Annual report
Situation of Energy Sector and activity of ERE for 2008

Botimet DUDAJ

CONTENT

Message of ERE Chairman

Bujar Nepravishta

Chairman of ERE

In 2008, ERE further consolidated its role as an independent institution protecting the interest of electricity customers from monopoly effects and optimizing the balances between the licensees, that have a monopoly position and the customers. During 2008, ERE further increased the level of professional expertise, transparency and public service.

The year 2008, for the Albanian energy sector, is of particular importance, because it marks the ending of a long stagnation period and a turning point in this sector.

In 2008, for the first time the customers were supplied with electricity without any load shedding recognizing that the value of lost load for one kWh in economy is higher than any price for providing the required electricity.

In 2008, the highest historical supply of the country with electricity was realized. Also the principle of efficiency increase of the

hydrological reserve in the HPP cascades that is characterized by the average quantity of water for the production of a kWh electricity has reached it maximum historical effect.

During 2008, the construction works of Vlora TPP and of the interconnection line with Montenegro, as two very important investments for the increase of security of electricity supply of the country progressed successfully. During this year the presence of the private capital in the construction of HPP's with installed capacity up to 15 MW and of wind farms for generation of electricity has reached extraordinary levels.

ERE, supported by the consultancy sponsored by USAID in collaboration with the respective domestic stakeholders, developed the regulatory framework in the electricity sector, which was assessed by the international institutions as a successful and contemporary achievement.

The 2008 marks the completing of the legal framework in the energy sector with the "Natural Gas Law", which entitles the ERE with the authority for the regulation of natural gas sector.

But the activity of ERE for 2008 would be incomplete if we would leave without highlighting the qualified and accountable work for the promotion and completion successfully of the privatization process of DSO. The privatization process of DSO is one of the most important challenges for the ERE future activity, but we are conscious that with common efforts it will be handled successfully.

Despite all achievement, ERE is aware that still remains a lot to be done in the power sector, especially the DSO, has to further reduce power losses, increase collections, equip all customers with meters and increase the quality of service for customers.

By concluding, I would like to assure all the licensees, particularly in the electricity market, and all citizens, who at the same time are of course the electricity consumers, that ERE, as it has done up to date, will continue to make all the efforts to further strengthen

its independence and impartiality, transparency and professionalism, inter-institutional cooperation in and outside the country, so that with the decision-making authority given by the law, will establish an optimal balance between the different interests of the electricity market participants.

Sincerely
Bujar Nepravishta

Board of Commisioners

Ardian Haci
Commissioner

Entela Shehaj
Commissioner

Abaz Aliko
Commissioner

Petrit Ahmeti
Board's Consulent

Zerina Pulaha
Secretary of the Board

Zija Kamberi
ERE's Cosulent

Stafi i ERE-s

Licensing and Market Monitoring Department

Tariff and Pricing Department

Legal issues and Public Relations Department

Administration, Finance, Human resources and Foreign Relations Department

INTRODUCTION

In compliance with the Law No.9072, date 22.05.2003 "On Power Sector", as amended, and Law No.9946, date 30.06.2008 "On Natural Gas" the Albanian Energy Regulator has compiled the Annual Report for the Situation of the Energy Sector and the Activity of ERE for 2008, which will be presented to the Committee of Production Activities, Trade and Environment of the Albanian Parliament.

After the analysis on the public sector and consumption of electricity according to the levels of voltage, the report gives an objective analysis of the supply with electricity to tariff customers.

Of particular interest is the analysis made to the hydrological reserve exploitation in the river Drini cascade. For the first time this analysis is based on a very objective data that is the annual quantity of water deposited in the Fierza HPP of the Drini river. Of great interest is also the analysis of electricity supply trend for tariff customers during the period 2002-2008 and the factors that have influenced the supply scale.

Because the conditions of the security of supply with energy and in particular of supply with electricity of energy sector in the short-term and middle-term period, are one of the main problems in the development of energy sector even in the global scale, the report treats very specifically and with very sound arguments this issue.

A special focus in the report is dedicated to cronical and concerning issue of electricity supply of the country, to the analysis of the level of electricity losses and in this context the equipment of customers with electricity meters.

The most important challenge of the electricity sector for 2008, the privatization of Distribution System Operator (DSO), is treated in particular in the report. In this part of the report is evidenced the work in developing the regulatory framework and the process to finalize through a transparent, nondiscriminatory and competitive, the winner of this process.

In a special chapter is analyzed the private sector of electricity evidencing the characteristic of this year, the wide participation of private investments in the construction of new electricity sources such as hydro power plants with small and medium capacity given by concession and the wind mill farms for production of electricity from wind.

For the first time in a particular chapter is presented the activity in the natural gas sector. After a historical analysis of the natural gas situation in Albania the emphasis is on the roads for re-establishment of the national market for natural gas and the competitive gas projects. Further on in the report is treated the action plan for regulation of the natural gas sector from ERE structures.

Another important issue in the report is the activity of ERE for 2008 in all the aspects, regarding the tariff and price sector, licensing and monitoring of the market and of the licensees, the activity in developing the legal framework for a successful privatization of the electricity distribution sector, the relations with the customers, the international activity of ERE, relations of ERE with the Albanian Parliament and the organizative structure, human recourses and administration of financial sources of ERE.

In a special chapter it is presented the audit report of the accounting expert for the audit of the financial activity of ERE for 2008.

In the end are presented the best conclusions and recommendations evidenced by ERE after an analysis of the energy sector in general terms.

I. ANALYSIS OF THE PUBLIC POWER SECTOR FOR 2008

1.1 Structure of Public Power Sector

For 2008, the public power sector has undergone through essential changes.

In compliance with the adoption of the Market Model for Electricity approved with DCM no. 338 date 19.03.2008, KESH sh.a has been reorganized in two sectors, the generation (KESH Gen) and the retail public supplier. These sectors are financially and functionally unbundled from KESH sh.a

With the decisions of the Board of Commissioners No.8 and No. 9, date 25.1.2008, was licensed the Distribution System Operator of electricity, as a company unbundled functionally, financially and legally, which operates in the distribution, trade and retail supply with electricity.

In compliance with the requests of the Albanian Market Model were established the new structures and in 2008 they were consolidated to act as independent and ready for the privatization process of DSO.

In the strategy for development of the power sector and in the Law No.9072 date 22.05.2003, "On Power Sector", it is anticipated that TSO will remain a public company 100% state owned, KESH-

Gen forecasts that in the middle term future will start the privatization of power sources. Until then all the generation sources administered by this company will be state property. While for DSO started the privatization process for the majority of its stocks, according to the procedures that will treated in specific in this report.

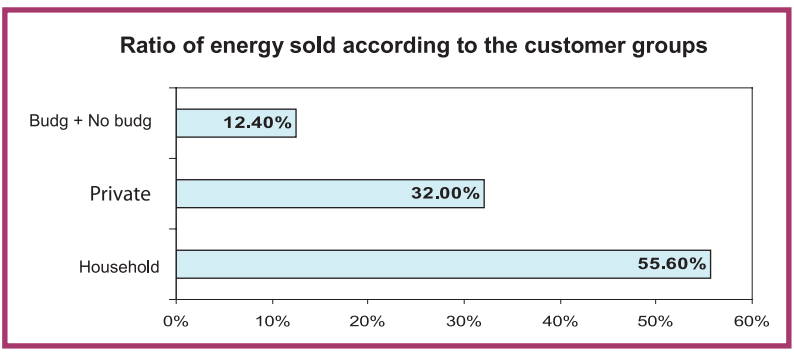
1.2 Structure of electricity consumption

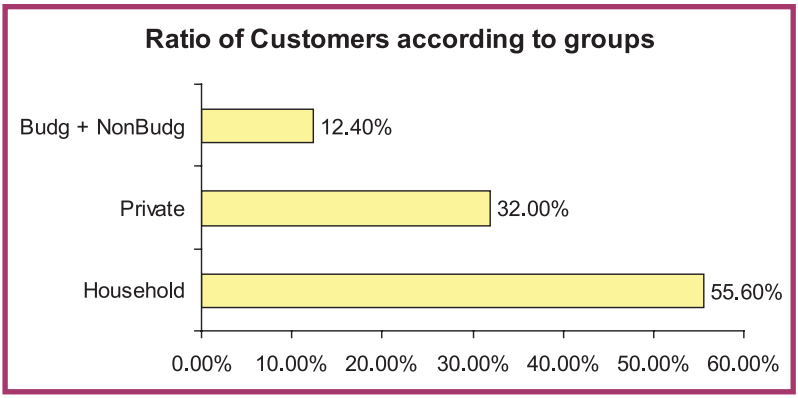
Structure of customers in categories for 2008 is presented in the table -1.1 - and in the graph of figure -1.1 -

Table -1.1

CUSTOMERS (IN CCATEGORIES) YEAR 2008		
TOTAL DSO	CUSTOMERS	ENERGY SOLD (000 000 kwh)
	1 042 923	**4 109**
Divided in :		
Households	87.40%	55.60%
Private	11.60%	32.00%
Budgetary + Nonbudgetary	1.00%	12.40%

Figure -1.1





As it is seen for 2008, the highest consumption of electricity results from household customers with 55.6% of the general billed consumption, with a low increase from 2007 for this category of customers.

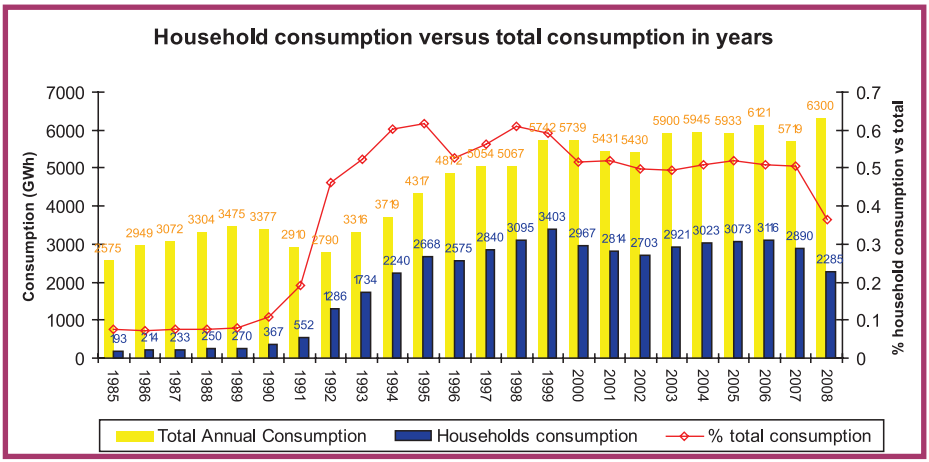
The above structure of the electricity consumption, where the consumption from the private sector that includes sectors of industry, agriculture, services, trade etc. is only 32%, shows that the actual stage of our country development is still far from the level of developed countries.

If we will take into consideration also the non-technical loss, which represents the unbilled consumption, the consumption of the household customers towards the whole consumption in the country for 2008, is 3%. Figure – 1.2 – presents the performance of this rate in % for the period 1985 until 2008. We have to say that for the last two years there is a positive trend towards the decrease of household consumption, although the general supply with electricity has been increasing.

The structure of electricity consumption according to the levels of voltage is shown in -1.2 -, while its graph is shown in figure 1.3. The higher number of customers is connected in low voltage and the most considerable quantity of electricity are billed in low volt-

age. This is due to the dominance in the consumption of electricity of household customers and small businesses, which are supplied in low voltage of distribution network. Such a feature of the of the structure of supply with electricity is expressed also from the network configuration, the low scale of country industrialization and the lack of medium and big businesses.

Figure -1.2 - (Evidence KESH- sha & DSO)



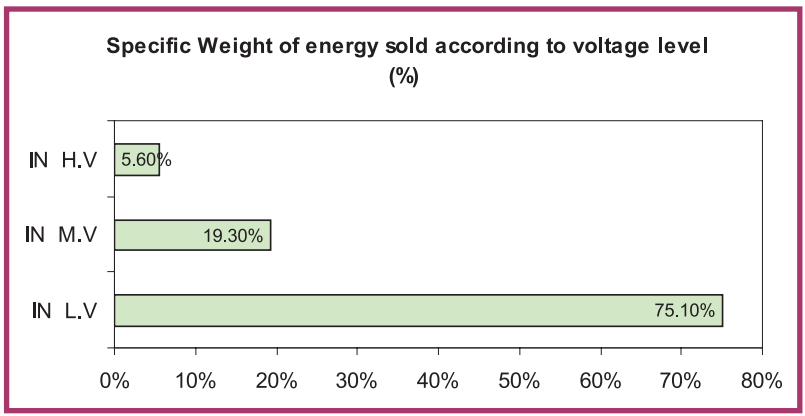
This relation is expressed graphically in figure 1.3.

An important indicator which influences directly in the tariff and price structure, so that they can serve in a real way to cover the costs of service to the society is the sales power structure according to the prices approved in 2008. In table -1.3 – is shown the sale structure, while figure – 1.4 – shows its graph. Referring to this sale structure, it is observed that the principal part of electricity billed is that of the household customers of the first block, with a monthly consumption up to 300 kWh.

Table – 1.2 –(Source: DSO data)

CUSTOMERS ACCORDING TO VOLTAGE 2008			
	CUSTOMERS	**SOLD QUANTITY (active)**	**SOLD QUANTITY (reactive not consolidated)**
	(number)	(gwh)	(gwh)
TOTAL	**1 042 923**	**4 109**	**60**
DIVIDED IN:			
IN L.V.	99.5 %	75.1 %	0.2 %
IN M.V.	0.499 %	19.3 %	80.6 %
IN H.V.	0.001 %	5.6 %	19.2 %

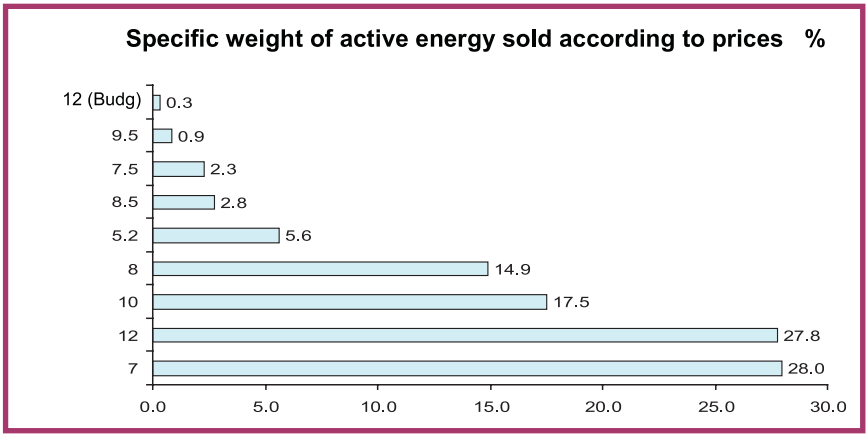
Figure -1.3. (Burimi Evidenca OSSH)



From this analysis it is seen that the number of household customers results in 70 % of the general number of household customers. We think this rate is exaggerated, which means does not justify the concept on which is based the reasoning for the establishment of the first block, as a block that protects the customers with low incomes or vulnerable customers. This concept is justified also from the study

carried by ERE on estimation of minimal needs for electricity for vulnerable customers.

Figure– 1.4 (Source Data DSO)



For 2009 ERE will reconsider the quantity of electricity for the first block, so that it is solved objectively and serves to the purpose it is being implemented. Regarding the structure of electricity consumption it is neccessary to evidence that during 2008, although the threashhold of annual consumption of electricity has been removed, so that a subject will gain the status of Eligible Customers, for all the non household customers, until today only one customer has prefered to go to the market and find iots ouwn supplier. All the other non household customers remain tariff customers, meaning they will be supplied with electricity from Public Supplier.

