imports.This Report provides also ERE views on the strategy for the short and long term development of the Electricity Sector in short and long term periods.The Report also describes the economic-financial activity of ERE for 2007, as audited from an Independent Accounting Expert.In the conclusions and recommendations of the report are underlined the main problems that concern the electricity sector today and the ERE's position on how they should be approached.

1. ANALYSIS OF THE PUBLIC POWER SECTOR FOR 2007

1.1 Structure of Public Power Sector

For the year 2007, the public power sector has the same structure as it was in 2006. There is KESH (Albanian Power Corporate) and TSO (Transmission System Operator), two public companies independent from each-other, with 100% of shares owned by the state. KESH is in the process of unbundling in two public companies KESH Generation (Public Company of Electricity Generation) and DSO (Distribution System Operator). DSO is in process of privatization and is expected to be privatized by middle of the year 2008.

1.2 Structure of eletricity consumption

The structure of electricity consumption billed for the year 2007 is 57.1% from household customers and 42.9% from the other customers. Compared with the year 2006 the consumption billed for household customers is 3% lower, due to scheduled load-shedding programmed in the supply of electricity during the year. If we will review also the non technical losses, which represent the unbilled consumption, the household consumption compared to the total consumption in the country for the year 2007 is 50.5 %. Figure -1- gives the performance of this report in %.

For the year 2007, ERE, under the process of further opening of the electricity market has liberalized the threshold of the annual consumption of electricity, that a subject can benefit the status of Eligible Customer, which means that every non-household customer, independently from the quantity of electricity it consumes, can obtain this status. Although up to now only one customer has this status, while the others have not preferred it, choosing to remain tariff customers, and continued to be supplied by KESH.

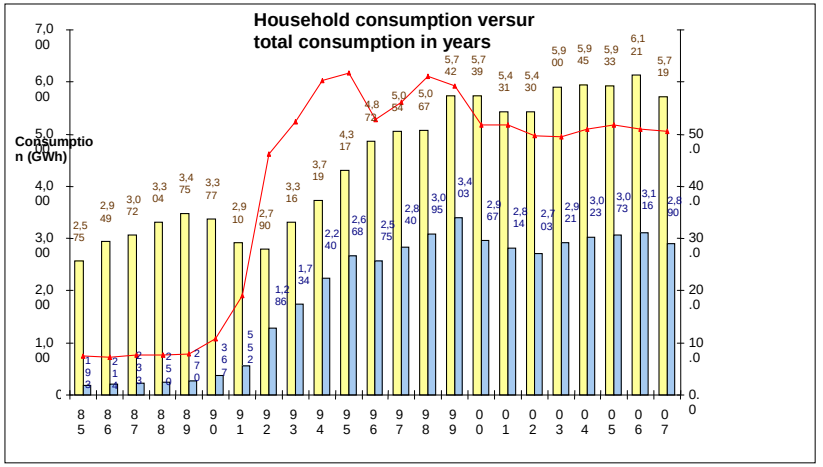


Figure -1- (Source: Evidence of KESH)

1.3 Characteristics of consumption and load of electricity

From the macroeconomic aspect the specific indicators of electricity consumption are expressed by:

a- The intensity of electricity which shows how much electricity in kWh for a Gross Domestic Product (GDP) of 1$, and for the year 2007 it was 5 kWh/USD

b- The specific consumption of electricity per capita (kWh/capita), which for the year 2006 was 1,448 kWh/capita, while for the year 2007 it was 1,417 kWh/capital.

c- The specific weight of electricity for GDP, expressed in % which for 2007 was 1.57%.

In the graph of Figure -2- there is a comparison of the intensity of electricity usage as a rate of electricity consumption/capita with GDP/capita in some countries of the region and Europe.

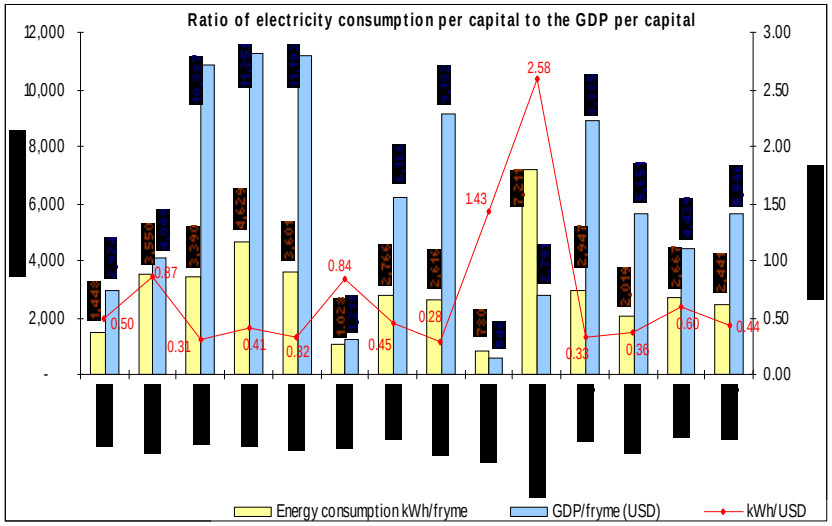


Fig.-2- (Source: ERRA – Electricity Regional Regulators Association_ 2006)

It is clear that countries with high intensity of electricity usage are exactly those where the nature of consumption depends from the heavy industry and electro technology and where the alternative energy sources are missing. In the graph of Figure -3- is presented the specific weight of electricity in GDP for the years 2006 and 2007 and the forecast up to the year 2009. Although the part taken from electricity in GDP is smaller (due to a low cost of its generation), the impact of electricity shortages in the economy is high.

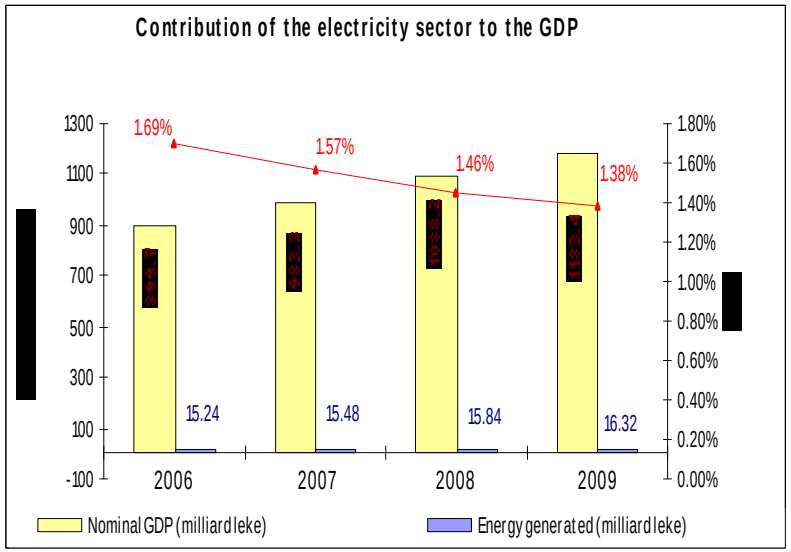


Fig-3-(Source:Data from Emerging Europe Monitor and evaluations of ERE)

In the analysis of the electricity sector it is important the investigation of the change of the electricity load during day, year and the performance trends in multi annual periods. In the Figure -4- are presented the maximal load curves in a winter day (17.01.2007)and in a summer day (18.07.2007).

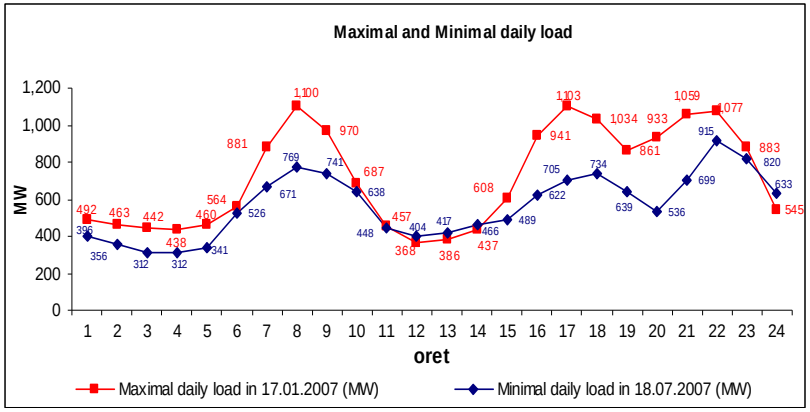


Fig. -4- (Source: Data from TSO)

The characteristic of the daily load curve for the year 2007 is its deformation from its normal form with 2 peaks (one in the morning and one in the evening) to daily load curve 3 or even 4 peaks due to programmed load shedding of electricity.The average of the maximum monthly load is 1,063 MW, while the average of the minimal load is 284 MW. There is a difference of 73% between them, which shows that the load factor is low. Such a load curve is typical for those countries where the industrial generation is modest and the electric load is predominated from the household customers and the businesses.

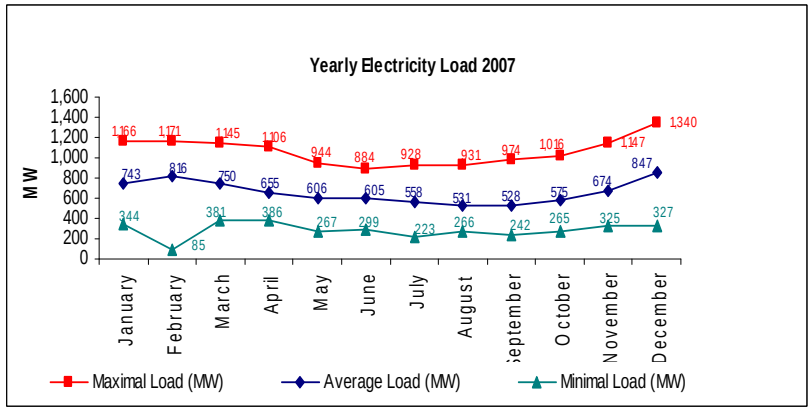


Fig. -5- (Source: Data from TSO)

The annual peak load for the year 2007 results to be 1,340 MW or 93% of the total installed generation capacity in the country. It should be emphasized that in the year 2006 the peak load has reached 1,446 MW or 100% installed generation capacity.
The reduction of peak in the year 2007 is not natural; it is caused from the programmed load shedding of electricity.
In figure -5- is presented the profile of the electricity load for every month of 2007 (minimal, average and maximal values).
The peak value almost equals with the generation capacity of the country shows that we have a fragile energetic system, for which

it is impossible to maintain the maximal flows of electricity and to guarantee the security of supply of the country from the capacity point of view, because as from energy viewpoint we are a net importing country since 1998.

1.4.1 Eletricity supply

During 2007 due to extraordinary draught, the country suffered a deep crises in the electricity supply. The electricity supply to KESH customers for the year 2007 has been 5.727 TWh, 2.839 TWh out of which came from the domestic generation (not including 0.107 TWh generations from small HPP) while 2.828 TWh of electricity was imported.As it is clearly seen, during the year 2007, the domestic generation of electricity was only 50% of the total electricity consumption. The import for the year 2007 was the highest historical import of electricity in Albania, or 27% higher than the maximum import up to the year 2007 that was verified in 2002.Although the year 2007 has been as dry as 2001, the supply of customers in 2007 was 5% higher than in 2001-2002. Figure -6- presents the graphs of generation and import of electricity for 2002-2007.

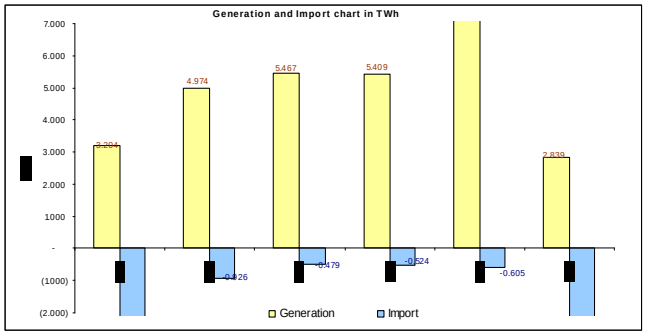


Figura -6-(Source: Evidences of KESH.)

The average price for import of electricity in 2007 results to be 69 Euro/MWh, which is the highest historical price of import in our country. The funds used for import of electricity in the year 2007 were about Euros 193 million.In the graph of Figure-7- are showed the electricity quantities supplied by KESH in last 25 years, where the average annual growth of electricity supply from 1992 is estimated with 3.3% per year.

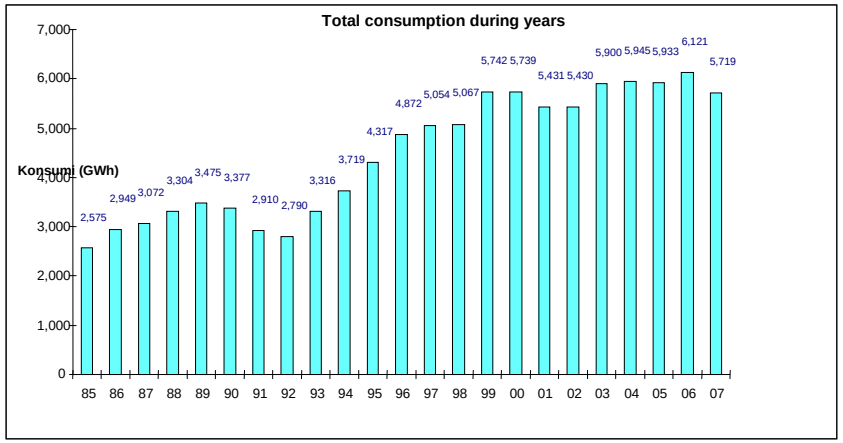


Figura -7- (Source: Evidences of KESH.)

