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INTRODUCTION

The Albanian Energy Regulator (ERE) in compliance with Law No.9072, date 22.05.2003 "On Power Sector", as amended and Law No.9946, date 30.06.2008 "On Natural Gas Sector" has developed this Annual Report that presents and analyzes the energy sector and the ERE activities for 2009.

This report is presented in a hearing session of the Committee for Production, Trade and Environment in the Albanian Parliament.

The energy sector in 2009 is characterized by some important features such as the reliable supply of electricity without any load shedding to customers, privatization of the Distribution System Operator (OSSH), commissioning of Vlora TPP, setting of electricity tariffs for 2010 for all the licensees in the regulated electricity market and the further increase of efficiency in publicly owned power generation.

2009 also marks a successful year in the participation of private investors in the construction of new generation sources through 150 proposals for HPP's construction and 90 concession contracts for the construction of 231 HPP with installed capacity varying from 1 to 150 MW.

From the electricity aspect, 2009 is estimated as a good year, during which the domestic production in the country reached a satisfactory level of around 5.2 TWh, the consumption reached the historical record of 6.6 TWh and KESH realized also an electricity export of 486.4 GWh and a net positive exchange balance with the Republic of Kosovo of 9.48 GWh.

This report is organized in 6 chapters.

The first chapter deals with the regulation issues of the electricity sector. Through a broad information presented mainly in graphs the actual situation of the electricity market in Albania and the multiannual trends in this sector are shown. It is important to emphasize that the report is not perceived only as an informing document on the electricity situation, but it provides a detailed analysis of this situation and various phenomena drawing some important conclusions and recommendations for the managers in the sectors as well as for the decision makers at the government levels.

The first chapter deals with the public and private production of electricity, its consumption, import and efficiency in all electricity market activities. Further on, data on transmission and distribution operators are presented, and the privatization process of OSSH and the security of supply with electricity to customers are described.

The second chapter deals with natural gas issues. Through a regional and global view of the international situation in the projects of supply and diversification of natural gas with the South East Europe countries and the EU, the report is very realistic and objective in expressing our country's interest in the international context. Through this report the highest decision making levels are updated about the actual situation of supplying Albania with natural gas.

This report provides also information on the activity carried out by ERE in close cooperation with the consultancy financed by USAID in drafting a contemporary regulatory framework in the natural gas sector, in compliance with the EU acquis.

The third part of the report presents and analyzes the work of ERE in its main activity, such as tariff and prices setting, licensing of the activities in the electricity sector, monitoring of the market and licensees, legal issues and customer protection, the relation of ERE with the public, and with the national institutions the international relations and the development of its human resources.

The fourth chapter is dedicated to the ERE audit report prepared by an independent accountant.

The fifth chapter presents the summarized conclusions evidenced by the ERE analysis and a number of recommendations for further improvements in the energy sector.

Finally the sixth chapter contains 6 annexes with graphs and tables attached to this report.

The report is developed with the participation and contribution of all the ERE directories and was carefully analyzed in the ERE Board of Commissioners meeting on February 25th 2010 and approved by its Decision No. 16.

Presentation of the Chairman



Dear reader,

2009 was a year market with important events in the world energy sector in general and for the Albanian Energy sector in particular.

This report through a widespread and easily understood information aims to analyze with objectivity and professionalism, the situation of the Albanian energy sector, serving as the basis on which to draw several conclusions and important recommendations for the decision-making bodies for a better work in the future.

During this year a reliable electricity supply without any load shedding to customers it was further consolidated. The electricity consumption for 2009, without load shedding represent for the first time the real electricity demand of customers which reached the highest historical consumption with 6,69 TWh.

In 2009 it was successfully privatized the DSO by the well-known Czech company CEZ.

An important event for the increase of security of supply of the country with electricity was the commissioning and operation for the first time after 24 years an important generation source, Vlores TPP a combined cycle plant with a capacity of 98MW, which created a potential market for natural gas with over 200 million m³/year.

2009 represents a wet hydrological year. The domestic power generation reached 5.2 TWh, there has been no water discharges and the operational availability of all the aggregates in the HPP was 100%. The generation efficiency of 1.1 m³water/kWh is considered very high.

The considerable private investments for electricity generation mark a historical record. 90 concessionary contracts for electricity generation were signed, the work for construction of 30 new small HPPs has already, started and some HPPs with installed capacity up to 15MW are being commissioned.

Licensing of generation, trade, supply of eligible customers and qualification of renewable energy sources marked an increase in 2009 representing one of the ERE successful achievements.

During 2009 ERE reviewed with objectivity, impartiality, transparency and high professionalism the tariff applications of KESH, TSO and DSO for 2010. For the first time ERE was faced with the request of a private company, supported by a very qualified expertise. The increase of 13% of the electricity prices for final customers for 2010 was considered by ERE as a difficult task in setting the proper balances between the legitimate interests of the companies from one side and the customer protection from the other.

The main challenge in 2009, as in the whole 18 years period of electricity sector administration remained the efficiency increase in electricity consumption or in other words the challenge for reduction of electricity losses and

significant increase of electricity collection.

The ERE activity in developing the regulatory framework in the natural gas sector and in further development of the regulatory framework on electricity, by quickly reflecting the amendments in the primary legislation and by being in compliance with EU Directives in this process, are a significant expression of the professionalism and full commitment of ERE specialists in this process.

The ERE Board of Commissioners, as a decision making body in more than 140 important decisions has been characterized by a high moral and professional integrity, complying with the law. They have addressed objectively finding the best solution for the encountered problems.

2009 has been characterized by an intensive cooperation of ERE with other regulators and by its active participation in the regional regulators community of ERRA, Regulators of Mediterranean countries MEDREG etc. ERE would like to express its gratitude and high consideration for the continuous support provided by USAID, through qualified assistance for the drafting of a contemporary regulatory framework as well as for the optimal solution of an important number of issues encountered.

The ERE cooperation with the Albanian Parliament, the reflection of governmental policies and strategies in the energy sector, and the partnership with other independent institutions such as the Ombudsman Office and customer protection associations have been further consolidated.

By concluding, on behalf of ERE, I would like to assure the customers, licensees and whole public opinion that ERE shall make all its efforts to remain an independent institution, with high integrity and always serving to the public and the development of the country.

Bujar Nepravishta

Members of the Board



Entela Shehaj
Commissioner



Ardian Hacı
Commissioner



Abaz Aliko
Commissioner



| Shkelqim Bozgo
Commissioner

Regulatory functioning and ERE organizative structure

The structure, organization and functioning of the Albanian Energy Regulator is based on the Law No. 9072, date 22.05.2003, "On Power Sector", as amended and the Law No.9946, date 30.6.2008 "On Natural Gas Sector".

ERE is a public legal person located in Tirana and is composed of the Board of Commissioners with one Chairman and 4 members, functioning as a decision-making body and appointed by the Albanian Parliament. In addition to the Board there is the technical staff organized in 4 departments, respectively, the Department of Licensing and Market Monitoring, the Department of Tariff and Prices, the Department of Legal Issues and Public Relations and the Department of Administration, Finance and Human Resources.

Actually ERE has a total of 32 employees including 4 employees for services. The whole personnel is subject to the status of Civil Servant.

In Annex-1- the organizative chart of ERE together with the respective number of employees is presented.

ERE exercises its activity in compliance with the Law "On Power Sector" and the Law "On Natural Gas Sector" and is the only regulatory authority in Albania for electricity and natural gas.

ERE as an independent institution in the energy sector exercises its competences in these main directions:

- Licensing of companies that operate in the electricity and natural gas sectors.
- Setting the electricity wholesale and retail tariffs and tariffs for connection and access to the natural gas networks and storage LNG facilities.
- Protecting the customer's interest in the electricity and natural gas sectors.
- Monitoring and supervising the contracts and services of the licensees and the security of supply in energy sector.
- Approving the grid codes and rules and regulations or other secondary legislation in the energy sector.
- Enhancing efficiency, competition and upgrading the quality of supply in the energy sector.

ERE financing sources include the regulation fees and licensing fees from the licensee's activity in the energy sector.

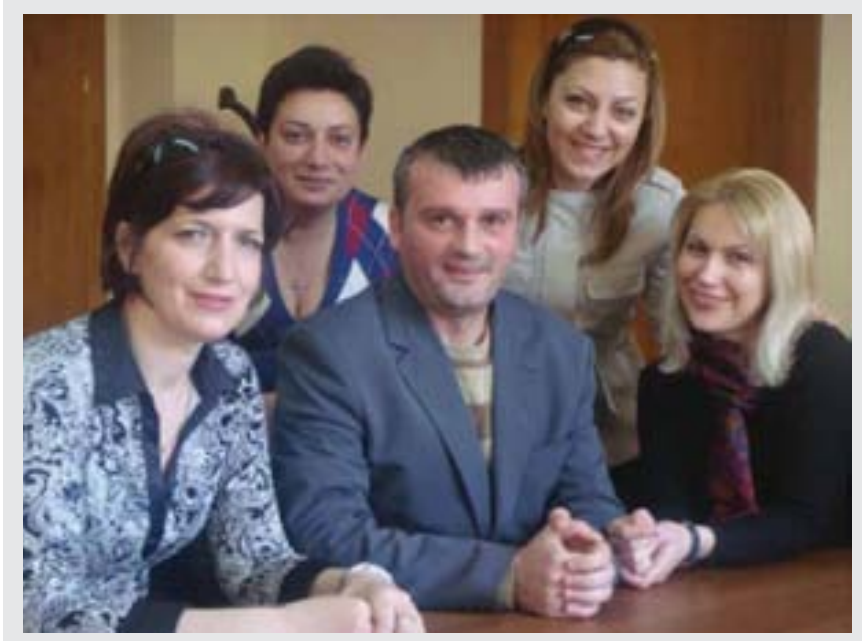
By March 31st of each year, the ERE presents the situation of the electricity and natural gas sector and its activities, including the financial activities and the audit report.



Tariff and Prices Department



Licensing and Market Monitoring Department



Legal Issues and Public Relations Department



Administration-Finance and Human Resources Department



Petrit Ahmeti
Advisor of the Board of Commissioners



Zerina Pulaha
Secretary of the Board of Commissioners



Zija Kamberi
ERE Consultant

PART I

1



Regulation of electricity market

I - Regulation of electricity market

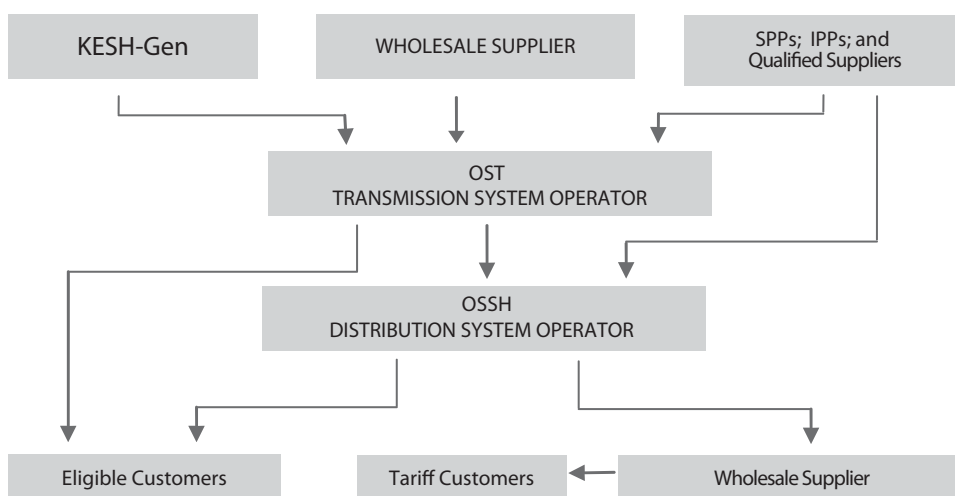
1. Electricity market:

The electricity market in Albania functions based on the Electricity Market Model approved by the Decision of Council of Ministers No.338, date 09.03.2008. This model has been developed pursuant to the EU Energy Directives for electricity and the requirements of Energy Community Treaty for Southeast Europe, establishing a regional electricity market.

The Albanian Market Model has been developed to move forward the Albanian Government policies for reforming the power sector especially for the privatization of the distribution sector of electricity in a short time period. Its scope is to establish a simple regulated, transparent and balanced electricity market, based on bilateral contracts.

An important principle in the Market Model, which directly protects the tariff customers and increases their security of supply with electricity, is the principle of allocation of the electricity production from less expensive resources in favor of tariff customers. This principle is specific under the Albanian conditions, where over 95% of domestic electricity production realized with a very low cost by the existing HPP's.

The Albanian Market Model



Other important objectives that aim to reach the market Model are also energy efficiency and financial sustainability of the power system through the securing the high level market information and a clear structure of the power market transactions.

In figure -1.1.- it is shown the electricity market structure.

It is important to stress that another important feature of the Market Model is the requirement that all the profits realized by the licensees shall go to tariff customers.

2. Production of electricity

Production of electricity realized by the public companies and private producers that are owners of power plants and also private producers that have taken by concessions the power plant from the state.

2.1. Public production of electricity

Public production of electricity is carried out by the shareholder company KESH-gen with 100% of shares owned by the state and the company "TEC-Vlora" also with 100% of shares owned by the state, which is part of KESH holding.

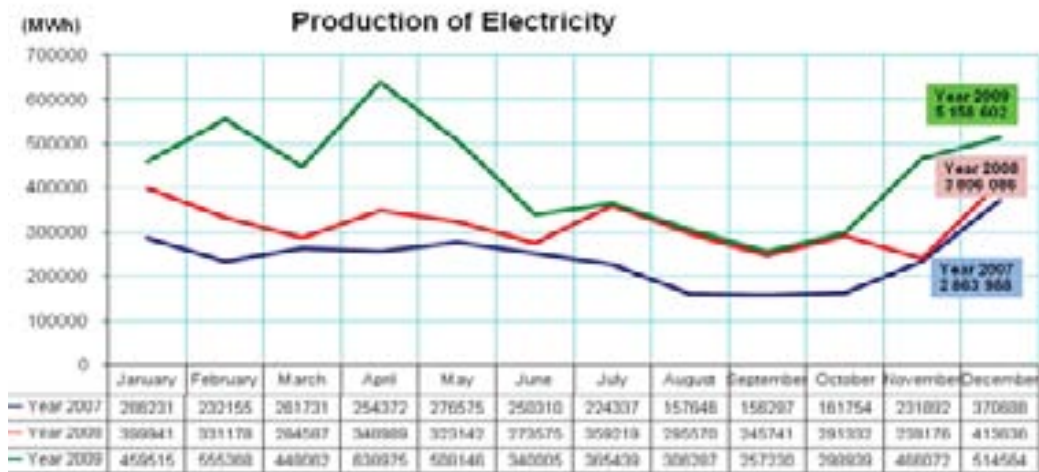
In table -2.1.- it is shown the structure of electricity plants for public production where the total installed capacity of HPP's is 1,433 MW and TPP's is 98 MW. Considering also the total installed capacity of private producers of electricity of 26 MW, the total installed capacity in our country is 1557 MW.

Power Plant characteristics	Power Plant								
	Fierz HPP	Koman HPP	V.Dejes HPP	Ulez HPP	Shkopet HPP	Bistic1 HPP	Bistic2 HPP	Lana-Bregas HPP	Vlora TPP
Units no.	4	4	5	4	2	3	1	2	4
Installed capacity of units MW	125	150	50	6.3	12	7.7	5	2.5	70+28
Installed capacity of power plant MW	500	600	250	25	24	24	5	5	98
Total capacity MW	1,531								

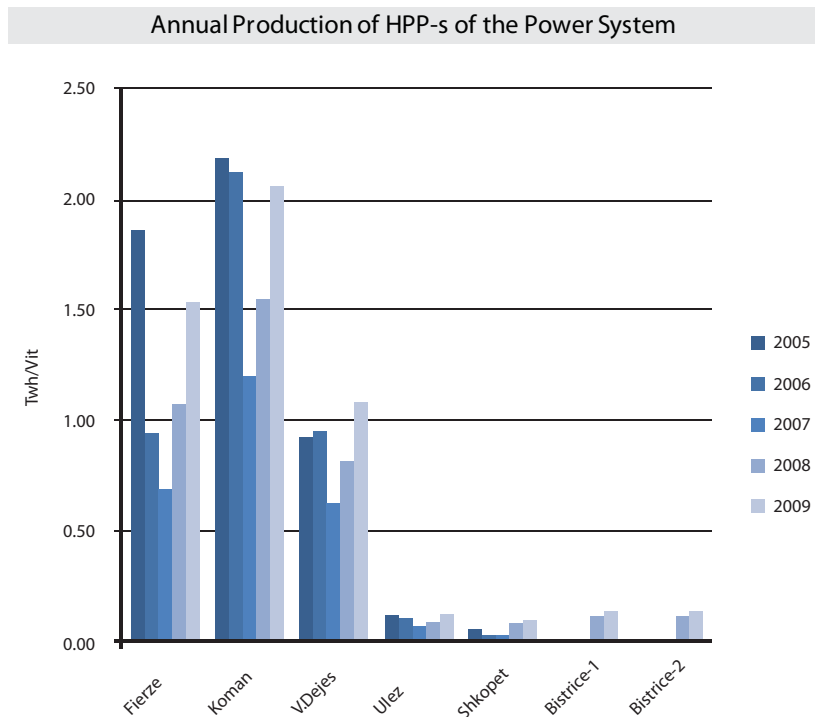
Public production of electricity in 2009 was realized (at 100%) by hydro power plants (HPPs) because the Vlora TPP was commissioned by the end of 2009.

During 2009 the total production of electricity from public production companies was 5,110 Million kWh, while the total production that takes into consideration also the production by private sector of 89,3 Million kWh reaches at 5,200 Million kWh.

From the hydrological point of view 2009 is considered a wet year and this has positively influenced the domestic production of electricity. The graph of Figure -2.1. - shows the comparison for public production of electricity for 2007, 2008 and 2009. Compared with 2008 the production of 2009 is increased by 36% while in comparison with 2007 is increased by 80%.



A more detailed analysis for the public production of electricity for 2009 and for the period 2005-2009 consists in evidencing the production and working hours for each plant in this sector.

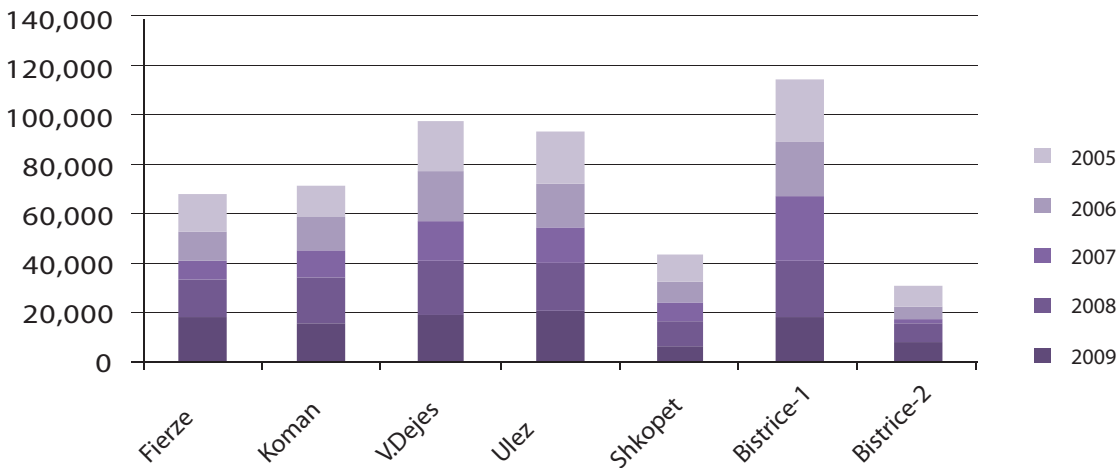


The graph of Figure -2.2. – shows the annual electricity production from each plant in the public sector, while Figure -2.3. – shows the total annual work time of the aggregates for each plant.

An important phenomenon in the work of system plants especially during 2008-2009, has been the high disponibility of all the aggregates in plants; this is because of the successful rehabilitation and modernization of the electro mechanic equipment of these plants.

It is important to emphasize that thanks to this the water was not wasted without being first used for electricity.

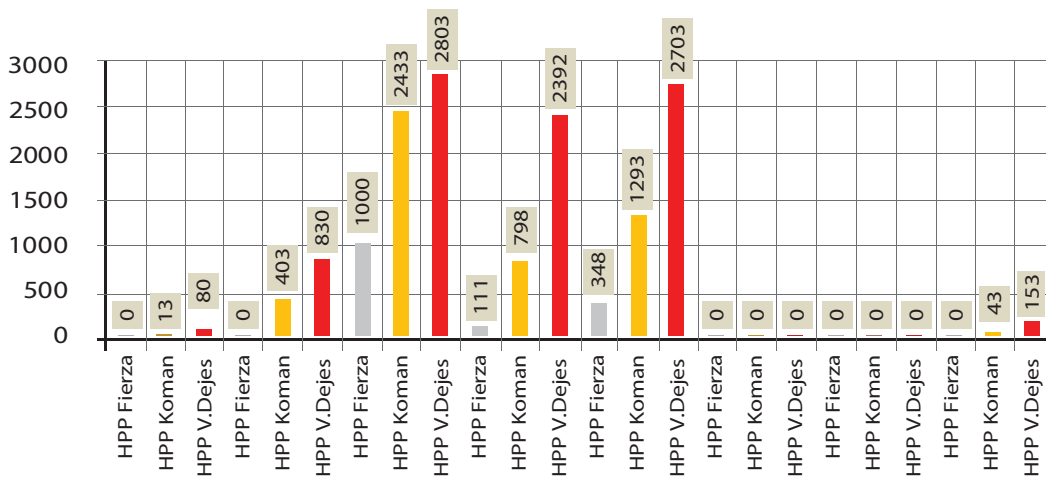
Working hours in the HPP-s of the Power System



An important indicator of the efficiency functioning of HPPs is the analysis made to the water discharges from them.

The graph of Figure -2.4.- shows the water discharges from the HPPs of river Drini cascade during 2002-2009. The water shed by the HPP gates are a phenomenon encountered in high in-flows of water which risk the increase in level

WATER DISCHARGE FROM DRINI CASCADE HPP-s (Million m³)

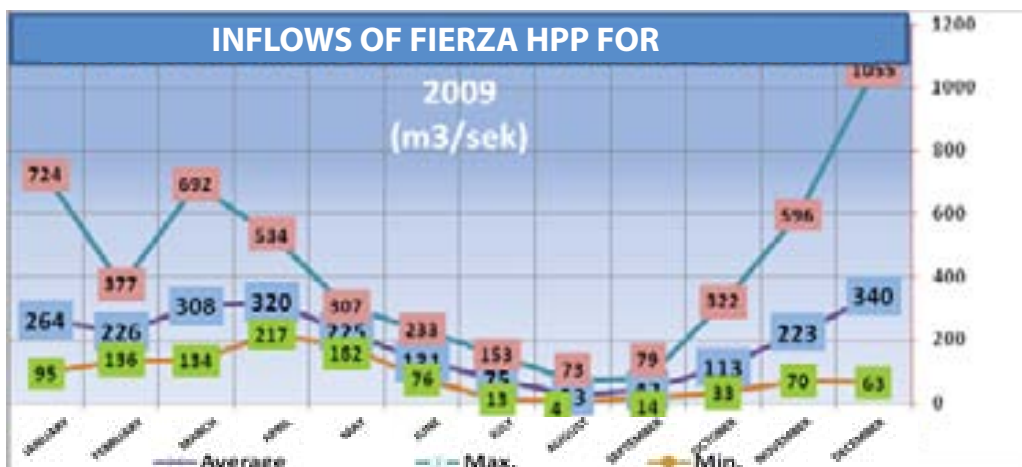


	2002	2003	2004	2005	2006	2007	2008	2009
Fierza	0	0	1000.447	110.598	348.002	0	0	0
Koman	13.29	402.803	2433.147	797.781	1293.234	0	0	42.772
Vau Dejes	80.004	830.412	2803.328	2392.023	2703.086	0	0	152.875

above the critical permitted level of dam security. This kind of discharge is legal but what cannot be justified are those discharges made by the turbines in the cases when electricity is not produced, due to the unavailability of the units, or when these discharges are done and at the same time the electricity has been imported from KESH.

Fortunately these are phenomena occurred in the past, because since 2007 and up to day it has not been verified any discharge of this nature.

As already known Fierza HPP is a plant with annual regulation of flows, what influences directly in the production of Koman and Vau de ja HPP which are supplied by regulated flows of Fierza.



INFLOWS (m ³ /sek)	JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER
Average	264	226	308	320	225	131	75	23	42	113	223	340
Max.	724	377	692	534	307	233	153	73	79	322	596	1055
Min.	95	136	134	217	182	76	13	4	14	33	70	63

No doubt the undertaking from the Albanian Government of the construction of Skavica HPP to be added to the public electricity sources, is an initiative with a high economic efficiency, which will not only increase the production in all the existing HPPs in Drini river but will also discipline from the base the discharge of water in these plants.

In graph and figure -2.5. – are shown the variation of inflows of Drini river to Fierza from the minimum to maximum values for each month of 2009.

During 2009 were concluded the construction work for Vlora TPP and by the end of this year it was commissioned and ready to work. This TPP was projected and constructed to work with natural gas but actually it is using diesel marine, because it has not been realized yet the supply of Albania with natural gas, as a consequence the cost of electricity produced by it is much higher than that of the existing HPPs, because the price of oil in the international markets is very high.

Although it must be stressed that it serves first of all to the security of supply with electricity in the country, under the conditions that power sector in Albania, since 2008, is supplying the customers without interruptions, for the whole year.

Vlora TPP has two turbines installed, from which one with gas the other one is classic, steam with high pressure.

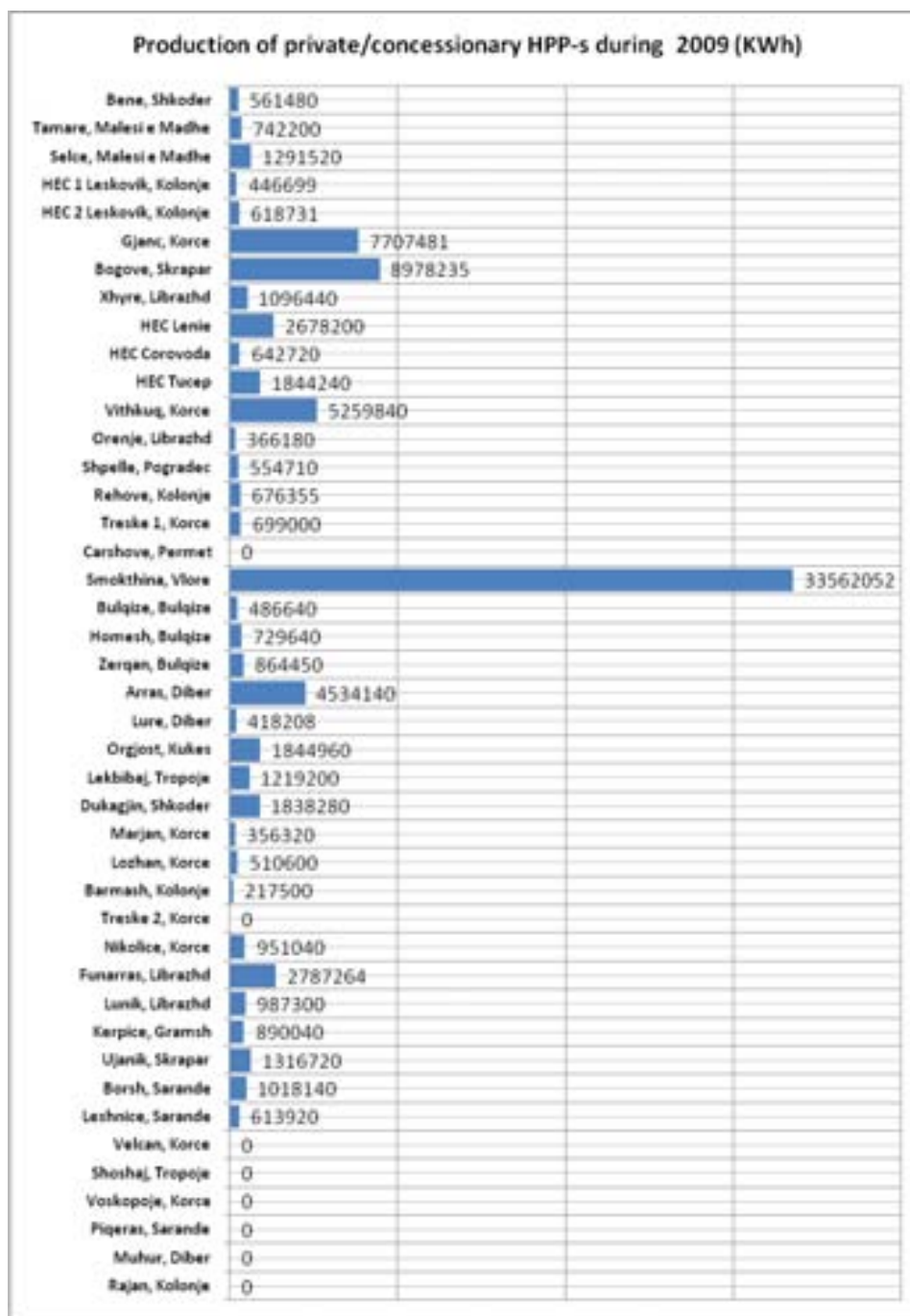
2.2. Private production of electricity

Table -2.2.- shows a summary of the structure of private production of electricity. Actually there are 46 HPPs with total installed capacity 25,874 kW, the private sector generators of electricity from which 32 HPPs with total installed capacity 830 kW are taken by concessionary agreement state-private, while the rest, 14 HPPs with total installed capacity 2,044 kW have private owners.