Table – 1.3 – (Source: DSO data)

ENERGY SOLD ACCORDING TO PRICES 2008		
PRICE (LEKE/KWH)	NUMBER OF CUSTOMERS	QUANTITY SOLD (Kwh)
	1042923	**4109244000**
DIVIDED (in %):		
5.2	0.0001	**6**
7	69.60	**44**
7.5	0.23	**2**
8	0.35	**15**
8.5	0.17	**3**
9.5	0.03	**1**
10	11.95	**18**
12	17.68	**11**

1.3 Characteristics of consumption and load of electricity.

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

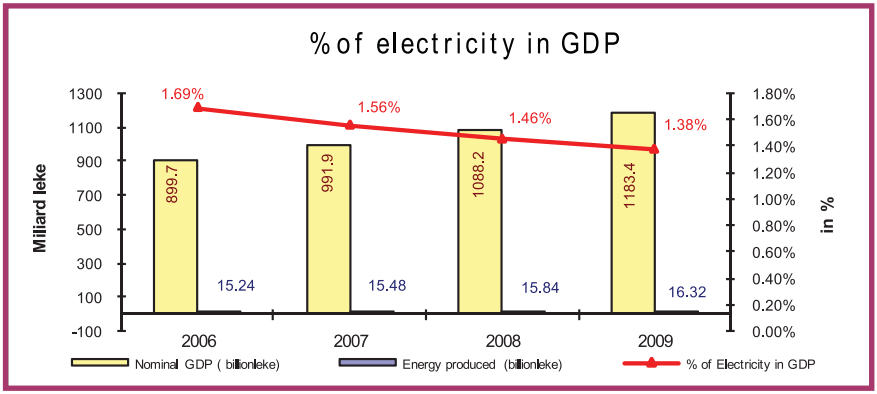
a- The intensity of electricity which shows how much electricity in kWh belongs to 100 Lek for a Gross Domestic Product (GDP), for 2008 was 0.71 kWh/00Leke GDP

b- The specific consumption of electricity per capita (kWh/capita), which for 2008 was 1987.3 kWh/capita (Population by 1st January 2008 according to Instat is 3.170.048 capita).

c- The specific weight of electricity for GDP, expressed in % which for 2008 was 1.46%.

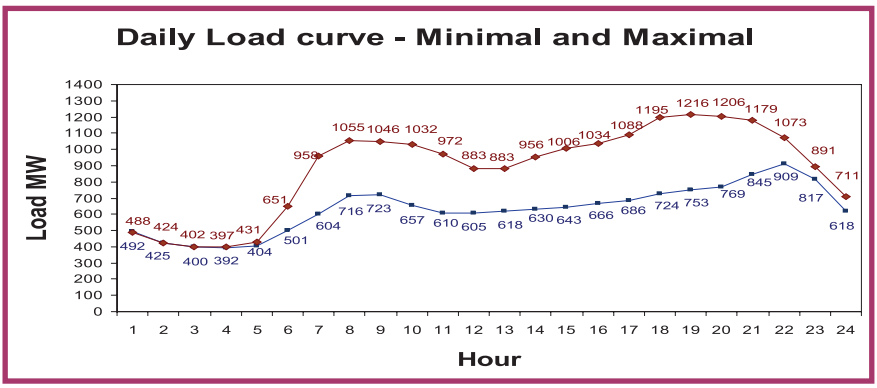
In the graph of figure -1.5 – is shown the specific weight of electricity in GDP for 2006, 2007 and 2008 and the forecast for 2009. Although the part taken by electricity in GDP is low, the impact of lost load in economy is high.

Fig. -1.5 - (Source:Data from Emerging Europe Monitor and evaluations of ERE)



In the analysis of the electricity sector it is important the investigation of the change of the electricity load during day, year and the performance trends in multi annual periods. In the figure -1.6- are presented the maximal load curves in a winter day and minimal load curves in a summer day .

Fig. – 1.6 -(Source: Data TSO)



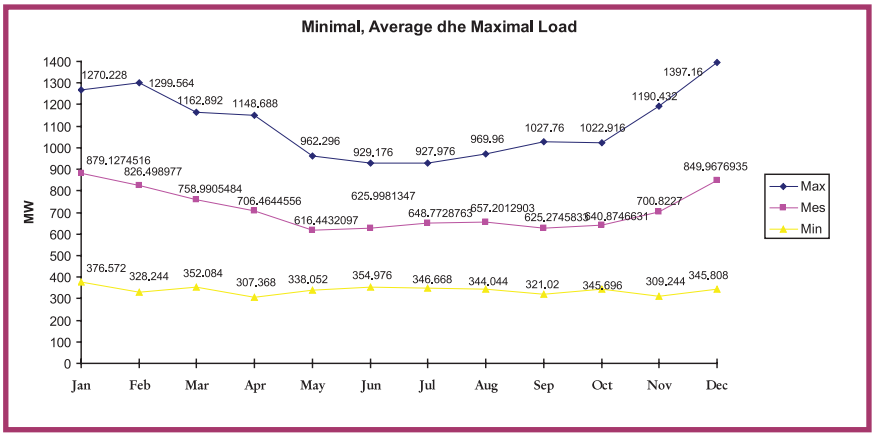
The characteristic of the daily load curve for the year 2007 is its deformation from its normal form with 2 peaks (one in the morning and one in the evening) to daily load curve 3 or even 4 peaks due to programmed load shedding of electricity, while for 2008 the daily load curve due to lack of programmed load sheddings is changed as in figure -1.6- and there are only two normal peaks.

For 2007 the average of the maximum monthly load is 1,063 MW, while the average of the minimal load is 284 MW, while for 2008 there parameters are respectively 1109 MW and 339 MW as shown in the curve of figure -1.7 – Also for 2008 the load factor is low. Such a load curve is typical for those countries where the industrial generation is modest and the electric load is predominated from the household customers and the businesses.

The annual peak load for the year 2007 results to be 1,340 MW or 93% of the total installed generation capacity in the country. In 2008 it results to be 1397 MW or 97 % e of the installed generation capacity of 1440 MW. In figure - 1.7.- it is shown the profile of the electricity load for every month of 2008 (minimal, average and maximal values).

The peak value almost equals with the generation capacity of the country shows that we have a fragile energetic system, for which it is impossible to maintain the maximal flows of electricity and to guarantee the security of supply of the country from the capacity point of view, because as from energy viewpoint we are a net importing country since 1998. In this context is considered of great importance the construction of new generation sources which effects will be felt starting by 2009.

Fig - 1.7 – (Source: TSO data)



1.4. Power Supply

Hydrologically the year 2008 represents a dry year compared to 2007. The Power Supply of the customers of DSO for 2008 has ben 6.300 TWh (teravat hour), of which 3.770 TWh are domestic production) and 2.417 TWh are imported power.

As it can be seen, during 2008, the domestic power generation makes up to 60% of the overall production, compared to 51% in 2007. In the graph of figure 1.8 is showed the historical electricity consumption from 1985 until now.

As it can be noticed, the electricity power supply to customers during 2008, represents a historical record, the highest up to date.

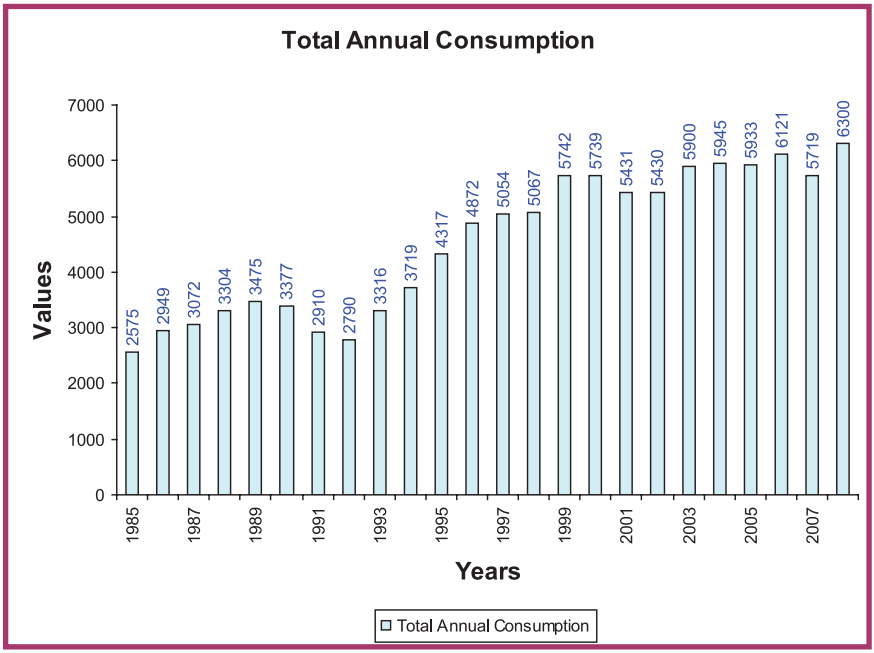
To analyse the power supply trends in actual time we reffered to the period 2002 until 2008 by considering it the most stabilised period after the caos of 1997, and of a transition until 2002.

In 2008 the entire generation of the domestic power generation was realised only by the hydroenergetic sources, therefore it has been strongly related to the hydrometeorological conditions.

Although the water level during 200-2008 has been the same

of years 2001-2002, the supply to the customers for 2007 was 5% higher than in 2002, while in 2008, it was 16% higher.

Fig -1.8. - (Source:KESH Data.)



1.4.1. Analysis of the use of hidroenergy sources.

To analyse with objectivity the quality of the performance of KESH in the use of the hydroenergy reserves, we have refered to a very accurate figure in the evaluation of the hydrologic conditions, that of annual inflow of river Drin to the lake of Fierza.

Fierza HPP, with its reservoir, represents the main generation source in our power system, taking into account the fact that in addition to the large amount of annual generation, it secures an annual regulation of the Drin river cascade.

In table 1.4 are presented briefly the most synthetic figures of the KESH activity during the period 2002-2008.

Referring to the inflow of Drin river in Fierza, it can be noticed that 2007 and 2008 have been dryer years than 2002, which is considered as one of the most dry years. Under the circumstances, KESH in 2008 has realised for the first time the record figure of efficiency in the use of the hydroenergy reserves for the entire period 1985-2008.

In 2008 in the Drin cascade, it was generated 1kWh electricity from 1.04m3 of water, which means, that with almost the same amount of water during 2007, in 2008 has been generated over 30% more electricity, or eventhough in 2002 the water amount has been 7.7% higher than in 2008, it has been generated 23.4% more electricity than in 2002.

In 2008 KESH, was able for the first time, through a disfacory combination of the annual power import with well-managed hydro reserves in the cascade, to keep high quotes of use of water in Fierza lake, during the whole year, producing much more power for the same amount of used water.

Table – 1.4. –(Source: KESH data)

NAME	YEAR						
	2002	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
Generation(GWh)	3,204	4,974	5,467	5,409	5,516	2,933	3,770
Import (GWh)	2,072	937	567	365	633	2,828	2,417
Supply (GWh)	5,430	5,900	5,945	5,933	6,121	5,750	6,300
Anual Water Amount (billion,m3)	4.44	5.8	7.81	6.74	6.52	4.11	4.12
Specific Consumption (m3/kWh)	1.38	1.17	1.43	1.25	1.18	1.40	1.04

In table 1.9 is presented a graph of the relationship between the power generation in the country with the impot and the supply of customers for each year during 2002-2008 period. The realtionship between the power generation and water amount that is used for the generation of the power and water amounts used for the generation of this power and specific consumption of water are presented in the graph in the table 1.10.

In the graph of table 1.11 are presetned for comparision the quotes of the Fierza lake during 2007 and 2008. It is important to emplasise that all around 2008 the use quote have been kept in continous manner about 15 meters higher than the respective quotes of 2007.

The average amount of inflow of Drin river in the Fierza lake, for the period of 2002-2008, is presented in the Figure 1.12.

Figura – 1.9 – (Source: KESH data)

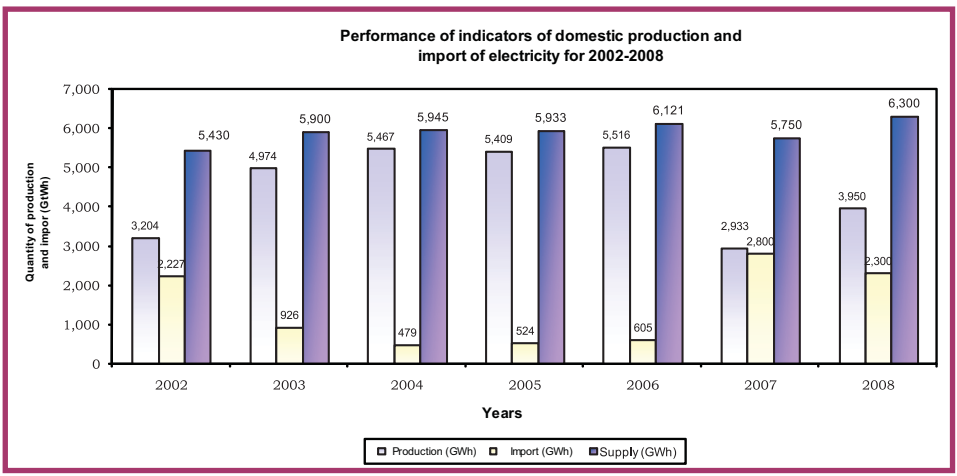


Figure -1.10 –(Source: KESH data)

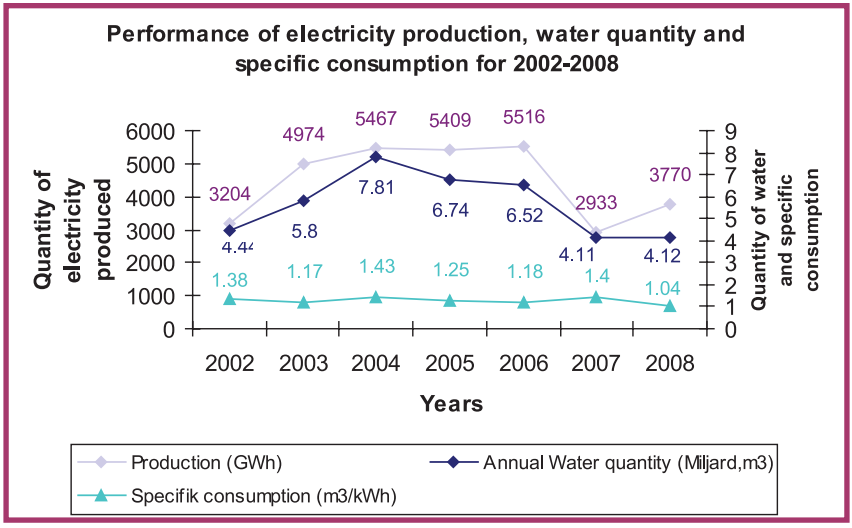


Figure – 1.11 –(Source: TSO Data)

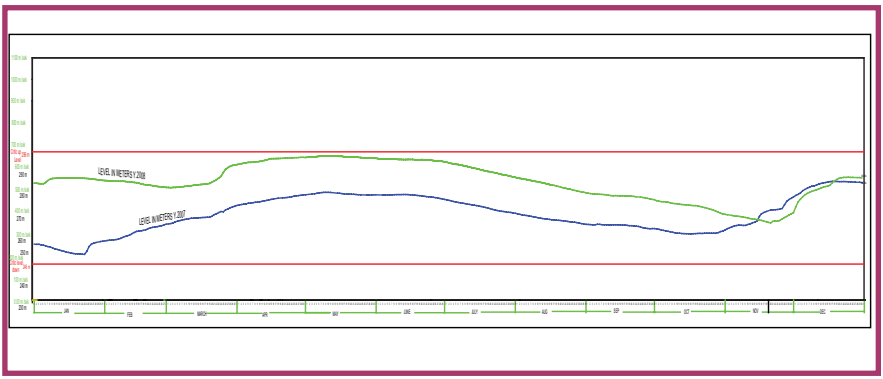
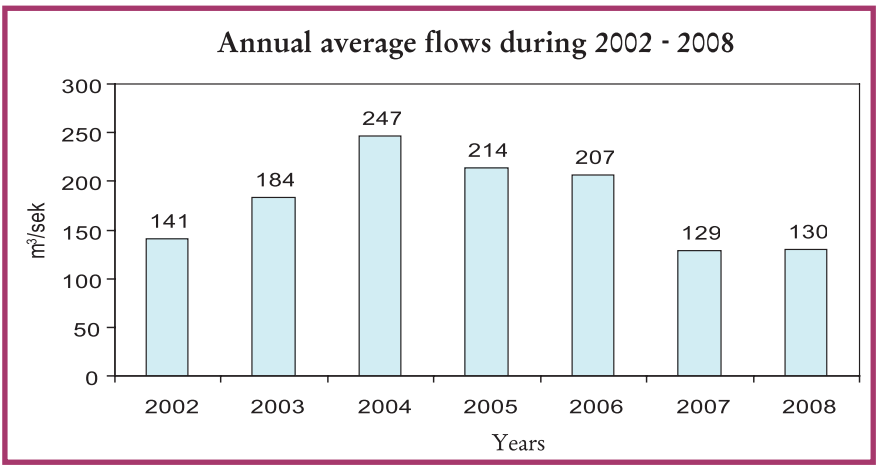


Figure -1.12- (Source: TSO data)



It is obvious that the water inflow in 2007 and 2008 have reached the minimum level during 2002-2008.

1.4.2. Analysis of power supply trends.

For analysing the trends of the power supply to customers we refer to the period of 2002-2008. In the table 1.5 are presented the synthetic, technical-economical figures, of the power supply standards for 2002-2008 period.