1.4.2 Evaluation of Eletricity Supply

To evaluate how the supply of the country with electricity been administered by KESH, we have taken into the consideration the generating capacities and their nature, the hydrologic conditions of the year 2007 and the managing by KESH of the hydro reserve in accordance with the import, to achieve a maximum supply of the country with electricity.

The generating capacities of the country have are: 1,440MW from the Hydro Power Plants with capacity over 10 MW and from the small Hydro Power Plants up to 10 MW and the Thermo Power Plants of Fier with a reduced capacity of 40 MW , thus in total 1,505 MW. The annual generation has been respectively 2.87 TWh from the HPP's of the Drini Cascade, 0.052 TWh from the small/medium HPP of KESH, 0.072 TWh from the Fier TPP and 0.059 TWh from the small HPP. Total generation in the country for the year 2007 results in 2,940 GWh.In order to judge on the hydro conditions, in figure 8, are presented for comparison reason, the average in-flow curve of Drini River in Fierza for the years 2001, 2007 and the multi annual average.

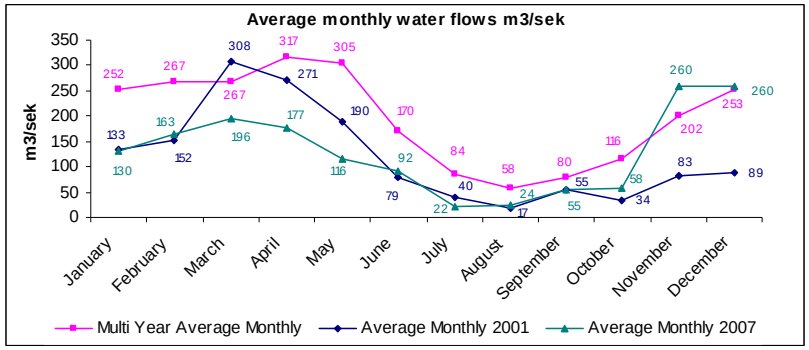


Figura -8- (Source: Data from TSO)

It can be noticed is seen that the hydro conditions of the year 2007 are almost equal to the ones of the year 2001, thus are characterized by a very drought weather.In figure 9 are shown the graphs of the hydro reserves of the River Drin Cascade for the years 2005, 2006 and 2007. It can be noticed that the hydro reserve of the year 2007 has been much lower compare to that of last two years.

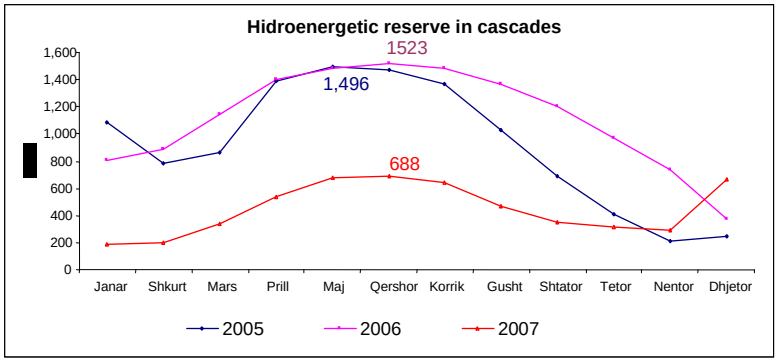


Fig.-9- (Source: Data from TSO)

ERE has followed continuously the performance of the country's supply with electricity and at the same time the manner how the electro-energetic situation in the country was administered by KESH,. In the Annex 1 are presented the graphs on daily generation, import, consumption, the flows of Drini River in Fierza, the level of the multi-annual level of flows and the level of Fierza Lake.Even though by January 1-st of 2007 the level in the Fierza Lake was only 252.4 meters, through the good combination of the domestic generation and imports we were able to retain by May 8th a level of 278.4 meters in Fierza lake. After this, until the middle of October, the level of import was reduced from 10-12 GWh per day to 4-6GWh per day. The decrease of import was forced not by the lack of financing, but from the congestion in the interconnection lines. The decrease of the import resulted in the gradual decrease of the level of Fierza Lake up to 260 meters.For a correct evaluation of the supply of customers with electricity we referred to the supply analysis of the country during the last 5 years, where as it is known the

period 2003-2006 has been the period with the most favorable hydro conditions. The figure 10 best reflets this performance.

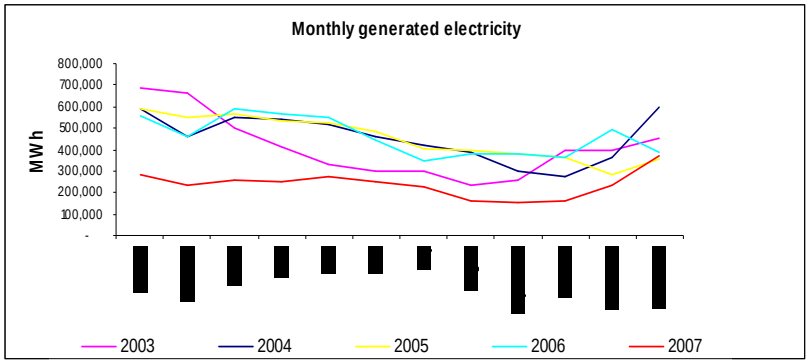


Fig.-10-(Source : Data from TSO)

While in the figure 11 this performance is presented in a synthetic way the comparison of the monthly generation of 2007 and the monthly average generation of the last 5 years.

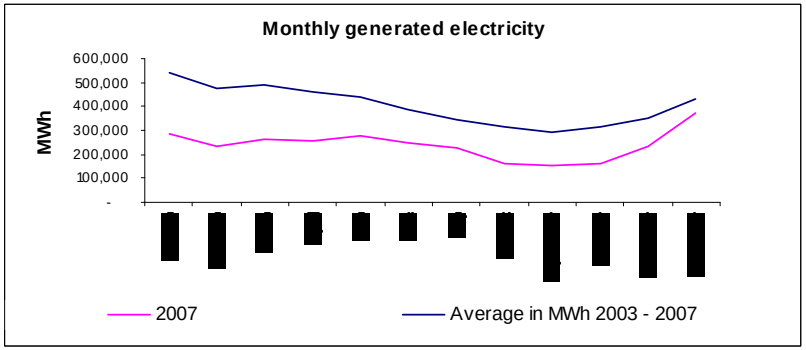


Fig.-11-(Source: Data from TSO)

As it can easily seen the difference for each month is very evident; it can be only be mentioned that the domestic generation of the electricity in 2007 has been 41% lower than the average of 5 years taken into analysis.In the figure 12 is presented the monthly consumption of the electricity for the last five years while in figure 13 for comparison purposesare presented the monthly consumptions in 2007 and the average monthly consumption for the period 2003-2007.

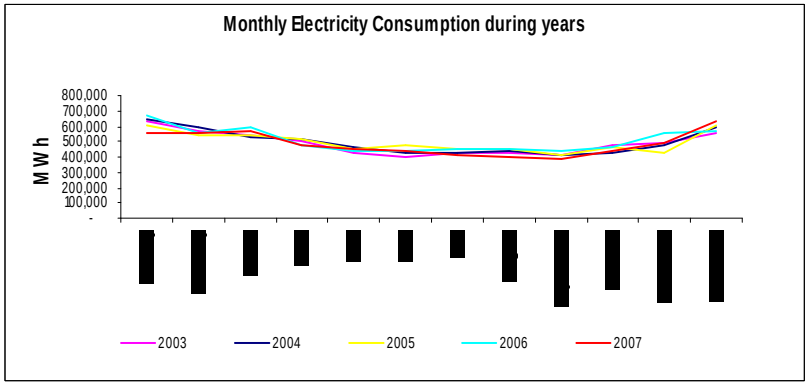


Fig.-12 - (Burimi: Te dhena OST)

As it can easily be noticed the difference of the consumption per month is much smaller. In total, in 2007 the customers have been supplied with 2.5% of electricity less than the average supply of the last 5 years.Based in this analysis, logically you can draw the important conclusion that even though the year 2007 represents the historical year with the most unfavorable hydro conditions, the supply with energy has been practically as much as the average supply of the last five years. From the analysis of these detailed data, ERE come to the important conclusion that KESH

has exploited effectively the hydro reserve through the combination of the domestic generation and imports, by enabling the maximum supply possible for the country with electricity under the conditions of a very difficult hydro situation, and limited transmission capacities for import.

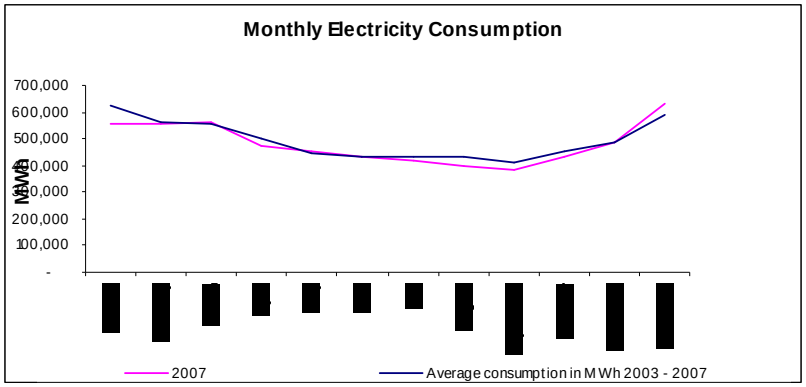


Fig.-13- (Source: Data from TSO)

It has been worthwhile to underline needs to be stressed the fact that KESH has had an important financial support from the state budged, which enabled higher amounts of import of the electricity during the summer season, but unfortunately, the regional factors, analyzed below, did not make such thing possible.

1.4.3 Evaluation of lost load

Part of electricity supply scenarios is also the forced load shedding electricity supply as a result of the difficult hydro situation and limited power imports due to limited transmission interconnection capacities. In the figure 14 is presented the supply for each month of the year 2007. From this graph it can be seen that the most visible shortage of electricity are during the months of winter. We have to underline that the driving factor that causes the increase of the electricity consumption in winter, by 35% or more, compared to the summer period, is its use for heating and more specifically its use without any limit by the customers without meters and by abusers with electricity.A new phenomenon, that is becoming each time more important, is the increase of electricity consumption during the hot summer periods due to increasing of the cooling technology for air conditioning and climatisation.

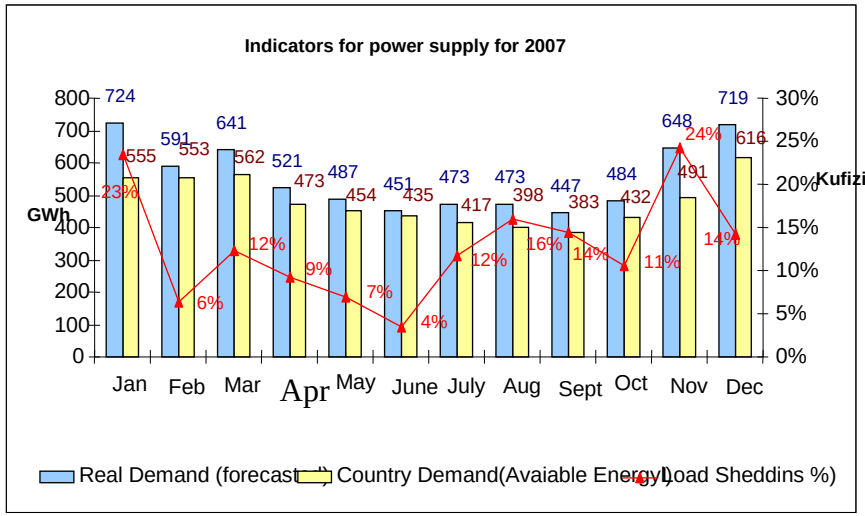


Figura -14- (Source: Data from TSO)

The figure 15 shows the evaluation of forced load shedding phenomena expressed in GWh/day and hours/day for the period 2002-2007

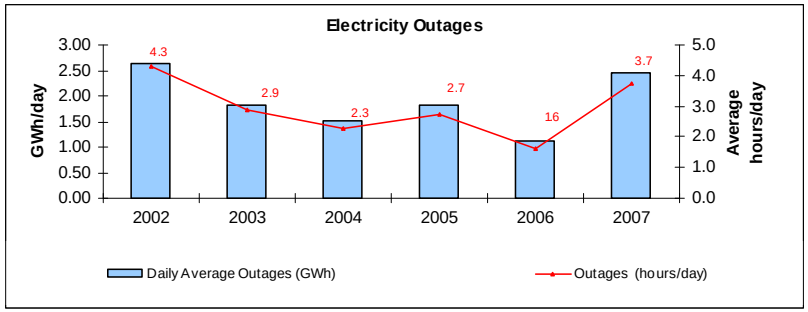


Figure -15- (Source:Evidence from KESH)

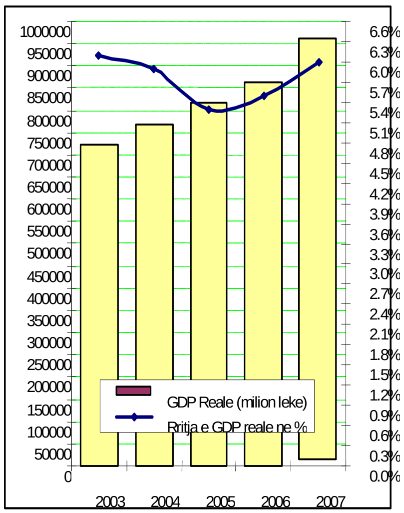
From these data, it results that the highest have been verified during 2002 with average 4.29 hours per day or 2.63 GWh per day followed by those of 2007 with an average load shedding 3.73 hours per day or 2.44 GWh per day.Another important aspect of the electricity supply to customers by KESH has been even their selective supply under the conditions of affording a continuous supply. Thus, the supply of the important industrial customers, or other businesses f the businesses that have special feeder from these of the population, as well as the customers tourist areas along the coast line, during the tourism season, have been supplied regularly.Even though the domestic production of electricity in the year 2007 has been historically the lowest or 41% lower than the average generation of the last 5 years, by realizing an import of 49% of the domestic generation, that represents the highest historic import of electricity in Albania, it was enabled a supply of electricity to customers in an amount only 2.5% lower than the average supply of the last 5 years.ERE evaluates as an optimal solution the managing of the hydro reserve in the country, by KESH, through the rational combination of the domestic generation and import and evaluating the best supply possible under the actual market conditions.