No	Name of HPP and company	Location	Constr. Year	No of unit	Installed Power kW	Installed Power kW
CONCESSIONARY COMPANIES						
a	b	1	2	3	4	5
I	AMAL					
1	HPP Xhyre	Librazhd	1989	1	250	0.4/10
II	EMIKEL					
1	HPP Lenie	Gramsh		2	400	0.4/10
2	HPP Corovode	Skrapar		2	200	0.4/10
3	HPP Tucep	Bulqize		1	400	0.4/10
III	SPAHIU GJANC					
1	HPP Gjanc	Korce	1989	1	2960	6/35/
IV	WONDER POWER					
1	HPP Bogove	Skrapar	1988	1	2500	6/35/
V	Balcan Green Energy					
1	Arras HPP	Diber	1980	3	1200	6/10
2	Funares HPP	Librazhd	1973	3	1000	6/10
3	Lure HPP	Diber	1980	1	400	0.4/10
4	Lozhan HPP	Korce	1982	1	150	0.4/6
5	HPP Lunik	Librazhd	1977	1	200	0.4/10
6	HPP Shoshaj	Tropoje	1973	2	230	0.4/10
7	HPP Kerpice	Gramsh	1975	2	200	0.4/6
8	HPP Muhur	Diber	1976	1	200	0.4/10
9	HPP Borsh	Sarande	1970	1	250	0.4/10
10	HPP Leshnice	Sarande	1973	2	250	0.4/10
11	HPP Ujanik	Skrapar	1975	1	220	0.4/10
12	HPP Barmash	Kolonje	1970	1	200	0.4/10
13	HPP Piqeras	Sarande	1971	2	200	0.4/10
14	HPP Homesh	Bulqize	1974	2	150	0.4/10
15	HPP Voskopoje	Korce	1972	2	200	0.4/10
16	HPP Rajan	Kolonje	1974	1	200	0.4/10
17	HPP Marjan	Korce	1980	1	200	0.4/10
18	HPP Nikolice	Korce	1975	3	500	0.4/10
19	HPP Bulqize	Bulqize	1974	2	400	0.4/6
20	HPP Velcan	Korce	1980	1	320	6/10
21	HPP Zerqan	Bulqize	1976	2	250	0.4/6
22	HPP Dukagjin	Shkoder	1973	2	640	0.4/10
23	HPP Orgjost	Kukes	1970	2	400	0.4/10
24	HPP Lekbibaj	Tropoje	1979	2	400	0.4/10
25	HPP Treska 2	Korce	1976	1	130	0.4/10
VI	Albania Green Energy					
1	HPP Smokthine	Vlore	1974	2	9200	
TOTAL					23830	
No	Name of HPP and company	Location	Constr. Year	No of unit	Capacity KW	Voltage kV

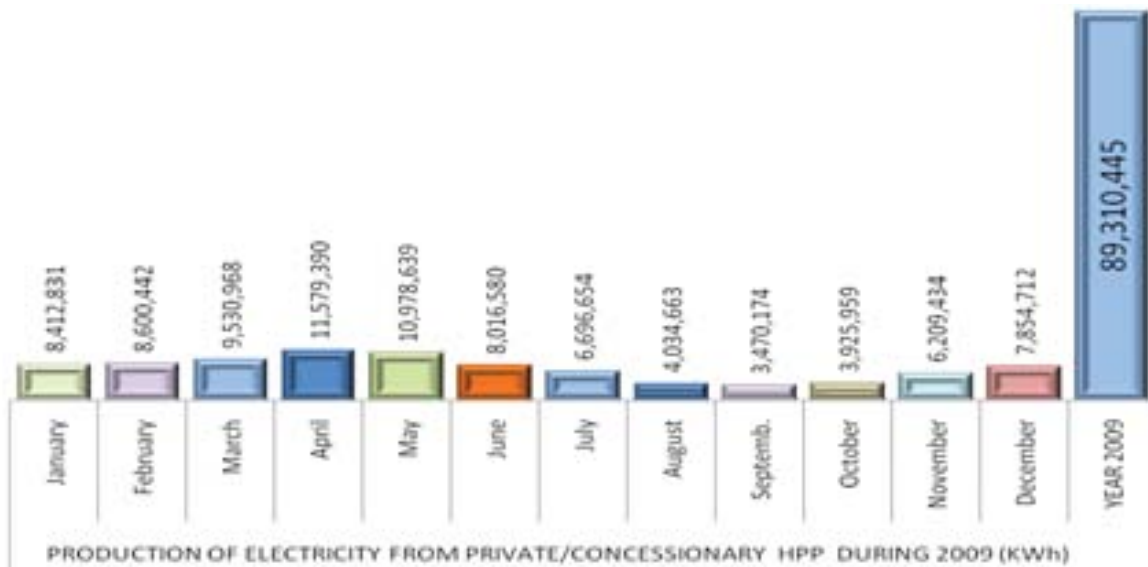
PRIVATE COMPANIES						

During 2009 the electricity production from private sector has reached 89.31 GWh from 62.026GWh produced by this sector during 2008, or a production 43.9% higher. In 2009 the private production occupies only 1.7% of the total production of electricity. Although actually the specific weight of private production compared to the total production is not significant, it must be emphasized that in the future thanks to a high number of concessionary agreements in the partnership state-private these relations shall change essentially.

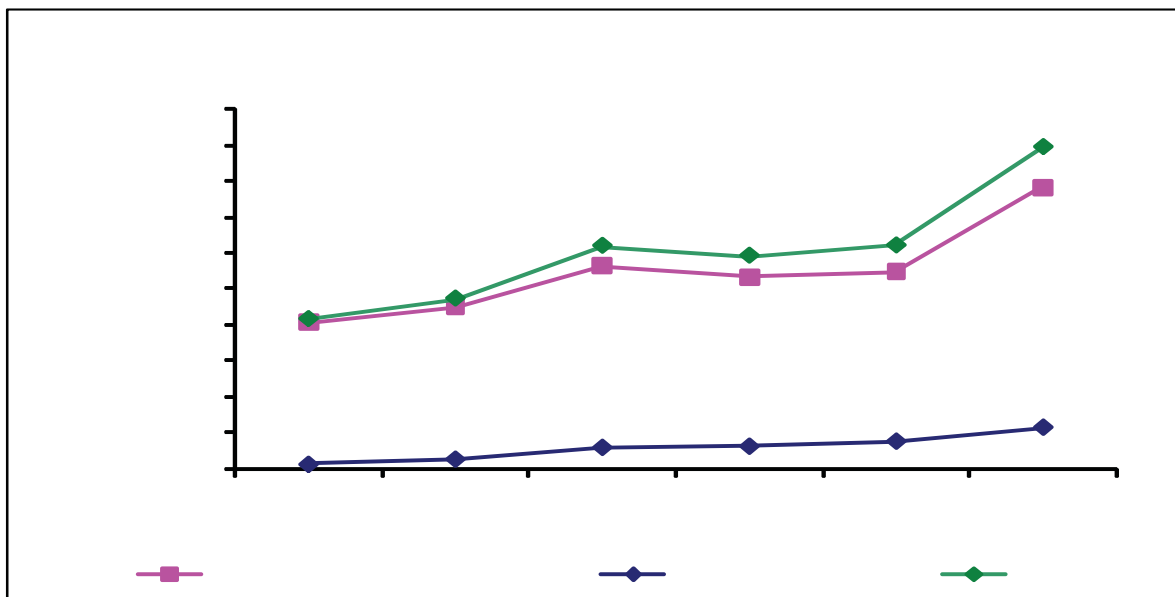


In the graph of figure -2.6. - is shown the annual production of electricity from each private and concessionary HPPs, while in the graph of figure -2.7.- is shown the private production of electricity for each month of 2009.

PRODUCTION OF ELECTRICITY FROM PRIVATE/CONCESSIONARY HPP DURING 2009 (KWh)													
	January	February	March	April	May	June	July	August	Septemb.	October	November	December	YEAR 2009
Production	8413	8600	9531	11579	10979	8017	6697	4035	3470	3926	6209	7855	89310



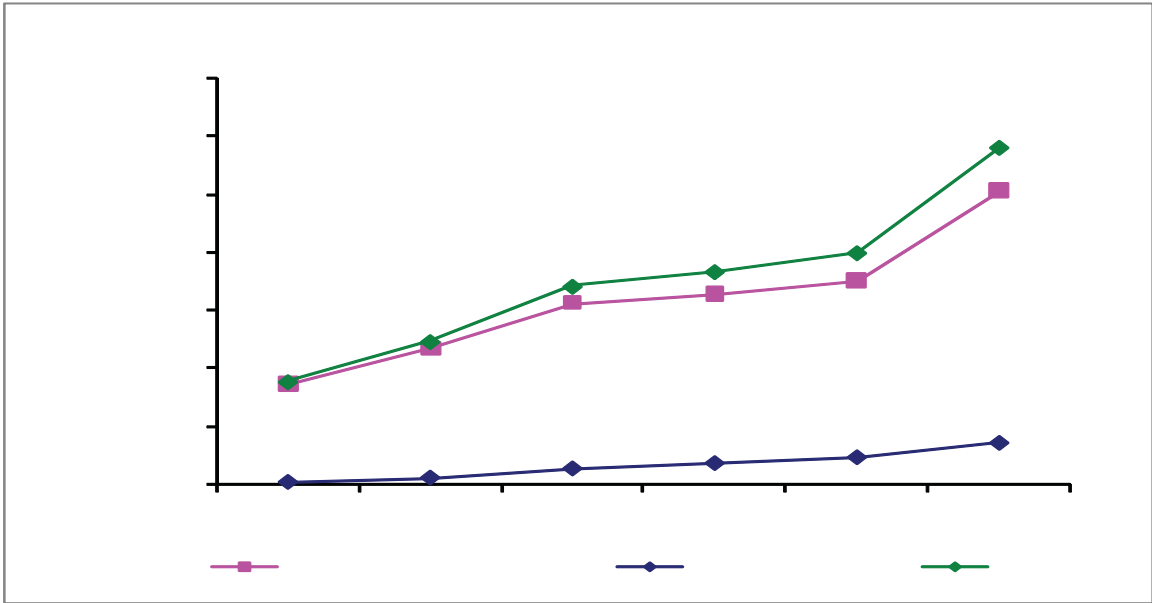
The generation performance by small HPPs with private and concessionary owners during the period 2004 – 2009.

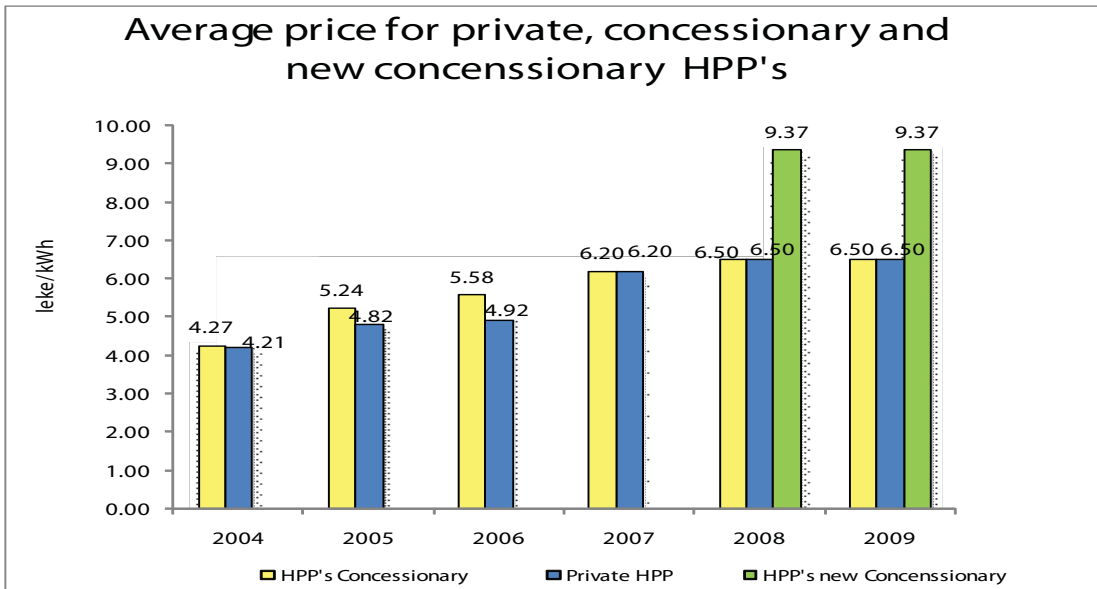


In the graph of }gure – 2.9. – are shown the revenues coming from the sale of electricity by these HPPs during the period 2004 – 2009.

As it is seen the general tend of electricity production and as a consequence the revenues have been continuously increasing. Compared with 2008 the revenues have been increased by 45.3%. In the graph of }gure -2.10.- are shown the electricity prices that the private and concessionary producers sell it to KESH.

To enhance the initiative for private investments in construction of new HPPs given by concession, with a capacity up to 15 MW, the Government has authorized KESH to purchase all the electricity produced by them, with a price approved by ERE, according to an incentive formula which refers to the average import prices of electricity plus a bonus of 10%. The price differentiation between the existing private HPP and those newly build is justified with the big difference in the investment value between these two categories.





The map in Annex -2- shows the power system in Albania, the transmission network, interconnection lines, sub/stations and all the public, private and concessionary power resources.

2.3. Efficiency of electricity production

The characteristics of the efficiency of electricity production first of all spring from the nature of generation sources. In a power system, where all the electricity, or generally, the main part of it, is being produced by hydro power plants, it is important to evidence the main features of this system springing out also its priorities and -aws.

In this analysis are taken into consideration these main features:

- The ability to accumulate electricity in potential power reserve.
- The ability to regulate the flows annually.
- Optimization of production and import of electricity combination.
- High flexibility towards load, which permits to easily cover the peak load.
- The emphasized dependency of electricity production by the hydrological weather conditions.
- Discharges of water from reservoirs.
- Relatively high investments for their construction and longer time for concluding and commissioning the plants compared to TPPs
- Lower expenses for exploitation and maintenance.

Based on the daily power situation in the country, the ERE has followed everyday this situation and has reflected it graphically to be able to analyze and evaluate the exploitation efficiency of the power cascade.

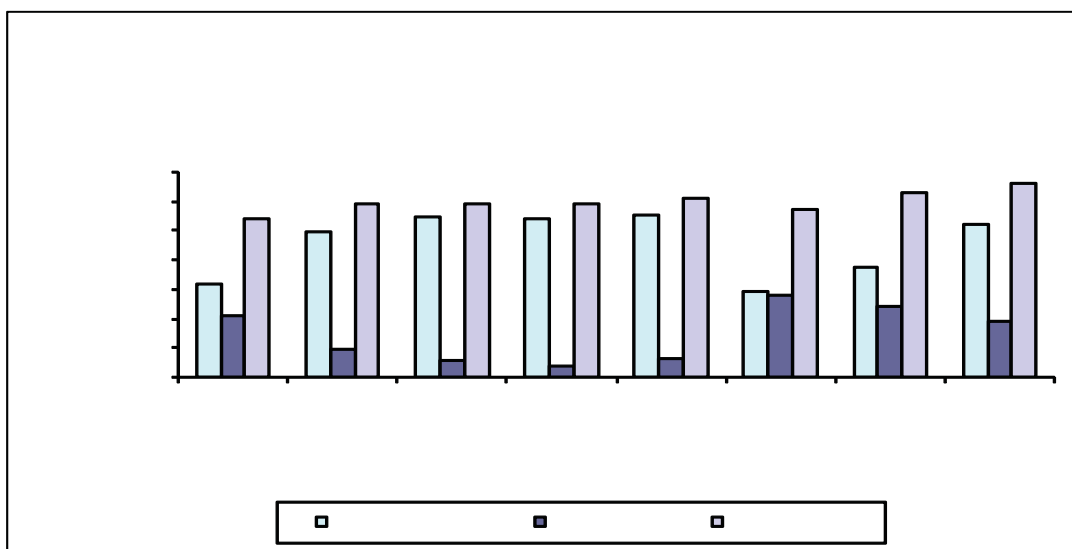
In Annex -3- are shown the daily graphs for production, import, export, exchange and consumption of electricity and also the level of water in Fierza reservoir, in-flows of Drini river in Fierza, discharges of water from Drini cascade and

the cascade power reserve.

In table -2.3.- are shown comparative data for each year of the period 2002 – 2009 between the indicators that influence directly in the efficiency evaluation of electricity production.

As it is seen, although 2009 has been a favorable year from the hydrological point of view, ERE points out that the performance of KESH-gen in exploitation of power reserve of river Drini cascade has been satisfactory. The specific water consumption of 1.19 m³/kWh shows that the water has been exploited with high efficiency. The level of Fierza reservoir compared to the previous years has been administrated with high efficiency, what shows a very good harmonization between import and domestic production. During 2009 with all the exuberant rain there have been no discharges from Fierza reservoir and the discharges in Vau i Dejes has not been significant and were done only after all the aggregates of the plant were working at maximal load.

In figure -2.11.- the comparison of the abovementioned data is shown in the graph.



It must be emphasized that during 2009 all the aggregates in the plants have been in full operation and the whole quantity of water discharged from the turbines has been totally exploited for electricity production. An important indicator of the performance of the power sector is the supply of customers throughout the year without interruptions.

The reduction of import price of electricity in the regional market during 2009 with around 38% compared with the previous year, has positively influenced in the reduction of expenses for electricity import.

In the efficiency increase of exploitation of power reserve has influenced also the electricity export and exchanges where there were big incomes also in transactions with economic profit through export and import, carried out by KESH.

Referring to the indicators in the last three years, from which the years 2007 and 2008 have been really dry, it can be said that the performance of KESH in the administration of power reserve has been improving.

Being this the case, for a generating electricity system mainly by HPPs and especially with concentrated sources on over 80% of the annual production in the river Drini cascade, with flows varying from 7-8 m³/sec on over 1500m³/sec, it is necessary to have a structure within KESH for the hydrometeorological prognosis. For this it is necessary that in the group dealing with the power reserve there should be a hydrologist and in the water collecting pond of Drini river (around 12,000 km²) there should be metering systems and notifications of hydrometeorological nature, so that the elaboration of power reserve is based on scientific criteria and this would prevent the possibility of floods in the Shkodra lowland.

3. Electricity consumption

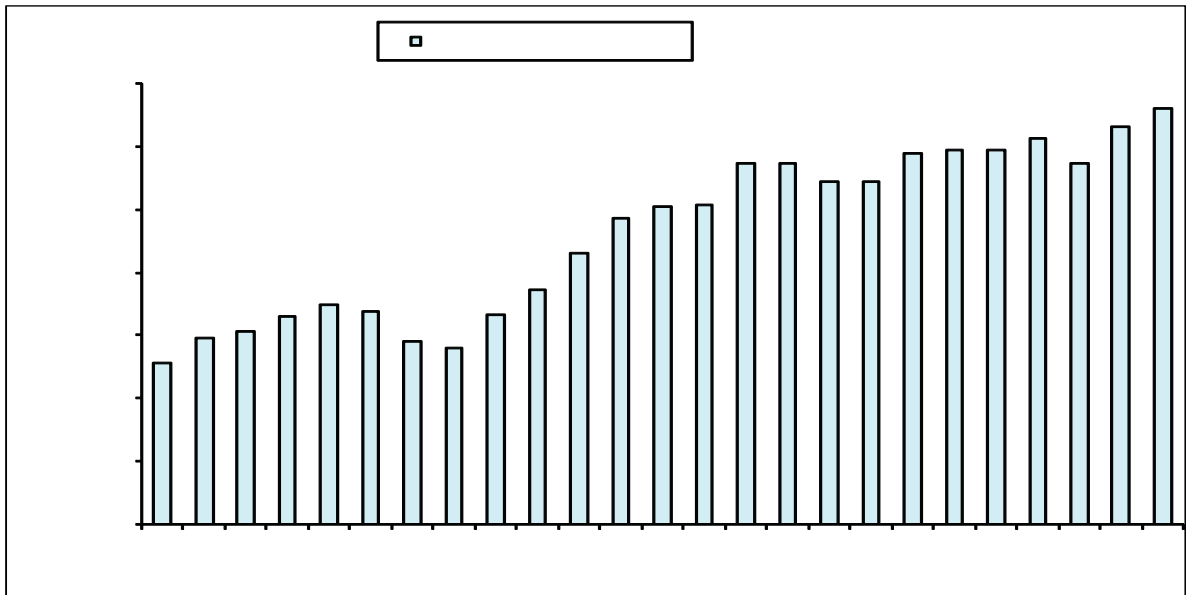
2009, marks finally and totally the supply without interruptions of the customers with electricity, by consolidating this phenomenon which are chronically damaged the economy and has been a big concern for a normal life of the citizens. During 2009 the only electricity interruptions have been those for breakdowns in the network or due to scheduled repairing activities.

Being this the case, 2009 objectively expresses the real level of annual demand for electricity.

3.1. Electricity demand

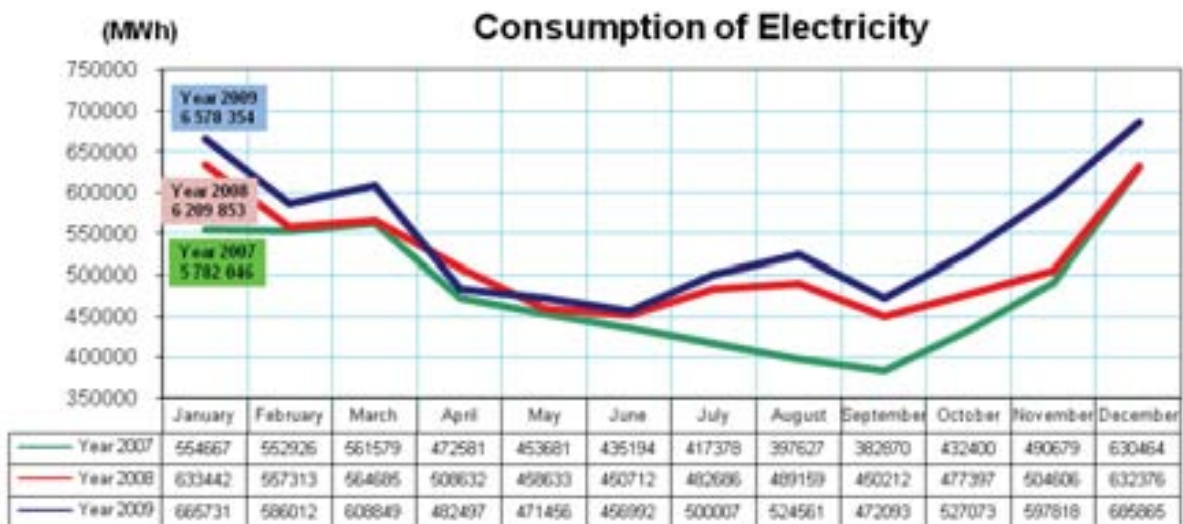
As abovementioned, until 2009 there has been not sustainable evaluation of the electricity demand. Since 2008 when the uninterrupted supply with electricity started, the premises to make a real evaluation and objective planning of the energy demand in the following years, were established.

Figure -3.1.-shows graphically the annual consumption of electricity in Albania for the period 1985 - 2009.



The average annual increase of electricity during this period results in absolute value 160 GWh/Year. In the period before 2008, due to planned load shedding of electricity this indicator is not real. Referring to 2008 and 2009, the demand increase of electricity for 2009 results in absolute value 292 GWh more than in 2008, or with 4.6% more.

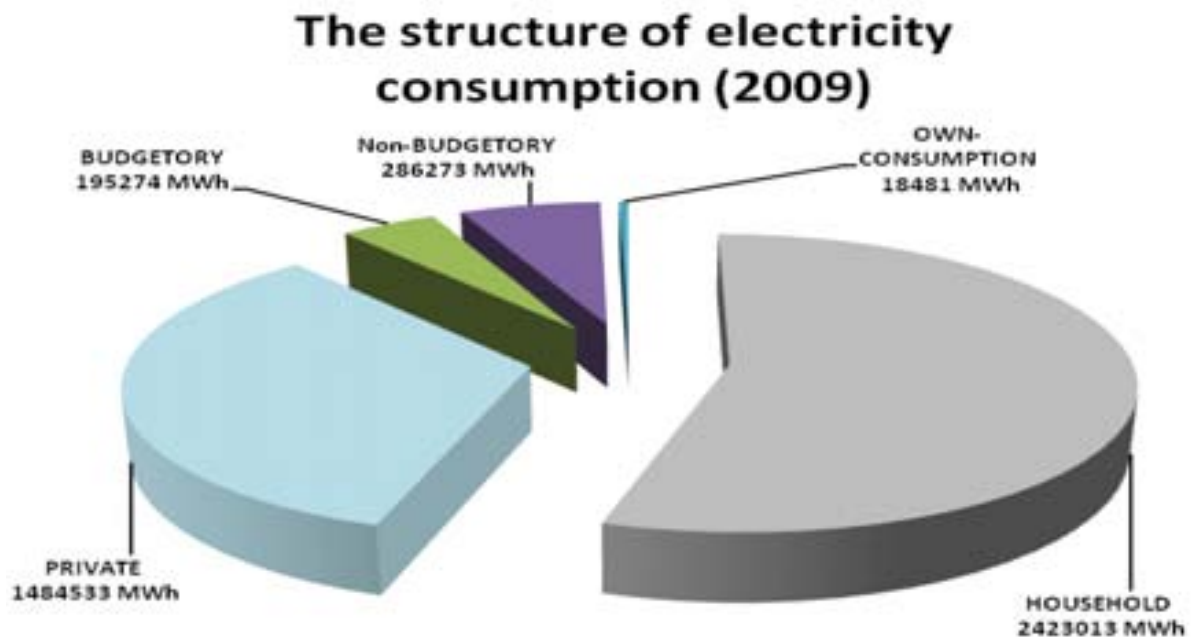
As it is already known, in the distribution network there is a high level of non technical losses and there is the -at rate so we cannot pretend that this demand for energy is absolutely objective, because with the reduction of non technical losses the demand for energy shall be reduced. This way it is judged that the demand increase in the future shall be more moderated than the }gure 4.6%. In the graph of }gure -3.2.- it is shown a comparative graph of total consumption of electricity for each month, respectively in the years 2007-2009.



In 2009, as it can be seen from the respective graph and table it has been reached the highest historical consumption in our country with 6.578 TWh.

3.2. Structure of electricity consumption

The structure of electricity consumption expresses in a synthetic way also the economic and industrial development of a country. In our country the household consumption is 54,9% of the total billed consumption which shows an economy with limited industrial development. Being this the case, the pace of the economic developments in the country shall influence also in the increase of pace towards the demand for electricity.