In this analysis are taken under consideration the trends of the power supply, the trends of the average prices of import, tendencies of load sheddings and also the tendencies of the hydroenergy reserve usage.

Referring to the data of the table 1.5 and of the graph of table 1.9, it can be seen that until 2006 the tendency of the power supply for the country has been in stagnation and it has been kept at invariable level of about 5.900GWh per year, notwithstanding the demand for power has been increasing and the hydrologic conditions have been more favorable to have a higher power supply. Naturall,y in this

tendency we skipped 2002, which has been considered a very dry year. Only in 2006 we see an increase of power supply, by surpasing the level of 6.100 GWh per year. Naturally, for this tendency we skipped 2007 which was also considered a very dry year.

In the graph of table 1.13 are presented the tendencies of power import during 2002-2008.

It can be noticed that after 2006 there has been a tendency for high increase of the power improt in comparison to the previous period. This tendency is as result of, firstly, the decrease of the domestic generation due to the unfavorable hydrologic conditions, but also as a result of a greater and accountability will to supply the country with as much electricity as possible.

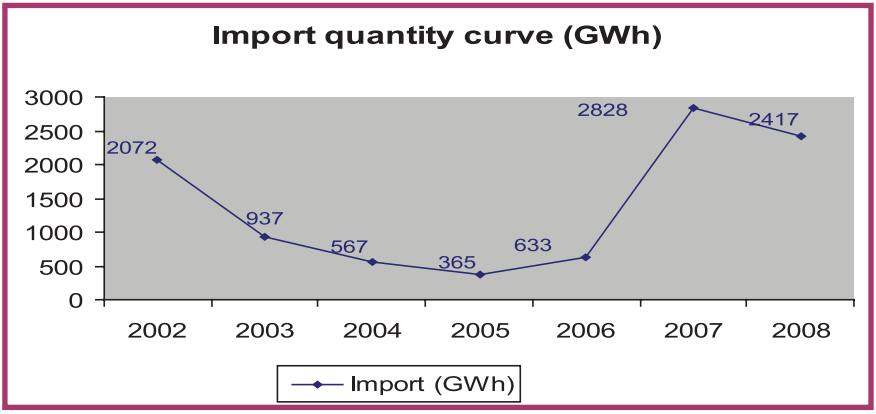
Table -1.5- (Source: KESH-DSO data)

Name	Year						
	2002	2003	2004	2005	2006	2007	2008
Generation (GWh)	3,204	4,974	5,467	5,409	5,516	2,933	3,770
Import (GWh)	2,072	937	567	365	633	2,828	2,417
Average Price for import (Euro/MWh)	30.18	30.15	35.57	40.04	47.81	69	79
Import price (000Euro)	62,534	28.261	20.172	14.628	30,246	195.132	190.943
Supply (GWh)	5,430	5,900	5,945	5,933	6,121	5,750	6,300
Annual water amount(billion,m3)	4.44	5.8	7.81	6.74	6.52	4.11	4.12
Specific consumption (m3/kWh)	1.38	1.17	1.43	1.25	1.18	1.4	1.04
Load sheddings (GWh)	960	662	556	664	412	891	200
Load sheddings (hours/days)	4.3	2.9	2.3	2.7	1.6	3.4	0.3

In the graph of figure 1.14 is presented the tendency of average prices of power import during the period 2002-2008.

By analyzing the data of this graph it can be easily seen that after 2006 in the regional power market there has been an increase of the average price of power. If during 2002-2006 the average annual increase of the import price has been 4.4 euro/MWh per year for the period 2006-2008 the increase was 15/6 Euro/MWh per year.

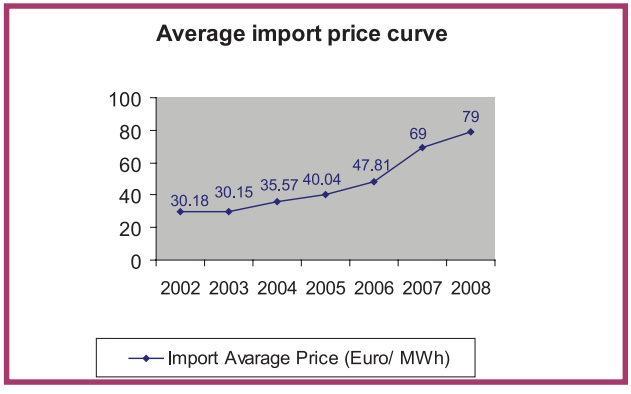
Figure – 1.13. – (Source:KESH/DSO data)



The tendency of the power import price fluctuation is a parameter that does not depend from our public power utilities. This parameter depends from the management ability of RPS and DSO that are electricity importers for the supply of tariff customers to get profitable contracts in a specific conjuncture of regional electricity market.

In the graph of table 1.14 is presented the tendency of the expenditures for the power imports for 2002-2008.

Figure – 1.14-(Source: KESH/DSO data)



The tendency of the expenditures variation for the annual power import is the figure that depends on several factors. First, it depends on the import prices and the amount of the power imported for the respective year. It depends on the financial limitations that the public utilities have due to the regulated tarifs of power for the tariffs' customers, that based on the tariffmetodology refere to the import prices of the previous year. This tendency is related also to the impact to the GDP and economy in general of 1kWh lost load, and in this case it is the Government that intervienes to compensate this effect. This tendency, no doubt, is also straightfulyl affected by the efficiency in using the hydroenergy reserves, of the power domestic generation and of the managerial efficiencye of the public utilities in general, which means how succesful they will be to reduce losses and increase the revenues.

Optimisation of all these factors, no doubt, would be the best solution under the actual conditions.

A very important parameter of quality of power supply for the customers is the load shedding, expresed in the amount of outages and their duration.

In the developed western countries, usually are considered as power outages, those load sheddings that last for more than one second, but less than 3 minutes, while long duration blackouts are considered the ones that last more than 3 minutes.

In the graph of figure 1.16 are presented the duration of blackouts in minutes per year, while in the graph of table 1.17 is presented the number of the blackouts for shorter time, for long time, and total number of the blackout in Italy, for each year of the period 2002-2007. In Italy, based on these data, the general number of blackouts in low voltage 2007 has been around 7 blackouts per customer per year, while their annual duration has not passed 58 minutes per each customer.

Regretfully, we have to admit that in our system the annual number of blackouts is counted to hundreds, while their duration for each consumer reahces various hours per day.

In 2008 for the first time in our experience of power supply, no load shedding were programmed. This marks a turning point in the quality of the power supply.

Figure – 1.15-(Source: KESH/DSO data)

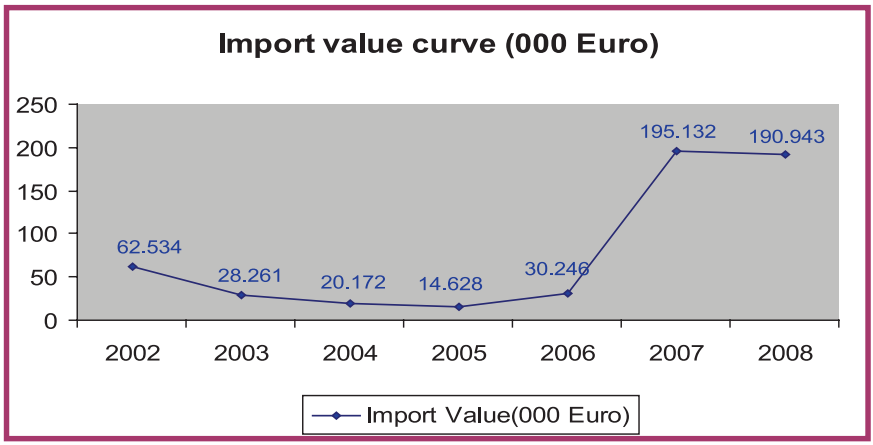


Figura -1.16 –(Source: Italian Regulator Anual Report 2007)

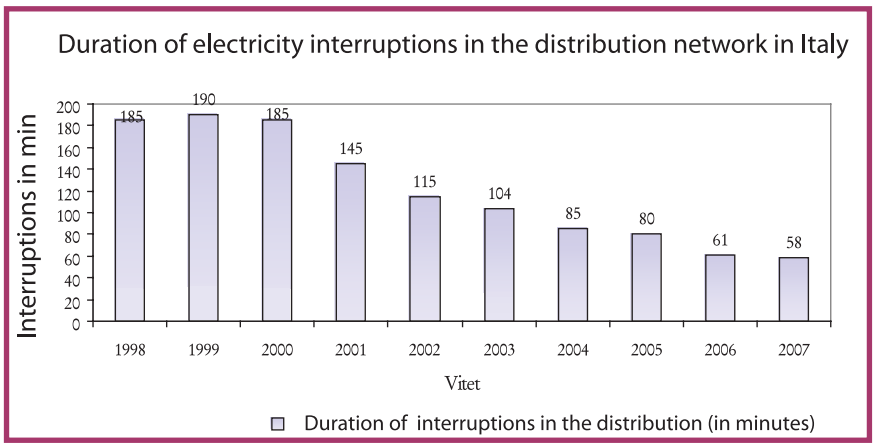
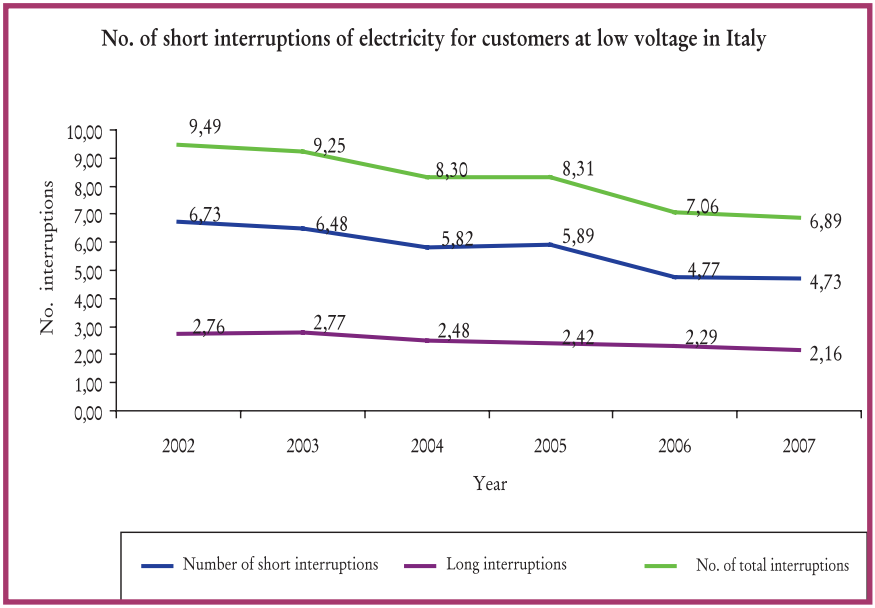


Figura-1.17 –(Source: Italian Regulator Anual Report 2007)



In oder to avoid any misinterpretation, when we talk about a reliable power supply to customers we excludeinterruptions or blackouts due to breakdowns and problems in the power sypply sy, interruptions due to maintenance and repair works and blackouts due to force majoure.

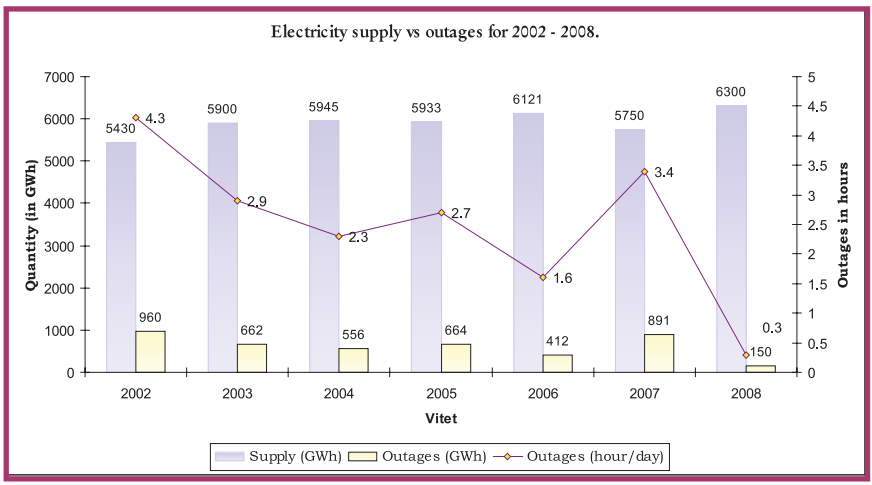
On the other hand, we have to admit that given the actual consditins of our network in all voltage levels, the low level of switching authomatics, a limited transformation capacity, relatively long period of time for restoration of the normal power system after a breakdown, as wll as the restricted possibilities during maintenance as repair works, make possible that the duration of blackouts be longer than in developed countries. Actually, we are in a process of continuous improvement of this parameter, which is not excpeted to be done fast, because it is accompanied with considerable investments.

During 2008 the power load shedding have been imposed due to justificable reasons which were explained above, but also we need to admit that there have been some abusive load shedding in various areas by DSO with the goal of improving the level of losses in these areas, which is not acceptable.

In the graph of table 1.18 are presented the annual amounts of power supplied to the tariff customers and the load shedding expresed in hours/days for 2002-2008.

By analysing this graph can be seen that the highest load sheddinghave happened in the years where the domestic power generation has been minimal (years 2002 and 2007).

Figure -1.18 – (Source: KESH/DSO data)



It does worthwhile to underline that in 2003, 2004 and 2005, eventhough they have been years with high inflow of Drini river (5.8, 7.81, and 6.74 billion m3 water per year respectively), the power supply has been lower, averagely 5,926 GWh/year or 6.3% lower than the supply of 2008 when the inflow were only 4.12 billion m3.

In its management practice for the period until 2007, KESH had as an objection, no interuptable power supply of tariff customers, but their supply was programed with planned load sheddings. ERE judges that in years 2003-2005 existed all favorable conditions to have a better power supply or to have , visibly, less load sheddings for the tariff customers.

The 2008 was the first year in which there were no electricity load sheddings planned for consumers. The electricity load sheddings for this year have not been more than 25 minutes per day for customers, and mainly they have been applied for household customers, while to the other categories of industrial customers the load sheddings, we can say, have been irrelevant.

During 2007and 2008 it has been noticed a reconsideration of the importance of the power supply for the tariff customers. Only in these two years some 5,278 GWh power or 15.4% more than the import of the entire period of 2002-2007 were imported, while the expenditures for electricity import reached 388.7 million Euro or 2.5 more time than the expenditures of the entire period of 2002-2007.

From this analysis, the ERE comes to the important conclusion that the principle of reliable power supply of tariff customers taking into consideration the heavy economic and social impact of causes 1 kWh lost load in the countrie's life, coordinated with the principle of visible increase of efficiency in the managment practice of the public utilities must represent the fondamental leading criteria of their work.

ERE based on these principles will organise its entire decision making activities for evaluation of electricity tariffs in the future, but also in monitoingr and evaluating the public utilities. As to load sheddings, DSO does not have any clear evidences of the number of load sheddings in the supply network countrywide, while the time of load sheddings is calculated indirectlye through the diffrences of planned electricity for consumers supply and the actual supply.

It is importatn that the practice of planned reliable power supply of the customers, realised during 2008, become a compulsory standard, since the electricity, nowdays makes part of the way of existace of human society.

ERE rightfully, the performance of KESH, DSO and TSO during 2008, despite being an unfavorable year as mentioned above, with a record making power supply, without load sheddings and very efficient use of hydroenergy reserves appraises it as a godd management model. On the other side the objectives for reducing losses and increasing of collections are still unmet.

1.5. On security of power supply

The security of power supply to customers represents an integral concept that expresses in sythetic manner the standard of one of the most important services to human society.

The security of the supply is a complex function with many variables. It expreses the scale of the supply ability of the country with power, based on the worldwide accepted through domestic generation of resources being conventional or renewable ones, On the other side it takes unto consideration the annual average growth of the demand for power and the of meeting the sahort and long term demand.

The security of the supply treates the need for new generation capacity and the way of providing them. It takes into consideration the operational and spring reserves in generation plants, lines and transformation units. An other direction is the one dealing with the efficiency increase of the hydroenergy reserves and opting of the parameters of national power system. The security of supply is affected by the regional or/and european integration of our system, through the interconection lines to insure the import-export of power in economic terms as much as proffitable.

Finally, the security of supply is also a function of the automated and dispatching scale of the power system in all activities including transmission, distribution and generation.