1.5 Economic impact of 1KWh lost load

Every kWh of lost load in the manufacturing business has a negative impact in the country's economy. Every kWh of lost load in the household customers affects the quality of living, while in the small businesses and in services increases visibly their activity costs, by causing a chain reaction in the country's economy.There are two different methods groups for the evaluation of the value of lost load of electricity: (i) **macro-economic method,** that keeps in consideration the losses in the economy from the electricity outages and (ii) **micro-economic method,** that analyses what cost would have a subject for the supply with electricity if the supply is done through a diesel generator (thus in the role of the generator connected directly to the customer). The macro-economic method needs complicated calculations and a well organized data base especially related to the electricity cost of most products that are produced in the Albanian economy. The difficulty is increased even more when is analysed the electricity system in Albania, in which about 60% of the electricity is consumed by the household sector, the sector that streight forward does not contribute directly on GDP. But with full analyses that may be done in the future based on this method, it will be taken into consideration the impact of this indicator (since the increase of the wellfare affects directly the increase of each ones productivity).One of the simplest macro-economic methods for the calculation of outage that is used to have quick calculations and an approximative value of the unit

cost is done based on the following formula (taking into consideration the last five years):

$$Kosto^{niesemosfurnizimit}_{metodamakroekonomike} = \frac{\sum_{t=1}^{5} GDP_t}{\sum_{t=1}^{5} EnElektrikeFurnizuar_t} = \frac{\sum_{t=2003}^{2007} GDP_t}{\sum_{t=2003}^{2007} EnElektrikeFurnizuar_t}$$



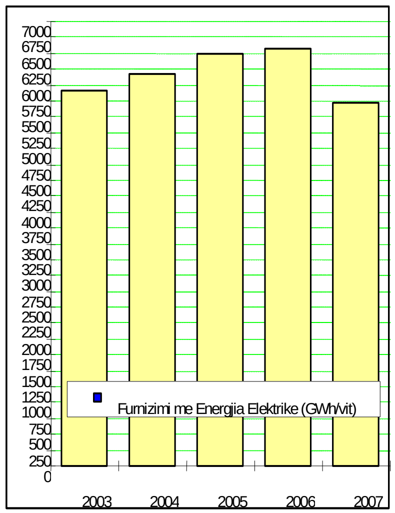


Figure 1.: Ecuria e GDP ne terma reale per periudhen 2003-2007 (vlera e GDP eshte dhene ne milion Leke)

Figure 2.: Ecuria e furnizimit me energji elektrike per periudhen 2003-2007 (vlera e Furnizimit eshte dhene ne milion kWh).

Figure -16- (Source:BoA, KESH)

The following analysis shows that the value of lost load is aproximately 1.1 Euro/kWh. In the figure – 17 – is shown the tendency of this indicator and also its average vaue for the period 2003-2007.

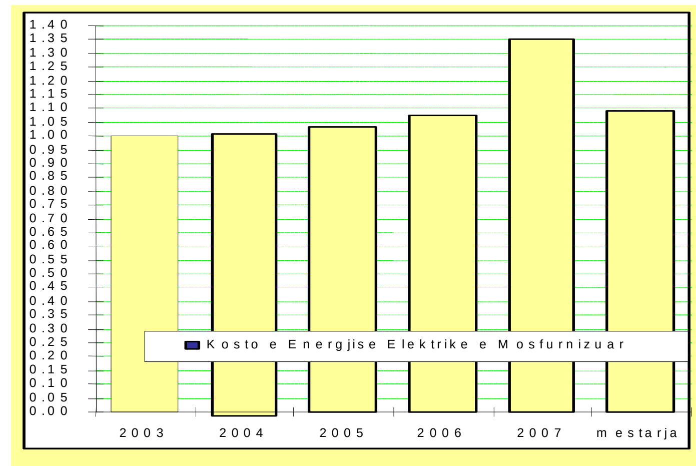


Fig -17-(ERE's Evalutation's)

It should be underlined from the begining that the micro-economic method, is more acurate regarding the evalutation of the outages cost because it makes possible to calculate it directly, however on the other side this method has some flaws, since it does not take into consideration the economical chain effects. Based on this method, the cost is calculated in the basic concept that each kWh not supplied would be guaranteed through the

installing of a diesel generator in the households, service and the industrial sector.To calculate the unit cost of the generated electricity the instalation of a diesel engine of 5 kW (for the household sector), 150 kW (for service sector) and 1000 kW (for industry sector) is assumed. For the calculation of the unit cost, are taken into consideration the investment costs, operational costs and maintenance cost and the fuel cost(that is the main cost component). The results are shown in the Table 1:

Table 1

Cost of non supplied energy	Household	Services	Industry	Total Average
Leke/kWh	44.5	38.6	31.73	41.14

1.6 Regulation of electricity prices and tariffs

One of the main responsibilities of ERE and at the same time the most disputable and the most sensible one for all the society is with no doubt the debate on the prices and tariffs. ERE, for setting the electricity prices and tariff, uses the respective methodologies and is based on the following principles.

1.6.1 Principle of cost allocation

ERE for the approval of the new electricity tariffs for 2008 is based on the assumption that through them KESH will provide the necessary revenues to cover all the costs occurred during 2007, and also to have a return. According to the analyzed data the year 2007 results with the lowest historical generation in the country. Compared to a year with normal generation (4.2 TWh), the generation for the year 2007 results some 30% less, which combined with the continued import during the year, enabled an electricity supply of 5.75 TWh, compared with the demand 6.65 TWh. From the above, it is clear that the year 2007 represents a year with the overt expenses for import of electricity, by listing 2007 as an extraordinary year. In these conditions it comes natural the question, whether the expenses of one extraordinary year should be covered within the following setting the price according to this extraordinary level of expenses, or these expenses should be allocated in several years, by setting a moderate price and by compensating the financial deficit of KESH by the equalizing fund or in its absence through short-term loans? ERE is of the opinion that the allocation of costs in several years is the most reasonable way, especially for our power system where the domestic generation of electricity depends heavily from the hydrological cycles, so from the weather conditions. This approach is followed in the international practices as well.

1.6.2 Principle of capacity and energy tariffs

Up to date in the methodologies for calculation of electricity tariffs the capacity component has been hidden in the energy tariff and distributed uniformly in all the customers independently from their capacity.Such distribution allows a specific way of cross-subsidy among customers with different capacity, and as a result there is no transparency on allocation of

costs to customers. In the international practices, the capacity tariff and the energy tariff are calculated separately and can be expressed in two different tariffs but also with one average tariff.

For different consumers capacities you have different levels of investments and services from the power sector, to guarantee their supply with electricity thus the different capacities you will have different capacity tariffs independently from the electricity consumed. While the energy tariff depends on the cost covering for supply with electricity in different voltage levels.Based on these considerations the ERE has judged reasonably to apply separate tariffs for capacity and for energy in 2008 rate case.The methodology of the calculation of capacity tariff is based on the load factor of each customer group according to levels of service, by using for this purpose typical load curves of respective groups.

1.6.3 Principle of setting the electricity tariffs based on the level of service for each customer group

The electricity consumers connected to the power system in different voltage levels are characterized by different cost of service. Thus, in accordance with the methodology of setting the prices and tariffs of the electricity, based on the principle of the real cost of service there will be different tariffs for each customer group. Not implementing this principle would mean to accept the principle of cross-subsidization among different categories of consumers. ERE in the calculation of the tariffs and prices keeps in consideration the principle of setting the electricity prices and tariffs based on the level of voltage where each group of customers is supplied.

1.6.4 Principle of unbundaling of charges based on the activity type

In the frame of unbundling KESH from one vertically integrated corporate in different companies legally, financially and organizatively separated, the ERE in the methodology of setting the electricity prices and tariffs will implement the principle of unbundling the charges for the generation, transmission, distribution and supply activities.ERE is of the opinion that the implementation of such a principle is of great importance in the process of privatization of distribution and supply activities.

1.6.5 Principle of electricity tariffs with two blocks

We have assumed to define as electricity of basic needs, the quantity of electricity that is used from the household customers to carry out the essential activities that can not be covered by other energy sources, such as lighting, audio vision, preservation of food in cold temperature, washing of clothes, ironing or other activity.The needs for cooking, and especially for space heating, as in the market there are the possibilities to meet them with other alternative energy sources, with the same effectiveness and comfort as with electricity, can not be considered as basic needs for electricity.In this case it is important to determine the quantity of electricity for basic needs, distinguished from the rest of

electricity consumption. The concept of electricity for basic needs brings the evaluation of two block tariffs for household customers, a tariff of electricity for basic needs and a tariff for comfort. Such tariffs are recognized as two blocks electricity tariff system for household customers.ERE judges necessary that, for the specific conditions of our country, where heating makes 35% of the whole general consumption, the application two blocks tariff of electricity for household customers.The average monthly quantity of electricity of basic needs, for every family is estimated around 277 kWh.The application of two block tariffs will serve as an instrument that will encourage the use of LNG and other energy alternative sources for cooking, space heating etc. In addition to that, such a principle will promote the efficient use of electricity and encourage the observance of the modern code of energy efficiency in the family.In this framework we recommend to the Government to apply fiscal facilities and other incentives that will have an impact in promoting the use of alternative energetic sources, as substitutes for electricity.

1.6.6 Need for digital reading of electricity meters

The up to date practice of electricity billing with two blocks is associated with the risk of abuses with the customer by the meter readers manipulating the readings for personal profit, but also by KESH itself, by changing the reading dates for maximum profit. Such a risk may compromise the implementation of the two block tariff for household customers.To avoid such a phenomenon, ERE evaluates as indispensable the reading of meters by scanning.The method of digital reading excludes totally the readers from reading the meters. The showing of the meter reading and the date in the electricity bill issued to the customer by KESH enables the customer full transparency on the quantity of electricity consumed and eliminate every doubt of abuse.
The necessary investment for the realization of such a measure may bring a great return.

1.6.7 Principle for “peak” and “off peak” tariffs

The load curves in the power system that expresses the real time load in 24 hours of the day are characterized by the maximum load or the peak load in certain hours of the day. The peak loads are created due to the synchronism factor or coincidence of maximum peal loads from different customers, by creating thus, an average of load in certain hours of the day.The peak load increases highly the load from occasional conditions. In concrete case the maximum peak load of 1300 MW against the average load 800MW results 1.62 times higher.To cover the peak load, the generation investments import of electricity are highly increased; the same happens with the investments in all the elements of transmission and distribution systems and this way, is reduced the efficiency of the whole energetic system.This is the reason why the electricity in the peak hours is charged in differentiated way from the off peak energy. By increasing the electricity tariff in peak hours, against the off peak ones, the customers are as the effect of the economic utilization, modification of the individual load curve that the consumption in the peak hours is reduced as much as possible.For the application of peak tariff it is necessary that the customers are equipped with meters with multi measures options, which actually is not a problem, as far their variety and also the price, which is a slightly more expensive than ordinary

meters. ERE judges necessary the application of the peak tariff initially for the industrial customers in high and medium voltage.

1.6.8 The Principle of Service Tariff for customers with no consumption

In every country the respective power systems have considerable expenditures to keep the system ready and to offer in any moment supply with electricity. In addition to this, independently if the electricity is consumed or not, KESH has expenditures for the service of meter reading, preparation of the electricity consumption bills and their delivery to every customer.This service is provided equally to all the customers independently whether they consume electricity or not.If for the customers that consume electricity the tariff of service is included in the electricity cost, for those who do not consume or have a bill with zero energy there is no actual charge for the service, although it is provided for them as well.ERE thinks it is reasonable and necessary the application of service tariff for customers with no monthly consumption, and this gets more important in front of the fact that actually 80 thousand customers are with no monthly consumption.