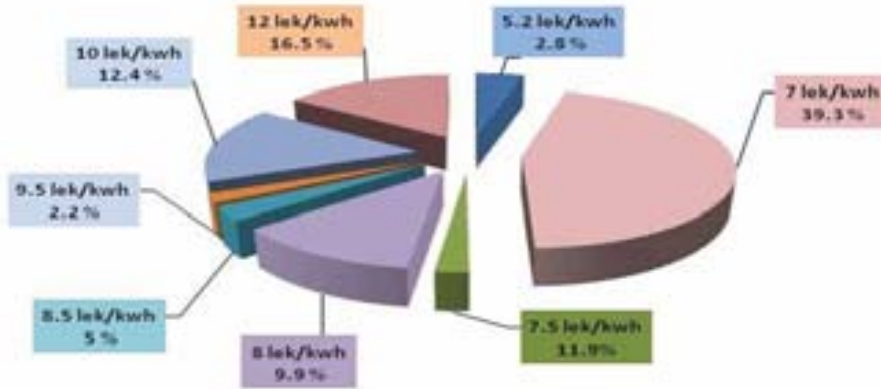
In figure -3.3. - it is shown the graph of the structure of electricity consumption according to the customer categories for 2009 expressed in MWh.

An important part is being occupied by the electricity consumption of budgetary and non-budgetary customers, which are mainly water supplies and pumping stations that are the biggest debtors of OSSH.

The electricity consumption structure according to the electricity prices is shown in figure -3.4. - . Also in this case the household customers (with the respective prices 7 lek/kWh and 12 lek/kWh) are the main part in the OSSH revenues.

The dominance of household customers, per consequence the dominance in the OSSH revenues and the sharp issues coming out of this category of customers with non technical losses of electricity, represent one of the most

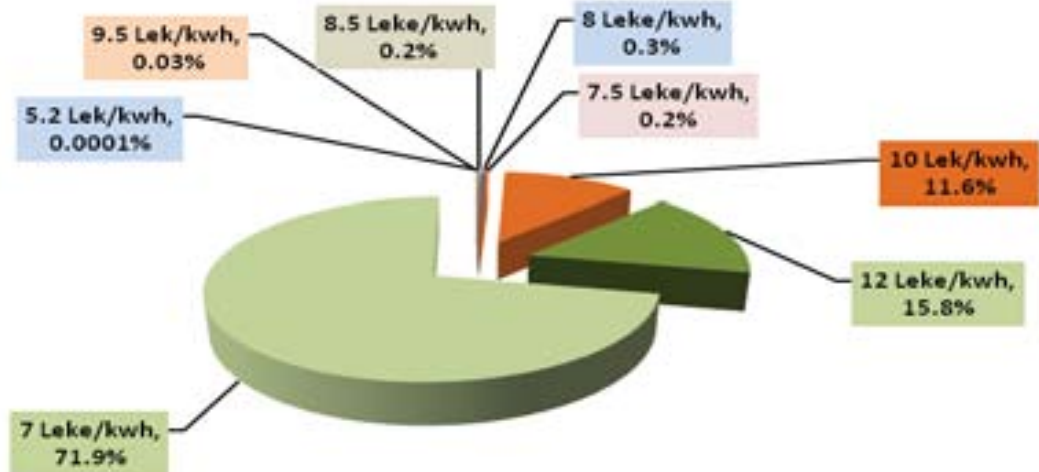
Specific ratio in total consumption according to prices (%)



problematic factors in the electricity prices level that is highly sensitive to the public and that needs an immediate solution.

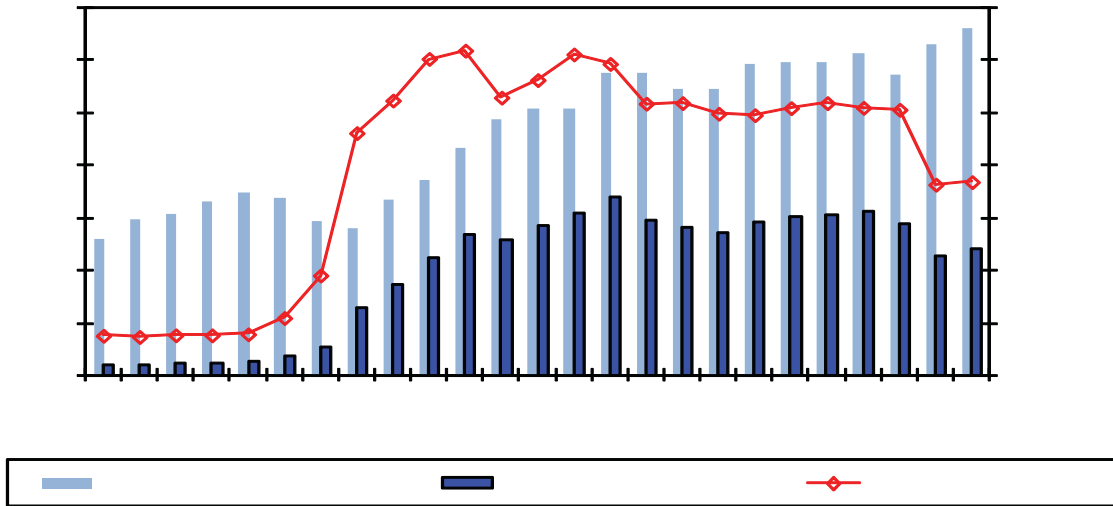
It is also interesting the distribution of customer's number according to the electricity prices. In figure -3.5.- it is shown this consumption structure where it is significant the fact that 71.9% of the total customers in the country belong to the consumption block up to 300kWh/month, or to the vulnerable customers.

Percentage of customers according to prices



A pass through indicator of the economic development in the country is also the performance indicator of the household consumption towards the total consumption. Figure -3.6. shows this performance for the period 1985 - 2009.

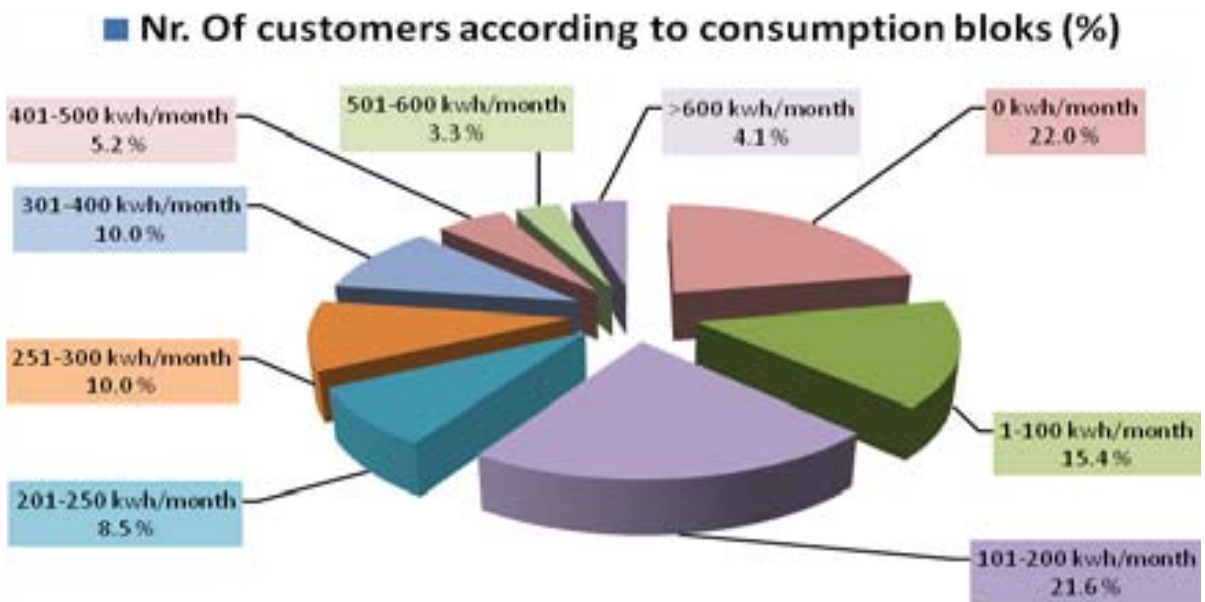
The trend to decrease the household consumption towards the total consumption, after 2007 is a positive trend, which is related not only to the reduction of electricity losses but also to the economical development in the country.



The structure of electricity consumption from household customers, for each consumption interval for the period January-September 2009 are shown in Figure -3.7.

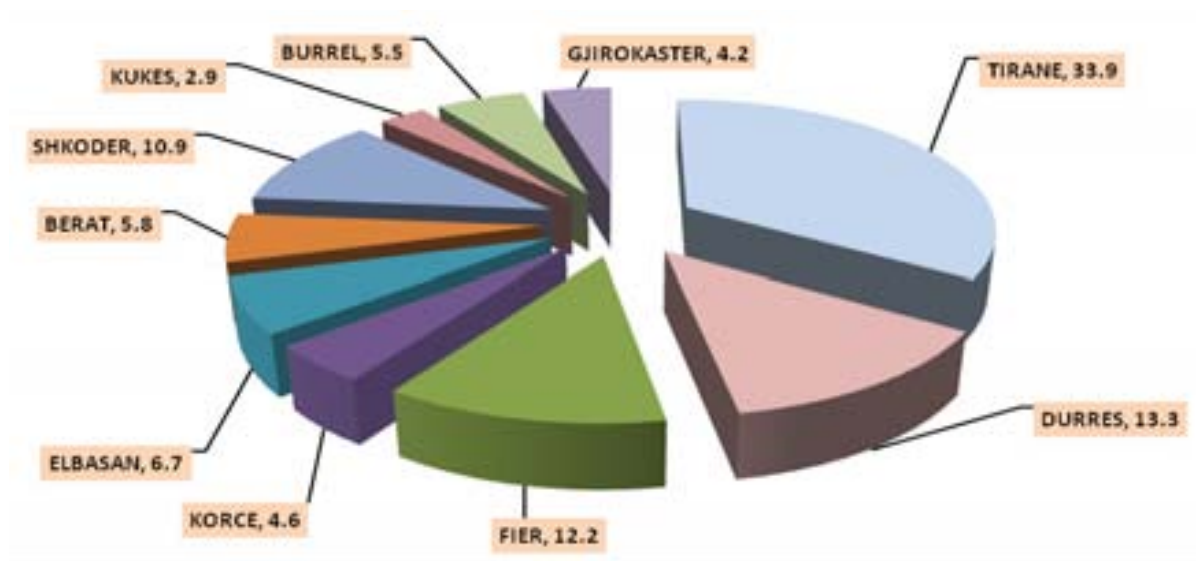
This consumption structure is very useful for the analysis of the prices variation for household customers.

Only 22.6% of the household customers spend above 300 kWh/month electricity. It does worthwhile to emphasize the fact that 22% of the customers do not consume energy at all (have a zero reading meter), part of which are customers that have a summer house or are emigrants etc.



The analysis of consumption structure according to the consumption blocks and according to the number of customers for each consumption block, permits to be analyzed in very much detail the structure price for household customers as well, so that a considerable numbers of options are taken into consideration and the optimal solution is found.

Specific ratio in consumption according to each OSSH zone



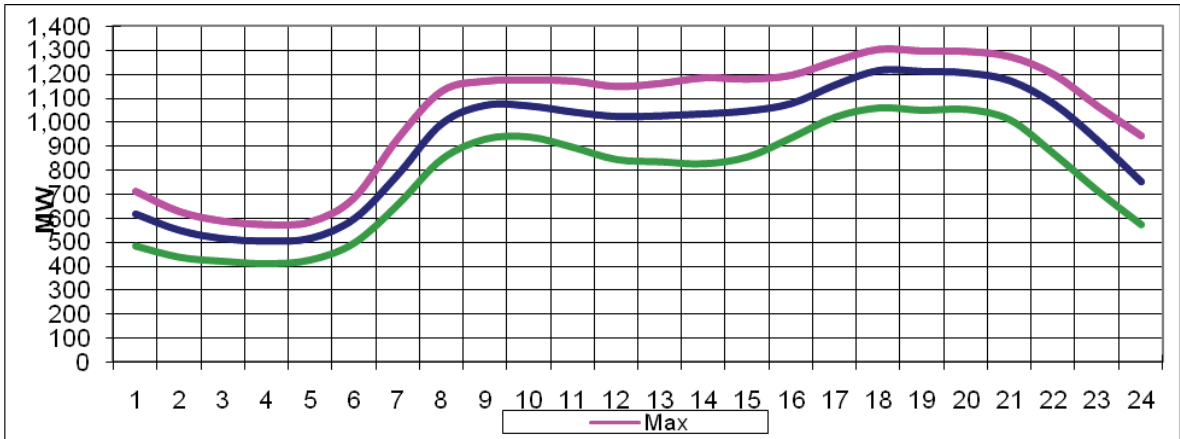
The consumption structure according to the geographic extension evidences the fact that 70.3 % of total electricity consumption is carried out mainly in the coastal lowland near Adriatic zones of Shkodra, Tirana, Durres and Fier, where it is concentrated also the main part of the country population and the most important business activity. Figure -3.8.- shows this structure.

The consumption analysis is important also in setting the priorities in managing with high efficiency the electricity consumption.

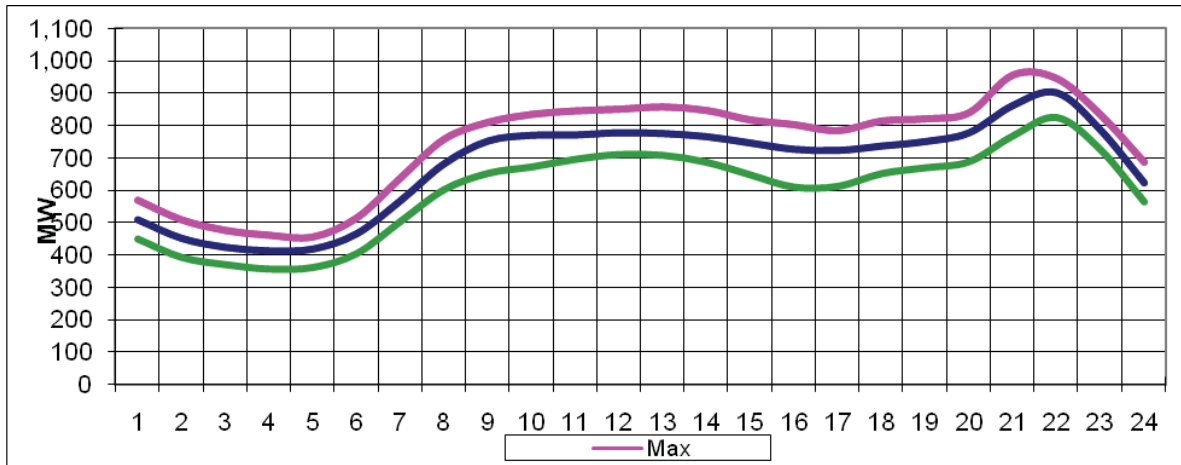
3.3. The profile of electricity consumption

The structure of electricity consumption influences directly the load profile or consumption of electricity. Figure -3.9.- shows the profile of electricity consumption of a winter day (December 2009), while figure -3.10.- shows the load profile of a summer day (July 2009)

A characteristic feature of this profile is the big load "gap" between night hours (24 – 7) towards day hours. In absolute value it reaches 700MW or 54% of the maximal load. Such a profile shows how little it is worked in "third shift".



Compared to a load profile of a winter day, in the profile of a summer day it is prominent a peak load in evening hours (20-23) which has mainly to do with the intensification of the household's activities during these hours, in summer.



It is important to be emphasized that the big load "gap" during night hours creates an excellent possibility for KESH to carry out profitable financial transactions through the electricity sale and purchase in the regional energy stock market.

The electricity purchase during night at a lower price and the accumulation of water during night hours, to be used at peak hours of the day, to produce and sell in the stock market with peak prices the same energy quantity, represents a profitable financial transaction that increases the efficiency of our generation sources. To realize this there should be made some amendments to the legislation and KESH has to establish a well trained structure for this purpose.

The profile of annual consumption of electricity is shown in the graph of figure -3.11.-. A characteristic feature of this profile is the regularity almost ideal of the summer-winter consumption. In the warm period April-September there is



an average consumption almost constant, while in the three following months there has been a symmetric increase of the load which is explained with the cold weather and use of electricity for heating.

The use of electricity for heating is another damaging phenomenon of the electricity consumption in our country. During summer, in July and August there is a new peak load, which from year to year is becoming more evident and is connected with the wide use of climatizing equipment.

The difference in average load winter-summer, which is mainly conditioned by the use of electricity for heating during 2009 is estimated with around 300 MW or around 30% of the maximum load.

The maximum daily consumption for 2009 is registered on December 22nd with 24,170 GWh while the minimum daily consumption is registered on June 28th with 13,908 GWh with a difference of 10,262 GWh or 42% of the maximum consumption.

The peak load during 2009 is registered on December 31st 2009 at 6:00 p.m. with 1306 MW.

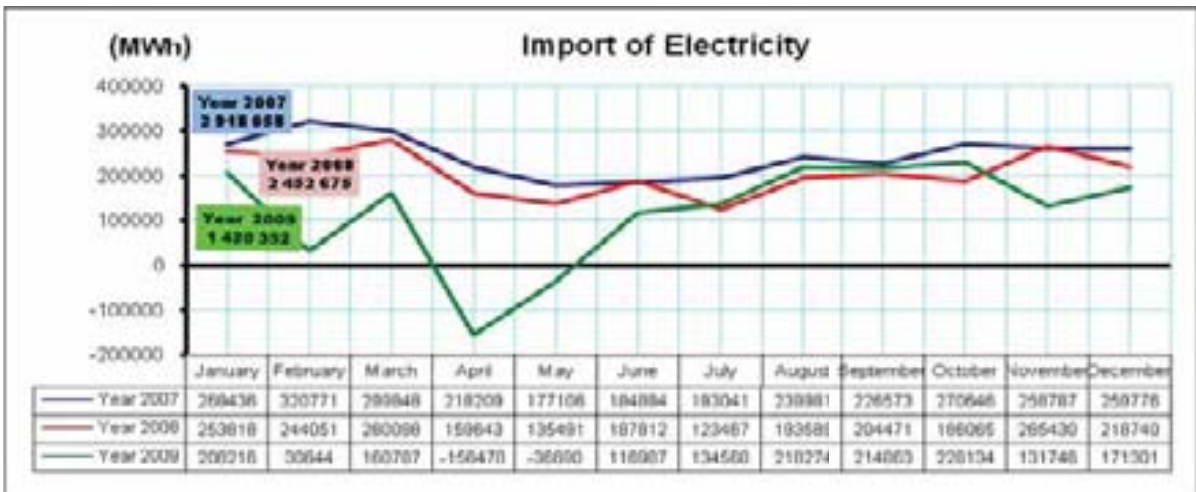
It can be seen that during these 3 last years, although the consumption has been increasing the peak load has been decreasing, which is understandable that the coefficient load graph has been improving.

3.4. The Electricity Import

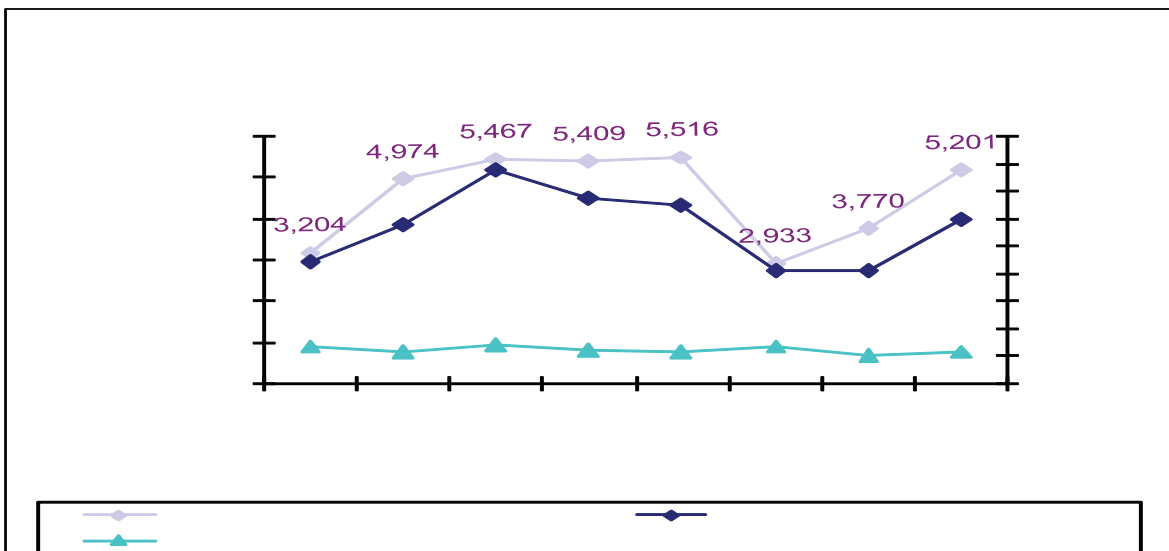
In compliance with the Albanian Market Model, the electricity imports to cover the public needs in our country are carried by two public suppliers, the Wholesale Public Supplier (WPS) as part of KESH and OSSH. While WPS imports electricity to cover the needs of tariff customers, OSSH imports energy to cover the electricity losses in the distribution sector. Electricity import by WPS is carried out based on the Law "On Public Procurement".

A specific feature of the electricity imports for 2009 is the fact that in the general balance of import-export, in April and May exports have been higher than imports and the balance export-import has been positive compared to the rest of the year where there is a net import.

In the graph of figure -3.12.- it is shown the electricity import for each month of 2009 and the comparison with the respective years 2007 and 2008.



The difference in imports for 2009 compared to the previous ones is not only in high quality but also in concept. Due to the favorable hydrological conditions, the domestic generation has been higher, imports have been lower and from the other side in April and May the system turned into a net exporter of electricity. Compared to the other years during 2009, our country apart from being an importer has also been an exporter of electricity.



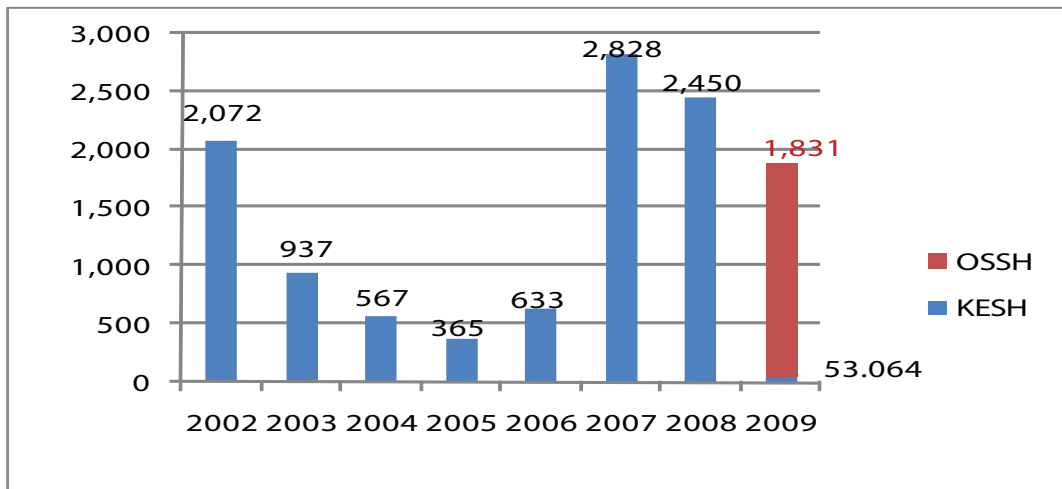
In figure -3.13.- it is shown graphically the performance of electricity production, import and electricity consumption during the period 2002 - 2009.

It is significant the fact that during 2007- 2009 electricity imports reach the highest historical values and especially in

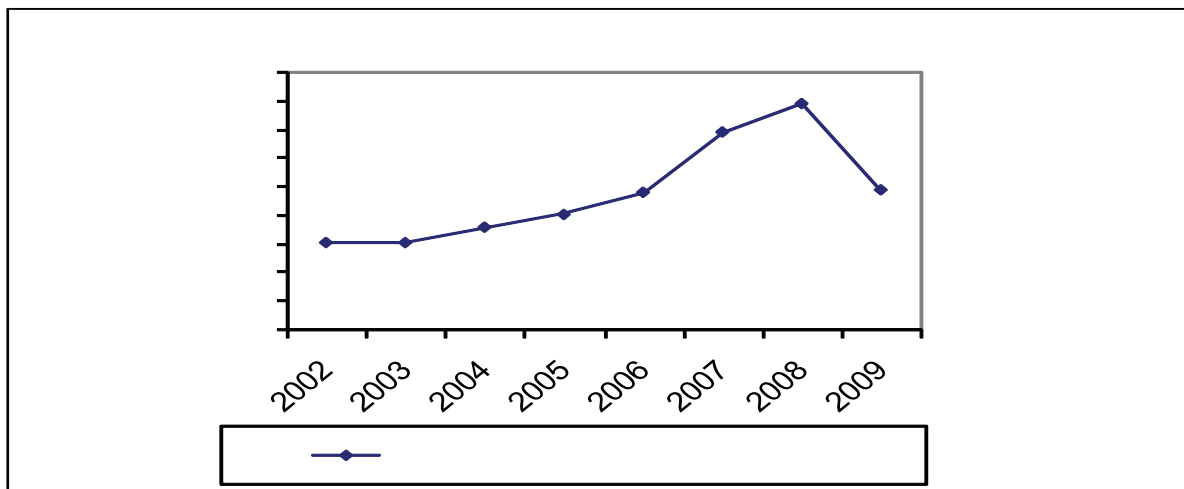
2009, when the domestic production has been higher. Such a thing reflects the important leading principle of the state responsibility to guarantee at any condition the supply without interruptions to the electricity customers because the value of lost load is higher for the economy.

In figure -3.14.- is shown the import quantity chart for the period 2002 – 2009.

Import quantity chart (GWh)

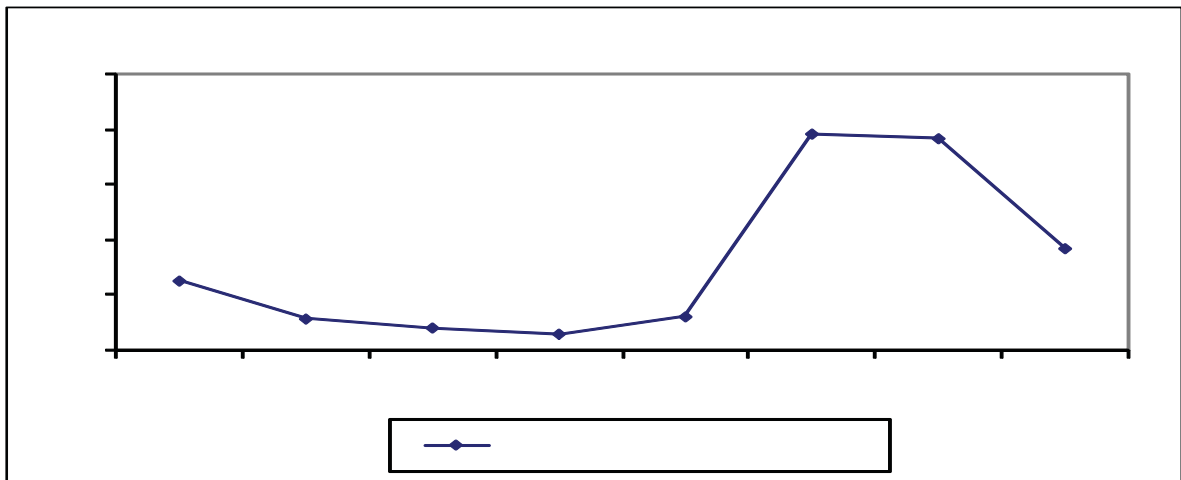


In figure -3.15.- are shown the import prices of electricity during the period 2002 – 2009.



In figure -3.16.- are shown the funding made during the period 2002- 2009 to secure the respective electricity quantities, compared to the respective import prices.

The expenses for the electricity purchase from import in 2007 and 2008 are the historical record of expenses and this not only thanks to record quantities imported but also thanks to the record prices of energy import.



Considering the balances of the electricity import, it can be said that electricity represents a product with a very high cost that per consequence should be used with a very high efficiency.