From the point of view of the effect of the political risk on the security of power supply, it should be underlined that the level of this risk is minimased with the integration of Albania in the Euro-Atlantic structures and with arriving in to the country of new large strategic investments.

During 2008, it can be said that the problems of the increase of power supply for the country have represented a clear state policy for the encouragement of the construcion of new sources of power generation, through the use of domestic power potencial and encouaragement and promotion of private investmens in the power sector.

Follwoing a competitive and transparent concession plocy, and supported by a comprehensive legal and by-legal framwork 31 concension contracts, for construcion of HPP with small and middle and large capacity, with domestic and foreign investitors wre signed and approved by the Government. Actually, in a mid-term time frame of 3-6 years is expeted to be commissioned a hydroelectric generating capacity of about 530 MW with an expected annual production of 1.76 billion kWh per year or about 28% of thetotal production from renewable energy sources.

In the table 1.6, are provided all HPP that have been given by concession.

In 2008 started the construction of Vlora TPP, with an installed capacity of 98MW and an annual output of about 560 GWh, an investment done by KESH, with financing from the World Bank, EBRD and Euorpean Investment Bank. Up to date the construction worka are continuing based on the schedule, the plant is expected to be commissioned in July of this year. With the construction and operation of this plant the security of supply will be improved.

During 2008, the works for construction of the transmission

lines Tirana-Podgorica and Tirana – Elbasan of 400kV and with a trasmission capacity of 1000MW started also. This new line will make possible the interconection of our power system with the northern trasmission axis of Montenegro, Bosnia-Herzegovina. These lines are financed respectably by the German and Italian Government and are scheduled to be completed inSeptember of this year. This line will make possible the improvement of the power import-export capacities in the regional market, positively effecting the increase of security of the country with power supply.

During 2008, the Albanian Government has approved the permits for construction of two undersea transmission lines with 400kV with a trasmission capacity of 500MW each, between Albania and Italy.

The experience of developed countries shows that, the annual increase of electricity is estimated to be averagely 1 %, while in our coutnry based on the experience of the last 25 years of power supply, the increase of the demand is about 3.3% per year.

Based on these figures and also in the scenario of electricity forecast based on the National Energy Strategy and by harmonising that even with the reduction program of the power losts, we create the conditions for a more objective planing of the power demand for each year.

ERE considers 2008, from the power supply security point of view, as the last year with lowest level of security of power supply to consumers, a year that closes a historical phase of 25 years of stagnation, without any new generation capaciy and without any new interconnection line.

1.6. Electricity losses

One of the main issues, which influences cronically the decrease of electricity efficiency, with the unmotivated demand for electricity and increase of tariff and prices, remains the issue of electricity losses which during years have been much higher than those evidenced in

the normal power systems of the developed countries.

The electricity losses, including both technical and non-technical ones, represent the most difficult challenge with a damaging effect in the economic and financial performance of DSO. At the same time, those are a proof of the great work to be carried so this issue will be solved.

Technical and non technical losses of electricity in the distribution network for 2007 have been 35.4%, while the total losses including those in transimission result in 2,080 GWh or 36.4 % of total injected electricity. For 2008, the total technical and non technical losses in distribution due to a better performance but still not sufficient by DSO structures, were in the amount of 1,927 GWh or 32.74 %, with a reduction of 5,5%.

Table-1.7-(Source: DSO data)

ZONE	Energy taken	Energy billed		Technical losses		Non technical losses		Losses in total
	000 kwh	000 kwh	%	000 kwh	%	000 kwh	%	%
TIRANE	1932321	1379643	71,4	328475	17,0	224203	11,6	28,6
DURRES	729303	496286	68,0	130726	17,9	102291	14,0	32,0
FIER	689524	490051	71,1	115729	16,8	83744	12,1	28,9
KORCE	263225	198283	75,3	44862	17,0	20079	7,6	24,7
ELBASAN	384776	290886	75,6	65210	16,9	28680	7,5	24,4
BERAT	347467	249522	71,8	60722	17,5	37223	10,7	28,2
SHKODER	582932	321299	55,1	109138	18,7	152495	26,2	44,9
KUKES	151349	77508	51,2	29379	19,4	44461	29,4	48,8
BURREL	317738	209427	65,9	57708	18,2	50603	15,9	34,1
GJIROK.	235908	180858	76,7	38248	16,2	16801	7,1	23,3
TOTALI DSO	5634533	3893763	69,1	980987	17,4	760580	13,5	30,9

Note: The values of the above table are estimated without taking in consideration the losses in High Voltage.

The total losses of electricity for 2008 were 2140 GWh, or 33.99%. In more details, the technical losses in distribution were 1167 GWh, or 19.8%, while non technical losses were 760GWh, or 13. 5%The level of the total energy losses in function of electricity supplied to customers for the period 2002-2008 is shown in the graph of figure – 1.19 -

Refering to the figures of this graph it can be seen that from 2006 up to date there is a continuous positive trend of decrease and with considerable pace in the level of losses.

In the graph of Figure -1.20. – it is presented the performance of eletricity losses during the last 25 years since 1981.

Concenssion Contracts approved by the Decision of the Council of Ministers						
No	Name of HPP	Subject	Investment value	Unit	Installed cap. KW	Output kWh
1	Egnantia	"Remi" shpk	321,956,600	leke	5,000	22,000,000
2	Tervol	"Bler-Klo-Ar" shpk	325,800,167	leke	10,000	40,000,000
3	Verbe-Selce	"Xhemi 02" shpk	287,310,000	leke	2,800	16,540,770
4	Qyteze	"Muso" shpk	27,700,000	leke	250	1,350,000
5	Carshove	"Korsel" shpk	83,500,000	leke	1,200	6,300,000
6	Sllabinje	"LNK" shpk	1,290,117,487	leke	9,300	50,000,000
7	Labinot Mal-Elbasan	"Ansera" shpk	12,500,000	leke	250	1,300,000
8	Stebleve	" Stebleva" shpk	159,680,320	leke	3,400	12,600,000
9	Lapaj	"Spahiu Gjanc" shpk, " Fatjon" shpk, "S.G.A" sha, " Armemil" shpk	1,453,500,000	leke	12,600	52,400,000
10	Lengarica1, Lengarica 2	"Hasi Energy" shpk	1,980,904,000	leke	6,200	35,700,000
11	Peshku	"Koka" shpk	188,055,946	leke	1,900	11,580,000
12	Stravec	"Koka" shpk	870,315,194	leke	6,000	25,620,000
13	Kacni	"K.I.S.I" shp	133,121,000	leke	1,100	6,772,032
14	Kabash 1, Kabash 2	"Adnain" shpk	671,000,000	leke	5,200	32,005,729
15	Stravej	"Mak Olimpik" shpk	503,529,364	leke	3,626	16,317,000
16	Tucep 2	"Duka T2 " shpk	166,000,000	leke	1,400	7,500,000

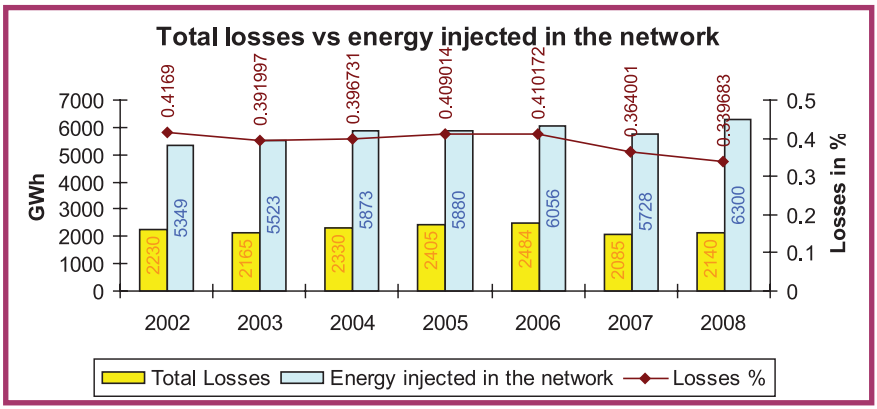
17	Strelca 1, Strelca 2, Strelca 3	"Busa" shpk	1,084,000,000	leke	6,126	43,233,264
18	Lura 1, Lura 2 , Lura 3	"Erdat" shpk	1,300,177,500	leke	10,993	53,308,264
19	Rapuni 1, Rapuni 2	"C&S Contraction" shpk	749,080,000	leke	8,250	44,650,000
20	Suha 2	"Albaenergjiaplus" shpk	360,000,000	leke	3,400	7,300,000
21	Bistrica 3 e 4	"Bistrica 3" shpk	756,400,000	leke	2,553	17,823,000
22	Mertanesh	" Sigers" shpk	857,961,985	leke	3,600	12,000,000
23	Selite	" IRZ" shpk	120,000,000	leke	1,300	8,563,000
24	Vlushe	"Aurora Contraction" shpk	1,715,320,000	leke	14,200	65,000,000
25	Stojan	" El-Er Energy" shpk	124,333,623	leke	1,400	6,000,000
26	Prelle 1, Prelle 2	B.sh." Endi-E' , " EKO A2"shpk	1,512,585,536	leke	7,800	35,800,000
27	Holta Kabash, Holta Polican	" Atlas" sha	500,000,000	leke	4,700	23,300,000
28	Bistrica 1 e Bistrica 2	B.sh" Titan" shpk, "Osmani" shpk	250,000,000	leke	2,950	12,910,000
29	" Orgjost I Ri" , " Bele 1", " Bele 2" , Topojan 1" Topojan 2"	B.sh:" Euron" shpk, ' Kadria" shpk, " Teuta Konstraction" shpk	3,565,744,707	leke	24,260	108,537,038
30	Ashta	OSTERREICHIS-CHE ELEKTRIZ-ITATSEIRTSCH AFTSAKTIENGE-SELLSCHAFT	19,520,000,000	leke	48,200	
31	Kaskada e Devollit	" EVN"			319,000	985,400,000
	Total		40,890,593,429	leke	528,958	1,761,810,097

From this graph it can be easily noticed that from 1995 up to date the efforts to reduce the electricity losses of all KESH management teams have not been successful.

In order to have a more detailed analysis going into the capilar structure of electricity losses for each Distribution zone in the country, ERE has identified the data of table -1.7- A it can be seen the poorest results are respectively in Kukes area where the total distribution losses are 48.8%, in Shkodra 44.9%, in Burrel 34.1% and

in Durres 32.0%. In figure – 1.21 - are shown graphically the results of table – 1.7 -

Figure – 1.19 – (Source: KESH & DSO data)



Figure–1.20–(Source: National Energy Strategy updated with KESH data)

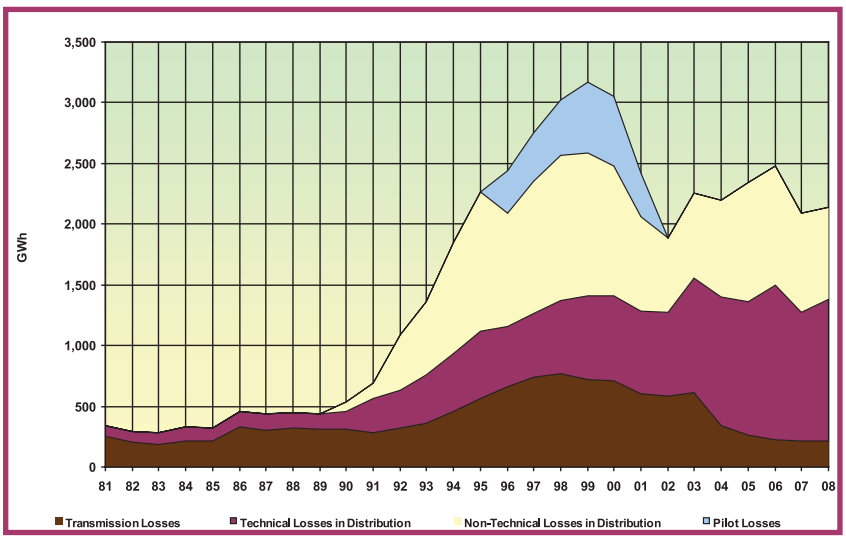
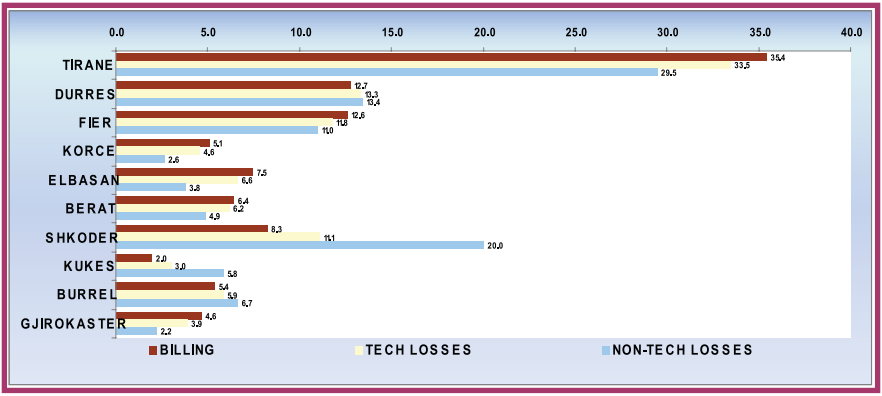


Figure -1.21 – (Source : Data DSO)



ERE has referred to the specific weight of losses for each area against the total losses to evaluate the archivement and the future work to be carried by the DSO structures, in order that the attention be focused where the reduction of losses would bring the highest positive impact in the overall result.

For this, first it has been judged reasonable to present the specific weight for each DSO area in the supply of customers with electricity.

In table – 1.8 – is presented the specific weight of each area of supply with electricity for customers. Graphically this corelation is shown in figure – 1.22 –

Tabele - 1.8 – (Source : Data DSO)

Areas (DSO)	Energy injected in the network	Specific weight energy injected
TIRANE	1932321	34,3
DURRES	729303	12,9
FIER	689524	12,2
KORCE	263225	4,7
ELBASAN	384776	6,8

BERAT	347467	6,2
SHKODER	582932	10,3
KUKES	151349	2,7
BURREL	317738	5,6
GJIROKASTER	235908	4,2
TOTAL DSO	5634533	100,0

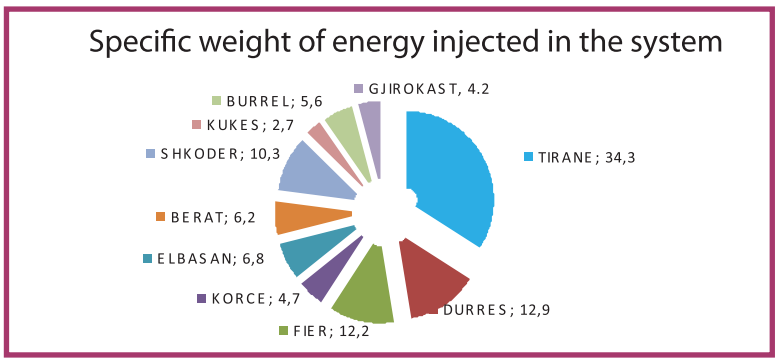
In figure – 1.21 – is presented the specific weight of electricity billings, technical and non technical losses against the respective of total billings, technical and non technical losses.

From this analysis it comes out that the attention of DSO for the reduction of losses should first of all in the areas of Tirana, Shkodra, Durres and Fier.

The corelation between the level of losses and level of collections, is epressed by ERE with the effectivity rate of DSO electricity. In the graph of figure – 1.24 – are presented the results of billing and collections of electricity during the period 2002- 2008.

While in table – 1.9 – is presented the effectivity ratio for electricity sales for each area of DSO for 2008. Only the distribution areas of Korca, Elbasan and Gjirokastra result on high effectivity ratio, while the other areas in particular Kukes, Shkodra, Durresi, Burreli and Tirana have low effectivity.

Figure -1.22 – (Source: Data DSO)



Graphically the efectivenes of sales is presented in figure – 1.24-

For the electricity billings it can be said that for 2008 there have been some irregularities regarding the quantities billed to the customers. In many cases the billing on monthly basis has not been respected but the billing is made in more than monthly intervals, which have caused unfairly a suplementary payment by customers. Customers with tampered meters have been billed with a minimum usage assumption not in compliance with the provisions of the Metering Code. Sometimes, in calculation of the caused economic damage are not implemented the respective methods, but it was acted arbitrarly. Also it must be evidenced the fact that it is not made the billing for customers no monthly consumption and also it is not made the billing for peak time for those customers that are in this category. The qauntity of reactive energy billed corresponds to a very low number of customers and often is not made in compliance with the respective rules and procedures in force

Figure – 1.23 – (Burimi: Evidenca KESH&OSSH)

SALES EFFECTIVNESS 2008 (according to DSO zones)			
	COLLECTIONS %	LOOSSES %	EFFECTIVENESS%
KORCE	97.99	24.7	74
ELBASAN	97.01	24.4	73
GJIROKAST.	94.56	23.3	73
BERAT	95.98	28.2	69
FIER	85.02	28.9	60
TIRANE	81.53	28.6	58
BURREL	82.21	34.1	54
DURRES	74.89	32	51
SHKODER	72.21	44.9	40
KUKES	28.82	48.8	15

It is appropriate to emphasize that due to these problems the DSO has incurred a considerable financial damage from the collections lacking from these customer categories.