1.6.9 Principle of the relation household-industry tariffs

An important feature in the criteria for setting tariff and prices of electricity is also the relation of tariffs between household and industrial customers.In the centralized state economies where all the economic development of the country is done only with the state participation and where the free competition is lacking, being this a characteristic of the totalitarian regimes, also the electricity prices for the population as other consumption prices have a populist character.

In the free market economies where there is the market liberalization, the prices are subject of demand-supply laws and costs of service, the household customers are part of the retail market supplied in the low voltage network. This is the main reason why the electricity tariffs for this category of customers will be higher than the industry prices supplied at medium voltage in distribution network or at high voltage in transmission network. the other side the business in general and industry in specific are development forces of movement that determines also the economic growth of a country and as a result the promoting policies are also expressed in the tariff and price policy. In the post-totalitarian countries the business prices are higher than those of the household customers. But for the countries in transition towards the free market economies the price policies should have as a trend the abovementioned considerations.

1.6.10 The principle of seasonal tariff and day-night tariff

To take into consideration the change of electricity tariff for the regional markets of energy between summer and winter season is applied the seasonal energy tariff. ERE from the analysis done in the difference of seasonal prices of electricity imported from KESH in 2007, has reached in the conclusion that they are not sensitive up to that level that they can make necessary a tariff differentiation, as e result it is not judged necessary a seasonal tariff system.As far as the differentiated day-night tariff are

concerned, although this is a widespread practice in many countries, ERE has judged not applicable for the moment. This is why in electricity imports from KESH in 2007 there has been only one tariff of energy purchase during the 24 hours. From the other side in our metering system of electricity to the customers there are no two tariff meters which will mean very considerable investments for the implementation of this principle to all the customers.

The principles of setting the tariff and prices of electricity present the philosophy of reform development for tariff and prices, by coordinating in an optimal way the methodology for covering the real costs of service by increasing efficiency in using electricity and in the energetic system, and also for the establishment of the necessary balances towards the different customer categories.

1.6.11 Leaving in force the existing tariffs of electricity

The Board of Commissioners of ERE with the Decision No. 65, date 10 December 2007, decided to leave in force up to 29th of February 2008, the existing tariff and prices of electricity for tariff customers. About this decision there has been a disapproval reaction from KESH and the international financial institutions IMF and the World Bank. Pursuant to this, we feel the necessity to explain the reasons, which are considered from ERE very important and for which the Board of Commissioners of ERE judged appropriate to reach such a decision, in the contrary of what was declared before that the tariffs and process for 2008 will be decided with in December 2007.

- The application of KESH is made in an extraordinary difficult electro energetic situation and when the expected prognosis of the weather was insecure. Based on this KESH estimated to import 2.4 billion KWh for 2008 quantity that makes 54.2% of the whole KESH expenses.The evident improvement of the hydrologic situation in November and the continuance with the same improvement pace also for December (Annex 1) makes possible to forecast the expected level of water in Fierza Lake in a quota over 280 meters by 1st January 2008(with a hydro energetic reserve over 930 million kWh), when this level by 1st January was 254 meters and with a hydro energetic reserve of only 170 million kWh. But ERE thinks that it is not the hydro energetic that causes the greatest effectiveness in the increase of security of supply with electricity but the possibility that create the high quota of the water level to produce about 1,6 times more electricity for the same quantity of water spent.The high quota create the possibility to KESH to increase significantly the annual generation of electricity by harmonizing the domestic generation with import and consumption of energy by preserving the optimal level of water in the cascade.In this way the new hydrological situation is directly connected to the quantity of import and is directly connected with the performance of KESH. So that the evaluations are real ERE judges that this analysis is not made now but by the end of January or February 2008. Such a thing will make possible that the electricity prices will be evaluated with more objectivity and reasonable balances should be set between KESH and the customers. This will take more value if we

consider that in 2008 the distribution sector will be privatized.

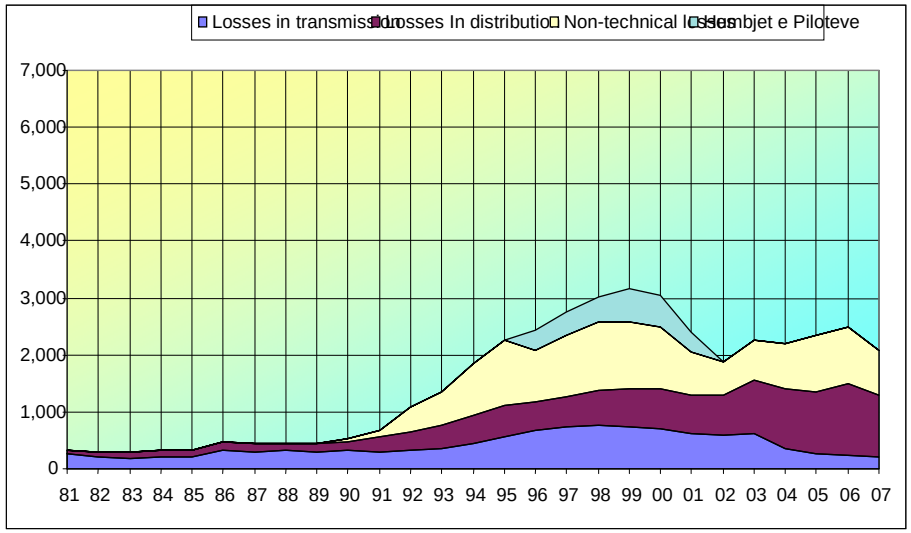
- In its application, KESH estimates the total electricity losses for the year 2008 are 34,4% of the total consumption. The quantity of electricity losses is directly connected with the expenses, with the quantity of electricity imported and with the revenues level.
  ERE, by evaluating the positive performance of KESH in the reduction of losses and increase of collections, to reach a realistic evaluation and at the same time mobilizing for KESH, judges reasonable that the level of losses for 2008 to be based on the up to date positive performance and by referring to the final annual level of losses and not to partial results that might bring evaluations with a negative impact in setting the electricity tariffs. Under such conditions ERE judges reasonable that the decision on 2008 electricity tariffs should be taken within 6 months time as provided for by the respective procedures.
- As already known, ERE is under an intensive working process to prepare in collaboration with USAID technical assistance the necessary regulatory framework for the privatization of the distribution sector. In this context ERE is reviewing the methodologies for calculation of tariffs for the generation, supply and distribution andis working for the unification of accounting systems of licensees. On the other side, some time ago, in the privatization framework have applied to ERE to be licensed as independent companies KESH and DSO. As DSO is expected to be privatized within 2008 its relation with KESH will be pure relations in the market and not remaining as actually the same company commercial vertically integrated company of KESH. In this context the setting of tariffs by ERE in this new environment becomes more important than previously and we think that the taking into consideration the reviewed methodologies of tariff and prices justifies the postponement of 2008 tariffs decision in January or February 2008.
- It is not in ERE's responsibility the policy for preservation within the optimal limits of the inflation index in the country. From the macroeconomic policies point of view, such a responsibility belongs to the Bank of Albania. During 2007, for different reasons an increase in the inflation scale is evidenced and as a rule this increasebecomes more problematic by the end of the year. For this reason, ERE judges reasonable to evidence the fact that the approval of electricity tariffs by the end of February is accompanied with a positive impact in the inflation index.ERE, also, for other phychological and social factors, considers more reasonable to start the tariff year after it is closed the financial year of the licensees is closed.
- Finally, from the formal point of view, by referring to the rules and procedures in force, ERE within the determined time limits will reach a decision for the electricity tariffs. Besides ERE has the right that for legitimate reasons to decide to deviate from these rules with a well argumented decision.
  Given that previously ERE has announced that the new electricity tariffs for tariff customers for 2008 would have been approved within December of 2007, by taking into

consideration all the abovementioned factors, it was decided that this decision be made within February 2008, by leaving in force up to then the actual tariffs.

1.7 Electricity losses

Electricity losses, both technical and non-technical ones, represent the most difficult challenge and with the heavies negative effect in the economic-financial activity of KESH.The technical losses that have an impermissible value of 18% in distribution and a normal level of 3-3,5% in transmission, are directly connected to the low technical level and not fulfillment of conditions and technical standards in the distribution system. Their improvement is related to considerable investments in the rehabilitation of the electricity distribution system. But from the other side, it can not be said the same thing for non-technical losses. As it is already known, the electricity consumption that is not paid by customers, and the illegal connections to take energy without passing it through the meter and tampering of metering systems for illegal benefits, are considered as "non technical losses of electricity".

In graph of Figure-18- is presented the historical electricity losses performance in the last 25 years since 1981.From this graph it can easily be noticed that from 1995 up to date the efforts to reduce the electricity losses from all KESH management teams have not beensuccessful.



Fig–18–(Source:National Strategy of Energy updated with the data of KESH)

Technical and non technical losses in the distribution network for 2007 were estimated (according to the 7th Action Plan) some 35%, while in fact they were actually 35,4%, while the whole losses, including those in transmission resulted some 36.4 %During the first 3 months of 200,7 the losses in distribution and total losses have been over 40%. Starting from April the problem of reduction of losses was evaluated seriously by KESH management, and thanks to their successful efforts the process of elimination of illegal connections and collections was improved.

The graph of Figure -19- presents the losses in distribution and the total losses for each months of 2007. It should be underlined that losses are in a direct function of electricity consumption. In winter months where the supply has been higher, the abuses with electricity were higher.

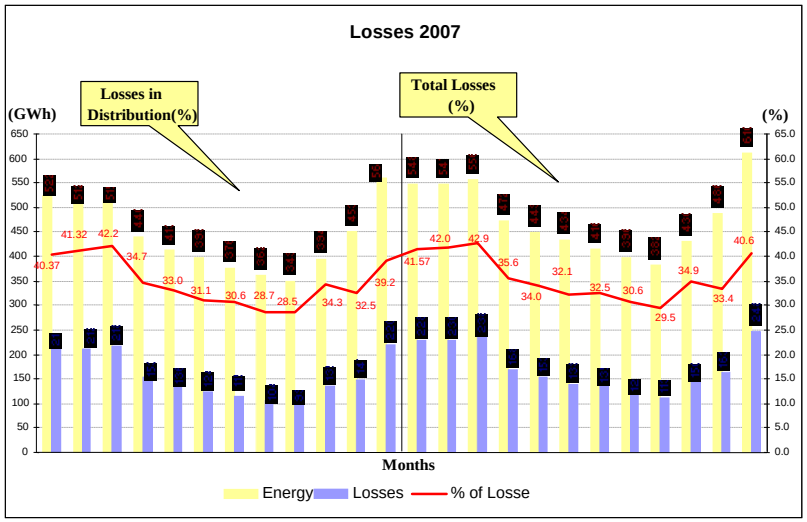


Fig.-19-(Source: Evidence of KESH)

Another feature in the performance of losses over the years is the fact that there is no steady improvement. To analyze this phenomena in the graph of Figure -20- is presented the variation of total losses for the period 2002 – 2007. As it may be noticed in 2002 we had the highest level of losses, but later on there is a slight improvement and only in 2007 the losses had an evident improvement by reaching the lowest level for the last 6 years.

However, the level of losses of 36.4% or expressed in quantity of 2.08 TWh per year, can not be considered acceptable for the period to come.

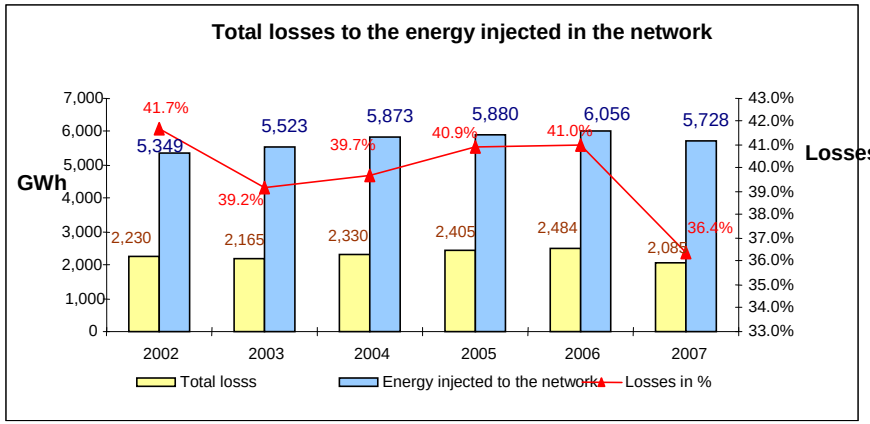


Fig.-20-(Source: Evidence of KESH)

The positive performance in 2007 in reducing considerably the losses should continue in order that in the next years, their reduction continue with the same pace.ERE has evaluated this positive performance in reduction of losses as an important element to evaluate the electricity tariffs reflecting by setting more ambitious targets to be reached by the operative structures of KESH.

The graph of Figure -21- shows the performance of the billing and collection during 2002- 2007.