3.5. Efficiency of electricity consumption

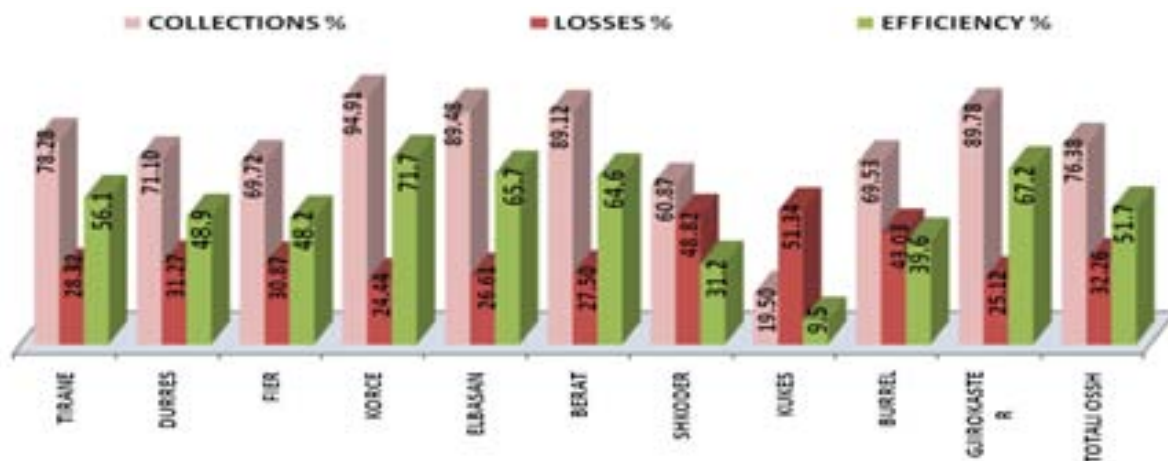
If in public generation the energy efficiency of this activity has been increasing year after year, it cannot be said the same for the efficiency consumption of electricity.

The determining factors in the decrease of the consumption efficiency are:

- High level of electricity losses in distribution. Total technical and non technical losses have unacceptable levels, what is reflected in the low level of collections towards the total consumption.
- Low level of collections of the electricity billed.

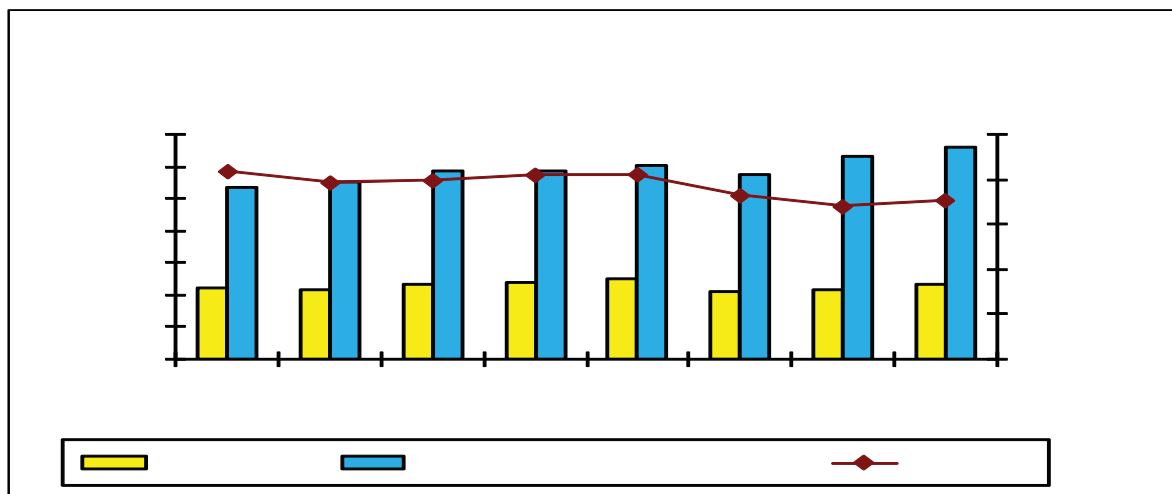
In the graph of figure -17.- it is shown the level of losses, collections and efficiency for each distribution zone during 2009.

The total losses in distribution during 2009, according to the annual report of OSSH are at the level 33.98% of the total energy injected in the distribution system, while the level of collections reported is 76.4% of the electricity billed.



The annual efficiency coefficient for the distribution system (which takes into consideration the annual level of losses and collections) is 50.4%. It is clearly seen that the efficiency level in distribution is very low, which means that from 100 kWh injected in the distribution network, the value of only 49.6 kWh is collected.

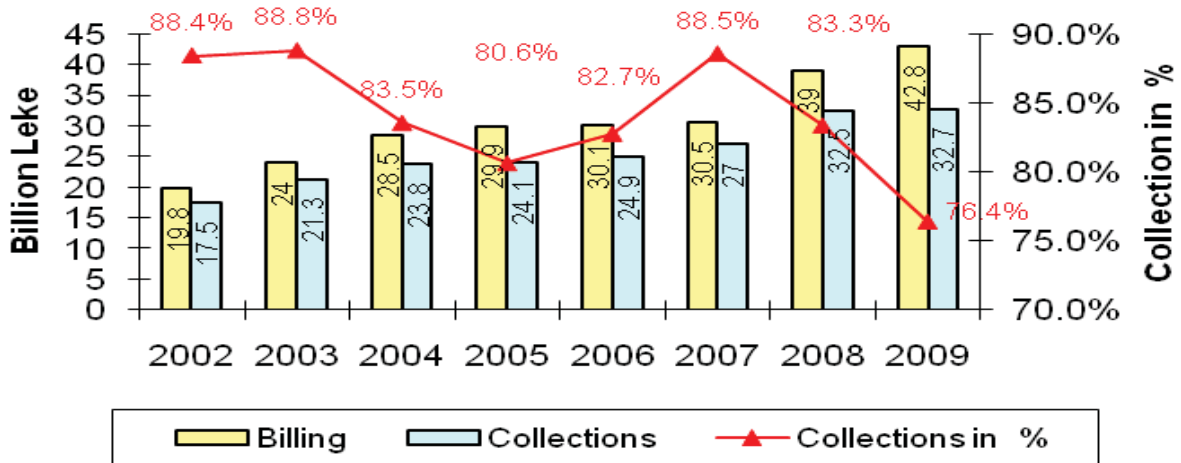
The low efficiency in the electricity consumption comes from a poor management in the distribution sector by OSSH. The OSSH privatization until now did not reflect any management, on the contrary the level of collections for 2009 has been worse than the previous year.



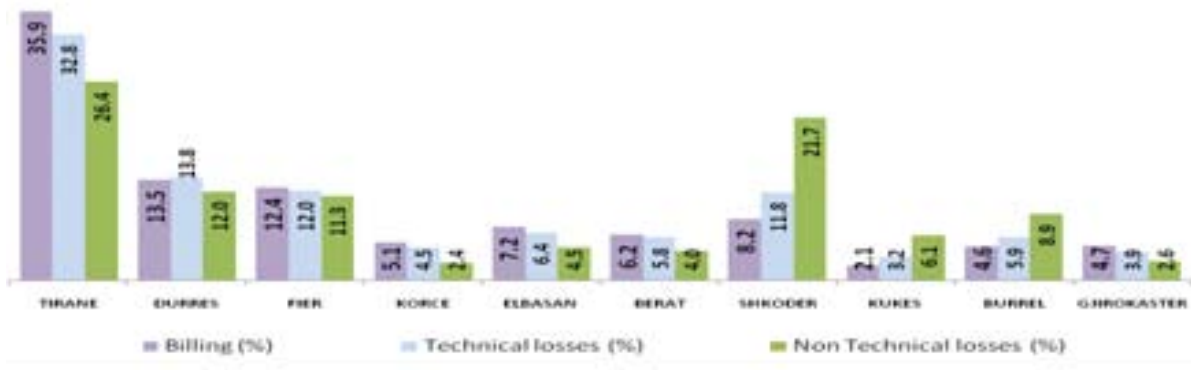
The electricity losses in transmission are 211 GWh and make 3% of the energy injected in the transmission system. The fact losses in total for 2009 which take into consideration the losses in distribution with 2,117 GWh and the losses in transmission with 211 GWh are in total 2,328 GWh or 35.3% of the whole energy injected in the power system of the country.

The graph in figure -3.18.- shows the performance of losses during the period 2002 – 2009 while the graph of figure -3.19.- shows the relation billing-collection for the same period.

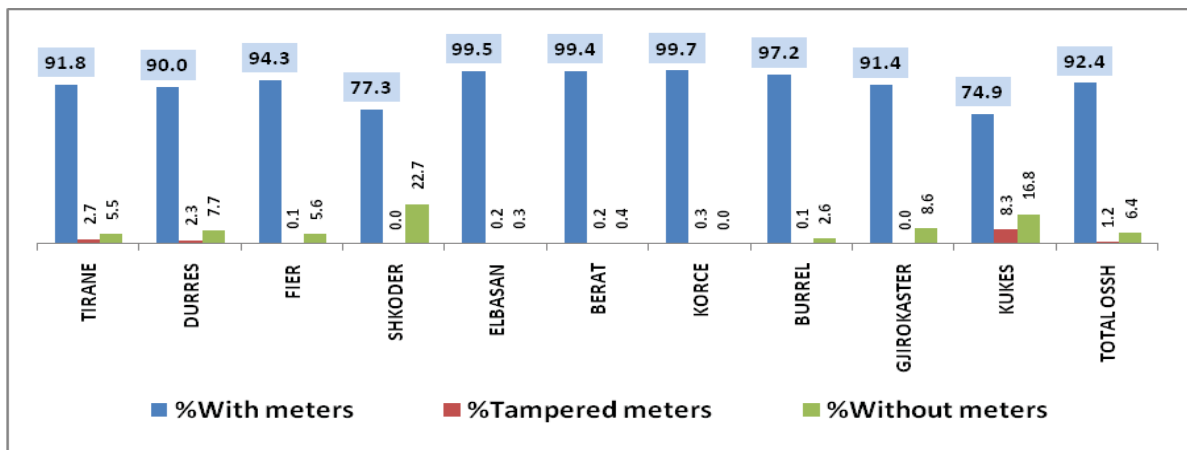
Billing/Collection 2002-2009



The graph in figure -3.20.- shows the structure of losses and billing for each of the distribution zones of OSSH for 2009, and the specific weight they have in the total balance of the company.



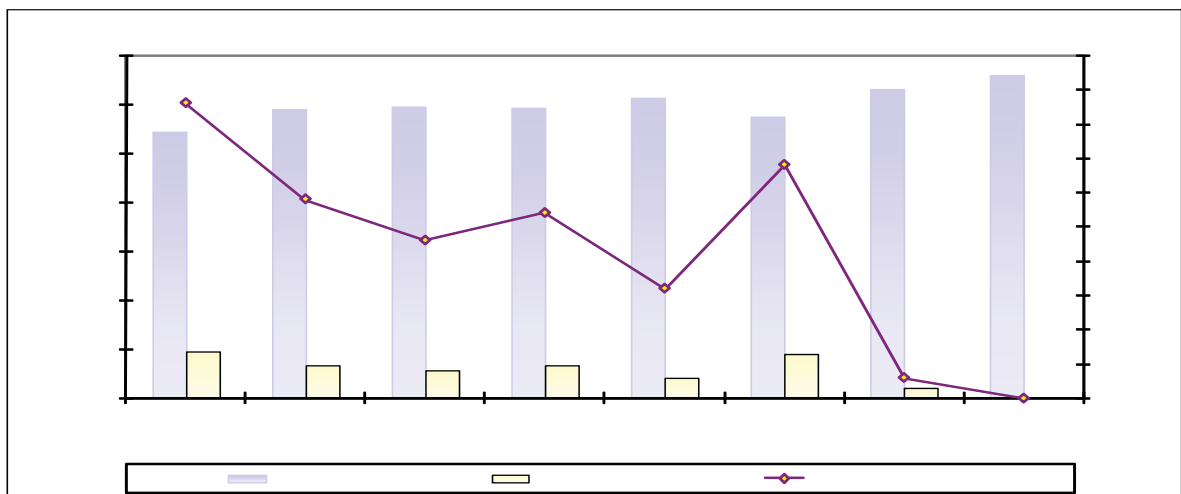
The zones with the lowest efficiency indicators are Kukes, where it is being collected only 9.5% of the energy billed and after that Shkodra and Burreli respectively with 31.2% and 39.6% collections of the energy billed. While the highest specific weight in the level of efficiency consumption is in the zones of Tirana, Durres, Fier and Shkodra.



From such an analysis of the situation in the OSSH zones it results that as far as the efficiency is concerned, in order to have a fast and positive change of the situation, the main attention should be focused on management and investments in the 4 abovementioned zones, not leaving behind also the other problematic zones.

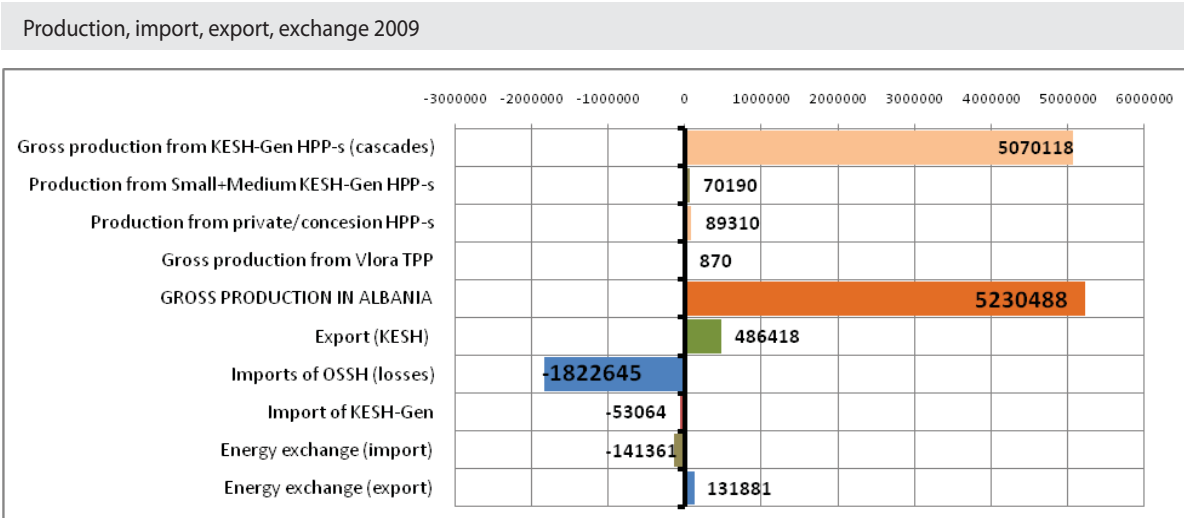
In the graph of figure -3.21.- it is shown the situation of equipping tariff customers with meters by the end of 2009. At country level there are 7.6% tariff customers with no metering or 83,973 customers. ERE, considering the insufficient time at the disposal of OSSH after the privatization for the complement of customers with meters, by Decision no.104 date 22.12.2009 decided to postpone the deadline for the so called "fixed rate" until April 30th 2010.

ERE considers the fulfillment with meters for all tariff customers very important that will positively influence in the reduction of electricity use without limits, increase in collections, reduction of non technical losses and reduction of the demand for energy. Being this the case ERE shall carefully monitor the realization by OSSH of this objective within this deadline.



One of the main indicators of efficiency in the use of electricity is its missing scale. The lack of electricity is the most expensive one, due to the heavy impact that this brings in the economic and social life of the country. This very rational concept has been the device of the Albanian Government since 2006. During 2007 and 2008, 388 Million Euro, were spent from the Government up to the impossible limit, for electricity imports, so that its lacking due to the extreme dryness and unfavorable conjectures in the regional market could have little impact in the life of the country.

Until 2008 the electricity supply has been carried out with load shedding in the graph of figure -3.22.- are shown the electricity load shedding during the period 2002 – 2009. Only in the last two years in Albania there has been no load shedding.



The total electricity balance for 2009 is shown in the graph of figure -3.23- In the graph it is shown the structure of this balance, which expresses the electricity production by each producer and at the same way also import, export and electricity exchange by the public companies that operate in the market. Also 2009 in total is a year characterizing Albania as a net importing country for electricity independently from the months of April and May that Albania has been exporting.

4. Transmission System Operator

The electricity transmission system operator represents the electric lines, s/stations and other installation (compensation equipment etc.) that serve to transmission and interconnection of electricity.

The transmission system is directed by Transmission System Operator (OST), which has been licensed by ERE to carry out the transmission activity. TSO is a public company with 100% shares owned by the state.

OST guarantees the necessary transmission capacities for the supply without load shedding to the electricity customers. In this frame it develops the transmission system in compliance with the long term demand of supplying

country with electricity.

OST dispatches in the power system by managing the electricity flows in the system by considering the realization of all ancillary services connected to the system sustainability as well as exchanges with other systems.

Another important role is that of the Electricity Market Operator. In this frame its role does not have to do with financial transactions connected to the import or export of electricity.

The functioning of Transmission system is carried out in compliance with Law "On Power Sector" and the provisions of the Grid Code approved by the ERE.

4.1. The Structure of Transmission System Operator

OST structure is shown in a summarized way in Table -4.1

	110		1216.2
	150		34.4
	220		1128
	400		120.2
	220	220	68
	210	220	44.75
	100	220	47
	1000	400	20
	750	400	2
	2126	220	11
	40	150	1

Annex -2- shows the extension in terrain of the transmission system operator of electricity.

4.2. The development of the Transmission System Operator

The investments carried in 2009 in OST are around 22 million USD, out of which 10 million by foreign donors and 12 million by TSO itself.

	50.85	6.5	25
	20.72	0.2	25
	123.25	14	25
	46.43		30
	111.26	12	25
	1,324.95		30
	148.00		30
	1,342.14	0.1	30
	1,636.90	8.2	25
	54.22		30
	195.89		
	7,273.47		

Table -4.2.- shows all the investments completed in 2009, but that need a multi annual period for their realization.

5. Distribution System Operators

The distribution system operator of electricity represents the set of air and cable lines, s/station and other installments (transforming cabins) that serve to the distribution of electricity.

The distribution system is directed by the Distribution System Operator (OSSH), which is licensed by ERE to carry out the distribution of electricity. OSSH is a shareholder company with 76% of the shares owned by the Czech company CEZ and 24% by the Albanian Government. The OSSH privatization process was finalized during 2009 and starting by June 1st of this year, OSSH operates as a private company.

OSSH as object of its activity has the maintenance and development of a safe and efficient distribution system to guarantee a supply with quality and without load shedding to the customers connected to the system. OSSH carries also the electricity imports to cover the electricity losses in distribution.

The supply with electricity and all the billing and collection procedures of the electricity sold to tariff customers are carried by the Retail Public Supplier (RPS), that represents a public subject financially and organizationally independent by OSSH but that is legally part of it. RPS for the supply of tariff customers purchases with regulated prices by Wholesale Public Supplier (WPS), the whole electricity produced in the country and imported by it (WPS), to complete the needs of tariff customers.

5.1. The Structure of Distribution System

Table -5.1.- shows the general structure of Distribution System, through which is realized in practice the electricity supply of tariff customers in the distribution network.

Distribution System -2009-	
Number of Distribution Agencies	41
No. S/Stations 110 kV	70
No. S/Stations 35 kV	97
Cabin 6 kV	10648
Cabin 10 kV	8448
Cabin 20 kV	2888

Cable (km)	923
Air (km)	41
Cable (km)	241
Air (km)	7141
Cable (km)	329
Air (km)	4677
Cable (km)	3774
Air (km)	23892

Households	965724
Private	133883
Budgetary + Non Budgetary	11302

6. Privatization of Distribution System Operator

6.1 The development of the privatization process

The Distribution System Operator (OSSH) has been part of the Electric Power Corporation (KESH) until December 2006. The unbundling of OSSH from KESH and the establishment of OSSH sh.a was approved in December 2006 by DCM no. 862 "On the establishment of OSSH sh.a". In May 30, 2007 the supervisory board of KESH approved the establishment of OSSH sh.a and in June 19, 2007 OSSH sh.a was registered in the Tirana court. The unbundling of distribution activity from KESH sh.a marked the first step towards the privatization process of OSSH sh.a.

As the transaction consultant to assist the Albanian Government during the restructuring and privatization process was chosen the International Finance Corporation (IFC). After the Due-Diligence, IFC submitted a report with the respective recommendations to the Ministry of Economy, Trade and Energy (METE), KESH and to the Albanian Energy



Regulator (ERE) to realize the privatization process.

ERE has the obligation to develop and submit to the Government the Albanian Market Model and to review all the secondary legislation in order to adopt it with the Market Model. The Albanian Market Model was approved by Government in March 2008. According to this Model, OSSH sh.a. shall carry out two activities; the distribution activity (maintenance, extension and operation of the distribution in Albania) and the activity of Retail Public Supplier (RPS) (electricity sale only to tariff customers based on tariffs approved by ERE). To solve the problem of the hydrological risk, there was established a special division called Wholesale Public Supplier which shall take over the responsibility of supplying the country with electricity apart from the hydrological situation.

The form and privatization formula of OSSH sh.a was established in Law No. 9899 date 20.03.2008. Based on this law the privatization shall be carried out through an opened international tender with a prequalification phase not less than 51% but not more than 76% of the shares shall be offered to the strategic investor. After the pre-qualification phase in May of 2008, it was notified that only 4 companies were prequalified (CEZ, ENEL, ESTAG and EVN). Based on the abovementioned law the procedures for the evaluation of bids and the criteria for choosing the winner of the OSSH sh.a. Privatization shall be established by Decisions of Council of Ministers. According to the Decision of the Council of Ministers (DCM) no. 835, in June of 2008, shall be offered for privatization 76% of the OSSH sh.a. Shares and in annex of this DCM were the instructions for the tendering process. The tender was held on September 29th of 2008, where only two companies presented their bids. One month later, on October 29th 2008, the Government declared the winner of the tender the CEZ company from the Czech Republic. The period between November 2008 and March 2009 was the period of negotiations between the winner company and the Albanian Government for the Share Purchase Agreement and the Regulatory Statement (annex of this Agreement).

The Share Purchase Agreement between METE and CEZ was approved by the Parliament on April 23, 2009 with Law no. 10 116. This agreement apart from the preliminary terms and the sale price 76% of OSSH sh.a. shares set the obligation of buyer and purchaser. The resolution of disputes related to this agreement according to the article 13 of it shall be made according to the Arbitration Rules of the International Chamber of Commerce. The arbitration shall be held in Vienna (Austria) and the arbitration procedure shall be held in English. The closing of the whole privatization process and passing of OSSH sh.a. to CEZ was made on May 29th 2009.

6.2 Regulatory Statement (RS)

The Regulatory Statement is part of the Share Purchase Agreement. However the RS was one of the main elements of the whole privatization process. It covers three regulatory periods starting by 2010 until the end of 2014 and its purpose is to make possible the calculation for public generation tariff, wholesale supply tariff, distribution tariff and retail supply tariff. According to the Albanian Market Model the Wholesale Public Supplier purchases energy by the public generator, other small producers and import and sells the mix of energy to the Retail Public Supplier with regulated prices. The rate of return for public generation is set the rate of return on short term Treasury Bonds issued by the Bank of Albania.

The distribution company operates based on the price-cap formula and X factor is decided to be equal to zero for the first three regulatory periods. The calculation of Weighted Average Cost of Capital (WACC) is also an important element in the Regulatory Statement. The accepted ratio of debt in order to calculate the distribution tariff shall be 60% debt and 40% own capital. The rate of return on equity (ROE) is fixed in 16.44% added to the cost of debt but ERE in order to calculate WACC shall use the latest evaluation of the weighted average cost of new debts taken through transparent bidding procedures of OSSH.


Independently from the efforts to reduce losses, their total level in the distribution network has been relatively high for a long time period. According to the Market Model in order to encourage the company to reduce the level of total losses it shall purchase the energy needed to cover the losses in the distribution network in the market with not regulated price. The declared level of losses by OSSH for 2008 is 32.74% of the energy injected in the distribution network. The division of this figure in technical and non-technical losses until now is set by the company without being based on an appropriate study. Regarding this issue in the Regulatory Statement it is set that the company shall carry out a specific study to determine the level of technical and nontechnical losses in the distribution network and this study shall be approved by the ERE. Because the losses are an important part of the energy tariff, ERE has set targets for their reduction for the three regulatory periods. The company shall reduce losses with 4% each year for the first two regulatory periods and 9 % for the third regulatory period (with 3% each year). Until the end of 2014 the company has the obligation to reduce losses with 17%. In each case the company shall profit by the reduction of losses on the target set by ERE, but also shall pay the costs in case this target is not met.

The bad debt or the debts that cannot be collected are also an important issue for the company and this is part of the Regulatory Statement as well. It has been negotiated that the level of bad debt for the tariff application for the first regulatory period shall be 14% (of the required revenues recognized to RPS). Although the company has the obligation to carry out a study to determine the exact level of bad debt by the end of July 2011 and this study shall be approved by the ERE. If the study shows that the real bad debt level is lower than 14% then ERE shall take this difference to the company by adjusting the tariff in the following regulatory period. The Regulatory Statement has also set the objectives for reduction of bad debt during the three regulatory periods it covers. The company has the obligation to reduce bad debt with 1% each year until the end of 2014. The losses and bad debt together have contributed to the difficult financial situation of the company. It is expected that the improvement in the level of losses and bad debt will have a decreasing effect to the price in the future.

An important part for the Regulatory Statement is the compensation mechanism. In case ERE does not allow in the tariff for a given year, a part of the required revenues recognized to the company, than this part shall be compensated by the compensation mechanism. In other words, if the request for revenues by OSSH functioning as RPS and recognized by ERE, for one year results with an increase of the weighted average total tariff higher than 15% in real terms, then ERE shall increase with at least 15% in real terms and the difference shall be transferred with the compensation mechanism to the company in the coming years. But if the requested and recognized increase of the total tariff for the coming year shall result from the calculations lower than 15% in real terms then ERE shall approved the increase coming out of the calculations (so lower than 15% in real terms) without transferring any part of the revenues in the compensation account. During the compensation period OSSH has the right to profit the regulated rate of return on this amount that has been object of the compensation mechanism.

6.3 Partial Risk Guarantee

Part of the privatization process have been two other agreements also ratified by the Parliament in May 2009; the Government Support Agreement (between the Ministry of Finance of the Republic of Albania, the Ministry of Economy, Trade and Energy and OSSH sh.a) and the Partial Risk Guarantee (between the Albanian Government and the International Bank for Reconstruction and Development IBRD). Both these agreements are closely related to each other. The scope of Partial Risk Guarantee is to cover the regulatory risk related to OSSH sh.a activity as a private company. Ministry of Finance of the Republic of Albania guarantees the amount that shall be compensated



to the company in case there is a financial damage caused by an unfair decision (according to the company's claim) from ERE. The Government Support Agreement contains the company's complain procedures to the Albanian Government regarding an unfair ERE decision (according to their claim) and the review procedures for this complain until the final decision is reached and, the company has the right or not to withdraw the guarantee amount based on the calculations made for the financial damage caused in that case.

7. Security of supply with electricity

The main objective of the power sector activity is no doubt the supply without load shedding and quality of supply to the electricity customers today and in the future as well.

2009 showed a supply without load shedding to the electricity customers and per consequence the consumption of 6.592 TWh represents the real demand for electricity, which serves as a basic point for the prognosis scenarios of the electricity demand in short and long term periods.

The electricity demand scenarios serve to develop the electricity supply scenarios and they are part of the national strategy of energy.

As known, the security of supply represents a wide and complex issue, because it is a function with many variables, such as the developing scenario of the generation sources in the country, generation reserve, structure of interconnection lines among countries, scale of generation efficiency and electricity consumption, network security, transmission and distribution systems, their automatization scale, managing quality of these systems, developments of the energy demand etc.

The Strategy of the Albanian Government for the increase of security of supply with electricity is first led by the maximal exploitation of the high power potential in the country which has not been exploited yet. Its exploitation is foreseen to be realized mainly through private investments. 2009 marked a high participation of the private investors and had over 150 proposals by their part to construct HPPs and 90 concessionary agreements that foresee to install a generation capacity of 826.5 MW, an annual production of 3.13 TWh and a general investment for the next 5-6 years 719 Million Euros.

Secondly, an important approach is the diversification of generation sources. In this frame during 2009 become operational for the first time, after a pausing period of 24 years, the first important generation source, Vloja TPP, with a combined cycle, with installed capacity 98 MW, with a contemporary technology and high efficiency. In addition to that, in process there are the negotiations to reach a concessionary agreement for the construction a coal TPP in Porto Romano (near Durres) with installed capacity around 800 MW and the cooperation agreement with Kosovo Government to construct in Kosovo a TPP with lignite that will serve to both our states.