ERE considers necessary and recommends to DSO to take immediate actions to improve essentially the work in the structure of Retail Public Supplier aiming to find ways and possibilities for a meter reading that awards the subjectivity of meter readers and increases the transparency towards customers.

DSO must take urgent measures in order that the software used in the electricity billing requirements takes into consideration the increase of the number of customers and to fulfill all the requests dealing not only with billing but also with the evidences regarding a considerable amount of information very necessary to make analysis and reach important conclusions for the well managing and monitoring of the company.

Table – 1.9 –(Source: Data DSO)

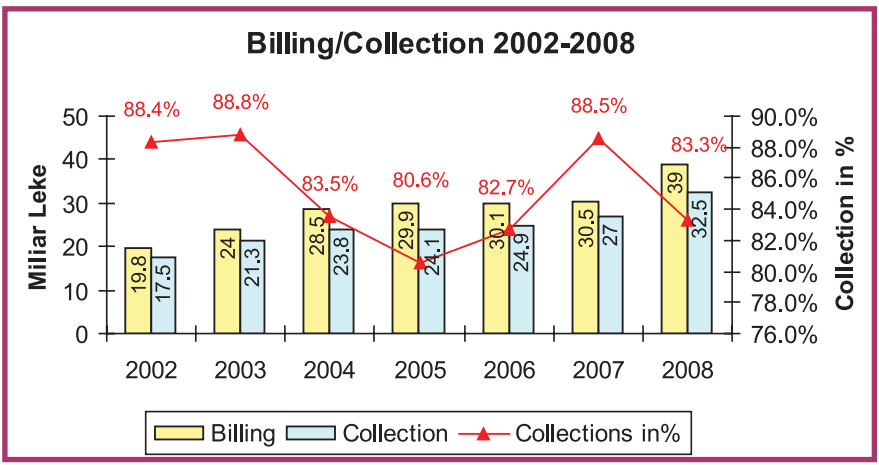
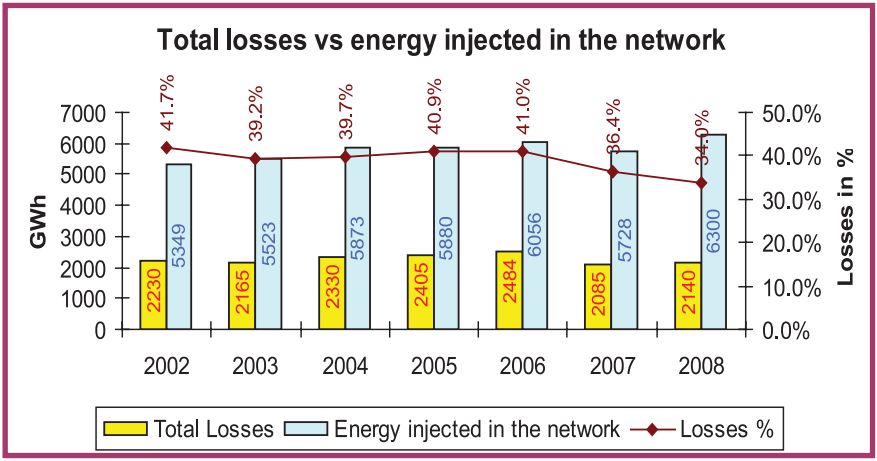


Figure – 1.24 - (Source Data DSO)



1.6.1. Equipment of electricity customers with meters.

The fulfillment with meters of electricity customers by DSO is one of the main problems that KESH earlier and DSO actually could not address it. No doubt this phenomena is a responsibility of these companies that for years have been engaged to solve this issue, but for a number of different reasons it has remain a chronic problem without solution.

Historically by the 1st of January 2005 the general number of household customers without meters was 152,373. During the years 2005 and 2006, 90,122 new household customers were added and the total number of household customers that needed meters in this period reached 242,495. By the 1st of January 2007 the total numbers of household customers without meters was about 63,000. During the period 2005-2006,l 179,495 new meters in total have been installed, during 2007, referring to the operative data of KESH for December 2007 the situation is presented as shown in the table -1.10-

Considering that the increase of the average annual number

of new customer of KESH, with about 40,000 customers, it results that for 2007 KESH has not equipped any customer with meters, although in its application for postponing the deadline of the application of minimum usage assumption rates until 31 December 2007 they committed to complete all customers with meters.

For 2008 the number of DSO customers was increased from 998,745 that were by the end of 2007 to 1,042,923 customers, so with 44,178 or 4, 4% more customers.

Table - 1.10 –(Source: DSO data)

Category	With metering	No metering		Total
		Quantity	In %	
Households	790,740	87,132	11	877,872
Private	96,498	14,674	15	111,172
Budgetory	8,164	1,537	19	9,701
Total	895,407	103,343	11.5	998,745

During 2008, DSO equipped with meters about 80 thousand customers without meters, as it had planned. It was estimated that this set of meters would be enough in 2007 to cover the needs for meters for all customers.

Table -1.11 – (Source Data DSO)

NUMBER OF CUSTOMERS BY ZONES 2008							
DSO ZONES	Metering		Tampered meters		No metering		Total
	quantity	%	quantity	%	quantity	%	
Tirane	220521	89,04	7223	2,92	19914	8,04	247658
Durres	129203	91,77	811	0,58	10782	7,66	140796
Fier	129949	94,28	0	0,00	7883	5,72	137832
Shkoder	83512	82,82	0	0,00	17323	17,18	100835
Elbasan	98771	99,82	46	0,05	129	0,13	98946

Berat	95794	98,76	356	0,37	848	0,87	96998
Korce	88824	99,59	356	0,40	12	0,01	89192
Burrel	57851	97,21	241	0,40	1420	2,39	59512
Gjirokast.	49575	98,73	4	0,01	633	1,26	50212
Kukes	15164	72,41	1132	5,41	4646	22,19	20942
Total DSO	969164	92,93	10169	0,98	63590	6,10	1042923

During 2008, the number of new customers was increased by 44,178 customers and from the other side, thanks to the work of DSO for the identification of illegal users of electricity, it was made their legalization, which enabled the increase of customers with flat rate bills.

Actually the number of customers with flat rate is reduced to 63,590 customers.

Referring to the lack of meters in each zone the results have been summarized in Table -1.11-

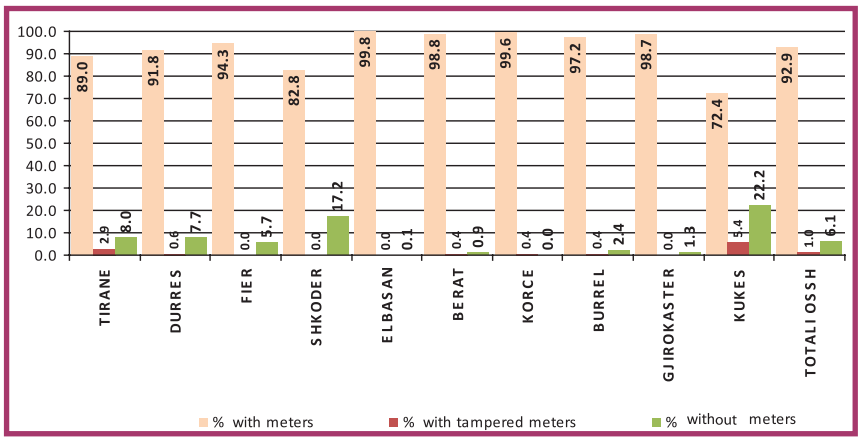
From the analysis of the data in this table, first of all it can be noticed that the zones with the higher percentage of customers without meters compared to the total number of customers of the respective zone are Kukesi with 22,19% and Shkodra with 17,19%; secondly, referring to the absolute number of customers without meters in the distribution zones, it is evidenced that only in 4 zones and in particular in Tirana, Shkodra, Durres and Fier, there are 55,902 customers without meters, that make 88% of the total number of customers without meters.

In figure -1.25- are graphically presented the data of the above table.

ERE judges that in front of such a situation, initially DSO should have completed with meters the zones of Korca, Elbasan, Gjirokastra and Berat, which in overall lack only 1622 meters , counting out from the application of flat rate billing the four most important distribution zones in the country.

ERE has asked DSO to make for 2009 the right calculation of needs for meters considering the new customers, but also those that will be evidenced by the identifications, which take the energy illegally and with tampered meters without possibility of repairing, so that there will be no more arguments to justify without strong grounds the application of flat rate billing.

Figure – 1.25 - (Source Data DSO)



Upon DSO's request, ERE by the Decision No. 144 date 30.12.2008 has approved the extension for the third time of the deadline for the flat rate billing until December 2009.

Considering that DSO is in the final phase of privatization process, if ERE would have not allowed the flat rate application, then all customers without meters would not have pay their electricity penalization, in this way DSO for non fulfillment of its obligation by an considerable financial loss. The Czech company CEZ that is expected to privatize DSO does not have any responsibility for the customers not yet equipped with meters, and as a result would be unfair and unacceptable to transfer this loss to DSO after the privatization process.

ERE based on these reasons judged appropriate to take the above-mentioned decisions. On the other side, we must emphasize that the private company will be very much interested to equip all customers with meters. As its is already known the customers with flat rate, use the electricity without limit, which means that they pay only a part of electricity they consume, by bringing a considerable financial damage for the company. Under this situation, it is natural that for 2009 it is expected that the private company CEZ will have as their main priority the equipment of customers with meters providing the final solution for this problem which in most cases has been neglected and dragged for years.

It is important to underline also the fact that there are no complaints by customers without meters to ERE for the simple reason that these customers pay only a part of the electricity they consume. Averagely the flat rate billing is paid at the amount of 430 kWh/month or 4392 lek/month (including VAT), while the average consumption according to the estimations may be over 600 kWh/month.

This is also the reason why some customers of this category are against their equipment with meters. Unfortunately DSO that is the party damaged in this phenomena, has not made the necessary to address it.

1.7. Privatization process of Distribution System Operator.

Historically KESH was established in 1994 as a shareholding company with 100% of the shares owned by the Government. Until 2004 it has operated a vertically integrated company with the activities of generation, transmission, distribution, supply and import-export of electricity.

On the 1st of August 2004, the transmission activity was unbundled from KESH and the Transmission System Operator (TSO) was established, as an entity legally, financially and functionally in-

dependent from KESH.

TSO was licensed by ERE for the following activities:

- The physical operation of the Transmission System, with the functions of maintenance and its further development as the Transmission System Operator.
- The dispatching of the power sector as the Dispatcher of the System.
- As the electricity market operator.

By the Decision of the Council of Ministers No. 862, date 20.12.200 the "Distribution System Operator", (DSO) was established. This was reached from the unbundling of the Distribution Division in KESH and creation of DSO as an entity legally, financially and functionally independent from KESH.

This was a very important step in preparing the distribution activity for privatization. ERE licensed DSO to carry out the activities of distribution, including maintenance, development and operation of the power distribution network. On the other side, DSO is in charge to carry out the connection to the distribution network of the Tariff Customers, Small Power Producers and Eligible Customers with non-discriminatory terms.

By the Decisions of the Council of Ministers No.338, date 19.3.2008, the Albanian Market Model of electricity was approved, which provides the structuring of the Albanian market model, the relations between the market participants, the roles and responsibilities and the regulatory role of ERE in this market. Some of the determining principles have to do with the allocation of the hydrological risk to the Wholesale Public Supplier, an entity under KESH, which will remain a public company with 100% of shares owned by the Government. In this way, for a certain period, the Government will continue to have the responsibility to guarantee the supply with electricity of the country in case of dry season when the domestic generation in

unable to meet the electricity demand.

The Model authorizes DSO to purchase the electricity needed to cover losses with import, trying to stimulate the reduction of losses by DSO.

Within DSO, the Retail Public Supplier is established, which purchases the electricity from the Wholesale Public Supplier and sell it to tariff customers with regulated prices approved by ERE

Based on the Model priority is given to the domestic generation of electricity from HPPs to fulfill first of all the need of tariff customers.

During 2006, the Albanian Government started the procedures for privatization of DSO through the selling of the controlling pack of the company's shares (76%) to private strategic investors, in compliance with the procedures set forth in the law on Public Procurement, the law on privatization of strategic sectors of economy, and on the Decisions of the Council of Ministers on this issue etc.

In March of 2008, the Albanian Parliament approved the law Nr. 9889, date 20.3.2008 " On form and structure of formula for privatization of DSO".

The objectives of the process of privatization of DSO are:

- To secure a reliable supply with electricity to customers, with high quality and efficiency.
- To consolidate financially, technically and technologically a DSO of contemporary standards.
- To give access to strategic investors and private capital for important investments in the electricity system of distribution.
- To establish and consolidate a competitive electricity market in compliance with the EU Acquis Communautaire and the Energy Community Treaty and its integration to the regional and European energy markets.

An important role in the successful functioning of the market, according to the requests set forth above, is the establishment of a

comprehensive regulatory framework complying with more advanced standards.

ERE in cooperation with the qualified international consultants, financed by USAID, which are assisting in this process, have developed a comprehensive and complete regulatory framework. This regulatory framework comprises:

- Market Rules.
- Transmission, Distribution and Metering Codes.
- Methodologies of electricity tariffs for all the services offered by the licensees in the electricity market.
- Unification of accounts for the licensees according to the international Accounting Standards.
- Procedures of licensing, transfer and modification of licenses etc.

It is important to emphasize that the privatization process came as a natural continuation from the national energy strategy for the economic development of the country and a logic consequence of restructuring process within KESH. It is considered as a competitive, impartial and transparent process under the balancing and regulatory oversight of ERE.

During the first 6 months of 2008 there were held many promotional meetings, where the DSO, the regulatory framework and the privatization procedure were presented to foreign participating investors. Further on, the role of ERE has consisted in developing the "Regulatory Statement" which served as an important bases in negotiations with all preselected companies in the privatization process. The Statement states the economic-financial terms and the obligations to be fulfilled by the investor in the performance of DSO, in the post-privatization stage.

ERE held some rounds of meetings with all the preselected companies in the bid and at the end a final version of the Regulatory Statement was archived, which was approved on 9th of September 2008 by ERE and published in the Official Journal.

In the international bid held by the Ministry of Economy, Trade and Energy (METE) on 29th of September 2008 was declared the Czech company "CEZ" was declared winner of the bid.

Afterwards, METE established an inter-institutional team for the negotiations with CEZ, for the privatization contract. It should be emphasized that in general the negotiations are a process in which none of the parties can get the maximum of its expectations. During this process both parties are required to be flexible, but also to be firm for certain conditions and terms considered nonnegotiable. Although the negotiations are taking place in an unfavorable international context due to the economical global crises, it should be said that they will be finalized very soon with the signing of the contract.

Upon METE request, ERE shall review and approve the Regulatory Statement, in which will be represented the amendments that might have been agreed during the process for the contract negotiation. After that the contract with the Regulatory Statement as annex, shall be approved by the Council of Ministers and ratified by the Parliament as stipulated by the law.

We judge that the obligations taken by CEZ to reduce the electricity losses from the actual level of 32% to 15% by the end of the third regulatory periods (by 2014), and the increase of collection, introduction of new technologies and standards in service and responsibilities toward the customers, it is expected that the privatization process will be a successful one.

It is worthwhile to emphasize that the privatization process has been developed with full transparency and the Albanian institutions involved in this process have shown dignity and high professionalism.

II. ANALYSIS OF THE PRIVATE POWER SECTOR 2008

2.1. Activity of the private sector

The power private sector during 2008 is represented by 15 private power generation companies with a total of 46 HPP with installed power up to 10 MW, 7 out of these companies are concession companies, while 8 others are private companies.