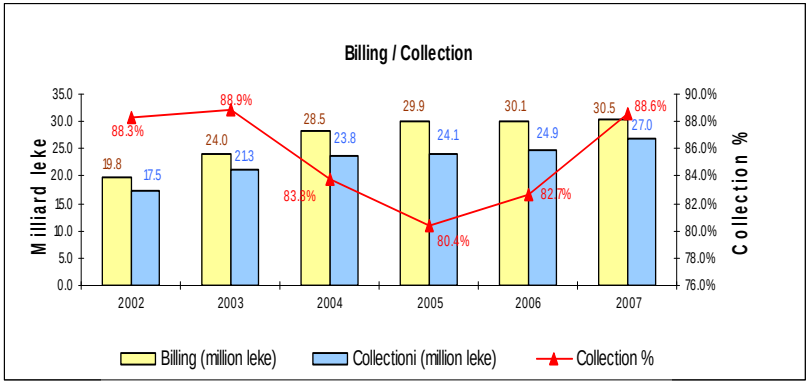


Figura – 21 – (Source: Evidence of KESH)

As it can be seen from 2003 the trend of collections has been a negative one by reaching the lowest level in the election year 2005.It can be underlined that the politics has influenced in turning down the efforts for collections. It is very important that this positive trend that it is seen since 2005, with a steady increase of collections, continues with the same pace and be immune from the influences of the election campaigns. The graph in Figure -22- shows the level of collections and billings for each month of 2007.

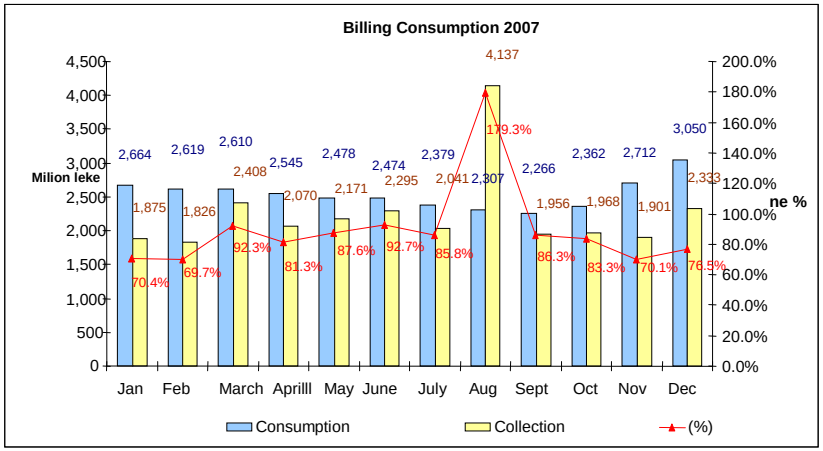


Fig -22- (Source: Evidence of KESH)

It is very important that the positive results reached during 2007 in decreasing the losses and increasing of billing and collections are kept as a continuous tendency of improvement and be not affected by other factors.

For ERE is very alarming and incompressible the fact that even though the abuses with electricity denumerations for some years now are dramatic and even though KESH has filed many thefts abusers, with hard proofs, the judicial authorities have not taken penal actions against this dangerous high crime for the society. Such actions do not help at all, but only encourage the abusers of electricity in their abusive actions.

We consider very important to suggest to the Parliament, to use all the competences, in order that the challenge for the maximal reduction of the electricity losses to be a paraamount goal, of national importance, for all the responsible government institutions, being them part of executive or judicial powers. The non technical losses of electricity can not be an isolated problem of KESH. The challenge for facing them is a problem of the Government, the State as a whole, but especially of the entire Albanian society.

Electricity losses, technical or non technical, represent the most difficult challenge and with the heaviest negative effect KESH financial/economic activity. The level of losses 36.4% or about 2.08TWh per year remains the most important challenge for KESH, Government and the entire Albanian society.We encourage the successful efforts of KESH during the last two years in reducing the losses and we demand that this tend remains constant, otherwise ERE will not allow that poor management of KESH, honestn citizens pay for electricity thefts.

1.8 Equipment with meters of customers

The phenomenon of massive destruction of meters, besidesexcept the year 1991 was repeated in 1997. But up to 2005 the measures taken for equipping completing with meters all customers have not been effective.By January 1-st of 2005 the general number of household customers looking for meters resulted 152,373. During 2005 and 2006 some 90,122 new household customers, and the general number of the household customers that were asking for meters during this period reached 242,495.By January 1-st of 2007 the general number of householders without meters was about 63,000 or during the period 2005-2006 were installed in total 179,495 new meters. During 2007 referring to KESH operative data for the month of December 2007, the situation is as shown in Table 2.Taking into consideration that the average annual increase of the new customers for KESH is about 40,000, it results that during 2007 KESH has not installed any new meter, even though in its request for postponing the application of minimum usage assumption until 31-st of December 2007 it assured that it would equip with meters all customers.

Table -2-

Number of Customers

Category	With Meter	With tampered meter	No Meter	Total with no meter	Without meter in %
Household	790,740	14,680	72,452	87,132	11
Private	96,498	2094	12,580	14,674	15
Budgetory	8,164	336	1,201	1,537	19
Total	895,407	17,110	86,233	103,343	11.5

An unacceptable phenomenon is the non equipment with meters of 14,674 private subjects of businesses that make up 13.2% of all private subjects and 1,537 of the budgetory subjects are 16% of their total number. Since the law permits the billing of minimum

usage assumption only for family customers and not for the private budgetary customers the lack of meters in these customers causes an increase of the non technical losses, causing KESH economic losses and allowing at the same time the free way for abuses.ERE realises that billing of minimum usage assumption for household customers brings considerable losses to KESH, since the customers with that rate use with no limit the electricity and in amount that surpases the bille energy. This is the main reason why customers which are billed with minimum usage assumption refuse to have the meters installed.

Another aspect of importance is the fact that KESH is not getting any revenue from the billing of reactive power due to lack of meters of reactive energy.

ERE believes that the situation of equiping the customers with meters is a challenge especially for the businesses. KESH, as stipulated by the legislation in force should have found the way and possibility, to have provided meters and have them installed on time.

1.9 Regional Electricity Market in South-East Europe

Upon request of Athens Forum of the Energy Community, the USAID financed the Pilot Project for Monitoring of the South East Europe Market. This project was carried out by the American consulting company "Potomac Economics", Regional Center for Research of Energy Strategy" (REKK) of the Corvinus University of Budapest and the Research Group of Energy Strategy (EPRG) of the Cambridge University in England. As subject of this monitoring has served:

a- The interconnection capacity market in South-East Europe.

b- The electricity market in South-East Europe.

This study has analyzed the countries of the Balkan region that are Energy Community members : Albania(AL), Bosnia & Hercegovina (BA), Bulgaria (BG), Croatia (HR), Montenegro (ME), Macedonia (MK), Romania (RO), Serbia (SR), and Kosovo (UNMIK).The main objective of this project was the treatment of the concept "A Regional Market with Regional Prices".In this project a set of data taken from the above mentioned countries related to the transmission capacities and electricity generation were elaborated.

The accuracy and transparency of these data is essential as their deficiences deforms and creates favorable conditions for abusive and discriminating prices in the region.

Figure-23- shows the configuration of power flows in the systems of the countries in the region during the peak load period for July 2007.

It is can be noticed the fact that some countries have the status of electricity exporter country of electricity such as Bulgaria, Romania and Ukraine and in the above scheme is evident the dominating role of Serbia in the transmission of energy to importing Balkan countries. From the study it can be evidenced that in the conditions of a full transparency regarding the transmission and generation capacities from the countries of the region, the electricity s would be almost the same in all importing countries.

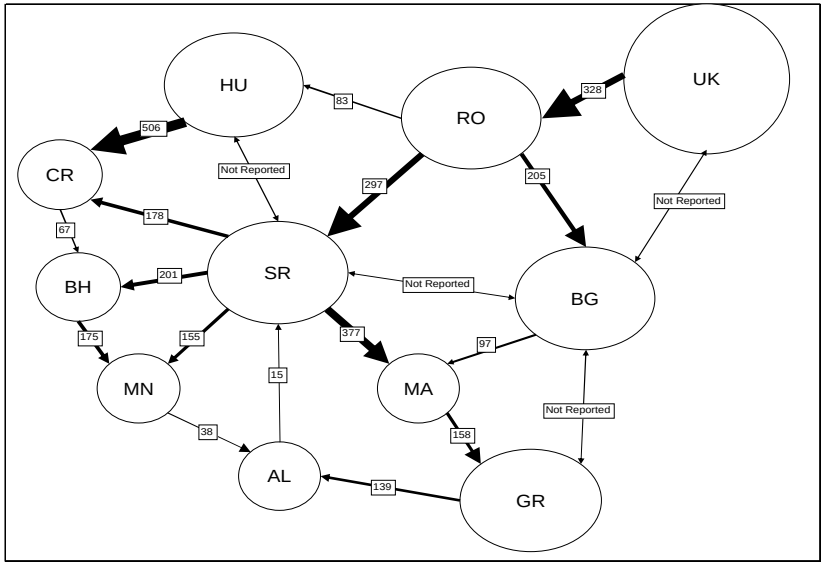


Fig.-23-(Source: REEK Budapest)

The inaccurate statement of transmission and generation capacities from different countries in the region has it direct influence on electricity prices.So, from the analysis made for the period 2006-2007, if the allocation of capacities would have been in a transparent and non discrinatory way, the import prices for Albania, Kosovo and Macedonia would not have been higher than 50 Euro/MWh, while for the other countries, without transmission congestion, not higher than 40 Euro/MWh. Another very important aspect of this project is the conclusion that the effect on the regional electricity prices as a result of closing up of the unit 3 and 4 of Nuclear Plantof Kozloduy in Bulgaria and Cernavoda in Romania is insignificant, because the closing of these plants causes an increase not higher than 2-3 % of the generation price in the respective countries as exporters of electricity. Given that one of the problems of this regional market is the lack of transparency in the allocation of the transmission capacities, which has brought an abusive increase of the electricity prices in the region, the Energy Community is insisting in opening the Regional Auction Office, aiming at a transparent allocation of transmission capacities. Also at the national plan, from the above analysis, it is clear that the infrastructure of the transmission network within the country and the interconnections with regional networks has its direct effects in the security of supply with electricity in the country. Besides, it guarantees favorable electricity prices from imports, as it eliminates the congestion and bottlenecks in power trade through integrated regional market towards the importing countries. This influences the increase of independence and flexibility in the operation of our power system at national level and in parallel with neighboring systems. Under these conditions, in the frame of developing the investment policies in power system, we would strongly recommend the construction of already planned interconnection lines with Montenegro and Kosovo, and with our two neighboring countries, Macedonia and Italy.A major project in our system is the construction as soon as possible of the new Dispatch Center which will make possible the dispatching not only of the Albanian system but also of power flows that will transit through our country bringing considerable revenues to the Transmission System Operator. For the great importance a transparent process for the allocation of transmission capacities has for our country, in the meeting of high level representatives of Athens Treaty where the respective Ministers responsible for energy participate, the right political

pressure should be made so that this Office should be established as soon as possible.

1.10 On the development of power sector strategy

ERE considers necessary and useful that based on the up to date developments of the electricity sector in our country, to express its point of view for important aspects in the development strategy of the electricity sector in Albania.

First: what is ERE suggesting for the development of the new electricity sources?

The actual trends of development of power generating sources in Europe and in the World aim at reducing the generation of the electricity from the fossil fuels and giving more importance to the renewable energies and increase of the electricity generation efficiency. Particularly, it aims at reduction of generation from liquid combustibles the TPP, since it is know that the price of oil is increasing continuously. Actually the oil is considered less economic for the power generation.

In the graph of figures 24 and 25, are shown in % the primary energy sources for the power generation for European Union and for countries of Central and Eastern Europe.

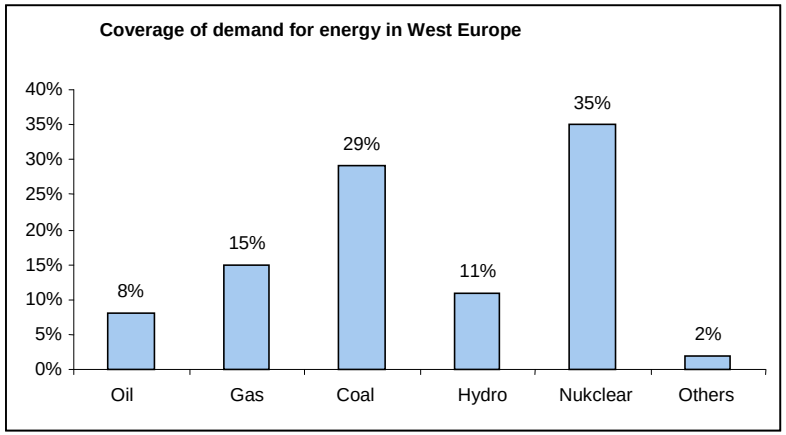


Fig-24-(SourceKPMG-2008)

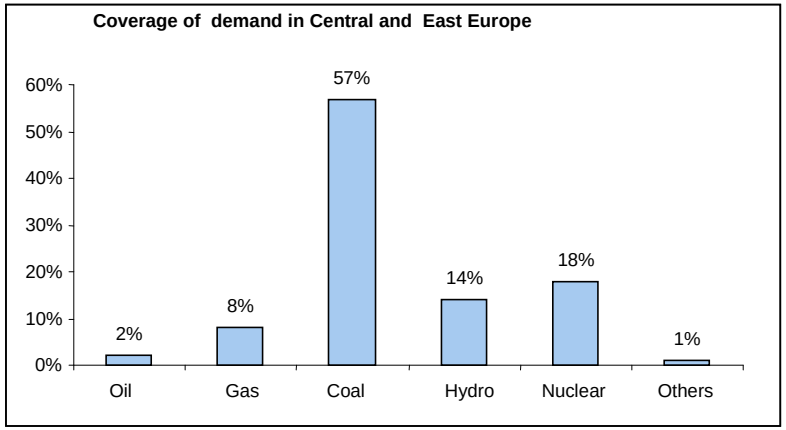


Fig -25 - (Source KPMG-2008)

The graph of figure 26 shows the tendences of oil prices and natural gas for the period 1997-2006. As it can be seen coal and nuclear energy represent the primary resources most used, which are followed by natural gas and HPP. On the other hand the coal has the lowest costs of electricity generation followed by nuclear, hydro, wind, gas and oil. Whil,e regarding the pollution remains the first for CO_2 emission in the atmosphere followed by oil, gas, while nuclear energy does not cause almost any pollution whatsoever.