From the other side, the licensing of an important number of private investors to construct wind farms in the Albanian territory, with a total installed capacity of around 1,350 MW and expected annual production around 4.1 TWh, foreseeing an investment around 2 billion Euro, is another direction of the diversification of generation sources friendly to the environment.

In its own strategy the Albanian Government considers a real option also the construction of a regional nuclear plant through private undertakings to ensure a safe and sustainable long term supply with electricity, friendly to the environment for Albania and the neighboring countries in the region.

Very important steps towards the increase of security of supply with electricity are the developments for the interstate interconnection lines. When the overhead interconnection line 400kV with capacity 1,000 MW, Elbasan-Tirane-Podgorice shall be concluded in 2010, will immediately start the interconnection line Tirane-Prizren-Prishtine, also 400kV with capacity 1,000 MW financed by the German Government. Following these it is foreseen to be constructed

also the interconnection line with Macedonia, adding here also the two undersea interconnection cable lines with Italy. Albania shall be efficiently and safely positioned from the configuration point of view in the transmission systems of the eighth energy region in Europe.

The integration of the Albanian and Kosovo power sector shall very much increase the efficiency functioning of these two complementary systems and shall serve to the further increase of security of supply with electricity between these two states.

The increasing of investments by the companies that operate in the transmission and distribution systems through their expansion and modernization and also upgrading the automatization, shall also serve in the midterm, not only for the increase of security of supply, but also for the quality of service.

The investments realized for the rehabilitation of the electro mechanic part of HPPs gave their positive effects in 2009, by having in operation all the aggregates through the year. An important step is expected to be realized also with the rehabilitation of the technical works of these HPPs that shall upgrade their security in these important objects.

OSSH privatization is expected to have an important positive impact during the regulatory period 2010 – 2014 for the efficiency increase of electricity consumption with at least 21%, which also serves the increase for security of supply to the electricity customers.

ERE is convinced that the complex plan for increasing the security of supply with electricity in the country shall be realized successfully.

PART II

2



Regulation of natural gas sector

II - Regulation of natural gas sector

1. Analysis of the natural gas sector in Albania, in 2009

One of the priorities set in the National Strategy of Energy is the development of the natural gas sector in Albania. The actual generation from domestic gas field is in very low levels around 10 million Nm³ and is used totally for oil extraction and refinery. Per consequence the possibilities for supplying the country with gas are the interconnection with international gas pipelines or any possible discovery from the researches in our country.

The supply with natural gas is of great interest because:

- Balances the structure of alternative sources of energy supply and improves the economic development of the country.
- Improves the security of supply with electricity in the country.
- Improves the economic parameters for the functioning of Vlora TPP and enables the expansion of its capacities.
- The construction of new generation sources with natural gas together with Vlora TPP helps in the reduction of technical losses in the power sector in Albania, which is mainly supplied only by the HPPs located in the northern part of the country.
- The use of natural gas for the fossil energy that has low level of CO₂ emissions which is friendly to the environment.

It does worth mentioning that the natural gas is an expensive source and the connection of Albania as a final customer may not be the best alternative for improving the security of supply with energy.

The Albanian Parliament has adopted the Law No.9946, date 30.6.2008, "On Natural Gas sector" which has been developed in compliance with EU Directive 2003/55/EC and Regulation 1775/2005 setting this way the basis for the development of the natural gas sector in Albania. This law is considered as one of the best ones in our region and wider.

In addition this law sets key roles, for the Ministry responsible for energy, METE, to plan and approve the new infrastructure and the Albanian Energy Regulator, ERE, for regulation of the natural gas sector. The cooperation between these two institutions is necessary for the perspective of this sector.

2. EU and Balkan region developments in the natural gas sector and their implications for Albania

Natural gas is actually the second important source for completion of the power need in EU with 24.6 % in 2007 and according to WEO it is expected to be 28.5% of the energy balance in 2030. Due to reduced CO₂ emissions compared to the other fossil energies, natural gas together with the renewable energy shall have a continuous increase

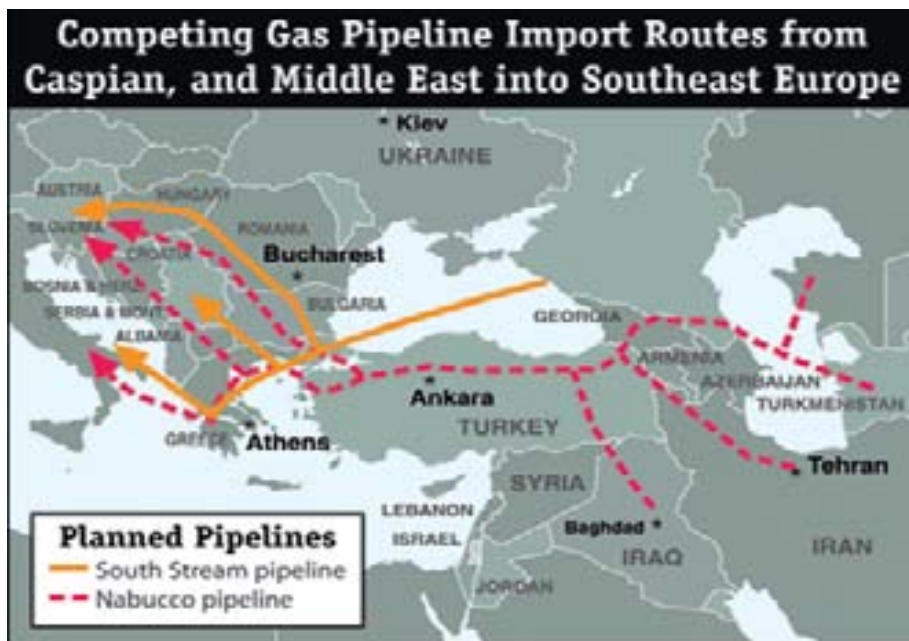
in the EU energy balance.

The production by EU sources, that covered 42% of the own needs in 2005 shall be reduced and it is foreseen to fulfill only 11% of the needs by 2030.

Russia has the greatest natural gas reserve in the world together with Qatar and Iran has more than half of the world reserves. Russia is actually the greatest supplier in EU and is being very active to expand its influence in other sources or infrastructure in the Caspian area and wider. These factors and the crises caused by the interruption of supply with natural gas in January 2009 due to the Russian-Ukrainian conflict have brought the EU security of supply with natural gas into the focus of a lot of analysis.

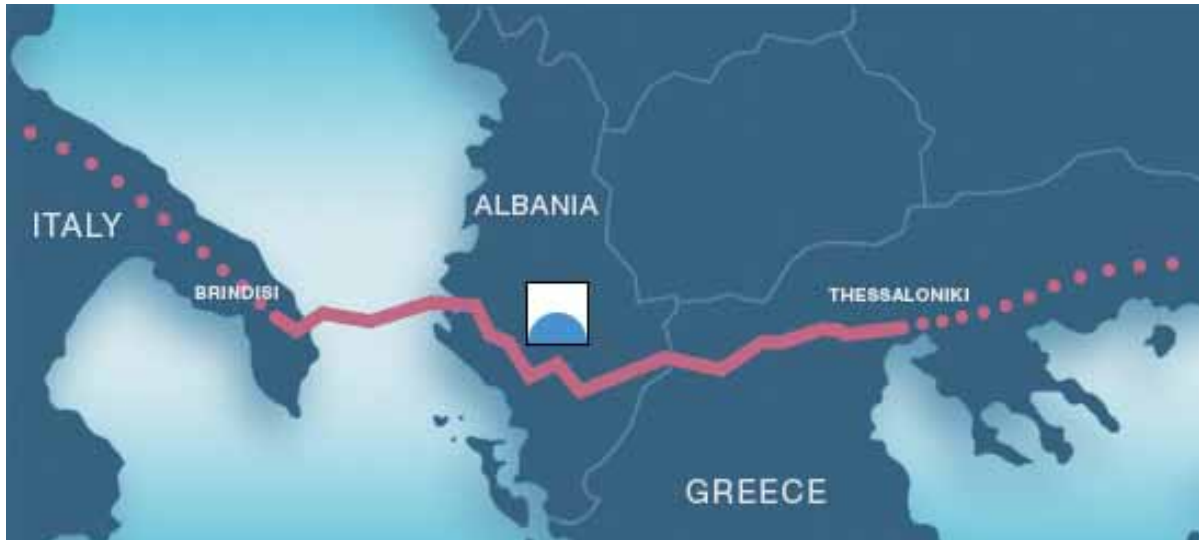
EU aims to have the diversification of natural gas supply sources by identifying and supporting LNG and pipeline projects that supply EU from other sources except Russia, such as North Africa, Caspian sea and the Middle East. Iran although very rich with natural gas reserves is not yet part of the concrete projects due to political causes.

- “NABUCCO” which is a priority project for EU. It aims to bring gas into the Caspian area and its track passes in the central area of Balkans. Related to this project are:
 - o Interconnection Turkey-Greece-Italy, which is supplied with gas by NABUCCO and further on after supplying the Greek market side passes Albania following a longer route and off shore depth to meet the Italian network in Bari.
 - o TAP (Trans Adriatic Pipeline) is the project proposed by EGL and Statoil which aims to pass through Albania to meet the Italian network. It is expected that part of this gas will supply the Albanian market.
- “South Stream” is the project promoted by Russia as NABUCCO alternative and is considered frequently as its alternative. This project although undeveloped in details yet branches in the Balkan area to send part of this gas to Central Europe and South of Italy.



In figure -4.1.- it is shown the map of gas projects "Nabucco" and "South Stream"

The branch that is foreseen to pass to the south of Italy as the project ITGI (Interconnection Turkey-Greece-Italy) is side passing Albania although this track has higher costs.



Other alternatives of the country supply with natural gas;

- Construction of a regasification plant of LNG in the coast of Fier region proposed by "Trans European Energy BV" sh.a. Which shall supply the Italian market contributing also for the Albanian market? The Ministry of Economy and Energy is following this possible agreement.
- Terminals as extension of Greece or Macedonia. These two options should be analyzed in details for their economical portability and the possible discouraging effect played by alternative potential projects for the connection of the country with international gas networks.
- As a ring connection with the Energy Community.
Albania is a Contracting party of the Energy Community and has signed the Athens Treaty on October 25th 2005 (ratified by the Albanian Parliament with Law no.9501, date 3. 4. 2006).

The construction of a natural gas ring with the Energy Community countries is identified as a better solution which shall solve also disadvantages coming from the modest size of the regional market countries as well as the inferiority inherited in the infrastructure of gas sector. Apart from its advantages, the progress in giving life to this project has been modest

and consists mainly in the construction of Vlora TPP as the most important customer of natural gas in the region. The economic crises has discouraged the undertaking of investments and now it is considered as realistic a step by step implementation of the ring which is also influenced by the individual interests of the countries in the region.

3. ERE achievements in the natural gas sector for 2009 and future challenges

In compliance with the role of ERE provided in the Law On Natural Gas and Power Sector, the ERE Commission with decision No. 21, date 18.03.2009 approved the amendments in the ERE Rules of Practice and Procedure to include in it also the activity on natural gas.

By the decision on February 9th 2009 of the Albanian Parliament a Commissioner on gas issues was appointed in the ERE Board of Commissioners.

Although the ERE request to approve the amendments in the structure with additional staff was not taken into consideration yet. This has brought about delays in the process of developing the secondary legislation and for the necessary staff training for the regulation of this sector.

In compliance with the agreement signed between ERE and USAID the assistance to ERE in preparing the secondary legislation from USAID consultants for 2009 consisted in;

- The developing of the Rules of procedure for granting, modification, renewal and removal of license in the natural gas sector. In this document have been integrated the comments made by the Vienna Energy Secretariat and shall be adopted by the ERE Board of Commissioners.
- The developing of draft on Third Party Access. This Regulation is expected to be approved by the ERE Board of Commissioners in the first half of 2010.
- The developing of the first drafts of the licenses for transmission, liquefied gas and depositing. In compliance with the action plans developed it is under process the work on;
- Analysis of the possible market models for natural gas in Albania
- Developing the tariff methodologies for natural gas sector
- Special focus in ERE activity for 2009 was paid to the cooperation with homologue regulatory institutions in the regional and wider. In this frame there have been established the basis for mutual cooperation and experience exchange for the regulation of natural gas with the Italian, Turkish, Greek, Croatian regulators etc. The active participation in the gas working group of the Energy Community under the Vienna Secretariat and the participation in several regional and European events for the natural gas issues have been fruitful.

Evaluating as very important the possibility of the country supply with natural gas through the most favorable alternative, the Commissioner on gas issues and the ERE staff have carefully followed the regional and global developments and participated in the activities for the development of this sector.

PART III

3



The activity of the Albanian Energy Regulator

III - The activity of the Albanian Energy Regulator

1. Tariff and Prices of electricity for 2010

ERE exercises its legal authority for setting the tariffs of the regulated activities in the electricity sector based on Law No.9072 date 22.05.2003 On Power Sector, (as amended) respectively on articles 26,27 and 28 and other secondary legislation coming from this law.

In this context one of the ERE main activities for 2009 was reviewing the applications for the new tariffs by the licensees in the power sector for production, wholesale supply, transmission, distribution and retail supply of electricity for tariff customers.

Based on a complete and careful analysis of the technical, economical and financial data, presented by the company based on their request for revenues through a very transparent process, ERE set the tariff and prices for 2010 for the abovementioned activities which were approved by the Board of Commissioners of ERE by Decisions No.97,98,99,100 date 15.12.2009.

1.1 Methodologies and procedures for setting the tariff and prices

ERE in compliance with the abovementioned legislation has developed the methodologies for calculation of tariffs of the licensed activities in the power sector approved by Decisions No.76,77,78 and 79 date 26/06/2008 of the Board of Commissioners.

From the other side to guarantee a transparent and fair process in setting the tariffs was implemented correctly the Decision No.21 date 18.03.2009 of the ERE Board of Commissioners, "On ERE rules and procedures", which represents the steps through which the application is carried, reviewed and approved.

Considering the principles set in the abovementioned secondary legislation and because the service tariffs of electricity are transferable to the retail tariff/final customers, the applications filed by the four companies, were reviewed at the same time during the whole process followed by ERE.

1.1.1. Generation tariff of electricity for KESH sh.a

On September 30th 2009, KESH sha. as a licensee for generation of electricity, filed with the Albanian Energy Regulator the application for reviewing the generation tariff of electricity for 2010.

The proposed tariff by KESH/Gen for generation of electricity for 2010 was 1.11 leke /kWh, so it was requested an increase of 41% from the previous tariff.

The calculation of generation tariff is based on the methodology for calculation of public generation company approved by the ERE Board of Commissioners with Decision No. 77 ,date 26.06.2008 as well as in the Regulatory Statement approved by the ERE Board of Commissioners with Decision No. 12, date 03.03.2009.

Although in 2009 there were no changes in the tariff and prices of electricity, ERE made the proper estimations in the generation tariff of electricity for KESH sh.a. taking as base the tariff approved in 2008.

Generally, ERE considered reasonable the requests of the company for revenues in 2010, but reduced them at the amount 4,032 million leke that are the additional revenues this company realized by the electricity export in 2009, this regulation is based on the Electricity Market Model, which sets that the revenues coming from export are protected by the tariff customers. In this way it came out from the calculations that a generation tariff for KESH/Gen 0.4 leke/kWh which marks a decrease of 49% in comparison with the previous tariff of 0.78 leke/kWh.

1.1.2. Wholesale tariff of electricity by the Wholesale Public Supplier

On September 30th 2009, KESH sha. as a licensee on wholesale of electricity, filed with the Albanian Energy Regulator the application for reviewing the tariff of wholesale supply for electricity for 2010. In this application it asked the tariff review from 1.61 leke/kWh to 2.78 leke/kWh with an increase of 72% due to:

- Including for the first time the Vlora TPP production and per consequence the operation costs that it has.
- Cost of Overdrafts taken, by the loan institutions for 2007 and 2008 to cover the cost of electricity import in these years.
- Adjustment of the revenues for the previous regulatory periods.

Calculation of wholesale supply tariff of electricity is based on :

- Decision No. 78, date 26.06.2008, of the ERE Board of Commissioners, "On the approval of methodology for calculation of wholesale supply tariff of electricity";
- Regulatory Statement, approved by the ERE Board of Commissioners with Decision No. 12, date 03.03.2009;

Considering the above, the wholesale supply tariff of electricity, covers the operational costs for a normal activity and the cost of loans taken in difficult liquidity situations, for payment of obligations related to the invoices of electricity import, principal payments.

After the technical-economical analysis, technical and public hearing sessions, the wholesale supply tariff of electricity for WPS for 2010 was set 2.03 leke/kWh, so there is an increase of 26% compared with the one in the previous regulatory period.

1.1.3. Electricity price for existing HPPs up to 10 MW

At the same time at setting the tariff and prices of electricity there is the obligation to review the tariff and prices of the electricity produced by the small existing producers (concessionary or private) with installed capacity up to 10 MW and to new producers with installed capacity up to 15 MW.

To calculate the electricity price produced by existing HPPs it has been implemented "The Methodology for calculation of unified electricity price for licensees for the production of energy by HPPs with installed capacity up to 10 MW" approved by the ERE Board of Commissioners with Decision No.5, date 26.01.2007.

Based on the abovementioned calculations the selling price for the electricity produced by concessionary and private licensees, with installed capacity up to 10 MW, for the period 01 January 2010 – 31 December 2010 was set 7.4 leke/kWh.

1.1.4. Electricity price for new HPPs up to 15 MW

For the calculation of the sale price of electricity produced by new HPPs with installed capacity up to 15 MW it has been implemented "The Methodology for setting the unified electricity price produced by new HPPs with installed capacity up to 15 MW given by concession based on Law No. 9663, date 18.12.2006 "On concessions".

To promote the investments in exploitation of the hydrological reserve, in all the water flows, the Government adopted the reference of import price policy, of the electricity price produced by these subjects to the public company KESH sh.a.

According to the abovementioned methodology, for calculation of the electricity price the following formula is used;

where :

is the unified price of electricity produced by new HPPs with installed up to 10 MW,

is the average import price of electricity realized by KESH sh.a. (functioning as WPS) in the previous year,

Coefficient, the bonus given to the licensees to encourage the electricity production by new HPPs with installed capacity up to 15 MW,

average exchange rate Leke/EUR published by the Bank of Albania for the previous year.

Following this methodology of calculation of electricity price by new HPPs given by concession with installed capacity up to 15 MW is 6.0 leke/kWh or 23.3% lower than the price for the existing HPPs with installed capacity up to 10 MW (of 7.4 leke/kWh) which are under exploitation.

ERE thinks that such a phenomena comes from the variation of import price of electricity in different years, is not in compliance with the Government policy to enhance and encourage the investments for the construction of these hydro power plants. Under these conditions ERE has suggested to the Government that such thing needs to be reviewed, and this has been taken into consideration. The Government is working to find the most suitable solution based on the experience of other countries.

1.1.5. Transmission tariff of electricity

Transmission System Operator licensed for the transmission activity of electricity, led with the ERE the tariff application for 2010 dated 30.09.2009, requesting an increase in transmission tariff for 2010 at 0.8 lek/kWh or 60% higher compared to the existing one (0.5 leke /kWh).

The increase in required revenues for 2010 by TSO supports the additional costs for the long term loans related to a very ambitious investment plan, which shall serve to the transmission network.

ERE in calculation of transmission tariff is based on the methodology for calculation of transmission tariff of electricity and Decision No59, date 29.12.2005, of the ERE Board of Commissioners.

After reviewing and adjusting by decreasing the revenues for 2009 from the foreseen level, due to a very high quantity of electricity delivered in the transmission network from export, and an analysis and evaluation of all the technical-economical-financial data by TSO and implementation of the respective methodology, the transmission tariff for 2010 was set at 0.60 leke/kWh or with an increase of 20% compared to the existing one.

1.1.6. Distribution and retail supply tariff of electricity for retail customers for 2010

The company OSSH sh.a. functioning as the Distribution System Operator and Retail Public Supplier filed with the ERE on 30.09.2009, the application for distribution tariff of electricity and the retail supply tariff for the tariff customers for 2010. The tariff application for 2010 by OSSH sh.a was carried out when OSSH was privatized.

The OSSH sh.a application for 2010 asked the following:

- Revenues for distribution and retail supply activity at 43,602 million leke not foreseeing an increase in tariff for wholesale supply activity (by KESH) and transmission (by TSO).
- The compensation calculated by OSSH sh.a for 2009 (7,276 million leke) and to recover in 2010 for 947 million leke
- Average retail price for tariff customers to be set at 10.401 leke /kWh or 44.2% higher than the existing price.

The review and approval of these tariffs by the ERE was based on Decision No.79 date 26.06.2008 of the ERE Board of Commissioners "On the approval of methodology for calculation of distribution tariff of electricity", in the Regulatory Statement approved by the ERE by Decision N.12, date 03/03/2009 as well as Decision No.77 of the ERE Board of Commissioners date 16.10. 2009 "On disapproval of Audit of Losses".

According to the Regulatory Statement, OSSH has the right to make an evaluation of the lacking revenues for 2009 through the compensation mechanism and this shall be reflected in the revenues calculated for 2010.

After the careful review of OSSH sh.a. request, as well as after the clarifications and addition information in the technical sessions, was made the evaluation of the required revenues for the company for 2009 and their estimation for 2010.

ERE decided to recognize to OSSH:

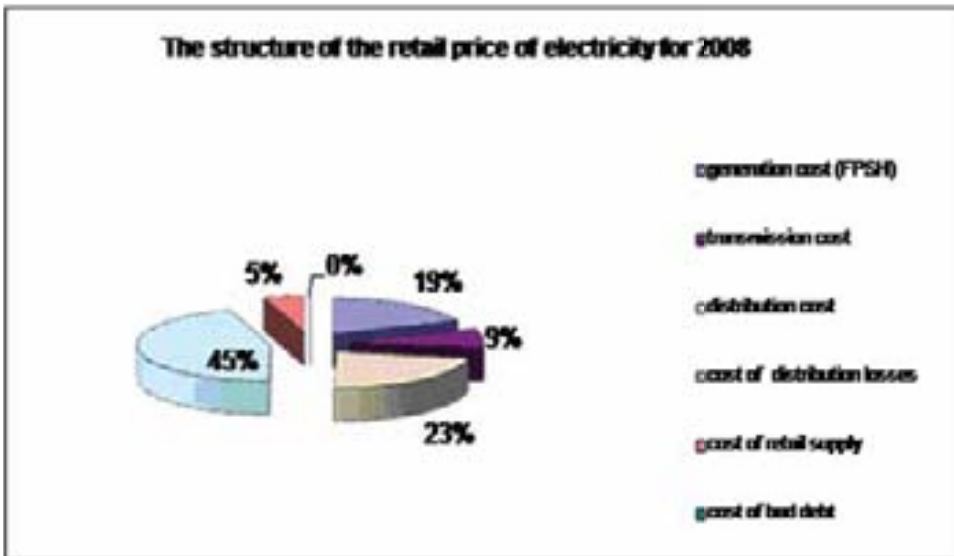
- reasonable revenues for distribution and retail supply activity 41,345 million leke for 2010.
- compensation calculated for 2009 to be recovered in 2010 for the amount 379 million leke.
- distribution activity tariff 5.70 leke/kWh.

By the end of the analysis and methodology applied, the average retail price for tariff customers was 9.53 leke/kWh or 13% increase compared to the price approved by the ERE for 2008.

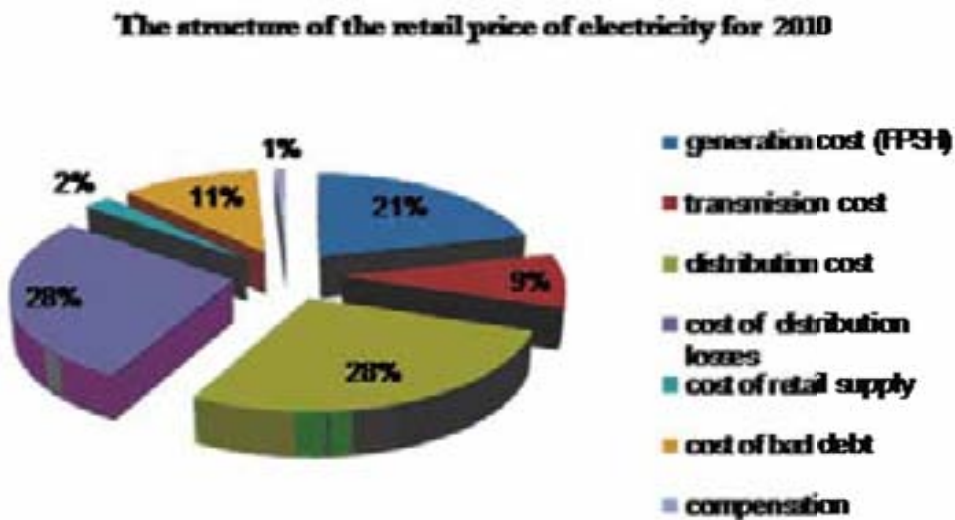
This average price is distributed to the tariff customer categories in table -6.1

As seen in the final table of prices set by the ERE is preserved for 2010 the billing in two consumption blocks for household customers by having the same threshold of 300 kWh for the first block and over 300 kWh for the second block. In the graph of figure -6.1.- it is presented the tariff structure for household customers. The analysis of this structure is carried out by securing to OSSH the necessary revenues for the customers in compliance with its financial balance statement foreseen for 2010.

It is important to evidence that this structure of prices for the household customers discourages the use of electricity for space heating, because as it has been verified by several studies that the electricity consumption for space heating starts at the level of consumption over 300 kWh per month. There exist all the possibilities that the space heating is realized with other alternative means. It is also interesting the fact that 71 % of the household customers spend less than 300 kWh/month.

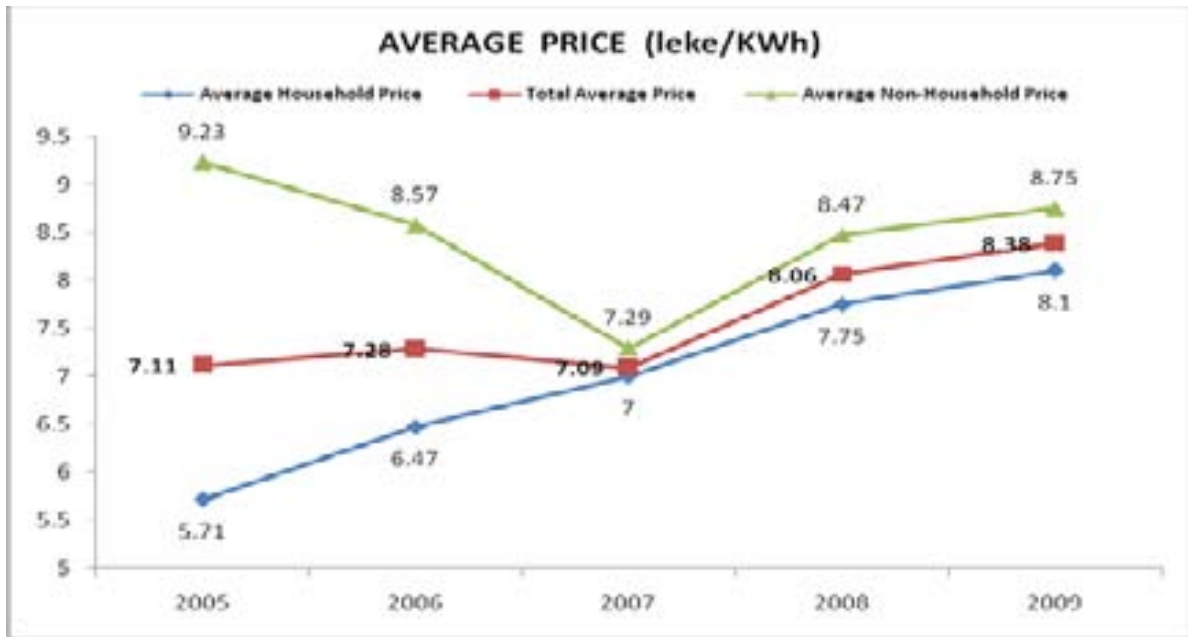


In the graph of figure -6.2.- it is presented the retail sale structure of electricity for 2008. As it is evidenced 67% of the costs belong to OSSH, from which 45% are costs of energy losses and 19% cost of debt.