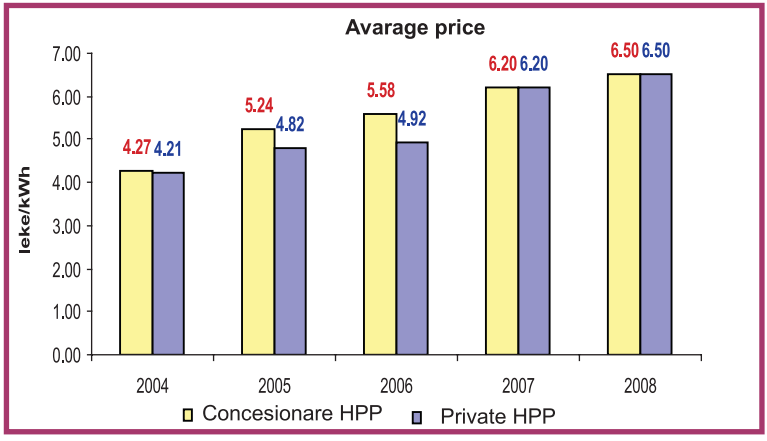
The Government has adopted a promoting and encouraging policy towards this sector for their as effective as possible development with the objective to increase the power generation from the local hydro sources and the growth of the employment and the development of infrastructure in the remote rural areas.

In the graph of figure 2.1, is presented the evolution of the electricity prices as approved by ERE, these generators have sold their power to KESH, in a market guaranteed by the Government, for the period of 2004-2008. As it can be seen, there has been a continuous tendency of the price increase in order to permit these licensed subjects to enable them to rehabilitate technically their plants..

As it is already obvious the years 2007 and 2008 have been very dry years, which are reflected in the reduction of generation even from the HPPs of small capacity. In the table 2.1 it is presented the electricity

generation structure from these generators for 2004-2008. Despite 2008 was a very dry year, it represents the highest generation output of the entire period with some 62.026 GWh. Even though the power generation for 2008 is only 0.17 higher than 2006, the revenues from the sales of power have been 16.9% higher, which shows visibly the support given to these subjects for the technological rehabilitation and increase of efficiency of their HPPs. In the graph of figure 2.2 is presented the progress of power generation realized by the small power HPP during period 2004 – 2008

Figure – 2.1. –(Source: Data ERE)



While in the graph of figure 2.3 are presented the sale revenues of these licensees, for the same period.

It does worthwhile to underline that during 2008 there have been cases when the small HPPs were forced to shut down, especially in the northern part of Albania. These shut downs were result of the objective technical reasons, due to the incapacity of commutation of the power scheme or in cases of refurbishment of mid-voltage long-distance lines that these HPPs be efficiently connected with the areas were they are located.

Table – 2.1 – (Source: ERE)

Small HPP generation in GWh/					
	2004	2005	2006	2007	2008
Albanian Green Energy	10,454	16,679	28,087	25,348	23,634
Balkan Green Energy	10,480	12,627	13,360	15,612	18,980
Emikel	5,017	3,195	2,985	2,638	2,781
Amal	1,000	1,136	545	868	1,020
Spahiu-Gjanc	6,727	4,993	5,382	4,941	3,850
Wonder-Power sh.a.	6,356	5,726	5,492	3,663	4,297
HPP's concessionaires	40,357	44,660	56,112	53,070	54,562
		11%	26%		3%
Projeksion	550	0	0	423	796
Sarolli	118	191	45	21	344
Juana	210	183	260	187	196
WTS energji	135	336	848	530	1,006
Marjakaj	0	197	330	397	353
Maksi Elektrik	383	549	561	672	764
Favina	0	846	3,342	3,877	4,003
Dardania	0	0	0	0	0
Private HPP	1,248	2,629	5,806	6,107	7,464
		111%	121%	5%	22%
Total	41,605	47,289	61,918	59,177	62,026

Figure – 2.2. –(Source ERE)

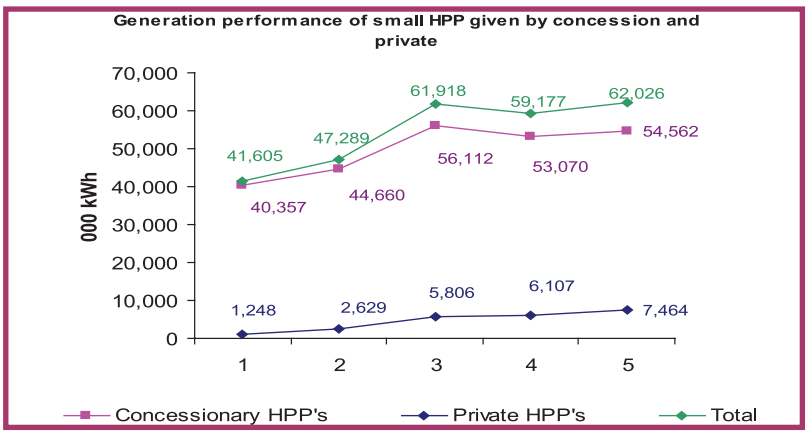
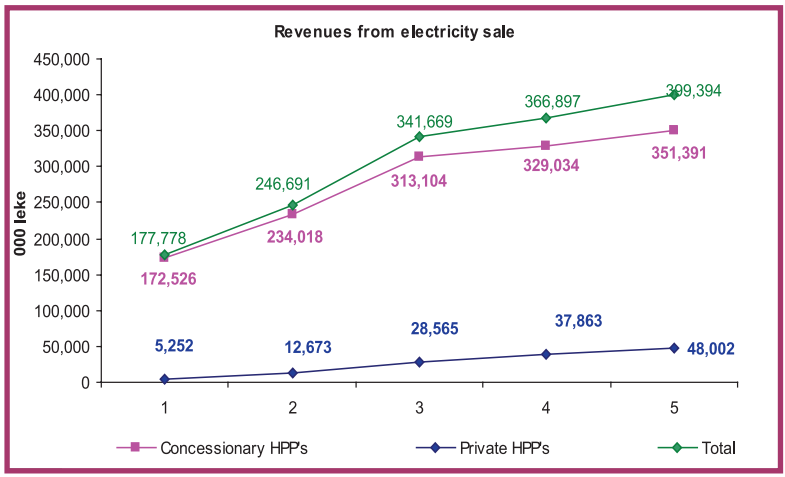


Figure – 2.3 –(Source ERE)



However, it should be underlined the interest of DSO investments to facilitate the maximal use of the generation capacity of these HPPs have not been sufficient; causing long lasting interruptions of generation and inefficient use of the water reserve.

The total generation from the private sector in 2008 was only 0.99% of the total consumption at country level. For small capacity HPPs with installed capacity up to 10 MW, taking in consideration the HPP of Bistrica, Lana 2 Lanabregas, Theth and Lure, which are owned by KESH, the total power generation in 2008 was some 130.629 GWh or 2.09% of the total country generation.

In the table 2.2 is presented as a summary table the key figures for these subjects for 2004-2007.

During the operation of plants for last 5 years, (since 2003, when these HPPs were privatized or were given by concession) ERE has reflected the mandatory invetment plans to be implemented by the concessionaries based on the concession agreement, in the approved price year after year. In this manner, as it can be seen in the graph of Figure 2. – to these generators for the period 2004-2008,

it was given the possibily to increase the efficiency of use of these sources as a result of new investements.

Meanwhile, ERE complying with the above mentioned methodology for these HPPs, in February of 2008 approved a uniform price of 6.5 leke/kWh for 2008 with an increase of 4.8% in comparison to 2007.

Also, based in the DCM No. 27, date 19.01.2007 "for the approval of the evaluation rules of the concession's granting", ERE set the price of 9.37 leke/kWh for the selling of energy from new HPP with installed power up to 10 MW given by concession based on the Law No, 9663 date 18.12.2006.

Experience Exchange with the Pennsylvanian Commission, Harrisburg May 12-14th 2008

Meeting with the representatives of USAID and NARUC, Washington D.C. 15 May

Meeting with the representatives of Federal Regulatory Commission of USA, "FERC" Washington D.C. 16th May

Visit in the Dispatch Center "PJM" 14th May.

Experience Exchange with Washington D.C. Commission 16th May.

Meeting with representatives of USAID & NARUC-, Washington D.C. 15 May

Signature of Memorandum of Understanding on Natural Gas with USAID's Mission Director Mr. .Edward Landau.

Meeting with USAID Mission Director Mr. Edward Landau

From the continuous monitoring of the activity of these producers, ERE identified the need for creation of the favorable conditions for urging the construction of new sources or rehabilitation of the existing ones. In the actual conditions when 33% of the hydro sources are exploited (which means concrete possibilities for investments in new sources), ERE is responsible to contribute for the creation of a competitive climate for the most valuable investment alternatives in the existing and new power generation sources. In compliance with this policy ERE licensed for 2008 three companies for the construction of four HPPs (in Tervol of Librazhd, in Bilisht, and Stranik and in Zall Tore of Prenjas), with total installed capacity 15.05 MW. These HPPs are forecasted to generate some 66.05 GWh power per year and to invest about 10.4 million Euros. For the smalll HPPs it is important to emphasise that some of these work seasonally, since the water is used also for irrigation of the agriculture land and also from the population.

Nr.	SUBJECT	LINCENSE ACTIVITY	LINCESING DATE	EXPIRY DATE	ASSETS IN USE	NOTE
PUBLIC COMPANIES / GENERATION						
01	KESH sha	Generation	Decision nr. 11 dt. 23/02/2006	23/02/2009	HC Fierze 500 MW HC Koman 600 MW HC V. Dejes 200 MW HC Ulez 24 MW HC Shkopet 25 MW HC Lanabregas 5 MW TC Fier 159 MW	
COMCESSIONARY / GENERATION						
01	EMIKEL 2003 sh.p.k	Generation	Decision nr. 6 dt. 16/02/2006	16/02/2034	HC Lenie 400 kW HC Çorovode 400 kW HC Tuçep 200 kW	
02	Albania Green Energy sh.p.k	Generation	Decision nr. 15 dt. 27/08/2003	27/08/2025	HC Smokthine 9 MW	
03	Balcan Green Energy shpk	Generation	Decision nr. 20 dt.19/12/2003	19/12/2033	25 HEC 8490 kW	Installed capacity in total
04	SPAHIU GJANÇ sh.p.k.	Generation	Decision nr. 20 dt.19/12/2003	19/12/2033	HC Gjanç 3700 kW	
05	WONDER POWER sha	Generation	Decision nr. 20 dt.19/12/2003	19/12/2033	HC Bogove 2500 kW	
06	AMAL sh.p.k	Generation	Decision nr. 18 dt.17/10/2003	17/10/2033	HC Xhyre 250 kW	

Table -1.6-(Source data METE)

07	HIDROINVEST 1 shpk	Generation	Decision 113 dt. 24/09/2008	24/09/2038	HEC Stranik 1.6 MW HEC Zall Tore 2.6 MW	
PRIVATE / GENERATION						
01	SAROLLI sh.p.k	Generation	Decision nr. 15 dt.27/08/2003	27/08/2033	HC Shpelle 117 kW	

02	Projeksion Energji sh.p.k.	Generation	Decision nr. 15 dt.27/08/2003	27/08/2033	HC Rehove 100 kW HC Treska 1 130 kW HC Çarshove 70 kW	
03	DARDANIA ENERGJI sh.p.k	Generation	Decision nr. 20 dt.19/12/2003	19/12/2033	HC Bicaj 100 kW	Transf. to EN.KU shpk
04	MAKSI ELEKTRIK sh.p.k	Generation	Decision nr. 5 dt.11/01/2006	11/01/2034	HC Leskovik1 72 kW HC Leskovik2 100 kW	Transf from KORSEL shpk
05	JUANA sh.p.k	Generation	Decision nr. 5 dt.12/03/2004	12/03/2034	HC Orenjë 75 kW	
06	WTS ENERGJI shpk	Generation	Decision nr. 39 dt.22/07/2004	22/07/2034	HC Tamarë 150 kW HC Selcë 75 kW HC Vukël 75 kW HC Vermosh 75 kW	
07	MARJAKAJ shpk	Generation	Decision nr. 43 dt.14/10/2004	14/10/2024	HC Benë 125 kW	
08	FAVINA 1 shpk	Generation	Decision nr. 85 dt.27/12/2005	27/12/2010	HC Vithkuq 780 kW	Transf from FAVINA

III. ANALYSIS OF THE NATYRAL GAS SECTOR IN ALBANIA FOR 2008.

3.1. Responsibilities of ERE in the Natural Gas Sector.

The Law No.9946, date 30.6.2008, "On Natural Gas Sector" provides the basis for the creation of the legal framework of Albania natural gas sector.

This law enables the establishment of a competitive natural gas market and its integration into the regional and European natural gas markets.

It also provides the necessary legal basis for the implementation of policies, standards and procedures for the organization and regulation of the Albanian natural gas market and the related activities.

The law has been developed in compliance with the EU Directive 55/2003/EC on natural gas and based on the experience of the other countries in the region.

Based on the Law No.9946, date 30.6.2008, "On natural Gas Sector" ERE is the responsible body for licensing of the transmission, distribution, supply and trade and for the operation of the natural gas storage and liquefied natural gas facilities.

In addition, ERE has the authority to set the tariffs for transmission, distribution, storage, ancillary services and balancing and also

the tariffs for final tariff customers. Also ERE approves the investment plan for the licensees in the natural gas sector.

Of great importance are the responsibilities given to ERE regarding the customer protection, monitoring of the licensees for the security of supply, public service obligations and several rules and procedures that together with the Grid Codes and Metering Code consist in the regulatory framework of the natural gas sector.

3.2 Natural Gas Sector in Albania.

The Natural gas production started in 1968 at Divjaka gas field with an annual domestic production of 70 million Nm^3. The peak production of natural gas was reached in 1982 with 0.937 billion Nm^3, with the discovering of Cakran field. In difference from the Divjaka field, the gas of Cakran field was associated gas because Cakran was a condensated gas filed.

The total number of gas wells in Albania are estimated to be over 500, with a cumulative production of natural gas of 3.15 billion Nm^3, while the cumulative production of associated gas is estimated around 8.7 billion Nm^3.

After the 90's, the natural gas production was considerably reduced by reaching 12 million m^3 per year. Actually the number of producing wells of natural gas has been reduced to around 20 and their production is almost minimal (from 200 to 300 nm3/day).

In the map of figure -3.1. – are shown the gas fields in Albania.

Until 1990, the domestic natural gas supplied the fertilizers industry, oil and electricity industry and very little went to the residential sector. Because the gas fields started to deplete, the supply with natural gas was gradually reduced and actually the production of natural gas and associated gas serves only for fulfillment of oil industry needs.

Figure -3.1 –(Source METE)