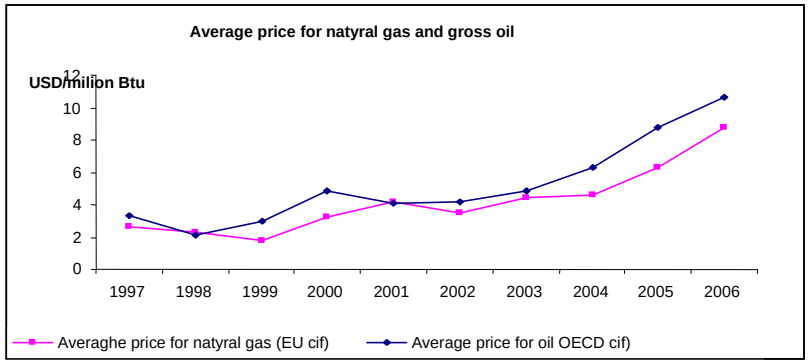


Fig. -26 - (Source KPMG - 2008)

In the actual phase of development of our country in natural manner we need to answer as rationally as possible to the question on what should be our short, medium and long term strategy for developing new power generation sources in Albania. In order to put light on some ideas we have analyzed the construction of a coal fired TPP with a capacity of 400 MW.
From such TPP we can benefit 3 TWh of electricity per year or almost as 75 % of the countries production in a normal hydro year. For the operation of the plant about 800 thousand tons of high quality coal (anthracite, 7000 kkal/kg) is needed to import. The import of lignite due to the costs of transport is not taken into consideration. The transport of such quantities can be done only by ships of a capacity over 50 thousand tons. Disembarking them requires deep harbors and large storage space. The transport of the coal from the harbor to TPP could be done by railway, but it would need a train of 50 carriages per day. The amount of ash as a result of the coal burning is estimated about 150 thousand tons or about 400 ton per day. While the amount of the water for cooling is estimated about 50 thousand m^3/h, or about 14 m3/sek. By the burning of 800 thousand tons of coal about 2.4 million tons of CO^2 would be emissioned in the atmosphere.
From these data we can understand that the construction of such a TPP in the conditions of our country, brings about a number of problems to be solved, which ar for solution many proble almost unacceptable. ERE suggests that Albania should not build any coal fired TPP. Given that huge reserves of lignite (estimated in 15 billion tons) in Kosovo the World Bank plans to finance the construction in Kosovo of a coal fired TPP of 2400 MW (lignite) which will supply for the entire region of the South East Europe. Besides, by declaration of Kosovo as an Independent Country, the Government of Kosovo has decided to build a coal (lignite) fired TPP with public funds. We welcome the agreement between the Governments of Kosovo and Albania that this TPP is financed with the participation of the Republic of Albania as one of shareholders of this investment. The investment for the construction of a TPP with coal in Kosovo excludes the construction of such type of plant in Albania. ERE thinks that in short time and mid time period (2-5 years) there are all the possibilities to build HPPs of Kalivac and Ashta and a considerable number of small HPP by archiving a new installed

hydro capacity with the HPP up to 250 MW. During this period Vlora TPP and reconstructed Fier TPP with a combined capacity of 300MW are also expected to be commissioned. On the other side the construction of the combined TPP in Kosovo with the capacity 300-400MW is planned to be completed within the mid time period.

By 2011-2012 the commissioning of three eolic parks (that use wind energy) with installed power of 850 MW that have already been licensed by ERE.

In the long term period (up to 2020) ERE thinks that there are possibilities for the construction of Skavica HPP and developments of Vjosa and Devoll river cascades, as well as the construction and operation of a Nuclear Power Plant of 1000 MW that will stabilize the demand for energy in Long term period.

Secondly: It is of an extraordinary importance the construction in a short term period (2-3 years) of 400 kV interconnection line, Tirana – Podgorica, Tirana – Elbasan, Tirana – Prishtina and Zemblak Manastir (Bitola)

Also the same importance has the completion as soon as possible of the Sub station 400/220 kV of Tirana (Kashar) and also of the new National Dispatch Center.For the mid term period it is important also the construction of the interconnection lines, sub marine cables with Italy through private investments.Taking into consideration the bad experience of prolonging endlessly the deadlines of financing and realizing of these investments, we suggest that they should be financed from the more secured sources, being these also the state budget.The interconnection lines will reduce considerably the insecurities of electricity import and will reduce also congestions of the imported electricity prices reducing the abusive effects due to the congestions of transmission capacities.

II ANALYSIS OF ELECTRICITY PRIVATE SECTOR ACTIVITIES DURING

2.1 Electricity Private Sector Structure

The electricity private sector in 2007 was represented by 14 private power generation companies with a total of 46 HPPs with an installed capacity up to 10 MW. From these, 6 are concenssionary companies while 8 are private companies.The Government policy in this sector has been a promoting and encouraging one for their effective development aiming at increasing the electricity generation from local hydro sources, growth of employment and development of infrastructure in the remote rural areas. In this framework, for 2006, the Government adopted a decision obligatory for KESH to purchase the whole electricity generated by private subjects with regulated prices by ERE, by putting an end to many years of efforts of these subjects to have such a right.This step made the subjects interested to increase their generation of electricity by increasing the investments for reconstructions and higher efficiency.In this process, ERE approved a uniform electricity price for all private subjects by developing a methodology for calculation of electricity price. ERE approved a price of 6.2 leke/kWh for the year 2007, by increasing it 45% the price of purchase for electricity by KESH compared to the average price of 2004 or with 12,5% compared with the average price of 2006. As a result of these encouraging policies during 2007, the total revenues of the private sector were about 366.9 million leks or approximately

7.1 % more compared to 2006. This increase in revenues is due to increase of electricity price. It should be underlined that due to difficult hydro conditions that the country suffered in 2007, due to electricity outages and their impossible connection in the system so that these plants are directly connected to the zones where they are without having long generation interruption and notefficient use of the water reserves. From the data it results that due to lack of water (because of dry weather) and interruptions from KESH these plants have been out of work for about 9206 hours. As a result, during this year a generation output of 59.2 GWh or 4.4 % less than 2006 was archived however still higher than in 2004-2005. The total generation from private sector in 2007 made only 1.03 **%** of the total electricity consumption in the country. For small power plants with installed power up to 10 MW, considering the HPP Bistrica-2 and Lanabregas, which are publicly owned by KESH, the total electricity generation for 2007 was 104,749 MWh or 1.83 % of total electricity consumption in the country.In Table 2-1 a summary of the main indicators for this subjects in 2004-2007 is shown.For the 4-year period of their operation, (from 2003 when these HPP were privatized or given through concession) ERE is based on the investment plan to be implemented by Table 2.1 the concessions based on the concessionary agreements, by reflecting them in the price approved each year. In this way as it can be seen in the graph of Figure -1-,to these producers has been given the possibility to increase the efficiency for the period 2004 - 2007 by new investments and by increase of working hours with about 10 -25 % per year.

Table 2.1

NR	Company	Instaled power. kVA	Year 2004		Year 2005		Year 2006		Year 2007	
			Gen MWh	PriceL/kWh	Gen. MWh	PriceL/kWh	Gen MWh	PriceL/kWh	Gen MWh	PriceL/kWh
1	Essegei Smokthina	9,200	10,454	3.75/4.5	16,636	5.4	28,086	5.60	25,348	6.2
2	Hydroelectric	8,450	10,479	3.77	12,612	4.79	12,990	5.20	15,612	6.2
3	Emikel	1000	5,017	4.3	3,655	4.52	2,985	5.54	2,638	6.2
4	Amal	250	1,360	4.15	1,135	4.15	749.7	4.15	868	6.2
5	Spahiu-Gjanc	3700	6,691	4.6	4,901	5.9	5,382	6.28	4,941	6.2
6	Wonder-Power	2500	6,356	4.4	5,721	5.85	5,918	5.85	3,663	6.2
I	**Total concessions**	**25,100**	**40,357**	**4.275**	**44,660**	**5.24**	**56,112**	**5.58**	**53,070**	**6.2**
7	Projeksion	300	550	4	0		0		423	6.2
8	Sarolli	117	117.5	4.6	161	3.78	45	4.20	21	6.2
9	Juana	75	210	4.55	275	5.35	260	5.43	187	6.2
10	WTS energji	375	0		336	4.55	907	4.60	530	6.2
11	Marjakaj	125	0		354	3.78	330	4.20	397	6.2
12	Maksi Elektrik	172	370		657	4.95	641	5.10	672	6.2
13	Favina 1	780	0		846	5.3	3,623	5.00	3,877	6.2
14	Dardania Energji	100	0		0		0		0	6.2
II	**Total purchased**	**2,044**	**1247.5**	**4.21**	**2629.43**	**4.82**	**5,806**	**4.92**	**6,107**	**6.2**
	Total private (I+II)	**27,144**	**41,604**	**4.273**	**47,290**	**5.21**	**61,918**	**5.51**	**59,177**	**6.2**

the concessions based on the concessionary agreements, by reflecting them in the price approved each year. In this way as it can be seen in the graph of Figure -1-,to these producers has been given the possibility to increase the efficiency for the period 2004 - 2007 by new investments and by increase of working hours with about 10 -25 % per year. Meanwhile, ERE in implementing the abovementioned methodology for these HPP, approved by February of 2008 a price of 6.5 leke/kWh for 2008 or an increase of 4.8 % compare to 2007. In addition, based on the Decision of the Council of Ministers No 27, date 19.01.2007 "On the approval of rules for evaluation and awarding of concessions", ERE determined the price of 9.37 leke/kWh for sale of electricity from new HPP with installed capacity up to 10 MW given by concession based on the law No. 9663, date 18.12.2006. The following graphs give a picture of evaluation of revenues and average price for these HPP's:In general, the technical condition of these HPP's left aside for many years has been very difficult, so the investments were mainly concentrated

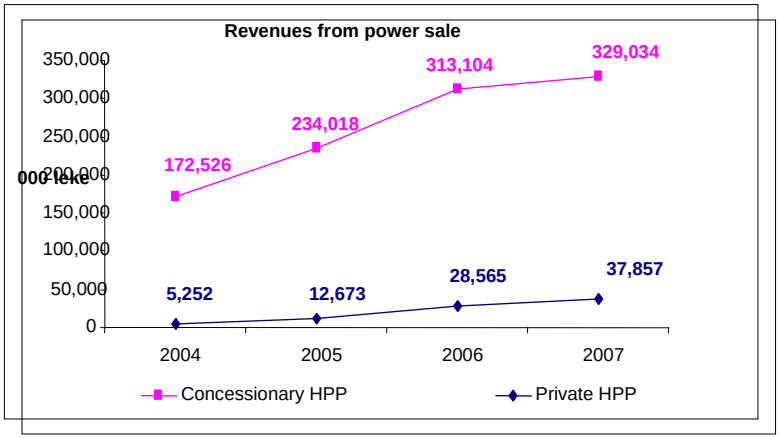


Fig. -27- (Source ERE)

in the rehabilitation of their principal elements and making them operation. For 2007 the investments realized are in the value of about 27.1 million leks in total (based on the companies reporting) 7,3 milion out of which are made by concessionary companies and 19.81 million by companies which privatized their plants through auction).