In the graph of Figure -6.3.- it is presented the retail sale structure for 2010. As it is evidenced 67% of the costs belong to OSSH, from which 28% are costs of energy losses and 11% costs of bad debt.

In order to have a fast transformation of the situation, regarding the efficiency increase of electricity consumption the whole attention should be focused on upgrading at high pace the situation in OSSH, because this has been one of the main reasons this company was privatized.



In the graph of Figure -6.4.- it is presented the performance of electricity prices.

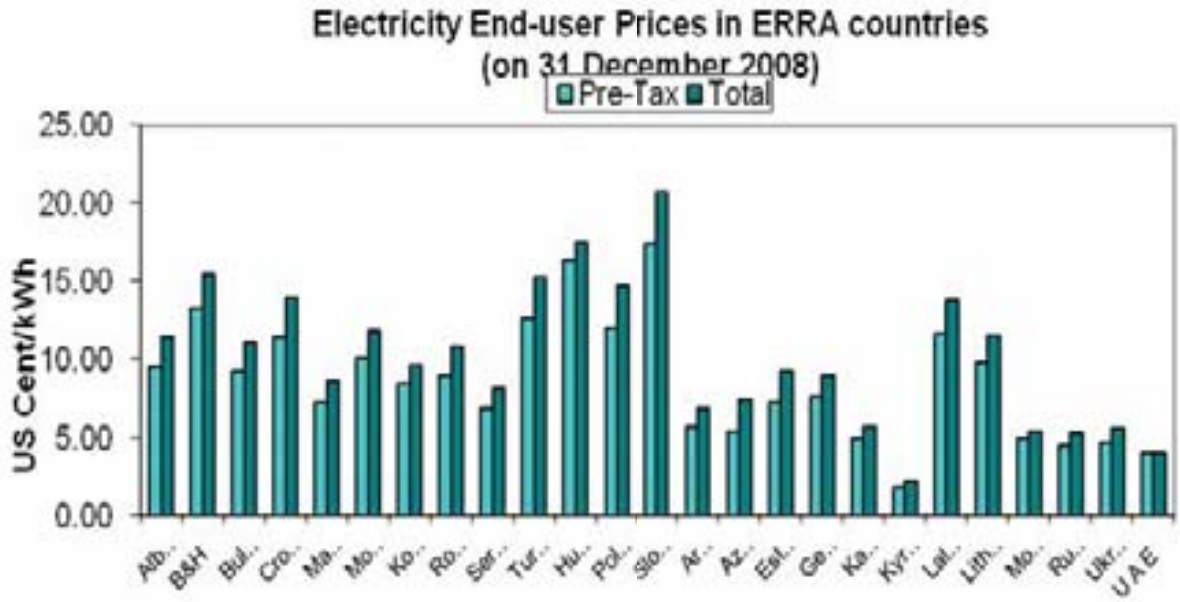
During the period 2005-2009, where it is significant the fact that the prices for non household customers were reduced with 18% to pass to the western trends where the prices for non household customers are lower than those for households.

1.2. Electricity tariff and prices in the regional market in 2009

In the graph of Figure -6.5.- are presented the average electricity prices before and after tax in the ERRA member countries for 2008.

Characteristic feature of this graph is the phenomenon that the former Soviet Union countries have very low electricity tariffs while in the EU member countries these tariffs are very high. Such a distinction springs from the existence of rich hydrocarbon sources in these countries but also due to the political inheritance of a social system state owned and due to the policies followed in these countries.

In comparison with the regional countries our country is listed in between because of the reform in the tariff and prices of electricity our methodologies are based on coverage of cost for each service.



If the consumption efficiency in our country would have been better, which means that the electricity losses, technical and nontechnical, should be within the required standards, than due to the production with low cost by hydro sources, also the electricity prices should have been lower.

1.3. Electricity tariff and prices in EU markets, in 2009

Characteristic of tariff system for end customer in EU countries is the adoption of a tariff structure based on 6 consumption blocks for industrial customers and 5 consumption blocks for household customers. The blocks are established based on an annual consumption in the range shown in the table below.

In graph of figure -6.6- are presented the electricity tariffs pre and after tax (VAT) for non household customers, for all EU countries in Eurocent and in lek/kWh (referring to the exchange rate 1Euro = 130 leke) for a monthly consumption 41,000 – 164,000 kWh. The average electricity price in EU for industrial customers in this consumption block is 12.97 Eurocent/kWh (or 16.86 Lek/kWh).

The highest electricity prices in EU are in Denmark, while the lowest in Bulgaria. The prices in our country are not the lowest in EU countries, but among the lowest ones, despite the revenues per capita are among the lowest, which is due to the low efficiency of electricity consumption in the distribution system.

2. Licensing of activities in the Electricity Market

During 2009 the licensing sector of the Licensing and Market Monitoring Department has reviewed 26 applications on:

- licensing of activities in the electricity sector;
- modification of existing licensees;
- renewal of licensees;
- qualification of plants as renewable energy sources.

The process has been finalized by the end of January and beginning of February 2010 for 6 application, while 2 others are still in process and are expected to be concluded within February 2010.

A considerable number of applications filed during this year are from subjects that have signed concession agreements with the Albanian Government, which have applied with the ERE for electricity generation license. In addition to that, important applications in the sector were those submitted by KESH sh.a and OST sh.a. on renewal of respective licenses for generation, trade and transmission of electricity.

Activity	No. of granted licenses
Generation	5
Qualified supplier	1
Trade	4
Modification of existing licenses	3
Renewal	3
Qualification of plants as RES	2

In table -6.3.- are summarized the licenses granted by the ERE according to the activity type for 2010.

2.1. Licensing of electricity generation

As mentioned above a considerable number of licenses issued by the ERE during 2009 are granted for generation of electricity. The distinctiveness of this activity is that there are a potential number of private subjects which is increasing year by year.



Exchange Workshop
with Italian Regulator on
Electricity and Natural Gas

February 11-12th 2009,
Tirana

Exchange Workshop
with Italian Regulator on
Electricity and Natural Gas

February 11-12th 2009,
Tirana



Bled Strategic Forum
August 30th 2009

Company name	Location	Installed capacity (MW)	Annual generation (GWh)	Investment (million €)
	Vlore	97	700	82
	Librazhd	3.4	12.6	1.15
	Mirdite	1.95	5.13	0.7
	Bulqize	13.7	82	17.14
	Shkoder	48.2	230	140.35

Actually, there are 19 licensed companies for generation of electricity without including here the company KESH sha and Vlora TPPsha as well as 12 other companies licensed for construction of new generation plants that have received a license for generation of electricity.

In table -6.4.- are summarized the main indicators regarding the installed capacity, generation of electricity and investment value for the companies licensed for generation of electricity.

As to the operation of the abovementioned companies, from the information available to ERE, the company Pure Energy Stebleva shpk licensed for generation of electricity from Stebleva HPP has just started the construction works.

Regarding the company Malido Energji shpk licensed for generation of electricity from Klos HPP, it has been finalized the process of getting all the necessary permits for carrying out the activity and the equipment and machineries, (turbines, generator, control panel etc.) have been ordered and the delivery from their producer is being expected. The company has carried out a considerable amount of technical works and it is foreseen that by July 2010 it will become operational.

Teodori 2003 shpk company, licensed for generation of electricity from Zall Bulqiza and Ternove HPPs have secured financing of the project by the bank, and has advanced in the technical works regarding the construction of dams and reservoirs at the amount 40%, and it is expected that the two objects shall become operational within 15 months.

2.2. Licensing of electricity trade

Electricity trade is the second main activity in the electricity sector, in which the private companies are actively involved after the activity of electricity generation. Initially the legal framework provided for the ERE competences for licensing the interested subjects for electricity import and export. The latest amendments in the Law Nr. 9072, dt.22.05.2003 "On Power Sector" as amended, as well as the approval of Electricity Market Model and Market Rules, introduced the concepts of electricity trading and trade license.

Pursuant to these documents, the electricity trade and trader is defined as a licensed person that purchases and sells electricity, except the sale to retail public supplier and final customers. These are private domestic or foreign companies that buy or sell in wholesale market.



During 2009, ERE licensed four other companies for the electricity trade and renovated the trade license for one company (KESH sha), so the number of licensed companies by the end of 2009 for the electricity trade reached 9. The electricity trade together with the supply of eligible customers has been under the attention of private companies. In less than 2 years, 15 private companies have been licensed for these two activities. Actually, it can be stated that there exist conditions for a further electricity market liberalization given the number of the licensees and the possibility for the customers to get the status of eligible customers, despite their annual threshold of electricity consumption and whether they are household or non-household customers.

Table -6.5. – shows a summary of licensed companies for electricity trading.

2.3. Certification of renewable energy sources

One of the activities covered by the Licensing Sector is also that regarding qualification and certification of renewable energy sources. Up to date ERE has licensed a considerable number of subjects for electricity generation from HPPs as well as by other renewable energy sources such as wind parks or biomass plants.

Company name	Type of plant	Construction site	Installed capacity MW	Annual Generation GWh	Investment Million Euro
Alb Wind Energy shpk	Wind Park	Kryevidh, Terpan	225		
Running Energy shpk	Wind Park	Durres	27.6		

In 2009 only two requests have been filed with ERE for qualification of generation plants as renewable energy sources, as in Table -6.6.-.

With the qualification of these two above mentioned companies the total number of qualified companies is 8 (6 wind parks, one TPP with biomass) with total installed capacity of 1530 MW.

As to the ERE responsibilities in the process of qualification and certification of renewable energy sources it does worthwhile to be emphasized the latest amendments made in the existing legal framework approved by the Law No. 10196 dt.10.12.2009 "On some amendments and changes on Law No.9072, dt.22.05.2003 "On Power Sector" as amended".

Pursuant to these amendments, ERE is designated as the competent authority for the implementation of this process. The ERE will develop and approve the relevant secondary legislation enabling this way to include in the ERE existing regulation applied in the qualification and certification of electricity generation by renewable energy sources. Other provisions with respect to the compatibility of the procedures applied in the Republic of Albania with the procedures effective in other countries with whom agreements for the mutual recognition of this process can be signed.

3. Monitoring of the electricity market

In compliance with Law No. 9072, date 22.05.2003 "On Power Sector" as amended, article 8, point 2 paragraph f) and g) as well as article 63, ERE has the authority and duty to monitor, control and supervise the licensees as to the fulfillment of their legal obligations, terms of contracts and implementation of ERE decisions and orders.

The monitoring process has been already institutionalized since June 2008 by the establishment of a specialized monitoring unit within ERE organization.

3.1. Electricity market monitoring principles

In 2009, the monitoring of the licensees in the electricity market was conducted not only by the specialized unit, but also specialists by other departments within the ERE have been engaged.

The monitoring have been carried out based on prepared programs and organized in such a way to enable the continuing supervision of the market participants' performance.



The monitoring process has been implemented periodically following the steps below:

- Gathering and elaboration of periodic outcomes (monthly) and information.
- Elaboration of outcomes and setting of performance indicators.
- Reporting of analysis on the performance indicators for the market participants to the ERE Board of Commissioners.
- Board discussion on the problematical issues in the regular Board meetings.
- Defining the ERE position regarding the licensees performance, preparing the statements and recommendations related to them.
- Identification of issues for site monitoring activities.
- Carrying out the site monitoring and analyzing the monitoring data.
- Defining the ERE statement and recommendations regarding the monitoring results.

During 2009, the monitoring has consisted mainly in the activity of public companies in the power sector. As a result of the continued regular monitoring and also of some specific site monitoring, by the end of 2009, the problematical issues that were identified of these electricity licensees and requiring being addresses in 2010 are provided below.

3.2. Monitoring of KESH-Generation

The performance of KESH-Generation has been monitored through the elaboration of periodic reports, information by OST and OSSH as well as by information or complaints coming from different sources. In addition to that, other specific monitoring activities on the regularities of KESH electricity imports and exports transactions have been concluded. After the analysis of the data on information in the ERE Board of Commissioners various recommendations and statements with the scope to improve the performance on this area have been elaborated.

The main issues which require further improvement in this company during 2010 consist in:

- Maximization of efficiency in using the hydro power reserve in the HPPs of KESHGen, by consolidating the responsible structures and improving the existing procedures without affecting the safety of the technical works and by avoiding in maximum the possibilities for floods in the water discharge areas.
- Improvement of institutional relations with the Transmission and Distribution System Operators providing an accurate day ahead, week ahead, month ahead and year ahead load forecasts in compliance with the Market Rules.
- Rigorous implementation of the procedures stipulated in the Sales Regulation and Exchange Regulation for import and export as well as the consolidation of practices with studies for the maximal utilization of the regional market.
- Commissioning of Vlorë Pevit standard parameters, and its maximal efficient operation.

3.3. Monitoring of the Transmission System Operator (OST)

OST monitoring has been carried out periodically not only getting the monthly reports but also daily reports, in order to keep the ERE Board of Commissioners informed on regular basis about the energy situation in the country. Other specific monitoring activities have been carried out where it can be mentioned the collapse of transmission system on 13.02.2009 with the goal to evidence the organizative and technical capacities to face the emergency situations in the transmission system.

For 2010, in addition of other issues the focus shall be concentrated on:

- Increase of the security of supply and maximum utilization of transmission capacities.
- Rigorous implementation of the repairing and maintenance schedule minimizing load shedding.
- Implementation of investment programs for the reinforce of the existing capacities.

3.4. Monitoring of the Distribution System Operator (OSSH)

OSSH monitoring has represented a considerable part of the ERE monitoring activity given the important issues with service to the customers. In addition to the monthly periodic analysis of the OSSH performance in general and for individual zones in particular, specific monitoring activities in Tirana, Kukes, Elbasan, Vlora zones etc. have been concluded focusing on those issues that have been considered as problematical ones challenges before OSSH privatization. In focus of the specific monitoring activities have been electricity losses, meter installation, billing system, collections, outstanding debts, improvement of database for every customer, quality of reporting etc. The Board of Commissioners has been periodically informed and several of the recommendations and statements for the improvement of performance indicators have been elaborated.

After the privatization, the monitoring activity has continued on regular basis and specifically has been focused on those indicators mentioned in the Regulatory Statement. It does worth mentioning here the gathering and analysis of the data on technical and non technical losses.

Expectations in improving the OSSH performance indicators are high from the Government and the electricity customers, therefore ERE is obliged to monitor very close their performance in order to guarantee the improvement of the actual situation.

The main issues that will be monitored in 2010 are:

- Achievement of targets set forth in the Regulatory Statement.
- Implementation of investment program.
- Finalization of the billing system with contemporary standards.
- Finalization of the study on Technical Losses in distribution system.
- Setting and implementation of the indicators for the Quality of Supply.
- Completing with meters all customers and elimination of fixed rate.
- Implementation of the Market Rules.
- Implementation of the Distribution Code.
- Implementation of the Metering Code.

ERE considers the OSSH success in managing the distribution activity as the core factor for the general success of the electricity sector in Albania, therefore ERE shall be very collaborative and open to find the appropriate legal means that an important positive transformation is reached in this sector.



Signature of DSO Privatization Agreement by Minister for Energy Mr. Ruli and Vice Chairman of CEZ



ERE representatives in the ceremony for the signature of DSO Privatization Agreement

International Regulatory Forum on Energy

March 26th 2009, Prague



4. Activity of ERE in drafting and developing the secondary legislation

During 2009, by ERE and other institutions that have the authority to deal with certain issues in the electricity sector, have adopted several primary and secondary legislation in the electricity sector grouped in:

- Secondary legislation approved by the ERE;
- Amendments in the primary legislation of the electricity sector;
- Secondary legislation approved by the Council of Ministers.

4.1. Secondary legislation approved by the ERE in 2009

In compliance with the responsibilities set forth in the Law no.9072 date 22.05.2003 "On Power Sector", as amended, and the Electricity Market Model approved by DCM no.338 date 19.03.2008, as amended, in 2009 ERE has approved a number of secondary legislation. As in previous years, the important principle of the access and transparency to the public has been followed in developing and approving this secondary legislation. Based on the ERE Rules of Practice and Procedure, public hearings with the interested parties were organized and the notification of the public on the secondary legislation approved by the ERE was made. The aim of these hearings and public notifications has been to get the potential comments by the interested parties in order to be able to analyze also the comments or objections of the interested parties regarding these rules or regulations.

- **Rules and Procedures for Electricity Sale**

At the beginning of January, ERE reviewed the Rules for Electricity Sale approved by the decision no.1, date 09.01.2009 published in the Official Journal no.4 date 09.01.2009. As a starting point to review these rules served the amendments made on December 24th to the Electricity Market Model, which sanctioned that KESH may sell electricity not only in cases of the energy produced due to high water flows. In this context, the rules and procedures for electricity sale were modified reflecting this amendment which consisted in:

- Revision of the article 4, related to the identification of the responsibilities of the sale authority for setting the quantities and capacities of the electricity for sale, in which the provision setting the quantity, capacity, timeframe and delivery schedule shall be based on the use of power resources according to the planning made in compliance with the Electricity Market Model, Market Rules and Grid Code.
- Revision of provisions of the article 5 related to the sale of electricity as profitable financial transaction, by evidencing that this transaction shall be made for the quantity of electricity remaining after the fulfillment of energy demand of OST and tariff customers.

- **Regulation on the criteria for granting and withdrawing the status of Eligible Customer**

By decision no.17, date 06.03.2009, published in the Official Journal no. 41, date 09.04.2009, ERE reviewed the criteria for granting and withdrawing the status of Eligible Customer. This review considered the requirements set forth in the Energy Community Treaty, and specifically that part related to point 3, of Annex "A", where it is stated that

- **Regulatory Statement**

The Regulatory Statement is an important document in the privatization process. It was approved by the Board of Commissioners with the Decision no.12, date 03.03.2009 and published in the Official Journal no.40 date 04.04.2009,

The Regulatory Statement is effective for the regulatory periods 2009 -2014 and contains important details, such as the level of losses for the }rst regulatory period and the targets for the following periods. Also in the statement are set other important performance indicators such as the level of bad debt and its reduction targets, rate of return for the company etc. which are important indicators for setting the tariff and prices of electricity.

- **Regulation for registration procedures in the Electricity Market**

In the frame of implementing the Market Rules approved by the ERE by the Decision no.40 date 18.05.2009, published in the Official Journal no.92 date 18.06. 2009, the Rules for Registration Procedure in the Electricity Market were approved. These rules establish the procedures and documentation that each applicant shall }le with OST to participate in the Electricity Market. The regulation also sets the deadlines for the veri}cation time of the applicant data by OST as well as the noti}cation deadline of the applicant for acceptance or not. The regulation contains the provisions related to the cases of rejection of the application by OST, treatment of the requests for withdrawal, suspension and termination of the participation in the market.

- **Amendments to the Grid Code**

By the Decision no.38 date 18.05.2009 of the ERE Board of Commissioners published in the Official Journal no.92, date 18.06.2009, ERE decided to make some amendments and additions to the Grid Code. These amendments were made to open the path for new technologies, promote the private initiatives, provide an ef}cient functioning of the electricity market through the competition development in the sector, in order to protect the customers interest and minimize the cost of service, by using the Stra-omatrix units permanent magnetic generator and concretely for the construction of "Ashta1" and "Ashta2" HPPs. These two projects were approved by the Concession Agreement, dated September 30th 2008, between the concessionary company and METE for construction, ownership, operation, maintenance and transfer of new HPPs in Ashta site.

- **Amendments to the Electricity Market Rules**

Starting by the problems encountered by OST in the enforcement of Market Rules, ERE decided to make some amendments to these rules. Through these amendments some speci}c rules for the transiting of electricity were

inserted, which would allow OST to allocate transmission capacity for transit requests for electricity imports for tariff customers needs will be fulfilled. Other modifications were made to the provisions related to the allocation of interconnection capacities for import or export with the goal of harmonization them with EU legislation.

- **Standard Tendering Rules on Procedures on OSSH sh.a. new financing**

The Regulatory Statement among other states that the process of receiving long-term loans by OSSH sh.a is subject of approval by the ERE. By the decision no.41 date 25.05.2009, published in the Official Journal no.94, date 25 June 2009, the ERE approved the Standard Tendering Procedures for new financing of OSSH. In this Regulation are set the qualification and evaluation criteria for the selection of winner.

- **Standard Rules and Procedures for electricity procurement by OSSH sh.a**

By the decision no.42, date 25.05.2009, published in the Official Journal no. 94, date 25 June 2009, referring to the Regulatory Statement, ERE approved the standard Bidding Rules and Procedures and Procedures for procurement of electricity by OSSH sh.a. These rules establish the procedures, deadlines for bid notification, deadlines for receiving the documents the conditions for canceling the bidding process and the types of documents to be filed with the ERE by OSSH.

- **Market participation agreement**

Pursuant to the market rules and considering it as an important element in the implementation of these rules, ERE approved by the Decision no.47 date 04.06.2009 published in the Official Journal no.94 date 25 June 2009, a standard market participation agreement. This document regulates the relations between parties, by clearly setting the respective rights and obligation of the market participation and the type of information that the participants shall file with OST.


- **Regulation on procedures for submission and approving of the investment program**

In the frame of the ERE responsibilities in the electricity sector, a very important document related to the electricity tariffs and the electricity security of supply is the Regulation on procedures for presenting and approving the Investment Program, approved by the ERE with Decision no.62 date 15.09.2009 and published in the Official Journal no.147, date 22 October 2009. This regulation clearly addresses the issues related to: the main components with respect to the investment program, submission and approval of the investment program, the criteria for its approval by ERE the access of public in this process and the right of the interested parties to express their comments and their participation in the public hearing organized by ERE for this purpose.

Such a provision was included taking in consideration that the approval of the investment program by ERE is reflected in the tariff, which has a direct impact on the electricity customers.

- **Model power exchange contract for Small Power Producers (SHPP)**

By the decision no. 80 date 23.10.2009, published in the Official Journal no. 164, date 3 December 2009, ERE approved a model power purchase agreement for electricity produced by SHPPs, which is a request of the Electricity



Market Model. The purpose of this contract is to establish the Buyer's obligation to buy the whole energy produced by SHPP, in compliance with the secondary legislation in force.

Taking into consideration the fact that investments in this sector require a longer time for return of the investment (8-10 years), it was decided that the term of such a model contract be 15 years in compliance with the encouraging policies for development of SHPPs. The approved contract anticipates that the parties shall provide to each other the necessary documentation, which will evidence the programs, quantities, electricity deliveries and acceptances, based on which shall be made the billing and payment of electricity as well as the verification of deviations between the scheduled and the actual deliveries.

4.2. Amendments to the primary legislation on the power sector for 2009

- **Law no. 10137 date 11.05.2009 "On some amendments to the legislation in force for licenses, authorizations and permits in the Republic of Albania" .**

By the approval of Law no. 10137, date 11.05.2009, on some amendments to the legislation in force on licenses, authorization and permits in the Republic of Albania published in the Official Journal no.86 /2009 in December the Albanian Parliament approved among others the amendment of the article 34/1 where was added point 2 with the following content:

The construction of new generation sources, according to point 1 of the article 34/1, of this law, is included in the category IV.3, of the annex of Law on licenses. The permits for construction of these power plants are approved in compliance with the following provisions, of this law. The silent approval is not implemented in the case of these permits.

- **Law no. 10196 date 10.12.2009 "On some amendments and additions to the Law no.9072, date 22.05.2003 "On Power Sector".**

On 10.12.2009, the Albanian Parliament approved some amendments in the Law "On Power Sector". These amendments were result of cooperation between Ministry of Economy, Trade and Energy (METE) and the Albanian Energy Regulator. These amendments determined in more details the role of the Albanian Energy Regulator on the certification of renewable energy sources. In compliance with the amendments of articles 8 and 39 of this law, ERE is the responsible authority for setting the rules for qualification of generation plants, using that use RES, the categories of plants, formulas and coefficients to calculate the generated electricity that receive the guarantees of origin and green certificates.

In 2010 a remaining duty for ERE is the revision of the Rules of Procedure for certification of RES in order to harmonize them with other countries as stipulated by Power Sector Law.

4.3. Energy Secondary Legislation enacted by the Council of Ministers in 2009

In 2009 the following by-legal acts related to the power sector were approved by the Council of Ministers:

- **Approval of construction of new generation sources and interconnection lines.**

In the frame of the national strategy of energy with the goal to promote investments in the sector during 2009, the

Council of Ministers has approved a considerable number of concessions for construction of new power generation sources. Some of the companies that got a concession in 2009, have been licensed by the ERE for the generation of electricity. In addition to this, during 2009 the Council of Ministers has issued permits for construction and operation of the DC cable interconnection merchant line Porto Romano/Durres (Albania) –Cassamassima /Bari Italy and for the DC cable merchant line Vlora Albania – South Brindizi (Italy).

- **Amendments to the Electricity Market Model**

The Electricity Market Model was approved by DCM no.338, date 19.03.2008. In 2009 reflecting also the situation related to the privatization of a strategic sector such as the distribution of electricity, the model become subject of a number of amendments.

The Council of Ministers by Decision no.143 date 11.02.2009, decided to have a transitory provision by adding to the model the provision no 10 as follows: "As long as OSSH sh.a is a state owned company, the electricity generated by KESH sh.a above the electricity demand of retail public supplier, shall be sold to OSSH sh.a. to cover the losses in quantity as requested by OSSH. The electricity price shall be the price approved by the ERE for the retail public supplier for the year when the transaction takes place.


This provision was amended by decision no.420 date 30.04.2009, by determining that for the electricity that OSSH sh.a shall buy for KESHsh.a. to cover the losses, ERE shall, if no agreement between the parties has been reached, set the price of the electricity sale contracted by them. (OSSH sh.a and KESH sh.a), as long as OSSH sh.a shall be a state-owned company.

An important amendment to the Market Model was made by the decision of Council of Ministers no.511, date 13.05.2009. This decision was made upon the proposal of the ERE, which evidenced the need to set in the Market Model an allowed level of imbalances and deviations, for which the market participants are not penalized. The determination in the Market Model of allowed level of imbalances (+/- 5%) and respective sanctions over this minimum shall serve to the reliability of the power system.

4.4. **Completing the EU questionnaire on energy in the frame of the application procedure of Albania as a candidate for EU membership**

ERE has paid a special attention to the process of completion of the EU questionnaire under the engagement of the Albanian Government taken in the frame of the Stabilization Association Agreement with EU. In this context as part of the interinstitutional working group established by the Ministry of Economy, Trade and Energy, ERE has provided answers of chapters 3 and 15 of the questionnaire. ERE answered mainly questions related to:

- The establishment and functioning of an independent regulator, pointing out that from 1995 the powers and responsibilities of the regulator are established by this Law.
- The licensing regime, regulated according to on Law no.9072 date 22.05.2003 "On Power Sector" and Law "On Natural Gas Sector", which provide that ERE is the authority that grants licenses for generation, transmission, distribution, supply and trade of electricity.
- Tariff setting whether tariffs are cost re-ective, the structure of transmission and distribution tariffs, based on the tariff methodologies, actually in Albania the tariff are approved for the respective regulatory periods



and represent the cost of service for generation, wholesale, transmission, distribution and retail supply.

- Level of collections, which based on OSSH sh.a reporting for 2009 is 76.4%.
- Energy sector organization and infrastructure, that for power sector is set forth in the Electricity Market Model approved by the Council of Ministers by the decision no.338 date 19.03.2008 . This model designs the Albanian electricity market, the market participants and their role in the sector and the role and responsibilities of the regulator.
- Legislation for promotion of competition in the electricity sector according to the Law n.9072, date 22.05.2003 "On Power Sector" (article 8), ERE promotes competition in the electricity sector. Besides, article 33 provides that each company engaged in generation, distribution and supply with electricity, that carry out also other activities that are not part of the power sectors, shall maintain separated accounting data for their generation, distribution and supply activities in order to avoid cross-subsidization.
- The privatization process in the electricity and natural gas sectors, evidencing that actually in the electricity sector has been }nalized the legal, }nancial and functional unbundling for generation, transmission and distribution activities. In 2009 has been successfully }nalized the privatization process of Distribution System Operator (OSSH sh.a), which in addition to the distribution activity carries out the retail public supply. The privatization process had started in 2000 with the privatization or giving by concession of the small HPPs with installed capacity up to 2 MW, and it was followed successfully with a great number of concession contracts with private investors in the power generation sector.
- Legal regulatory framework for Independent Power Producers. Regarding this point, the Power Sector Law provides for that IPP are non public producers directly connected to the transmission system and the connection costs of a new electricity producer to the transmission network are covered by the producer, to compliance with the Grid Codes provisions. The System Operator has the right of ownership on this interconnection. Also in the article 46 of this law it is provided for that the Wholesale public supplier is obligated to secure electricity for tariff customer from the publicly owned generators, Independent Power Producers, Small Power Producers and traders.