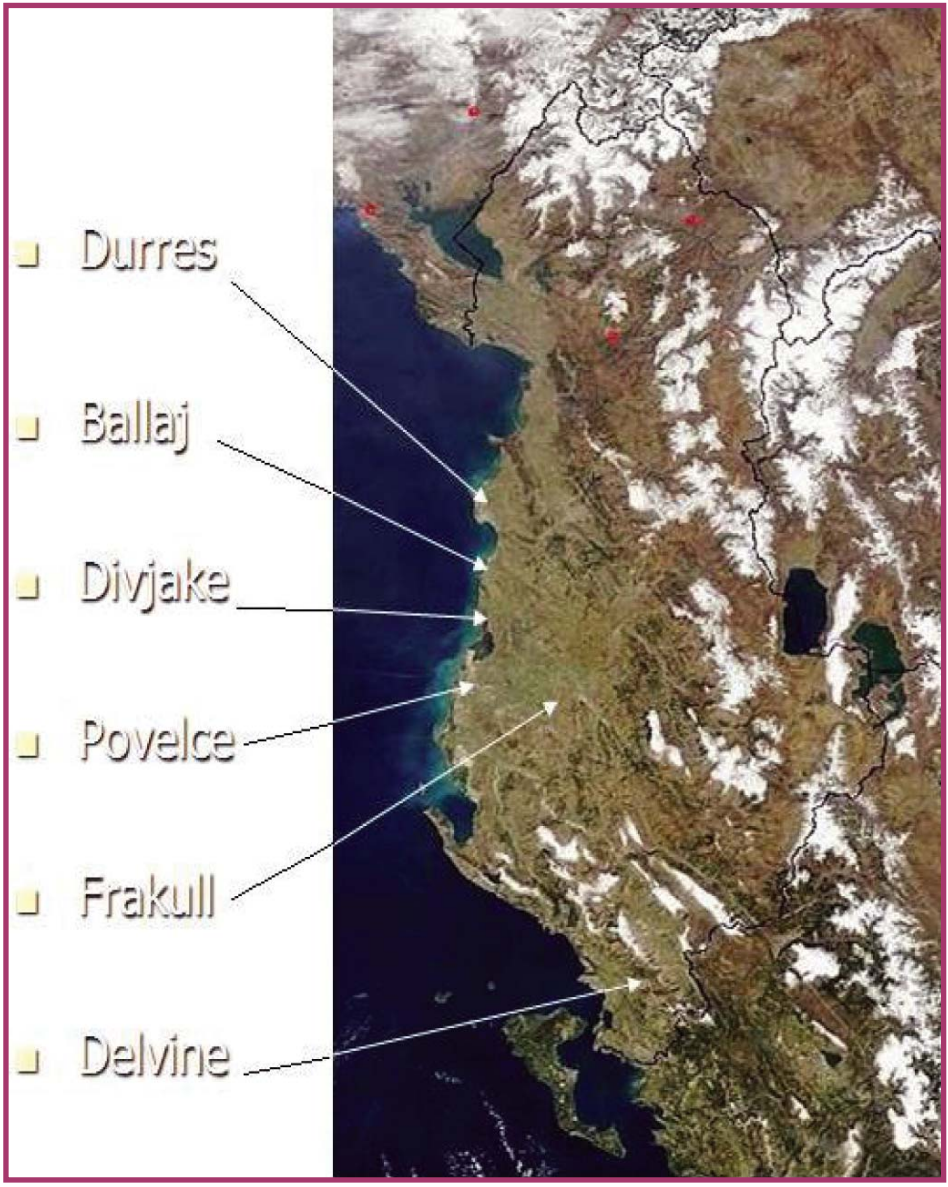
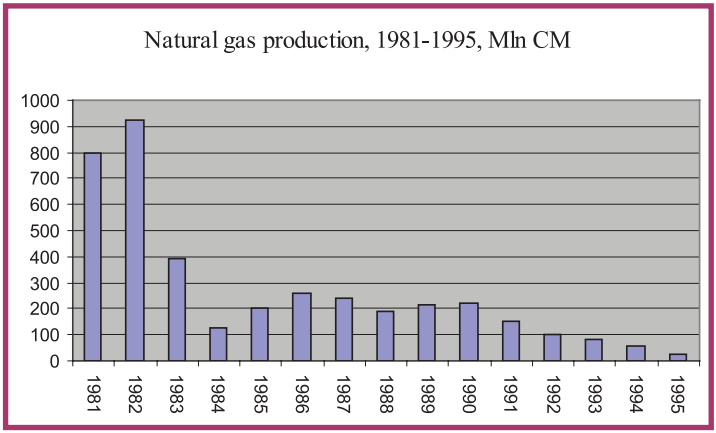
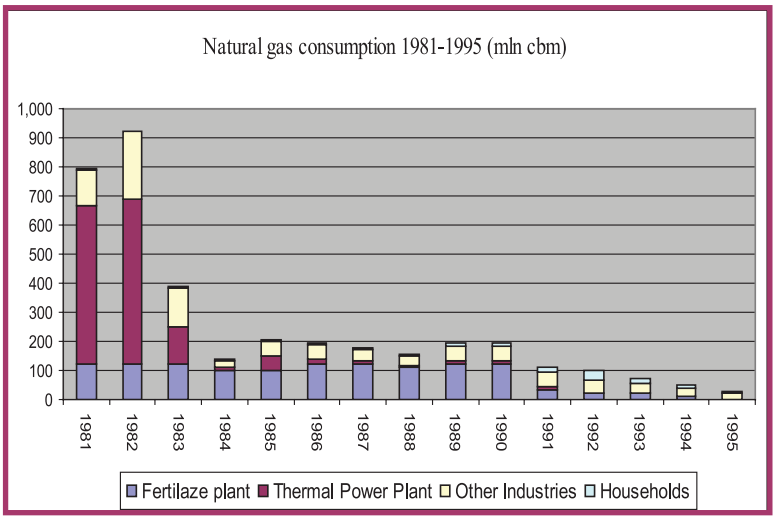


Figure -3.2 –(Source METE)



In the graph of figure -3.2 - is shown the performance of the country supply with gas for the period 1981 until 1995.

Figure – 3.3. –(Source METE)



In graph of figure – 3.3 – is shown the consumption structure of natural gas. For the assessment of the natural gas sector in Albania, starts from 1994, there have been carried out many studies by well-known international institutions or companies such as "Partex"," Sofregaz", "Ruhrgas", "Tenneco Gas", "World Bank" etc.

The results from these studies conclude that the main customers of natural gas until 2015, could be: gas firing TPPs, industry, services, tourism and partially the residential customers.

Table -3.1 -(Source METE)

Sectors	Million M3/year	%
Electricity Generation	724	60
Industrial Sector	81	7
Service Sector	264	22
District heating	104	9
Residential Sector	32	2
Total	1205	100

In table- 3.1 – it is provided the demand forecast for gas in our country up to 2015 according to the sectors.

3.3 Interconnection of Albania to the natural gas network.

Actually Albania and Kosovo are the only European countries not connected to the international gas networks.

Under these actual conditions, the supply of Albania with gas is foreseen to be done by the international gas networks, for which there are three existing options:

A- As a terminal of the regional gas pipeline.

1- With Russian natural gas from Macedonia

2- With Russian natural gas from Greece

B- As transit along with the gas pipeline for the supply of

Western Europe, through Italy, with natural gas coming from Caspic region, in the axis of Turkey- Greece-Albania-Italy, by the "Transadriatik" or "TAP" project.

C- As terminal of liqufied natural gas in the Adriatik coast

In the gas regional market, in which are included the South-West of Balkan, the forecast of the demand for natural gas until 2015, is shown in the table -3.2-

From the analysis of the possible projects interconnecting Albania to the international gas network is estimated as optimal the "TAP" project. TAP will constribute to the diversification the and security of gas supply of the European countries.

TAP is valued as the most efficient gas pipeline from the 4 project corridors of supply to Southeast Europe. TAP includes the option of developing the storage of natural gas in Albania, which is considered as important from the point of view of increasing the security of supply with gas.

Table-3.2 –(Source METE)

No	State	Demand until 2015 in Nm^3
1	Republic of Albania	1205
2	Republic of Kosovo	560
3	Republic of Montenegro	701
4	Republic of Macedonia	1020
5	Republic of Greece	7300
6	**Total**	**10786**

Figure – 3.4 –(Source ERE)

In the map of figure – 3.4. – is shown the trace of the "TAP" gas project. The main characteristics of this project are as below:

Total Length: From which:	520 km. 185 km in Greece. 200 km in Albania. 115 km in Adriatic Sea
Sector:	on shore 48 inch (around 1.2 m). off shore 36 inch.(around 0.91 m).
Capacity:	10 billion Nm^3/vit, with expansion up to 20 billion.
Highest length:	1,800 m.
Maximal depth	820 m.
Project cost Euro	1,500 million

TAP project represents a rational solution with an important impact for the economic development of our country. It represents a

major project in the energy infrastructure of Albania by contributing to the gasification of our country, it will contribute among others to the increase of security of the supply with energy for the country.

Figure – 3.5 – (Source ERE)

Finally, it must be emphasized that this project given the considerable flexibility regarding the tranmission capacity, allowing the doubling of capacity without changing the section of the pipeline, but modifying only the parameters can enable the supply with gas of Kosovo, Montenegro, Bosnia-Hercegovina and other countries in the northen part of the region, through the project of establishing a network of gas pipelines that will serve these countries. In figure – 3.5. – is shown the map of the project development with a doubled capacity.

3.4. Action plan for the organization of natural gas activity in ERE.

In compliance with the Law No.9946, date 30.6.2008, "On Natural Gas Sector", article 9, in addition to the role as the regulatory authority in the electricity sector, ERE is entitled also with the regulatory authority for the natural gas sector, except the gas exploration and production activities.

The Law (article 12) also stipulates, that within 12 months from the date the law becomes effective the ERE shall develop the neccessary secondary legislation neccessary for the regulation of the natural gas activities in Albania.

In the framework of regulating the natural gas sector, on 16th of April 2008 the ERE signed a Memorandum of Understanding with the USAID, under which USAID is committed to cooperate for the implementation of natural gas law and for the development of the secondary legislation in the natural gas sector.

On 27th of October 2008, the USAID representatives presented to ERE an expert of an American consulting company that will assist ERE for developing the whole secondary legislation of the natural gas sector. In the second meeting of 30th October the consultant presented a draft schedule and the topics that will be treated in the regulatory framework of the natural gas sector.

The natural gas activity is a new one and the existing staff of ERE has no experience in this sector. Although the regulation principles have a general character, the area where they will be implemented is completely new. That's why we judged as neccessary the having of a new ERE staff for this activity.

In order to be as rational as possible for the organizative structure and number of employees in ERE, it come to the conclusion to have the same organization chart approved by the Albanian Parliament in 2008, adding 6 more specialists in the existing chart of ERE. The total

number from 32 employees will be 38, the one that is going to be approved, as it is shown in the organization chart in Annex – A2-.

Considering that the deadline for developing the secondary legislation of ERE is set by the law, to comply with that and at the same time to carry out the activity in the natural gas sector based on the authority given by the law, ERE asked the Albanian Parliament on the 5th of November for the increase of its staff number.

In addition to that, ERE made a request to the Selecting Committee of the Albanian Parliament to appoint, according to the respective procedures, the member of the Board of Commissioners, who based on the Law No.9946, date 30.6.2008, "On Natural Gas Sector" should be a specialist of hydrocarbon field.

Unfortunately, the ERE's request for an increase of its staff number was not approved by the Parliament till the end of 2008, while the request for appointing the new Board member was finalized with a qualitative candidate.

IV. ANALYSIS OF ALBANIAN ENERGY REGULATORY ACTIVITY FOR 2008.

4.1. Regulation of tariff and prices of electricity.

Setting the electricity tariffs and prices represent one of the main responsibilities of ERE and at the same time an issue of high sensitivity for the whole public opinion, because they affect financially, as worldwide all social categories of a country.

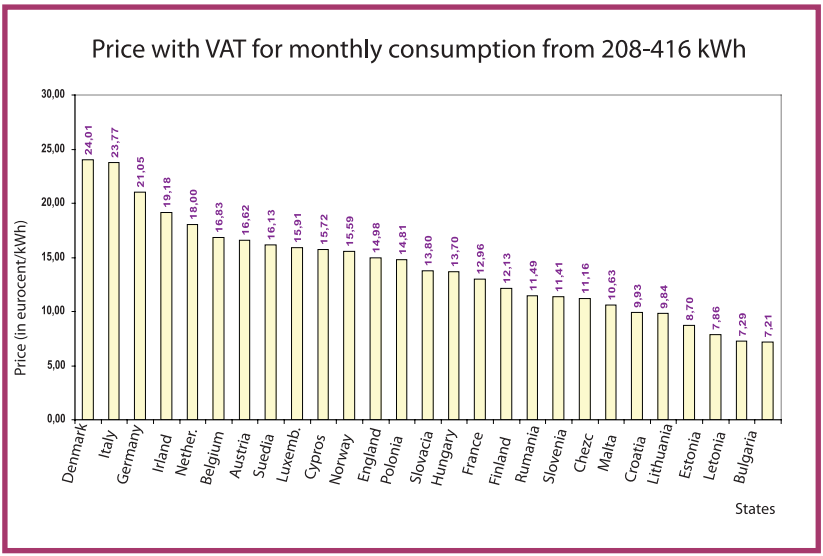
In the global view, the energy in general and the electricity in particular, are becoming more and more expensive. The concentration of fossil energy resources only in some production countries and their consumption with high rhythms everywhere, from one side, and the expected depleting of these sources from the other has made the relation demand-supply sharper. This situation is being used actually in the manifestation of some tendencies for a political hegemony.

Starting from our aspiration for integration in the Euro-Atlantic structures we judge as reasonable that the electricity tariff and prices should be treated as in other EU countries.

In the graph of figure – 4.1. – are shown the electricity tariffs for household customers in EU countries for a monthly consumption of 200 – 400 kWh (or 2500 – 5000 kWh per year), for each family. Characteristic of the electricity tariffs for these countries is the

division based on the level of consumption of household customers in 5 groups. From the graph it can be noticed that the lowest tariffs are applied in Bulgaria with 7.21 Eurocent/kWh (9.3 lek/kWh) while the highest in Denmark with 24.01 Eurocent/kWh (31.3 lek/kWh). These tariffs include VAT.

Figure- 4.1 –(Source: Annual Report Italian Reg)

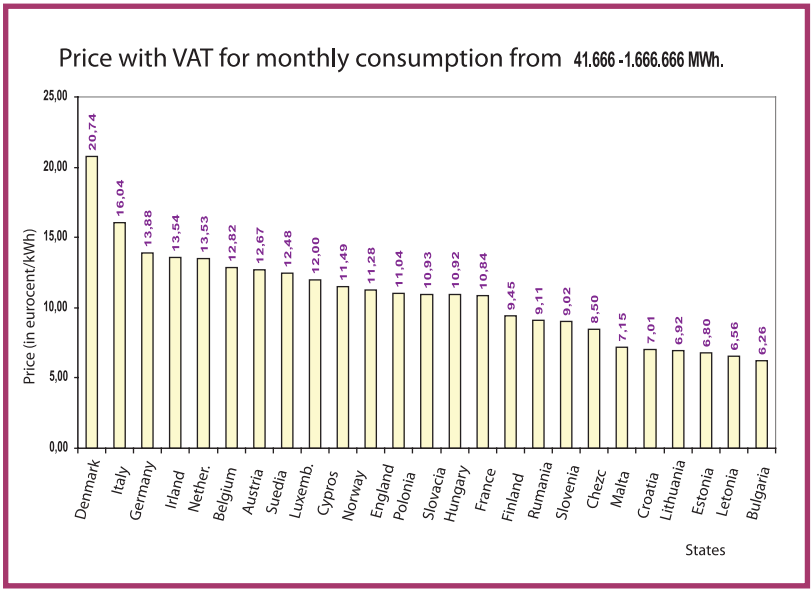


For non household customers, the electricity tariffs are divided according to the consumption level in 6 blocks.

In graph of figure – 4.2 – are shown the electricity tariffs for non household customers for the block of consumption 500-2,000 MWh/year or around 42,000 – 1,700,000 kWh/month.

Form the data of this graph it can be noticed that the lowest tariff, including VAT, is applied in Estonia, with 6.26 Eurocent/kWh (8.14 Lek/kWh) while the higher tariff is in Denmark with 20.74 Eurocent/kWh (26.9 Lek/kWh). In all the cases exchange rate is 1Euro = 130 Leke.

Figura – 4.2 –(Burimi nga Rap.Vjetor 2007 i Reg.Italian)



From the review of the above data it results that the average EU tariff for household customers is 16.36 Eurocent/kWh (21.26 Lek/kWh), compared to the tariff of 11.60 Eurocent/kWh (15.08 Lek/kWh) for non household customers. As it can be seen the tariffs for household customers are around 41% higher that tariffs of household customers.

ERE has set the electricity tariff and prices also for the transmission and distribution services for 2008 based on the respective methodologies for their calculation. Those methodologies are based on principles for the costs incurred by each category of customers in each level of voltage, by giving the right signals for the efficiency usage of electricity by tariff customers and by eliminating the cross-subsidies between the customer groups, so that the company will continue its activity with a reasonable profit margin. The setting of

tariffs undergoes a transparent and fair process with the participation of all the interest groups each time there is a tariff review case.

The tariffs are set to secure the promotion of investments in the generation of electricity and to ensure a secure and reliable supply with electricity in the future.

Based on these principles, ERE approved in 2008 the tariffs for each unbundled service as following:

By Decision No. 22, date 14.02.2008 "On setting the price of electricity sale for licensees on electricity production from hydro power plants with installed capacity up to 10 MW for the period March 1st 2008 - February 28th 2009", and the price is 6.50 leke/kWh;

By Decision No. 82, date 24.12. 2007 "On setting the price of the electricity sale from the new HPP with installed capacity of up to 10 MW for 2008", and the price is 9.37 leke/kWh;

By Decision No 18, date 14.02. 2008 "On setting the electricity tariff for generation from KESH for the period March 1st 2008 – February 28th 2009", and the generation tariff is 0.78 leke/kWh;

By Decision No. 75, date 26.06.2008 "On setting the electricity wholesale price for WPS for period July 1st 2008 – February 28th 2009", and the wholesale supply tariff of electricity is 1.61 leke/kWh.

By Decision No. 19, date 14.02. 2008 "On setting the transmission service tariff of electricity for TSO for the period March 1st 2008 – February 28th 2009", the tariff for the transmission service is 0.50 leke/kWh;

By Decision Nr. 20, date 14. 02. 2008 "On setting the distribution service tariff of electricity for users of the distribution system for the period March 1st 2008 – February 28th 2009, and the tariffs of distribution service 2.00 leke/kWh for customers connected at 35 kV and 2.60 leke/kWh for customers connected at 20/10/6 kV;

By Decision Nr. 21, date 14.02. 2008 "On setting the retail tariffs for tariff customers for the period March 1st 2008 – February 28th, 2009", tariffs which are shown in table 4.1.