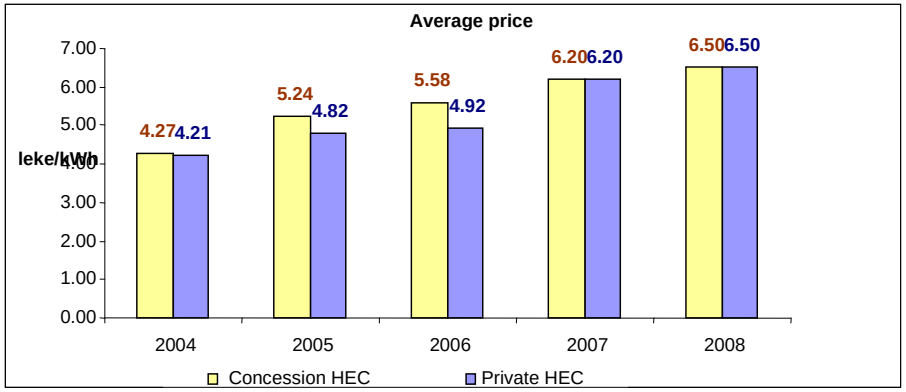


Fig. – 28 – (Source ERE)

Compared to the previous years there is a reduction in investments, but this is also for the fact that in some plants the investments are carried and finalized during 2004-2006 (for ex. "Spahiu-Gjanc" completed and "Essegei-Smokthina" Wonder Power almost completed).Better results are seen from the concenssionary have privatized the plants through auction. From the continuous monitoring of their productive activity, ERE has identified the necessity for creation of more favorable conditions for encouraging the construction of new sources or rehabilitation/upgrading of the existing ones. Under the

conditions where only 33% of the hydro resources are used (that means concrete possibilities for investments in new hydro resources), ERE has the responsibility to contribute directly for creation of competition for the best alternatives for investments in the existing power generation sources or the new ones. In light of these policies, ERE licensed in 2007 the company "Remi" Ltd, for the construction of a HPP with installed capacity of 5MW in the area of Librazhd. This company plans to invest some 321,957 thousand leke and expects an annual production of 22 GWh. This company followed up Energo Sas company which was licensed by ERE during 2006 for the construction of a HPP with installed capacity of 5 MW in Sasaj, Saranda with a total investment of 7 million Euro. For the operation of small HPP it is important to underline that some of them work seasonally since the water is used for land irrigation as water for population.
All their output is electricity produced from renewable sources. Besides the hydro resources in our country there are no other plants that produce electricity from other renewable sources. Lately there is an expression of great interest for the construction of eolic plants where as source for generation of electricity wind is used. Given the importance of diversification of the power generation sources as well as the increase of the electricity production from renewable sources, in 2007 ERE licensed the company "Hera" Ltd for the construction, installation and generation of a eolic park in Kapshtica, Bilisht with installed power 150 MW and annual generation of 330 GWh Investments for this construction are estimated 27,484,504 thousand leke. Also ERE has received applications for other projects for construction of the wind parks among which can be mentioned: one in the area of Karaburun and Llogara with a capacity of 500MW and an investment of 700 million Euro, one project in the area of Shkumbin Delta and in the Highlands of Trepan with a capacity of about 225 MW and with an investment of 454 million Euro. Some other projects that are still under review. ERE has now developed in a detailed manner the legislation and the Rules and Procedures for the licensing of the electricity generators. ERE is prepared to license all subjects that a concession for the construction of a power plant of any size of capacity will be awarded. Based on the EU directives for opening of market, ERE in temptation to increase the competition through the increase of number of players in the market particularly the private ones, ERE has licensed three private companies (GSA Ltd, Wonder Power s.a, Spahiu-Gjanc s.a) for the activity of export and import of electricity. GSA Ltd company is licensed as qualified supplier while the company "Albanian Chrome" Ltd has received the status of eligible customer.

III THE ANALYSIS OF ERE ACTIVITY FOR 2007

3.1 The functioning of ERE

The Albanian Electricity Regulator is a non budgetary public entity, that carries out its activities based on the law no.9072 date 22.05.2003 "On Power Sector", as amended, and in compliance with the secondary legislation in force.The organization structure of ERE has a Board of 5 members that represent decision making bodies, and the technical staff organized in four departments including Department of Tariff and Prices, Department of Licensing and Monitoring of the Market, Department of Legal Issues and Public Relations, Department of

Administration-Finance, Foreign Relations and Human resources with a total of 28 employers.
ERE as far as the budget is concerned is an independent institution. The annual budget comes from the regulation fees paid by licensees based on an approved mechanism and in a transparent and nondiscriminatory process. It is important to mention that the annual obligation of each customer for the ERE budget is only 50 leke per year.For the year 2007 the development of the electricity sector in our country and especially the functioning of the Electricity Market was accompanied with the increase of players in this market, mainly in the generation and trade of electricity. Specifically the Government policy to increase investments of private capital in the power sector enabled more investments to enter this sector.

3.2 Legislation of Power Sector

The principal problems in the legislation of the electricity sector have consisted in three main aspects:

- First in developing and completing the legal regulatory framework for privatization of distribution sector of electricity.

This framework consists first in amending the "Power Sector Law", by creating the necessary legal path for the development of a complete set of secondary legislation.It is important the fact that with the privatization of the electricity regulatory distribution sector, the relations between the government as the and the public distribution companywill be transformed in regulatory relations, between the private distribution company and the Albanian Electricity Regulator.The principal document that expresses these relations, not only between the Regulator and the Distribution Company but also with and among all stakeholders in the Electricity market in Albania is the Albanian Market Model that has been completely reviewed.ERE, in close collaboration with a qualified international consultants financed by USAID and with distinguished experts from Ministry of Economy and Energy, KESH, TSO and IFC, selected by the Ministry as a transaction advisor for the privatization through a very transparent process, prepared the amendments to the Power Sector Law and final draft of the Albanian Market Model, which was approved by the Council of Ministers. ERE based on this collaboration developed a whole set of secondary legislation that includes:

- Electricity Market Rules
- Template license for :
  - Generation of Electricity
  - Supply of Electricity
  - Distribution of Electricity
  - Trade of Electricity
- Rules of procedure for investment programs of the licensees.
- Rules of procedure for certification of generating plants of electricity from renewable sources.
- Rules for facilitation of access to the networks of power plants with installed capacity up to 5MW
- Rules of procedure for ERE's functioning and proceedings.
- Rules for calculation of damage caused from the abusive usage of electricity by customers

- Grid Codes for :
  - Transmission network of electricity.
  - Distribution network of electricity.
  - Metering of Electricity.
- The Contracts for :
  - Electricity Supply between WPS and RPS
- The Methodologies for calculation of :
  - Tariffs for generation of electricity
  - Tariffs for transmission of electricity.
  - Tariffs for distribution of electricity
  - Tariffs for supply of end-users.
  - Tariffs for selling of electricity from existing small HPPs up to 10 MW, in the regulated market.
  - Tariffs for the selling of electricity from small HPP up to 10 MW that are newly constructed in the regulated market.
- The Development of a unified system of accounts for all the licensees in the electricity sector.

It is important to emphasize that all these documents represent the secondary legislation which governs in details all the procedures and methodologies for operations in the market. This secondary legislation after being approved by the Board of Commissioners of ERE are published in the Official Journal and are enforcable for all licensees and the other participants in the electricity market.The drafting and approving of all secondary legislation is a result of a common work of all stakeholders of electricity sector supported by the international organizations that have provided their valuable assistance in this process, by financing but also by collaboration with outside experts. All this legislation is approved by ERE and consequently published in the Official Journal as stipulated by the law.

3.3 Customer Protection

Customer protection and balancing of the licensees interest is the main goal of regulatory action. The duties related to the customer protection are complex. From one side in all its activity the Regulator takes into consideration the customer protection (such as licensing by including the necessary guarantees for the licensee and the customer for the services carried, the transparent process that is carried in the tariff approval, secondary legislation of ERE etc.).The Albanian Regulator in compliance with the "Power Sector Law", has the authority to solve the disputes among the licensees. The main responsibility of the Regulator is reviewing and solving the complains, petitions and requests that are filed with ERE by customers, licensed persons and various institutions.In this view, it should be emphasized that with the approval of the new structure of ERE with Decision no. 95, date 30.4.2007 of the Albanian Parliament, in the Legal Issues Department, a new office for Customer Protection and Public Relations Sector is added. The establishment of this office has created the conditions for an administration, treatment and quick solution of each complaint from customers, by archiving a strong and efficient protection of the individual interest of customers and of all customers in general.For 2007 there has been a slight increase in the number of complaints filed with ERE. In total the number of complaints treated by ERE is 30, 25 out of which were from customers and the rest from the licensees. From the complains coming from the customers 90% of them were related to the billing of electricity from KESH in higher figures than the

meter has recorded including here customers without meters, where is evidenced a billing that overpasses the minimum usage consumption approved by ERE, 8% are related to metering system, mistakes in metering accuracy, problems with stamps in the metering equipment and 2% deal with the request for reward of damage from fluctuations of voltage. In all the cases, ERE has proceeded according to procedures KESH for explanations on these issues. Then, ERE analysed the answer of KESH and in cases where the dispute has not been solved, ERE has proceeded by inspecting the site or by organizing hearing sessions with both parties to hear their arguments about the issue by making at the same time the administration of documentation presented. In 2007 14 public hearing sessions have been organized by ERE and about 7 site verifications in site regarding the issue raised in the complaint.It should be underlined that ERE has solved all the complaints filed by customers in 2007.

Another important aspect in implementing the Regulatory mission as far as the customer protection is concerned, is the work done with informative brochures, distributed to the interested persons coming to ERE for different issues. In these brochures the customers can take information about their rights and obligations, and can complain about different issues concerning the electricity supply, billing etc. ERE in communication with the public has been open and transparent and has provided to them all requested information. The same attitude has been kept with media, and up to date there has not benn any complaint from citizens or other subjects for the way of treatment and solution given to these complaints or petitions.

3.4 Licensing and Market Monitoring

The activity of ERE has not consisted only in licensing the applicants and monitoring their activity as provided for in the "Power Sector Law", but also working to influence as much as possible in the improvement of service towards the customers by supervising the work of the licensees in compliance with provisions of the law.

In 2007 a number of private and public companies for several activities in the electricity sector were licensed. It does worth to mention that for the first time it was licensed an Albanian company which cooperates with serious partners in the renewable energy for the construction of a wind park with a capacity of 150MW in the area of Kapshtica and Bilisht. But this was not the only project. Three other projects have been solicited in the aeras of Karaburun and Llogara. with a capacity of 500 MW, and a project in the area of Shkumbin and the Terpan highs in Berat, with a capacity of about 225 MW. In the following Table the licensed companies by ERE during 2007 and their respective activities are presented.

Taking into consideration its functional responsibilities during 2007 the ERE has carried a number of monitoring, especially of KESH and its affiliates, which have consisted in the regulatory control in legislation in general and especially for the compliance with the license's conditions. Technical data of the generation of electricity realized, the implementation of the Metering Code and

Name of company	Type of License	Decision of ERE
Emikel	Generation (transfer)	No.15 dt.05.03.2007
KESH	Import	No. 26 dt.17.04.2007
KESH	Export	No.27 dt.17.04.2007
Spahiu Gjanc	Import	No.34 dt.08.06.2007
Spahiu Gjanc	Export	No.35 dt.08.06.2007
Remi	Construction/Generation	No. 57 dt.11.10.2007
Hera	Construction/Generation	No.61 dt.02.11.2007
GSA	Import (Rennewal)	No. 79 dt.21.12.2007

Company name	Type of License	Location	Type of Plant	Installed power MW	Annual Generatio GWh	Investment in 000 lek
Remi	Const./ Gen.	Librazhd	HPP	5	22	321,957
Hera	Const./ Gen.	Kapshtice, Bilisht	Eolic Park	150	330	27,484,504

the implementation of technical norms to guarantee the quality and security of supply for customers, the import contracts of electricity for 2006 and their execution for supply of customers with electricity.In these monitoring there has been evidenced several incompleteness and flaws regarding the metering equipment, in the periodic economic-financial documentation from the licensees, in the billing of electricity consumed from KESH itself, billing of household customers without meters, in abusive bills not according to meter readings as well as the application of minimum usage assumption.For all the violations and irregularities, ERE has sent officially to KESH and other licensees the monitoring conclusions and the proposed measures for a normal situation.

From the monitoring of small HPPs it has been ascertained that in general their technical conditions have been unsatisfactory. Although they have a uniform and encouraging price, the investments in great part has been minimal from them and have consisted mainly in rehabilitation for work at a low technical and technological level. However, there are examples of serious investments which have consisted in radical upgrading and application of contemporary technologies such as in HPPs of Bogova and Gjanci where the investments have been above 1 million Euro.

Type of License granted	2003	2004	2005	2006	2007	Total
Generation in HPP under 5 MW	8	4	1	0	0	13
Generation above 5MW	1	1	0	1	0	2 (KESH, SJ – Smokthina)
Distribution activity	0	1	0	1	0	1 (KESH) (transferred lately at DSO)
Supply activity	0	0	0	1	0	1 (KESH)(transfe at DSO)
Transmission activity	0	1	0	1	0	1 (TSO)
Construction, installment and generation	0	0	0	1	2	3 (Energo Sas, HERA, Remi)
Qualified Supplier	0	0	3	0	0	1 (GSA)
Import	0	1	3	3	2	4 (KESH, GSA, Wonder Power, Spahiu Gjanc)
Export	0	1	0	3	2	4 (KESH, GSA, Wonder Power, Spahiu Gjanc)
Eligible customer	0	1	1	0	0	1 (Darfo Albania)
TOTAL	9	10	8	11	6	27

Name of company Purchased from AKP	Generation 2007 (MWh)	Investments realized in 2007 (000 lek)
Marjakaj	397	1887
Maksi elektrik	672	4456
WTS Energji	530	6577
Projeksion	423	6190
Sarolli	21	0
JUANA	187	700
Dardania Energji	0	0
Favina 1	3877	0
Total	6107	19810

With a high interest also has been the study carried out by same experts for the elimination of non-technical losses of electricity. the study was presented to ERE and a number of meetings were organized for this purpose. In the following table is shown the performance investments for small HPP's.