IV World Forum on Energy
Regulation

October 19th 2009, Athens

IV World Forum on Energy
Regulation with representatives
from Kosovo and Azerbaijan
Regulators

October 19th 2009, Athens



General Assembly on Electricity and Natural Gas for Mediterranean
Regulators in Nicosia (Cyprus)
October 13th 2009

5. Customers protection from the monopoly position in the electricity market

5.1. Principles of customer protection

For a fair and non-discriminatory development and functioning of the electricity and natural gas sectors, it is crucial that the customers be well represented and their rights are properly defined and protected.

The regulatory framework on which is based the ERE activity, pays a particular attention to the protection of interests and guaranteeing of the rights of those market participants who do not have the possibility and ability to know and have the necessary access to the legal framework and the technical market functioning, by being exposed in this way to possible violations of their rights from any monopoly position in the energy market.

For this reason, the strengthening of the active role of customers in the market, their well-informed and the protection of their interests, has been one of the main ERE's challenges and priorities.

The ERE activity for protection and support of the customers' interest, is extended in these directions:

- Securing the transparency and the consultation with the interested parties and the public while developing the regulatory framework, reviewing tariffs and prices review, granting of licenses and other decision making processes of the ERE;
- Handling and solving of the complaints between customers and suppliers, as well as among licensees;
- Guaranteeing of third party access;
- Observation of the regulatory principle to avoid the cross-subsidies between the different customer categories and fair cost re-fection for each customers category;
- Monitoring and controlling of quality of supply to electricity customers.

- **Securing of transparency**

The ERE procedures for approval of the regulatory framework, granting the licenses for the activities in the power sector, approval of retail tariffs, and for other the decision-making processes, (in the Board of Commissioners meeting), have been open and transparent for the public and interested parties as provided for by the Rules of Practice and Procedure.

In these process are included the publications made in the written media of the ERE decision for beginning of procedures for reviewing license applications, tariff applications or approval of regulations or other regulatory secondary legislation, or the consultations with the licensees, interested parties and customer protection associations. The comments or opinions of third parties are analyzed through a transparent procedure, and the ERE opinion whether they would be taken into consideration or not is made known to them.

Here it does worth mentioning the public hearings organized by the ERE regarding the application of the tariff proposal of public companies for 2010, which are already consolidated assuring maximal transparency for the public in order that the }nal customers have all the necessary information regarding the service and its cost.

The Board meetings have been open to the public and other institutions such as Ministry of Economy, Trade and Energy, Albanian Parliament, Competition Authority, representatives from the public companies and other interested parties.

- **Guaranteeing of the third party access**

The Regulator's role is to guarantee the third party access in the distribution network and enhance the market opening so that the electricity customers benefit a better service from the competition in the market an open market urges to the companies to compete for increasing the number of customers offering them fast and reliable services.

In this aspect, some important steps undertaken by the ERE for the market opening and guaranteeing of third party access to the grid can be underlined such as : approval of transmission and distribution unbundled tariffs, approval of the model power purchase for Small Power Producers, approval of contracts for transmission and distribution services between system users and OST and OSSH.

5.2. Handling of customer complaints

One of the most important aspects of the ERE activities remains the handling of customer complains with particular attention. The ERE Rules of Practice and Procedures sets forth a transparent procedure in handling and solving the customer complaints. These very transparent procedures and the lawful, unbiased and fully in compliance with deadline, has increased the number of customers }ling petitions or requests with ERE to solve their disputes with the supply company. This increase shows also the strengthening of the ERE authority, which is a consequence of the ERE efforts to inform and make the customers aware of the ERE's role.

In 2009, some 80 complaints were }led with ERE, out of which 50 complains are from household customers, 25 from non-household customers and 5 others from licensees.

The highest number of household customers, around 30 complained for over billing. Only 5 of them were not based on the facts; 15 complaints have been for billing of -at rate, and 7 of them have been over billed. The rest are complaints for meter damaging and refusal of reconnection due to outstanding debts of customers asking the resigning of supply contracts.

As to non-household customers, complaints 8 of them were for delays in the new connections, billing of -at rate, de}nition of the proper customer category, modi}cation of connection in the distribution grid etc.

A considerable impact on the service provided to the customers, especially after the privatization of the distribution company, plays the settlement of disputes between the licensees engaged in the electricity market. It does worth mentioning here the solving of dispute between KESH sh.a. and OSSH sh.a. For delays in paying their mutual obligations. ERE has handled 3 complaint between SHPPs and KESH for disagreement regarding reconciliation of the energy output of HPPs, 3 complains.

For processing these complaints ERE has organized 50 hearings with participation of representatives from OSSH and the complaining party. For one }led complaint 2-3 hearings might have been necessary to reach an agreement between. ERE has also intensi}ed its controls and veri}cations on site for the metering system, in a number of 37 cases. For a part of complaints, exactly for 15 of them, it has been required to OSSH detailed information for the complaints }led with ERE.

The analysis of the customer complaints serves to make the proper improvements to the regulatory framework, which would urge the company to provide a better service to customers.

5.3. Handling of court lawsuits

During 2009, ERE has participated in a number of court lawsuits, where in most of the cases has been in the position of a third party. These cases were related to the canceling of executive title (mainly for electricity bills of OSSH sh.a.) and objection of penalties and economic identification charged by this company to various customers. In these cases, the ERE position has been limited to provide explanation regarding the pretension of the appealing party.

Only in one case ERE decision has been appealed to the court, that regarding two ERE decisions for transferring of licenses to the concessionary company, Essegei Spa.

All the abovementioned court cases are still under proceeding in the respective first instance district courts

6. Relations with the public and mass media

6.1. Public information procedures

One of the main tasks of the ERE is the publication and dissemination of data and information on the service conditions of the licensed companies in the energy sector with the objective of guaranteeing the maximal transparency and the improvement of services provided to electricity network users and final customers.

To achieve this objective, the ERE has multiplied the efforts for informing customers by expanding the communication with market participants and final customers. The activity of internal and external communication aims at guaranteeing a wide publication of the activities carried out by the ERE and creation of its image in the regulatory activities.

- **Communication through events and activities**

The events and activities organized by the ERE or where the ERE takes part are considered particularly effective in familiarizing third parties furthermore with the institutional functions of the ERE, its duties and actions regarding the protection of customers. Here it does worthwhile mentioning the periodic reporting of the ERE including the annual report to the Parliament, Reports to the Energy Community Secretariat, MEDREG (Association of Mediterranean Regulators) Assembly, ERRA (Energy Regulators Regional Association) and the participation in different seminars and workshops organized inside or outside the country.

- **Communication with market participants**

For a better exposure of the ERE activities and observation of the regulatory framework approved by the ERE, the communication with energy sector stakeholders is strengthened organizing periodic meetings with the publicly owned companies and other market participants, particularly with small power generation licensees with the goal of informing them on the regulatory framework approved by the ERE and getting known with the problems encountered by them during their performance in the market.

- **Internal communications**

A particular importance has been devoted to the internal communication through the distribution of materials of information character and other thematic communications with investors and interested persons regarding the

regulatory framework of the renewable energies, energy efficiency and saving and the complaint filing modalities.

- **Web communications**

ERE has developed furthermore its communication with the public through its webpage expanding the information content and providing new services. ERE's official webpage is enriched with new information including the approved regulatory framework, the decisions of the ERE Board of Commissioners. New options were introduced such as publications and consultations with the public where during this time all documents related to tariff filings of the companies, ERE deliberations for the decisions, carried out studies (Household electricity consumption study), etc. Website contains a reach information in English language which provide access to all adopted acts and decisions of the ERE and other information.

6.2. Relations with written and audiovisual media

Generally, the ERE has increased the level of communication and press interviews and statements with written and audiovisual media, using a simple and comprehensible language and organizing meeting and keeping contacts with the media and journalists covering the energy sector.

ERE representatives have also participated in different televisional broadcastings in order to inform and explain the public regarding specific issues with interest for customers. On the other hand, the relations with the communication structures of the main institutions in the country are strengthened.

7. Inter-institutional and international relations

The development of the inter-institutional relations inside the country and of multilateral and bilateral international relations has constituted a particular area of ERE activities during 2009.

7.1. Inter-institutional relations in the country

The Regulatory Authority has evaluated as very important the development of inter-institutional relations mentioning the relations with the Parliament of Albania, the Ministry of Economy, Trade and Energy, the Competition Authority, the Ombudsman office and other institutions.

- **Relations with the Albanian Parliament**

During 2009, the ERE has consolidated furthermore the relations with the Albanian Parliament, in particular with the Parliamentary Committee of Production Activities, Trade and Environment.

The ERE has informed the Parliament on the current development in the energy sector, and besides the annual report presented to the Parliament, the ERE has reported on sensitive issues related to the energy market, post-privatization process and the electricity prices and tariffs.

On December 17, 2009 in a special session with the Parliamentary Committee of Production Activities the ERE has reported in details on the electricity situation in the country and the entire procedure for setting 2010 electricity prices and tariffs as per the decision no.100, date 15.12.2009 of the ERE Board of Commissioners. The ERE representatives



answered all questions of the deputies that were present in the meeting.

During 2009, the ERE has continued with a cooperation approach and periodic information reflecting step by step its institutional activity in accordance with the decision of the Parliament's Bureau no. 29, date 09.02.2008 "On establishment of Monitoring Service for the institutions reporting and informing to the Parliament". In frame of this, the advisor of the Parliament responsible for performing this service, has followed closely and in detail the ERE activities attending several deliberation meetings of the Board of Commissioners.

As to the near-term future, the ERE is committed to evaluate seriously the collaboration with the Albanian Parliament and have it as one of its main priorities.

- **Relations with METE**

During 2009, the ERE has worked closely with the Ministry of Economy, Trade and Energy (METE) for addressing the problems and challenges the energy sector of Albania is facing with.

ERE has been an active party of the inter-institutional working groups for the revision of power sector law and law on renewable energy sources, has expressed its opinion on proposed merchant lines, has participated in the coordination committee for SHPPs and their interconnection with the power system, and has provided its contribution on other issues such as electricity market development and the treatment of the licensees and other participants in the Albanian energy sector.

ERE has provided its contribution either through its own proposals or by providing its opinion for the proposed amendments to the Electricity Market Model, which were adopted by the Council of Ministers.

ERE has had a fruitful cooperation with the inter-institutional working group established for preparing the answers of the questionnaire for the application of Albania as an EU member candidate.

- **Relations with the Competition Authority**

Based on the Memorandum of Understanding signed between the ERE and the Albanian Competition Authority on 17.01.2007 the institutional relationship between two institutions aiming the protection of free and efficient competition of electricity market participants is established.

During 2009, both institutions have collaborated to avoid the anti-competitive behaviours by the sector participants establishing competitive rules for protection of customers interest. ERE has requested regularly the Competition Authority opinion for the secondary legislation related to the development of energy market before they are approved by the ERE, in the process of electricity tariff and price setting, in the analysis of loss level determination etc. ERE has provided to the Competition Authority all necessary information administered by the ERE enabling the Authority to carry out its duty in investigating the power sector.

ERE has expressed its will and readiness that the communication and the exchange of data and information between two institutions to continue in the future.

- **Relations with the Ombudsman Office**

Protection of electricity customers is a duty that the ERE shares with the institution of the Ombudsman Office. In this respect, the ERE has maintained close institutional relations with the Ombudsman Office organizing shared meetings, exchanging opinions and providing necessary explanations regarding the quality of electricity supply service

for customers and for the tariff-making process for 2010 electricity tariffs.

The Ombudsman Office has greeted several times the ERE decision-making position, which has taken in consideration the interest of the Albanian customers acting impartially, objectively and with integrity. Both institutions converge on the importance of payment of electricity bills by all customers but also on the strengthening of the institutions role for the law enforcement, especially of the Prosecution office, bringing without any compromise in front of the justice all responsible individuals abusing with the electricity.

These institutions will maintain a mutual institutional commitment for protecting the customers' rights and keeping in contact for all proceedings and public hearings, especially with respect to electricity tariffs, that will take place in the future.

Besides the Ombudsman Office, the ERE has had inter-institutional relations with the Office for Protection of Consumers, organizing informative meetings, inviting them in the public hearings and explaining to them the important decisions. It is important to underline that generally a common well understanding is found on the pertinent problems.

7.2. International multilateral relations

The international relations of the ERE during 2009 have had as objectives the growth of institutional capacity building, representing the country in the international events and activities, increasing the knowledge and experience of our technical staff, following the best experiences from the EU countries and establishing fruitful cooperation in the interest of the domestic energy sector. Having in consideration those objectives the ERE has continued its multilateral relations with the international organizations such as MEDREG, NARUC, Vienna Secretariat etc., has established bilateral relations with other analogous regulators and has participated in different international energy conferences and events.

ERE is a full member of the Energy Regulators Regional Association (ERRA) and attends regularly the meetings of the General Assembly of ERRA, meeting of permanent Committees of ERRA, licensing and tariff committees, and the legal working group. ERE has participating in a number of trainings organized by ERRA on monitoring of licensees, tariff issues, renewable energy sources, natural gas sector and its regulation, and in the training of the new technical staff of regulators.

ERE is a member of the Association of Regulatory Authorities for electricity and gas of the Mediterranean countries (MEDREG) established in May 2006, and attend regularly the meetings of working groups on renewable energies and gas issues, as well as the meetings of the General Assembly of this Mediterranean organization. This organization is a tool for coordination of the activities and for knowing the energy potentials and developments in the Mediterranean countries as well as for establishing a spirit of common understanding and cooperation among the regulators from these countries on issues of mutual interest.

In 2009, the ERE in close collaboration with NARUC (National Association of Regulatory Utility Commissioners of USA), and with the financial support of USAID, had planned the organization of partnership activity on the natural gas area with an experienced regulator in USA. This activity was rescheduled for 2010 considering that it will be a valuable exchange of experiences helping the ERE in developing the secondary legislation for the regulation of natural gas sector.

During 2009, the ERE has actively participated in the Athens forum meetings and in the activities organized by Vienna Secretariat in frame of the Energy Community Treaty such as the regular meetings of the working groups for energy consumers issues, regional energy market and natural gas. The participation in these activities serves to the South Eastern European countries, where our country makes part, for harmonization of legislation and procedures with the goal of creation of a transparent, competitive, non-discriminatory and equally accessible regional energy market for all



Exchange meeting with
the Vienna Secretariat
established under the Energy
Community Treaty

October 28th 2009 Vienna



Meeting of ERE
representatives
with
representatives
of the Turkish
Regulator, ERRA.

Istanbul
September 17th 2009

participants, and its further integration to the EU energy market.

During 2009, the ERE has paid attention to the European and world energy developments through participation in the international activities where can be mentioned the conference on energy investment in South East Europe, the European Energy and Gas Forums, the Crans-Montana Forum, the Mediterranean Energy Forum, the conferences on European markets, the natural gas conferences organized by countries in the region, and the workshops regarding the regulators role on climate change and global warming.

The ERE has benefited from the important trainings and qualifications of the Regulatory Schools of Firenze (Italy) and Budapest (Hungary), where the commissioners and technical staff of all levels were trained through the direct participation or distance learning courses.

7.3. International bilateral relations

During 2009, the ERE has worked under the bilateral cooperations established through relevant agreements where it can be mentioned the agreement with the Italian Authority for Energy and Gas, the Energy Regulatory Authorities of Turkey and Greece, and under very close relations established with other regulators in the region and worldwide such as the regulators of Romania, the Czech Republic etc. The exchange of the privatization related experiences has been the focus of the common activities with these regulators along with the technical support provided by them through organization of study tours and other professional qualifications of the ERE technical staff.

7.4. Regional electricity market

ERE, under the regional initiatives, has made its efforts for the creation of a transparent and competitive regional electricity market and for integration of the domestic electricity market to the European market. ERE in its activities during 2009 has taken in consideration the EU Directives and recommendations and the EC SEE Treaty for electricity and natural gas participating in the meetings of the working groups and other regional and international activities regarding energy market, especially the activities organized by the Secretariat of Vienna established in the frame of the Energy Community Treaty.

Participation in the activities that will be organized in the frame of EC SEE Treaty for the establishment and consolidation of the regional energy market remains one of the ERE priorities for the upcoming period.

8. ERE human resources

ERE human resources are organized in three basic categories:

- a- Board of Commissioners
- b- Technical staff
- c- Supportive staff

8.1. ERE organization chart and functioning

8.1.1 Board of Commissioners:

The structure of the Board of Commissioners is as follows:

In the Board of Commissioners take part:

- 1- Chairman of the Board.

- 2- Four members of the Board.
 - 3- Advisor of the Board.
 - 4- Secretary of the Board.
- In total, 7 employees.

According to the law no. 9072, date 22.05.2003 "On power sector" as amended, the chairman and four Board members are appointed by the Albanian Parliament, and they represent the decision-making body of the regulator. During 2009, the Board of Commissioners made 144 decisions.

Based on the same law, the chairman of Board plays the role of the executive administrator of the ERE.

8.1.2 Technical Staff:

Technical staff is organized in three directorates and an office:

1. Directorate of Tariffs and Prices, with 5 employees.
2. Directorate of Licensing and Market Monitoring, with 7 employees.
3. Directorate of Legal Issue and Customer Protection, with 5 employees.
4. Office of foreign relations, with 1 employee.

In total, 18 employees.

8.1.3 Supportive Staff:

The Supportive Staff is represented by the Directorate of Administration, Finance and Human Resources with a total number of 7 employees.

1 Director, 1 Archivist, warehouse keeper, 1 IT specialist, 3 drivers and 1 cleaning person.

According to the decision no. 181, date 5.05.2008 of the Albanian Parliament, the actual structure of the ERE is composed by a total number of 32 employees.

The actual organization chart and the number of the employees of the ERE are shown in the Annex "A1" attached to this report.

Average age of the employees in 2009 was 39.4 years.

With the exception of 4 employees of the supportive staff the whole personnel of 28 employees has a university degree. All technical staff speak fluently English, and 30% of them speaks at least another foreign language. 21.4% of the staff have a post-graduated degree (3 are PHD and 3 master degree). During 2009 3 other staff were attending the course for a "Master" degree in economy.

From 28 employees, 17 or 60.7% of them are women. In the decision-making positions, the women represent 20%, while in other leading positions they represent 53.8% of the leading staff. 5 from the technical staff give lectures in the universities as external lecturers.

The entire decision-making personnel has attended trainings on regulation of the energy sector in various specialized European schools. The same has been done with the leading technical staff and other employees, who have attended trainings of different levels for junior and senior staff in the same schools.

80% of the financing for staff qualification and training was covered by ERE own budget, while the remainign was sponsored by the European and American Regulatory Associations such as ERRRA, NARUK, MEDREG or other regulatory authorities with which the ERE has established collaborative relations.

The whole ERE logistics are built based on modern concepts and technology. The working space are composed and equipped with the necessary furnitures creating optimum conditions for the performance of every employee.

8.1.4 ERE Human Resources

In 2009 for human resources the requirements of the law no.9367, date 07.04.2005 "On prevention of conflicts of interest in performing public functions" and the law no.9049, date 10.04.2003 "On declaration and control of the property and financial obligations of elected persons and some public servants" were implemented.

The periodic/annual statements on the private interests were completed by 9 officers (subjects to this obligation) within the time schedule, and no infringement of the law requirements as to the deadline established by the law. ERE have also regularly attended the trainings organized by ILDKP.

During February a control was conducted by ILDKP inspectors and not any legal infringement was found.

In compliance with the decision no.181, date 05.05.2008 of the Albanian Parliament for the approval of the organization chart and the number of personnel, the requirements of the law no.9584, date 11.07.2006 "On salaries, compensations and the organization chart of the constitutional institutions and other independent institutions established by the law" and the decision no.901, date 19.12.2007 as amended by the decision no.1001, date 2.7.2008 "On approval of the organization chart and the level of salaries for civil servants and supportive staff in the public administration and other independent institutions".

According to the law no.9072, date 22.5.2003 "On power sector" as amended, the selection, appointment and promotion of the technical staff has been made in compliance with the provisions of the law no.8549, date 11.11.1999 "On the status of civil servant".

In compliance with the law no. 10160, date 15.10.2009 "On regulation of transport services for the public officers and civil servants" the ERE issued an internal order for implementation of the requirements of this law, which became effective on 19.11.2009, and the authorizing standard format for the transportation of the employees of the institutions.


8.1.5 Administration of ERE financial resources

In the area of administration and finance of the ERE, the provisions of the respective legislation such as the law no.9072, date 02.05.2003 "On power sector" as amended, the law no.9643, date 20.11.2006 "On public procurement" as amended, the law no.9228, date 29.4.2004 "On accounting and financial statements", and other secondary legislations are implemented correctly.

The delivery and notification of the register of the public procurement have been made according to the deadlines complying with the public procurement law supporting all related procedures with the legal assistance.

At the beginning of the 2010, the ERE balance sheet for 2009 was completed, and following the ERE 2010 budget will be prepared. The revenue and expense plan was approved by the Board of Commissioners, and the latter was kept periodically informed about its implementation. The ERE balance sheet was audited by an authorized accounting expert, whose report was endorsed by the Board of Commissioners.

The ERE has made the inventory of the properties in its administration. As to the financial funds, they are provided from the regulatory fees imposed by the ERE to licensees. In 2009, the planned revenues were collected at 99%.



The incurred expenses of the ERE were made for performing the legal obligations providing normal working conditions for the institution and have covered the most necessary need of the ERE during the year, where it can be mentioned:

- ▶ Salaries of personnel, social and health security payments, income tax, which have been paid all with not any outstanding payment.
- ▶ Payments for consultancy services
- ▶ Publications for information of the public opinion
- ▶ Payment of payable services such as water, electricity and telephon and payments for other necessary services for the instiutution activity, and the deppreciation of the }xed tangible assets, etc.
- ▶ Premium rate for the mandatory insurance of vehicles and their annual registration tax.

Procurement of the small purchases (as an activity of the commission of small procurements) was made according to the procurement procedures established by the public procurement law.

The ERE }nancial activity during 2009 was audited by a licensed accounting expert according to the law no.10091, date 5.3.2009 "On legal auditing, organization of the professions of registered accounting experts and accredited accountants". Following to this paragraph the report of the accounting expert is provided.



ERRA Chairman Meeting in
Istanbul

November 17th 2009



With representa-
tives of Kosovo
Regulator

April 8th 2009 Warsaw



Presentation of
Commissioner
Shehaj at the ERRA
Annual Investment
Conference

7th April 2009 Warsaw

PART IV

4



Audit Report for ERE activity in 2009

IV. Audit Report for ERE activity in 2009

Annual Report 2009	ERE	March 2010
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Audit Report for the ERE activity

To the ERE Board of Commissioners

We have audited the ERE Financial Statements consisting in the balance sheet on 31.12.2009 and incomes and expenses sheet for the exercise closed on this date.

Features of ERE activity

ERE is not a state-owned enterprise, commercial company or budgetary institution. ERE does not have a production activity nor sells any service.

The ERE activity is non-profitable.

The ERE activity, in contrast with activity of enterprises, commercial companies or NGO, is regulated based on Law No. 9072 date 02.05.2003 " On Power Sector". This law gives to the ERE the regulatory status between the operators, such as producers, transmitters or distributors of electricity to its users. Starting from this ERE:

- Does not profit any financing from the state budget for its activity
- The administrative expenses for the ERE functioning are covered by the regulation fees of the licensees, the method and amount are provided for in Law No. 9072 date 02.05.2003 " On Power Sector".

The abovementioned features are reflected in its accounting, which is less burdened with principles and requests from the accounting of i) enterprises and trade companies ii) financial institutions or iii) budgetary institutions. The main objective of the ERE accounting is to secure the well-administration of assets coming from the regulations fees and planning and reporting of the institution budget approved by the Board of Commissioners.

Responsibilities of the management for the Financial Statements

The management is responsible for the sincere preparing and presenting of its accounts in compliance with the national legislation set forth in the Law no. 9228 date 29.04.2004 " On Accounting and Financial Statements", considering also the specific feature of the institution as mentioned above.

The Auditor responsibility

Our responsibility is to express an opinion on this balance sheet, based on our auditing. Our audit was carried out respecting the professional and ethical principles in order to have a justified security that this balance does not contain material anomalies. During the auditing of course we considered the specific features of the ERE activity. We believe that the evidence we have taken is sufficient and suitable to form our opinion on the audit.

The opinion

Based on our opinion, the balance sheet and the incomes and expenses sheet fully, sincerely and truthfully present all the material aspects, the status of assets, their creation, the ERE incomes and expenses for 31.12.2009.

<p>Tirane me 01.03.2010</p> <hr style="width: 100%;"/> <p><small>Qytetari Nr. 81, datë 01.11.2009, Shtetë: Shqipëri, Qendër e Bashkisë VEVE Të. 2310102 DZ SH. 1004 0023 JALSH</small></p>	<p style="text-align: center;">Mirëse MEMOÇI EKSPERTE KONTABEL E REGJISTRUAR</p> <p style="text-align: center;"><i>Mirëse MEMOÇI</i> Mirëse MEMOÇI Rr. 2310102 DZ SH. 1004 0023 JALSH</p>
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PART V

5



Conclusions and Recommendations

V. Conclusions and Recommendations

From the analyses in this report, we may synthesize some conclusions and recommendations, that the ERE consider as very important to be highlighted, which will serve as future orienting points for the activities in the energy sector.

It is necessary that the main challenges our energy sector is facing will be aware for all interested parties in order to achieve a harmonized commitment of all stakeholders and successfully meet them.

It is the duty of the ERE, as a professional public institution, to analyse and point them out in order that coordinating actions the required level of success be achieved.

ERE evaluates as an important achievement during 2009 the consolidation of a reliable electricity supply to customers. ERE evaluates the year of 2009 as the year with the most reliable electricity supply. The consumption of this year represents the true electricity demand and serves as a reliable basis for future electricity demand planning.

During 2009 as in the almost whole experience of power sector management after 90', the main challenge was the fast increase of efficiency of the electricity consumption. Overall electricity losses of 35.3% and the level of collection of 76.4% in 2009, are indicators of a very low efficiency in the electricity consumption, which is estimated to be some 49.4%.

Since 97% of overall system losses are incurred in the electricity distribution sector, which in 2009 were reported to be at 33.98%, the increase of efficiency in electricity consumption represents the main challenge in OSSH activity for the upcoming years.

2009 marks the first year after the privatization of the Distribution System Operator, which was evaluated as a successful process. The Czech company CEZ, which privatized OSSH, has a high international reputation, which is considered an important guarantee for its success in Albania. There are no doubts that the last six months of 2009, when OSSH started to operate as a private company, have been a difficult period of getting familiar and re-organized in a new environment for this company, but it is important that from now on we will expect that CEZ strong potentials demonstrate their advantages in increasing the electricity consumption efficiency. ERE believes that CEZ will achieve this

From the hydrologic condition standpoint, our country is characterized by hydrologic cycles that repeat periodically. In this perspective, 2009 is considered a wet year and the annual water amount of Drin river in Fierza HPP was at 6 billion m³. Despite the annual domestic production of 5.2 TWh is satisfactory, the large electricity imports of 1.83 TWh, demonstrates a high responsibility to fully meet the electricity demand of customers. 2009 consolidated the Government's strategy that the missing electricity has the highest cost for the country.

In 2009 all domestic electricity production came from HPPs. On the other hand, more than 85% of production comes from HPPs of Drin river cascade, which minimum and maximum flows vary more than 150 times. Water catchment of Drin river is estimated about 12,000 km². Under these conditions, the ERE judges that it would be rational that in the organization charter of KESH, a weather forecast service office be established that would anticipate the hydrologic situations and help in the optimized management of hydroenergetic reserve. ERE recommends that a number of hydrologic and meteorologic experts and some hydrologic measurement stations in the catchment area would serve not only to the increase of utilization efficiency of the hydroenergetic reserve, but it would be an effective

mean for the forecast and minimization of inundations of Shkodra area.

In 2009 the utilization efficiency of hydroenergetic reserve was satisfactory, meaning more electricity for the same amount of water in-flowing in the cascade was produced. This experience has been being consolidated recent years through the harmonization of domestic production with the electricity imports and exports. However, the ERE considers still non-exhausted the advantages of a hydro based power system, especially as to the benefits from the electricity trading transactions with different prices during the peak and off-peak time.