Name of the Company With concession	Generation 2007 (MWh)	Investments realised2007 (000 lek)
Amal	868	0
Emikel	2638	1540
Spahiu - Gjanç	4941	0
Wonder Power	3663	5760
HCA	15612	0
ESSEGEI Smokthina	25348	0
Total	53070	7300

3.5 ERE's International activities

ERE for 2007 has developed intense international activities, which have consisted in three main directions:**Firstly: In signing Memorandums of Understanding with the homologue Regulatory institutions.**In this frame it is important to mention the Memorandum of Understanding and Collaboration with the Italian Regulator signed in Rome on 14th of May 2007.The Memorandum of Understanding and Cooperation with Greek Regulator signed in Athens on 26th of June 2007.The Memorandum of Understanding and Cooperation with the Turkish Regulator signed in Tirana on 10th of October 2007.

At the basis of these memorandums there is the mutual cooperation in exchanging experiences in areas of interest, exchange of information, training of staff, treatment of electricity problems in the regional context etc. In all these cases the ERE has informed the Parliament and has submitted copies of signed agreements.

Secondly : ERE international activities where ERE has its permanent representatives and international conferences and workshops.

ERE is a member with full rights of the Board of Commissioners of the South East Europe Community (Athens Treaty), Energy Regional Regulators Association (ERRA) and of Mediterranean Energy Regulators. (MEDREG).In all these organizations ERE has permanent representation for the tariffs and prices, licensing and legal issues.ERE has a partnership activity with the Regulatory Commission of Indiana in U.S.A. During 2007 the 10th partnership activity in Tirana between our two Regulators was organized on 17-21 September 2007.ERE has been present and active in the Regional Forums of Energy in Athens, Istanbul, Barcelona, Sofia, Tirana, Geneva etc.ERE's representatives have participated and exchanges their experience in the Committees of Tariffs, Licensing and Legal Issues in Tallinn, Belgrade, Zagreb, Kazakhstan, Athens, Budapest etc.ERE has also participated in the Annual Assemblies of the Athens Treaty, ERRA and MEDREG where the annual work analysis have been made, the governing structures, work plans and respective budgets have been approved.Thirdly, ERE has been active by participating in the workshops and seminars on renewable energy, privatization of KESH distribution etc.

3.6 Training programs for ERE staff

The successful overcoming of difficult challenges, which ERE encounters in its activity, can be realized only with a high level of expertise and training of its staff. This is the reason why training and qualification of ERE's staff has been essential.The qualification of Commissioners and staff is done in specialized courses for regulators of electricity in Budapest and Florence, in accordance with the level of their professional background. All, ERE staff have attended these courses. All their knowledge and experience have accumulated in ERE, because during this period have not occurred any lay-off of employees, therefore the investment for higher levels and specialized skills of the employers has been always very fruitful. The qualification of ERE staff has been supported by financing from NARUC, ERRA and especially USAID, which based an a multi annual program offers a very specialized consulencethat has had a significant

contribution in the qualification of our staff. Also, the budget of ERE has been an important tool for the qualification of its staff.

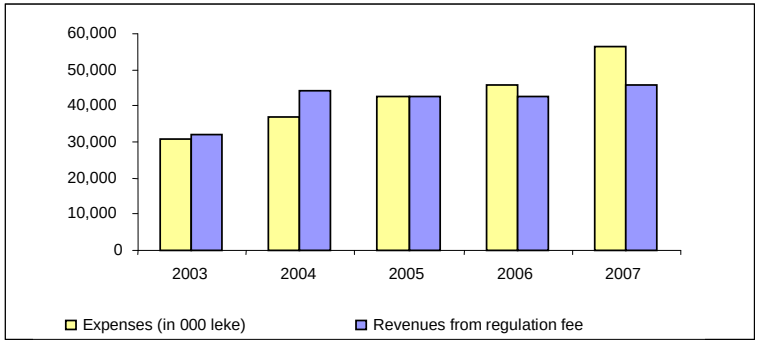
3.7 ERE relations with the Albanian Parlament

During 2007 an evident improvement in the institutional relations of ERE with the Albanian Parliament and especially with the Committee of Productive Activities Trade and Environment.ERE has kept updated and informed the Parliament for all important developments in the electricity sector. In addition to the Annual Report for ERE has informed the Parliament on the Albanian Market Model, on the drafting of secondary legislation, on privatization of electricity distribution sector, electricity tariff and prices by evaluating the difficult situation with electricity supply in the country, by August of last year ERE compiled a very detailed report for the situation, which was subject of analysis from from the Committee with the participation of Minister of Economy, Trade and Energy and General Director of KESH.ERE feels the obligation to thank for the support provided by two Parliament Committees and the Parliament in general for the evaluation of the principles on which ERE has bases its organizational structure and organization.ERE is committed that the future cooperation with the Parliament will be one of the priorities of its work. This would enable ERE to express any suggestion for the appointing of the rest of the Commissioners in ERE's Board so that the vacancies will be completed.

III THE ECONOMIC-FINANCIAL ANALYSES OF ERE

The activity of ERE for 2007 for 2007 is carried in compliance with the Law No. 9072, date 22.05.2003 "On Power Sector" as amended, in the Article 12, and in compliance with the Albanian accounting legislation. In the administration of this institution are taken into consideration and implemented the provisions of Law no.9367 date 07.04.2005 "On prevention of conflict of interest in exercising public functions", Law on Accounting, Law on Public Procurement as well as the legislation on financial administration.The financial sources of ERE for 2007 include the regulation and the licensing fees, obligatory for all the licensees. The budget of ERE for 2007 was approved with decision Nr. 11 date 28.02.2007 of the Board of Commissioners. The regulation fees are calculated based on the approved budget.
The regulation fee for 2007 is 0.17% of the annual revenues from the regulated activity for each licensee or 49 leke per year for each tariff customer. ERE, from its proper nature does not have any profit. ERE is not financed partly or totally from the state budget. The main objective of the ERE administration and accounting information is to secure:

- Well administration of the monetary values collected by the regulation fees as operator's quota;
- Relevant following and reporting of expense approved by the Commission



It is clear that the expenses of ERE activity have been increasing as the staff number and the requests for participation in different regional and organizational is increased, all this in function of the institutional building and strengthening of its authority in the regulation of electricity sector.

The financial balance of ERE for 2007 is audited in compliance with Law No. 9072, date 22.05.2003 "On Power Sector", as amended, article 10 paragraph 2.

	ASSETS	31.12.2006	31.12.2007
A	AUTHORIZED CAPITAL		
B	FIXED ASSETS	23,127,915.00	21,544,413.00
	UNTANGIBLE	53,900.00	0.00
	TANGIBLE	23,074,015.00	21,544,413.00
	Depreciation (-)	-17,803,933.00	-22,065,833.00
	FINANCIAL	0.00	0.00
	a) Share and financial accounts		
C	CURRENT ASSETS	36,766,520.88	2,907,259,621.00
	INVENTORY IN PROCESS	1,793,630.00	1,229,844.80
	ACCOUNTS RECEIVABLES	9,656,968.95	89,332.00
	More than one year		
	TEMPORARY USE SECURITIES	0.00	
	CASH FLOW	25,315,921.93	27,753,419.41
	PREPAID EXPENSES		
	TOTAL ASSETS	59,894,435.88	50,617,009.21

	LIABILITIES	31.12.2006	31.12.2007
A	OWN CAPITAL	33,824,800.95	22,863,589.80
	FOUNDATION CAPITAL, RESERVES, PROFIT /LOSS	33,824,800.95	22,863,589.80
	Taken from this		
B	LIABILITIES	26,069,634.93	27,753,419.41
	PAYABLE ACCOUNTS OLDER THAN ONE YEAR	0.00	0.00
	PAYABLE ACCOUNTS WITHIN YEAR	753,713.00	1,628,109.16
	a) loans from banks and other crediting institutions *Tirana Banke*		
	PREPAID PAYABLE ACCOUNTS	25,315,921.93	26,125,310.25
C	OTHER ACCOUNTS	0.00	0.00
	TOTAL LIABILITIES	59,894,435.88	50,617,009.21

IV. CONCLUSIONS AND RECOMANDATIONS

In conclusion of this analysis on the electricity sector in general and ERE activities in particular, it is appropriate to synthesize some conclusions and make some recommendations that will be useful to be considered in the activity of ERE and other institutions in the sector.**We** have to express again that the main challenge and the most determining one in the whole effectiveness of the sector remains the significant reduction of losses, both technical and non-technical ones; we think that the reduction of losses shouldn't remain a responsibility of KESH management but it should be a challenge for all institutions and our community in general.**You** can not confront the challenge of loss reduction without completing with meters all customers and in particular the businesses. It is necessary to terminate with the experience of application of minimum usage assumption of electricity. From the consuming without limit from these customers of flat rate to KESH is having aused a very high financial damages, due to non disciplined consumption of customers without meters, which is a heavy penalty on which KESH should reflect urgently. **ERE** appreciates the good work of KESH for 2007 for the significant reduction of electricity losses and increase of collections and encourages the company to continue with this positive performance by confronting with courage with misuses and abusive attitudes. **ERE** appreciates the difficult work of KESH for 2007, under extraordinary dry weather conditions and difficulties to ensure import of electricity. ERE appreciates the work of KESH in using the hydro energetic reserve, as efficient, because it was made possible the supply of the country with only 2.5% less energy from the average supply in the last five years.**In** the tariff reform ERE is of the opinion that a development based on modern and rational principles has been made in a step by step development from the actual level based on the methodology for covering of costs towards a more lower term goal of their calculation based on the marginal cost. ERE is convinced that the principles on which is based the calculation of electricity tariff and prices is in compliance with the best international practices and EU Directives. ERE considers as legitimate the decision of the Board of Commissioners to leave in force up to 29th of February 2008 the existing electricity tariff and prices. The up to date hydrological developments confirm this reasonable decision.

ERE decision for 2008 considers as the most difficult and at the same time the most important development in the electricity sector the privatization of the Distribution Sector. ERE is committed to complete in time and with quality, together with the international consultants, the whole secondary legislation of the regulatory framework for a successful privatization of this sector. ERE suggests that in the evaluation of bids in this strategic privatization process, for the nature and importance of this sector, priority should be given to the credibility, seriousity and managerial, financial, professional guarantees and an ambitious investment program of the bidders.

ERE welcomes the initiative of the Albanian Government for joint investment program with the Government of the Republic of Kosovo for construction of new thermo energetic sources and encourages the efforts for quick construction of the interconnection line Tirana- Prishtina to integrate our power

systems as two complementary parts of different generation types, in a unique system with high efficiency and mutual interest for the two states.

An important condition to operate successfully in the Electricity Regional Market we think is the construction of the interconnection line with Montenegro, Macedonia and Italy and all the elements connected to them (sub/stations and the National Dispatch Center). We think that all maximal efforts should be made by responsible institutions that this project, of a vital importance for our power system and for our country, to start with the implementation of this project as soon as possible through secured financing.

In the conclusions and recommendations above we do not pretend that all the problematic that the institutions of electricity sector are facing or will face in the near future are exhausted. Our goal was to make evident part of them that we have judged as more important and we express our modest opinions in trying to address them.ERE will always remain open and cooperative in solving, in an optimal way and in our national interest the important challenges encountered by the electricity sector in our country.

REPUBLIC OF ALBANIA
ALBANIAN PARLIAMENT

RESOLUTION

On
Evaluation of the Activity of Albanian Electricity Regulator in the Power Sector for 2007

The Albanian Parliament:

- Recognizing the role of the Albanian Electricity Regulator in developing and functioning of the Albanian electricity market;
- Recognizing the independence guaranteed according to the Law no. 9072 date. 22.05.2003 "On Power Sector", as amended, by the Albanian Electricity Regulator;
- Recognizing the work of the Albanian Electricity Regulator on the supervision and regulation of the electricity market;
- Aware of the variety of issues on the electricity market;
- Evaluating the work of the Albanian Electricity Regulator, in drafting the legal regulatory framework in view of privatization of the Distribution System Operator (DSO;
- Evaluating the serious and independent work of the Albanian Electricity Regulator in the electricity tariff reform based on modern and rational principles and in compliance with the best international practices;
- Evaluating the work of the Albanian Electricity Regulator in communication with the public and solving in time the complaints or petitions of customers;
- Evaluating the work of the Albanian Electricity Regulator in calculating the impact of 1kWh lost load in the Albanian economy;
- Evaluating the management of KESH for the best possible supply with electricity based on the power sector conditions and regional market;

Demands:

- Maximal engagement of the Albanian Electricity Regulator in drafting on time and with quality of the necessary legal framework for the privatization of the Distribution System Operator DSO;
- Continuous attention of the Albanian Electricity Regulator in the performance of country supply with electricity and in the way KESH has managed the power situation;
- Encouragement of the respective institutions in achieving within the terms set for the investments started in the electricity sector;
- Providing of the qualified expertise when necessary, and a close collaboration with other government institutions related to the electricity market;
- Persistence of the Albanian Electricity Regulator to promote competition on valuable investment alternatives in the existing and new energy sources.

Date: June 26, 2008