2009 marks the commissioning of the first important generation plant after 24 years, a combined cycle TPP in Vlora with an installed capacity of 98 MW and annual production of 650 GWh, a plant of high efficiency and modern technology. This generation plant, besides diversifying the domestic electricity production, shall serve to the increase of security of electricity supply for the country. Under actual conditions when our country has no access in the natural gas supply and the power plant will use expensive oil fuel (diesel marine D2), it will serve mainly as back up capacity increasing the security of supply of the country.


An important feature characterizing 2009 is the large participation of private investment for construction of new generation resources. During 2009 some 90 concession contracts between the Albanian Government and private investors were signed for construction of 231 HPPs with an installed capacity up to 150 MW, or with a total installed capacity of 826.5 MW and expected annual production of 3.13 TWh. Contracted investment is estimated to be about Euro 719 million while the construction period will take 5-6 years. Under conditions of the global financial crisis the crediting conditions from the banks turned to be more difficult, which actually represent a challenge to be overpassed with common efforts of the Government with donors, banks and investors.

During 2009 the construction of the interconnection 400 kV line Elbasan-Tirana-Podgorica with a transmission capacity of 1,000 MW started. Line is expected to be commissioned during 2010 positively effecting the increase of electricity security of supply of the country.

During 2009, the Government approved permits for construction of two submarine DC merchant lines of 500 kV voltage and 500 MW capacity each, connecting Albania with Italy. The energy policy of Albania to be a crossroad of pan-European transmission network going from south to north and from east to west through construction in the near-term future of other interconnection lines to Kosovo and Macedonia represents a visionary strategy for the increase of the electricity security of supply of the country.

ERE supports the Government's strategy and vision for a secured and reliable long-term supply with electricity for the country through a prioritized use of domestic hydroenergetic resources, diversification of generation resources introducing new thermo, wind and solar energy plants. ERE evaluates the option of producing electricity from nuclear power plants with private investment and of regional interest as an effective solution that may guarantee a long-term security of electricity supply for the country and the region, and at the same time environmentally friendly and economically feasible.

ERE supports and encourages the Government to set the integration of the complementary Albanian and Kosovar power systems as a priority of the energy development programs of both respective governments creating a real opportunity for a more efficient use of their systems in common interest.



Besides the construction of the interconnection line Albania-Kosova, which will contribute to the integration of both energy systems, the ERE supports a possible agreement for construction with shared public investment of a lignite-fired TPP in Kosova as a rational solution with mutual benefits.

ERE expresses its belief that the future integration of the energy systems of both countries coincide with the future integration of the 8th energy region of the EU.

One of the important problems in the regional power market, despite some progress is made, remains the establishment of a regional auction office for interconnection transmission capacities. ERE, in frame of its active and continuous participation of ECRB activities, has made all efforts to finalize successfully this initiative, but the reluctant position of some of country participants for partial interest has indicated that this useful regional initiative is not a solution.

ERE recommends to METE and OST to establish a more effective cooperation and to make possible the political decision of the Ministerial forum of the Energy Community of the South East European region a regional solution.

As to the projects for natural gas supply of Albania, not any significant progress has been marked. Although Albania's favorable geographical position where pass the most shortest routes connecting resources of Middle East region to the Southern Italy and furthermore to the whole Western Europe, due to some narrow interest of particular countries that aim to keep Albania as a branch rather than a transit country of a European gas pipeline, projects such as "IGTI" and very recently "South Stream" are design not to pass through Albania. The only project that is design to pass through Albania is "TAP" project.

ERE recommends to the decision-making bodies to achieve a political agreement with the Government of the countries involved in this project, and to promote and cooperate for securing private financings for this project.

ERE, in the context of the international developments, which are conditioned by the world and regional financial crisis, evaluates as the most realistic one the project of supplying Albania with natural gas from LNG plants.

One of the most important activities of the ERE during 2009 was the setting of electricity tariffs for all regulated activities of the licensees in the electricity market for 2010. In this process, the ERE has fully complied with the related tariff methodologies conducting a fully transparent and fair process, and protecting the interest of both, licensees and customers, and aiming the establishment of a balance among those interests.

ERE from the monitoring activities carried out during 2008 and 2009 in OSSH has evidenced that a over-billing in OSSH self-consumption has been made aiming to reduce artificially the level of distribution losses. ERE, in its decision on 2010 tariffs, didn't have the necessary data to estimate the effects of this over-billing, therefore this fact was not considered. ERE evaluating as valid this fact will make the necessary verifications in order to estimate this effect, and subsequently will make the relevant adjustments in 2011 tariffs.

2009 marked an increase of the private licensees in the electricity market. In this context, the monitoring of the licensees in the electricity market becomes more important for the ERE, in order that every market participant fully respect all licensing conditions and contract or agreement obligations avoiding any infringement or contravention that may harm customers interest.

Given the importance of the monitoring activity, the ERE has organized this service as a separate structure and the specialists of this service are subject of trainings for their narrow specialization in order to increase the efficacy of this activity.

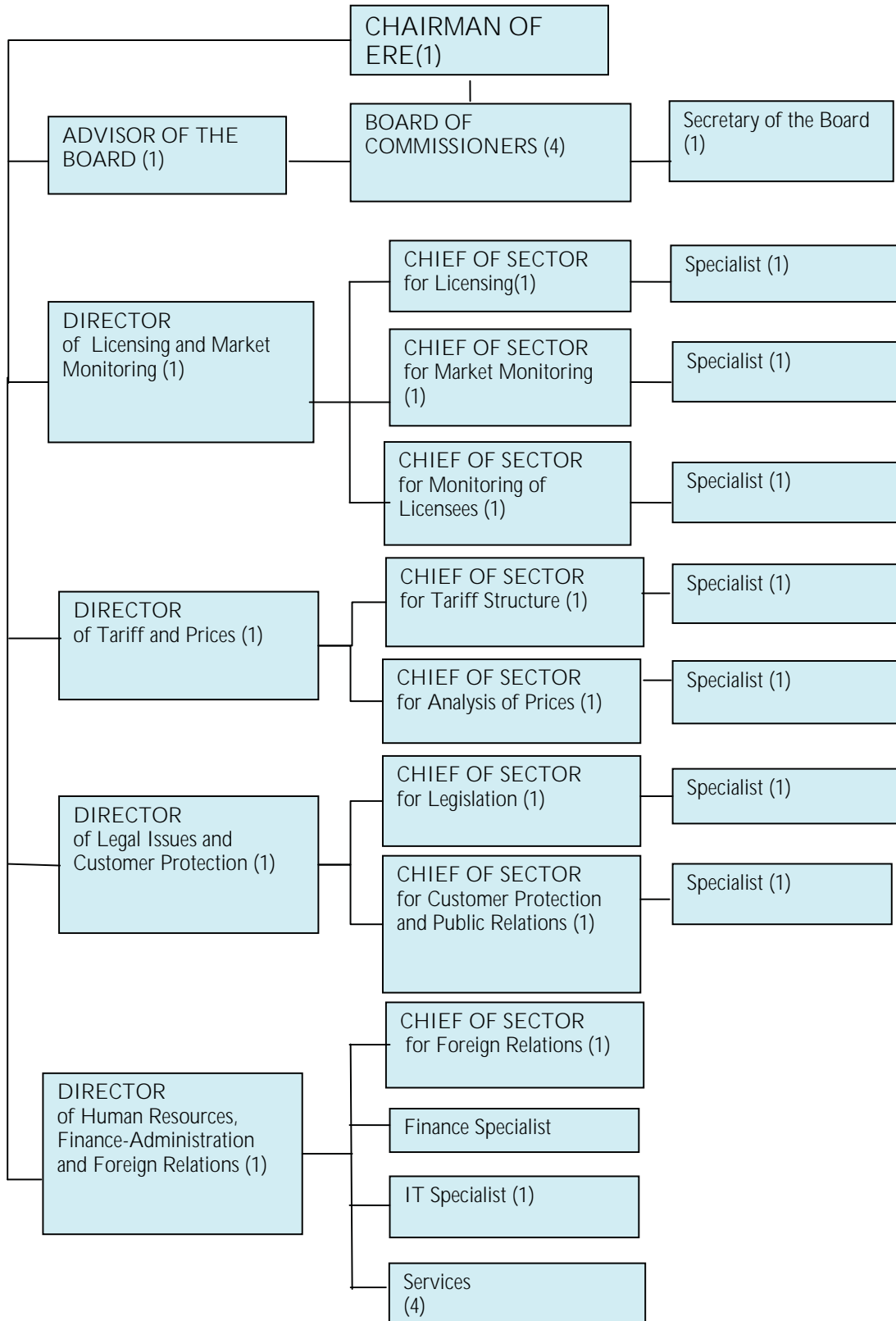
ERE is obliged to seek once more from the Parliament of Albania to consider the request for the enlargement of ERE staff with at least four employees that will be engaged for the implementation of ERE duties stipulated by the natural gas law. Unfortunately, this reasonable request led since 2008 has not been taken yet in consideration by the Parliament

A N N E X

1

ERE'S ORGANIZATIVE CHART

ERE'S ORGANIZATIONAL CHART



ANNEX 2

POWER SYSTEM OF
THE REPUBLIC OF ALBANIA



POWER SYSTEM OF THE
REPUBLIC OF ALBANIA

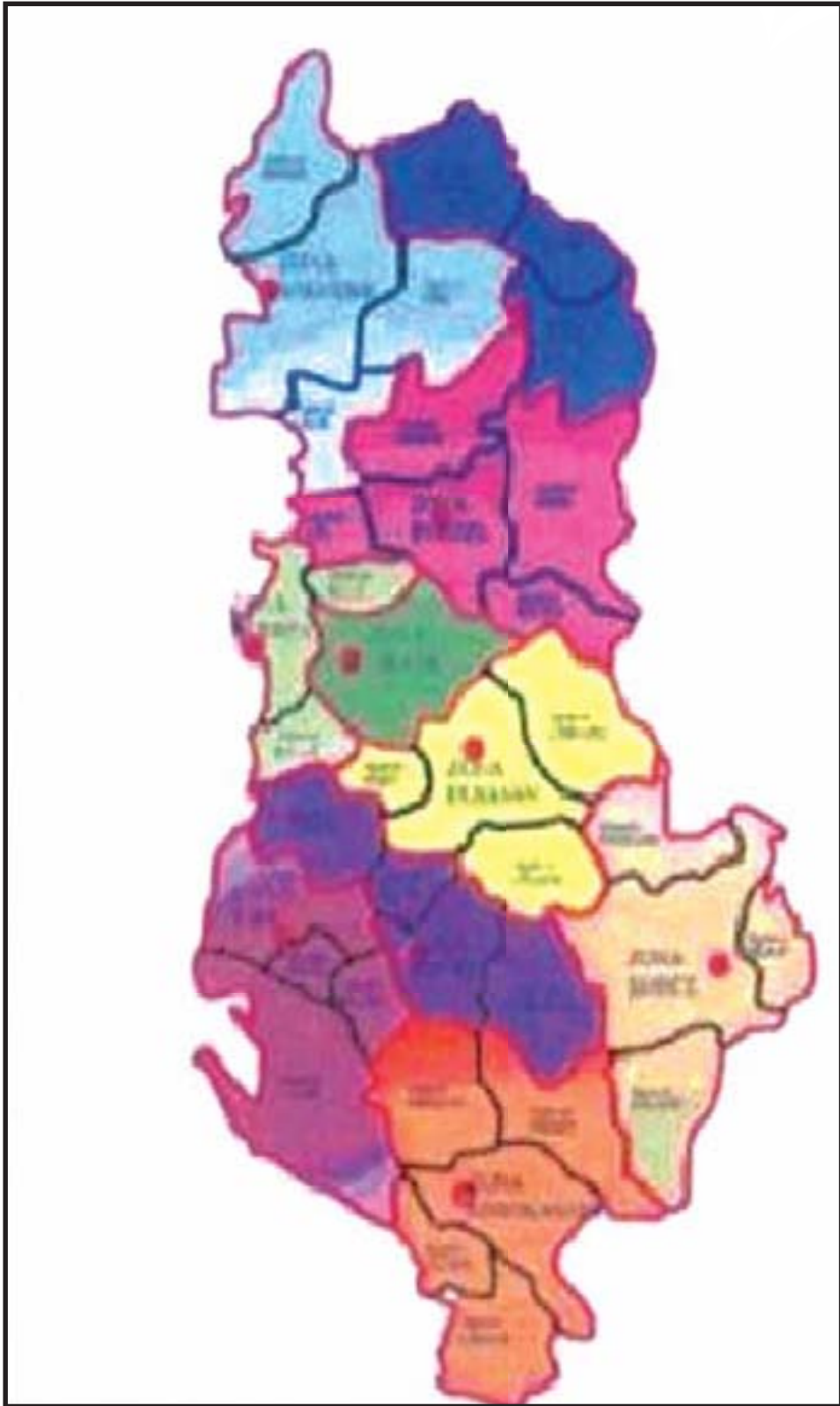


ANNEX 3

10 DISTRIBUTION ZONES
OF OSSH



10 DISTRIBUTION ZONES
OF OSSH



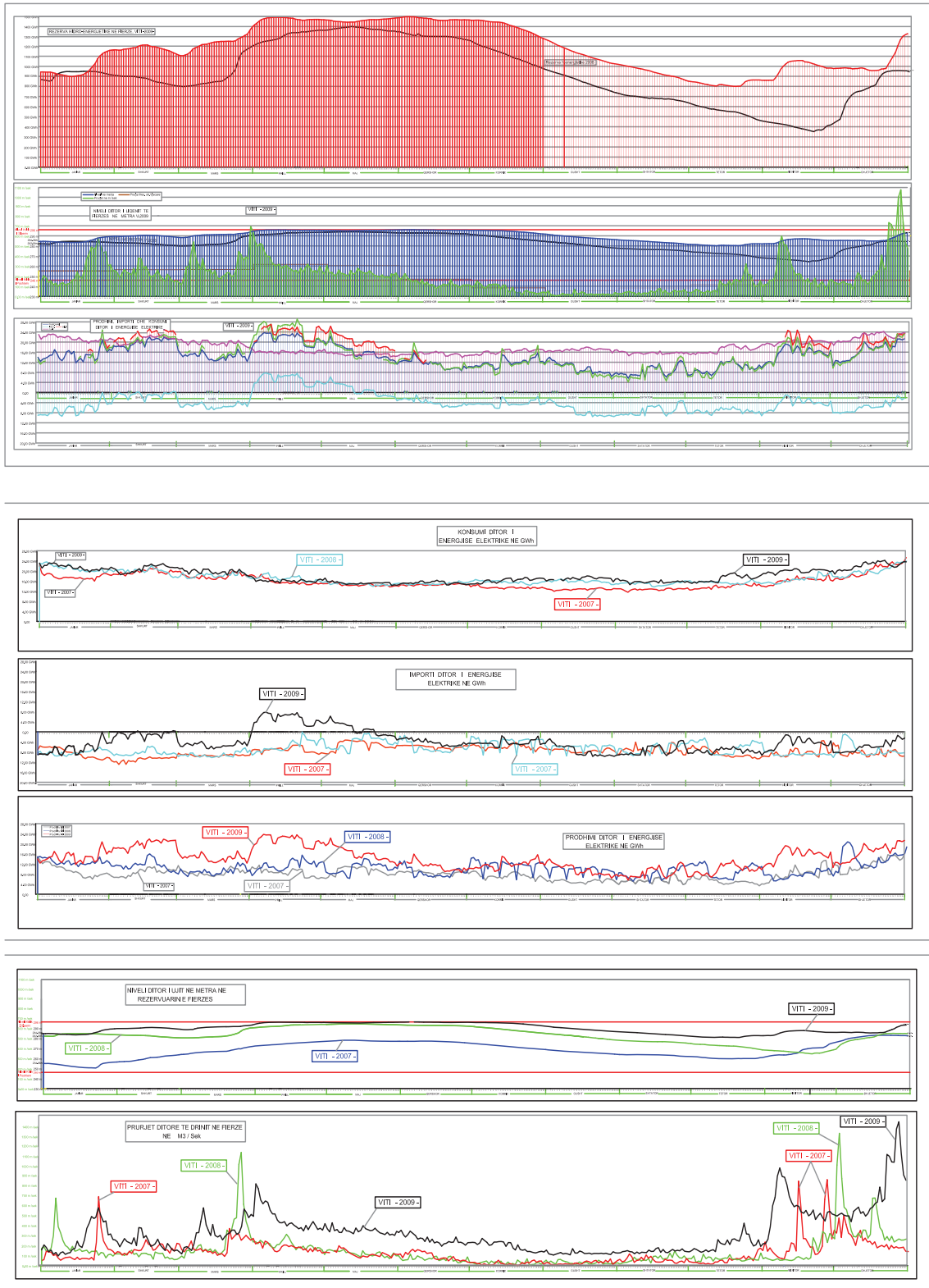
ANNEX 4

GRAPH OF DAILY
POWER SITUATION FOR 2009

ANNEX 4

GRAPH OF DAILY POWER SITUATION FOR 2009

GRAPH OF DAILY POWER SITUATION FOR 2009



ANNEX 5

PRESENTATIONS OF ERE REPRESENTATIVES
IN NATIONAL AND INTERNATIONAL ACTIVITIES
AND PROFESSIONAL QUALIFICATIONS

PRESENTATIONS OF ERE REPRESENTATIVES IN NATIONAL AND INTERNATIONAL ACTIVITIES AND PROFESSIONAL QUALIFICATIONS

Presentation Topic	Activity	Presented by	Date
Natural Gas in Albania	Exchange Workshop ERE –AEEG, in Tirana	Bujar Nepravishta	Feb 11-12 th , 2009
Situation of power sector and ERE activity for 2008	Presentation at Committee for Production activities in the Albanian Parliament	Bujar Nepravishta	March 18 th , 2009
Study “Electricity Consumption in Households”	Presentation at the ERE Board of Commissioners meeting	Bujar Nepravishta	Sept 8 th , 2009
Challenges in the electricity sector in Albania	Meeting between ERE and Vienna Secretariat	Bujar Nepravishta	Oct 28 th , 2009
Security of supply in Albania	ERRA Chairmen meeting in Istanbul	Bujar Nepravishta	Nov 16 th , 2009
Situation of Power sector and electricity tariffs in 2010	Presentation in the Committee for Production activities in the Albanian Parliament	Bujar Nepravishta	Dec 17 th , 2009
Law on Natural Gas	Exchange Workshop ERE –AEEG, in Tirana	Shkelqim Bozgo Ardian Haci	Feb 11-12 th , 2009
Natural gas sector and development of the regulatory framework in Albania	Exchange Workshop ERE-A.D.Little in Prague	Shkelqim Bozgo	July 23-24 th , 2009
Challenges in drafting the regulatory framework for the natural gas sector	Meeting between ERE and Vienna Secretariat	Shkelqim Bozgo	Oct 28 th , 2009
Setting of prices and social protection schemes	ERRA Investment Conference in Poland	Entela Shehaj	April 6-7 th 2009
Privatization of strategic sectors in Albania	Conference on Privatization of public enterprises in Kosovo	Entela Shehaj	Oct 20 th , 2009
Privatization of OSSH in Albania	Meeting between ERE and Vienna Secretariat	Entela Shehaj	Oct 28 th , 2009
Electricity Market in Albania	ECRB meeting in Sarajevo	Petrit Ahmeti	March 30 th , 2009
Latest developments in the energy sector	ERRA Tariff Committee, Bratislava	Raimonda Islamaj	Jan 26-27 th 2009
Methodologies for calculation of tariff	Exchange Workshop ERE –AEEG, in Tirana	Raimonda Islamaj	Feb 11-12 th , 2009

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Methodologies for calculation of tariff	Exchange Workshop ERE –AEEG, in Tirana	Raimonda Islamaj	Feb 11-12 th , 2009



QUALIFICATIONS

ANNEX 6

ERE's DECISIONS

No. 1	Date 09.01.2009	On reviewing the Rules and Procedures for sale of electricity.
No. 4	Date 22.01.2009	On approval of the threshold of annual electricity consumption for obtaining the status of eligible customer for 2009.
No. 6	Date 22.01.2009	On approval of electricity supply contract between KESH - OSSH for the period 01.07.2008 – 31.12.2008.
No. 7	Date 26.01.2009	On postponement of the deadline for implementation of retail and wholesale tariff and prices of electricity.
No. 8	Date 04.02.2009	On licensing of Enpower Albania sh.p.k company for electricity trade.
No. 10	Date 20.02.2009	On amendment to the ERE Board of Commissioners decision no.8, dare 04.02.2009 "On licensing of Enpower Albania sh.p.k company for the electricity trade."
No. 11	Date 02.03.2009	On licensing of Vlora TPP for generation of electricity.
No. 12	Date 03.03.2009	On approval of Regulatory Statement.
No. 13	Date 03.03.2009	On approval of ERE annual report "Situation of the power sector and ERE's activity for 2008."
No. 16	Date 06.03.2009	On the proposal for some amendments in "Electricity Market Model".
No. 17	Date 06.03.2009	On approval of some additions and amendments for the regulation of criteria's for granting and removing the status of eligible customers.
No. 18	Date 09.03.2009	On TSO request to start the procedures for renovation of license for transmission of electricity.
No. 19	Date 09.03.2009	On request of KESH sh.a to start the procedures for renovation of license for generation and trade of electricity.
No. 21	Date 18.03.2009	On approval of amendments to the rules of practice and procedures of ERE.
No. 23	Date 25.03.2009	On renovation of licenses of KESH sh.a for generation and trade of electricity.
No. 24	Date 26.03.2009	On renovation of TSO license for transmission of electricity.
No. 25	Date 26.03.2009	On qualification of generation plants (Wind parks VISU and TERPAN) of "Alb Wind Energy" sh.p.k company as renewable energy sources.
No. 26	Date 09.04.2009	On amendments of license no. 16, series PV04P, on electricity generation, granted to the company "WTS Energji" sh.p.k, with decision of the ERE Board of Commissioners no 39, date 22.07.2004.
No. 27	Date 16.04.2009	On approval of balance sheet of ERE for 2008.
No. 28	Date 16.04.2009	On approval of draft-project of ERE budget for 2009.
No. 29	Date 16.04.2009	On setting the regulation fees for the licensees in the electricity sector in 2009.
No. 34	Date 07.05.2009	On licensing the company "Wonder Power" sh.a for the trade of electricity.
No. 37	Date 15.05.2009	Opinion of ERE to the draft DCM for exploitation of the merchant line with DC cable Vlora – Brindisi without third party access.
No. 38	Date 18.05.2009	On some amendments and additions to the grid code (Code of Transmission)
No. 40	Date 18.05.2009	On approval of rules and procedures for registration in the electricity market.
No. 41	Date 25.05.2009	On approval of standard tendering rules and procedures for financing of OSSH sh.a

No. 42	Date 25.05.2009	On approval of star dart rules and procedures for procurement of electricity by OSSH sh.a
No. 43	Date 28.05.2009	On approval of assets transfer by KESH sh.a, to the distribution system operator sh.a
No. 44	Date 28.05.2009	On approval of change of shares ownership to the distribution system operator (OSSH)
No. 46	Date 28.05.2009	On an amendment to the decision of ERE Board of Commissioners no.63, date 13.06.2008 "On granting the license for construction, instalment and exploitation of wind parks and electricity generation" (Kavaja wind park)
No. 47	Date 04.06.2009	On approval of agreement fro market participation.
No. 50	Date 03.07.2009	On appointing the ERE representatives in the coordinating committee for the connection of new HPPs in the Albanian power system.
No. 51	Date 03.08.2009	On an adjustment to the decision no.29, date 16.04.2009 "On setting the regulation fees for the electricity licensees in 2009"
No. 52	Date 03.08.2009	On approval of generation license modification for the company "Favina 1" sh.p.k series PV05P, no. 29, granted with decision of the ERE Board of Commissioners no. 85, date 27.12.2005.
No. 53	Date 03.08.2009	On licensing the company "EFT Albania" sh.p.k for the electricity trade.
No. 54	Date 03.08.2009	On licensing of the company "EFT Albania" sh.p.k for the supply of Electricity.
No. 55	Date 03.08.2009	On approval of the electricity supply contract between KESH and OSSH for the period 01.01.2009 – 31.12.2009.
No. 56	Date 03.08.2009	On some amendments and additions to the electricity market rules.
No. 60	Date 19.08.2009	On qualification of generation plants for the company "Running Energy" as RES.
No. 61	Date 19.08.2009	On licensing of the company "Puro Energy Stebleva" sh.p.k for generation of electricity.
No. 62	Date 15.09.2009	On approval of regulation "For procedures of presenting and approving the investment program"
No. 63	Date 22.09.2009	On postponement of the deadline for meeting the conditions set by ERE to the company E-VENTO srl Albania sh.p.k
No. 64	Date 22.09.2009	On postponement of the deadline for meeting the conditions set by ERE to the company Union Eolika Albania sh.p.k
No. 65	Date 22.09.2009	On postponement of the deadline for meeting the conditions set by the ERE to the company HERA sh.p.k
No. 76	Date 15.10.2009	On disapproval of the negotiated contracts by the company OSSH sh.a with companies RUDNAP GROUP AD and ENERGY FINANCING TEAM AG
No. 77	Date 16.10.2009	On disapproval of OSSH sh.a. "Audit Report on Losses" for 2008
No. 78	Date 23.10.2009	On licensing of the company "Malido Energji" sh.p.k
No. 79	Date 23.10.2009	On approval of modification of generation of electricity to the company Balkan Green Energy sh.p.k granted with decision of the Board of Commissioners no. 20, date 19.12.2003
No. 80	Date 23.10.2009	On approval of the standard contract for sale and purchase of electricity between KESH sh.a (WPS) and SPP

No. 81	Date 04.11.2009	On postponement of deadline for meeting the conditions set by ERE to the company Alb Wind Energy sh.p.k
No. 83	Date 04.11.2009	On licensing of the company "Teodori 2003" sh.p.k for electricity generation.
No. 86	Date 06.11.2009	On complain of OSSH sh.a to the decision of the ERE Board of Commissioners no.77, date 16.10.2009
No. 90	Date 03.12.2009	On the approval of the OSSH sh.a. investment program for 2009-2010
No.91	Date 03.12.2009	On the approval of the TSO sh.a. investment program for 2009-2010
No.92	Date 08.12.2009	On licensing of the company "EGL ALBANIA" sh.a for the electricity trade
No.93	Date 15.12.2009	On setting the tariff for generation of electricity by KESH sh.a for the period 1 January – 31 December 2010
No.94	Date 15.12.2009	On setting the price of electricity sale generated by Vlora TPP to the wholesale public supplier for the period 1 January – 31 December 2010
No.95	Date 15.12.2009	On setting the electricity tariff for the wholesale public supplier for the period 1 January – 31 December 2010
No.96	Date 15.12.2009	On setting the transmission tariff of electricity to OST sh.a for the period 1 January – 31 December 2010
No.97	Date 15.12.2009	On setting the unique price of electricity sale to the licensees for generation of electricity by the existing HPPs with installed capacity up to 10 MW for 1 January – 31 December 2010
No.98	Date 15.12.2009	On setting the distribution tariff of electricity to OSSH sh.a for the period 1 January – 31 December 2010
No. 99	Date 15.12.2009	On setting the retail public supply tariff of electricity to OSSH sh.a for tariff customers for the period 1 January – 31 December 2010
No.100	Date 15.12.2009	On setting the price for the sale of electricity to tariff customers for the period 1 January – 31 December 2010
No.101	Date 15.12.2009	On setting the unique sale price of electricity to the licensees for generation of electricity by the new HPPs with installed capacity up to 15 MW for the period 1 January – 31 December 2010
No.102	Date 21.12.2009	On licensing of the company GSA sh.p.k for qualified supplier activity
No.103	Date 21.12.2009	On approval of agreement for sale and purchase of electricity between Vlora TPP sha. and KESH sh.a
No.104	Date 22.12.2009	On setting the deadline for the flat rate for household customers with no meters
No.105	Date 28.12.2009	On the OSSH sh.a complain for the Board of Commissioners decisions no. 98, date 15.12.2009 and nr.100, date 15.12.2009
No.106	Date 29.12.2009	On licensing of Energji Ashta sh.p.k company
No.108	Date 29.12.2009	On an amendment in the decision no.29, date 16.04.2009 "On setting the regulation fees for 2009 for the licensees in the electricity sector.