For the first time, in setting the 2008 tariffs ERE implemented the electricity tariff and prices methodologies, taking into consideration some important principles, which modernize the process in compliance with the principles applied in EU countries.

Table – 4.1 - (Source ERE)

Voltage Level	Customer Categories	Approved tariffs (lek/kWh)	Tariffs for reactive power leke/kVAr	Peak energy prices (lek/kWh)
HIGH VOLTAGE	**HV transmission customers with assets owned by them**			
	Industry	5.20	0.78	9.00
	Commerce & Services			
	Agriculture			
	Others			
	Customers supplied at distribution 110 kV substations			
	Industry	7.00	1.05	9.64
	Commerce & Services	7.00	1.05	9.64
	Agriculture	7.00	1.05	9.64
	Others	7.00	1.05	9.64
MEDIUM VOLTAGE	**Customers supplied at 35 kV**			
	Industry	7.50	1.13	10.00
	Commerce & Services	7.50	1.13	10.00
	Agriculture	7.50	1.13	10.00
	Others	7.50	1.13	10.00
	Customers supplied at 20/10/6 kV			
	Industry	8.00	1.20	11.00
	Commerce & Services	8.50	1.20	11.00
	Wheat industry& bakeries	7.00	1.05	11.00
	Agriculture	8.00	1.20	11.00
	Others	8.00	1.20	11.00
	Budgetary	10.00	1.41	11.00
LOW VOLTAGE	**Customers supplied at LV**			
	Industry	9.50		
	Commerce & Services	10.00		
	Wheat industry& bakeries	7.50		
	Agriculture	9.50		
	Others	10.00		
	Budgetary	12.00		
	Average tariff for non-household custom	**8.73**		
	Average tariff for household customers	**8.23**		
	First Tier up to 300 kWh	7.00		
	Second Tier above 300 kWh	12.00		
	Fixed service tariff for customers with no energy consumption (lek/month)	200		
	Tariff for electricity consumption in common spaces (condominium) (lek/kWh)	7.0		

4.1.1. Tariff for capacity and for energy.

Up to date in the methodology for calculation of electricity tariffs, the tariff component for capacity has been hidden in the tariff for energy and spread uniformly to all customers independently from their load capacity.

Such distribution creates a specific way of cross-subsidy among customers with different capacities and as a result there is no transparency on cost allocation to customers. In the international practice, in general, the tariffs for capacity and for energy are calculated separately, and they can be calculated also as a single tariff, as an average of the two components.

For different customers capacities are necessary different levels of investments and services from the power system, to guarantee their supply with electricity. The different capacities will have different capacity tariffs independently from the electricity consumed. While the tariff for energy depends on the costs recovering of power supply in different levels of voltage.

Starting from these considerations, ERE, applied the different tariffs principle for the capacity and for energy expressed as average of both in the electricity tariff for 2008.

The methodology for the evaluation of capacity tariff was based on the estimation of load factors for each customer group, according to levels of service, by using for this purpose the load curves model of the respective groups.

4.1.2. Principle of setting the tariffs based on the level of service for each customer group .

The electricity customers connected to the power system at different voltage levels are characterized by different cost of service. Thus, in accordance with the methodology, based on the principle of

the real cost of service for each customer group at different voltage levels were set the different tariffs.

ERE in calculation of tariffs has considered the principle of setting the electricity tariffs based on the level of voltage where each group of customers is supplied, avoiding this way the cross-subsidization among customer groups.

4.1.3. Principle of unbundling the tariffs according to the activity.

In the frame of KESH unbundling from one vertically integrated company in legally, financially and organizatively separated companies, the ERE in the methodology of setting the electricity tariff considered the principle of unbundling the tariffs for generation, transmission, distribution and supply activities.

In this way, adopting such a tariff system the ERE pave the path for the privatization of distribution and retail supply activities.

4.1.4. Principle of two-tier electricity tariff.

The ERE judged necessary that under specific conditions of our country, where the space heating from electricity is about 35 % of the total household consumption, is necessary the application of differentiated tariffs with two blocks of energy consumption, to discourage this way by the tariff mechanism the use of electricity for space heating by the household customers.

The needs for cooking and especially for space heating, as in the market there are the possibilities to meet them with alternative energy sources, with the same effectiveness and comfort as with electricity, and one of them with cheaper price, can not be considered as basic needs for electricity usage.

Starting from this reasoning, for household customers with consumption until 300 kWh per month, was set the electricity tariff

7 Lek/kWh, and this category of customers was called the first block. For consumption above 300 kWh the tariff set was 12 Lek/kWh.

The application of two block tariffs, has served as an instrument that encourages the use of LNG and other alternative sources of energy for cooking, space heating etc. In addition to that, such a principle has promoted the efficient use of electricity to household customers.

4.1.5. Principle of "peak" and "off peak" tariffs.

The load curves in the power system that express the real time load in 24 hours are characterized by the maximum load or the peak load in certain hours of the day.

The peak load increases highly the load from occasional conditions. Concretely the maximum peak load of 1370 MW against the average load of 800 MW results 1.71 times higher.

To cover the peak load, the generation investments or import of electricity are highly increased. In the same time the investments in both transmission and distribution systems are increased, reducing this way the whole power system.

This is the reason why the ERE decided to have the electricity tariff in peak hours differentiated from the off peak hours for the industrial customers in medium and high voltage. In the table -8- are shown the electricity tariffs for peak period.

Increasing the electricity tariffs during peak hours, against off-peak tariffs the customers are encouraged, due to their economic benefits, to modify their individual load curve reducing their consumption so that the consumption in peak hours is reduced more.

4.1.6. Principle of service tariff for customers with no consumption.

In every country the respective utilities incur considerable expenditures to keep the system ready and to offer in any moment supply with electricity. In addition to this, independently the electricity is consumed or not, KESH has expenditures for the meter reading service, preparation of the electricity consumption bills and their delivery to customers.

This service is provided equally to all the customers independently whether they consume electricity or not.

If for the customers that consume electricity the service tariff is included in the electricity cost, for those who do not consume or have a bill with zero electricity consumption there is no actual charge for the service, although such a service is provided for them as well.

Starting from this consideration, the ERE in the tariff and prices for 2008 judged it reasonable and necessary the application of service tariff for customers with no consumption at the amount 200 lek/month.

4.1.7. Principle of the relation household-industry tariffs.

An important feature in the criteria for setting the electricity tariffs and prices for 2008 has been the ratio of household and industrial customer's tariffs.

In the centralized state economies where all the economic development of the country is done only with the state participation and where the free competition is lacking, being this a characteristic of the totalitarian regimes, also the electricity prices for the population as other consumption prices have a populist character. In the free market economies where there is a liberalized market, the prices are subject of demand-supply laws and cost of service, the household customers are part of the retail market supplied in the low voltage

network. This is the main reason why the electricity tariffs for this category if customers will be higher than the industry prices supplied at medium voltage in distribution network or at high voltage in transmission network. From the other side the business in general and the industry in particular are developing forces that determine also the economic growth of a country, and as a result the promoting policies are also expressed in the tariff and price policy. In the post-totalitarian countries the business tariffs are higher than those of the household customers. But for the countries in transition towards the free market economies the tariff policies should have as a trend the abovementioned consideration. This trend have been preserved by the ERE in setting the electricity for 2008.

4.2. Licensing Sector's Activity in ERE.

For 2008 the licensing sector activity in the licensing and market monitoring has followed and reviewed 27 applications on:

- Licensing of the electricity sector activities;
- Modification of existing licenses;
- Renewal of licenses and;
- Qualification of plants for production of renewable energy.
- In total for 2008 the licensing activity described above are shown in the table – 4.2 -

Table – 4.2 – (Source: ERE)

Activity	No. of licenses
Construction/Generation	9
Generation	1
Distribution	1
Wholesale Supply	1
Retail Supply	1

Eligible Customer	2
Trader	2
Modification of existing licenses	4
Renewal	1
Qualification of plants as renewable energy sources	5

In the following table -4.3 - , it is the summary for all the licensing companies and their characteristics.

In particular can be mentioned the licensing of some new generating plants (wind farms, HPP and TPP by biomass). Below there is also a summary table with the main data on the installed capacity and the investment values.

In the following table -4.4 - is shown the summary of the licensed subjects and the table for renewable energy sources.

Finally it is to be emphasized that with the amendment made to the Law No.9072 date 22.05.2003 "On Power Sector" by the Law No.9913, date 5.5.2008, in the article 34/1, paragraph 1, of this law it is stated: 'Construction of new generation sources, when it is not approved by a concessionary agreement, is approved by the Council of Ministers" giving the authority to issue the permits for constructions of new generation plants to the Government.

Also according to this law, in the article 13 paragraph 1.a. it is stated that ERE issues licenses for generation of electricity, amending the previous provision according to which ERE has the authority to issue license for construction, exploitation and generation of electricity. In compliance with this law requirements the ERE made the respective reflections regarding the procedures and type of licenses.

Company name	Activity	No. of ERE Decision
Enpower Albania shpk	Licensing/Wind Farm	No.110 dt.16.09.2008, No.122 dt.10.10.2008
ACR Energy shpk	Licensing/Eligible Customer	No.28 dt.04.03.2008
OSSH sha	Licensing/Distribution, Supply, Import	No.8,9,10 dt.25.01.2008
Enpower Albania shpk	RES qualification	No.5 dt.17.01.2008
KESH sha	Renovation/Import/ Export	No.26,27 dt.22.02.2008
Albanian Green Energy shpk	RES qualification	No.23 dt.22.02.2008
Biopower Green Energy shpk	RES qualification	No.24 dt.22.02.2008
Projeksion Energji sha	License modification	No.47 dt.18.04.2008
Ers-08 shpk	Licensing/Wind farm	No.63 dt.13.06.2008
HERA shpk	RES qualification	No.48 dt.18.04.2008
HEC Tervoli shpk	Licensing/HPP	No.57 dt.02.06.2008
En.Ku shpk	License modification	No.86 dt.17.07.2008
MUSO HC Qyteze shpk	Licensing/HPP	No.91 dt.06.08.2008
E-VENTO S.R.L,ALBANIA shpk	Licensing/Wind farm	No.84 dt.17.07.2008
Albanian Green Energy shpk	Licensing/Biomass TPP	No.89 dt.06.08.2008
Biopower Green Energy shpk	Licensing/Wind farm	No.90 dt.06.08.2008
Unione Eolika Albania shpk	Licensing/Wind farm	No.88 dt.06.08.2008
UNIVERSI shpk	Licensing/Trader	No.119 dt.09.10.2008
Hidroinvest 1 shpk	Licensing/ HPP	No.113 dt.24.09.2008
GEN-I Tirana shpk	Licensing/Qualified Supplier	No.129 dt.02.12.2008
GEN-I Tirana shpk	Licensing/Trader	No.130 dt.02.12.2008
Enpower Albania shpk	Licensing/Trader	In process
Unione Eolika Albania shpk	RES qualification	No. 132 dt.09.12.2008
Vlora sha Thermo Power Plant	Licensing/TPP	In process

Table -4.3 – (Source ERE)

Table 4.4 – (Source: ERE)

No.	SUBJECT	LCENSED ACTIVITY	DT. OF LICENSING	Dt. OF EXPIRY	ASSETS IN USE	NOTE
PRODHIM						
01	KESH sha	Generation	Decision no. 11 dt. 23/02/2006	23/02/2009	HPP Fierze 500 MW HPP Koman 600 MW HPP V. Dejes 200 MW HPP Ulez 24 MW HPP Shkopet 25 MW HPP Lanabregas 5 MW TPP Fier 159 MW	
KONCESIONARE / PRODHIM						
01	EMIKEL 2003 sh.p.k	Generation	Decision no. 6 dt. 16/02/2006	16/02/2034	HPP Lenie 400 kW HPP Çorovode400 kW HPP Tuçep 200 kW	
02	Albania Green Energy sh.p.k	Generation	Decision no. 15 dt. 27/08/2003	27/08/2025	HPP Smokthine 9 MW	
03	Balcan green energy shpk	Generation	Decision no. 20 dt.19/12/2003	19/12/2033	25 HPP 8490 kW	Installed Power is given in total
04	Spahiu Gjanç sh.p.k.	Generation	Decision no. 20 dt.19/12/2003	19/12/2033	HPP Gjanç 3700 kW	
05	Wonder power sha	Generation	Decision no. 20 dt.19/12/2003	19/12/2033	HPP Bogove 2500 kW	
06	Amal sh.p.k	Generation	Decision no. 18 dt.17/10/2003	17/10/2033	HPP Xhyre 250 kW	
07	Hidroinvest 1 shpk	Generation	Decision no.113 dt. 24/09/2008	24/09/2038	HPP Stranik 1.6 MW HEPP Zall Tore 2.6 MW	
private / GENERATION						
01	sarolli sh.p.k	Generation	Decision no. 15 dt.27/08/2003	27/08/2033	HPP Shpelle 117 kW	
02	Projeksion Energji sh.p.k.	Generation	Decision no. 15 dt.27/08/2003	27/08/2033	HPP Rehove 100 kW HPP Treska 1 130 kW HPP Çarshove 70 kW	
03	Dardania Energji sh.p.k	Generation	Decision no. 20 dt.19/12/2003	19/12/2033	HPP Bicaj 100 kW	Transferred to EN.KU shpk
04	maksi Elektrik sh.p.k	Generation	Decision no. 5 dt.11/01/2006	11/01/2034	HPP Leskovik1 72 kW HC Leskovik2 100 kW	Transferred from Korsel shpk for financial unbundling of accounts
05	Juana sh.p.k	Generation	Decision no. 5 dt.12/03/2004	12/03/2034	HPP Orenjë 75 kW	

06	WTS Energji shpk	Generation	Decision no. 39 dt.22/07/2004	22/07/2034	HPP Tamarë 150 kW HPP Selcë 75 kW HPP Vukël 75 kW HPP Vermosh 75 kW	
07	Marjakaj shpk	Generation	Decision no. 43 dt.14/10/2004	14/10/2024	HPP Benë 125 kW	
08	Favina 1 shpk	Generation	Decision no. 85 dt.27/12/2005	27/12/2010	HPP Vithkuq 780 kW	Transferred from Favina shpk for financial unbundling of accounts
CONSTRUCTION, INSTALLMENT AND GENERATION						
01	Energo – Sas shpk	Construction Generation HPP	Decision no. 83 dt.27/11/2006	27/11/2036	HC Sasaj 7MW	
02	Remi shpk	Construction Generation HPP	Decision no.57 dt. 11/10/2007	11/10/2037	HC Egnatia 5 MW	Decision conditions
03	Hera shpk	Construction Generation Wind Farm	Decision no.61 dt. 02/11/2007	02/11/2037	Projekti Kappet 150 MW (eolike)	Decision conditions
04	Alb Wind Energy shpk	Construction Generation Wind Farm	Decision no.13 dt. 28/01/2008	28/01/2038	Grykderdhja e Shkumbinit, Terpan 225 MW	Decision conditions
05	Ers-08 shpk	Construction Generation Wind Farm	Decision no.63 dt. 13/06/2008	13/06/2038	Kavaje, Kryevidh 40 MW	Decision conditions
06	Biopower Green Energy shpk	Construction Generation Wind Farm	Decision no.90 dt. 06/08/2008	06/08/2038	BPGE 1, BPGE 2 Lezhe 230 mw	Decision conditions
07	Union Eolica Albania shpk	Construction Generation Wind Farm	Decision no.88 dt. 06/08/2008	06/08/2038	Kryevidh, Kavaje 150 MW	Decision conditions
08	E-Vento srl Albania shpk	Construction Generation Wind Farm	Decision no.84 dt. 17/07/2008	17/07/2038	Butrint, Markat 72 MW	Decision conditions
09	Enpower Albania shpk	Construction Generation Wind Farm	Decision no.110 dt. 16/09/2008 Decision no.122 dt. 10/10/2008	16/09/2038	Karaburun Llogara 500 MW	Decision conditions
10	Albanian Green Energy shpk	Construction Generation TPP with biomass	Decision no.89 dt. 06/08/2008	06/08/2038	Lezhe 140 MW	Decision conditions
11	HEC Tervoli shpk	Construction Generation HPP	Decision no.57 dt.02/06/2008	02/06/2038	Librazhd 10.6 MW	

12	Muso HEC Qyteze shpk	Construction Generation HPP	Decision no.91 dt. 06/08/2008	06/08/2038	Devoll 250 kW	
TraNSMISSION						
01	TSO sha	Transmission	Decision no. 14 dt.03/03/2006	03/03/2009	Transmission network in Albania, Districts: Fier, Burrel, Tirane, Elbasan, RMU Sarande	
DISTRIBUTION/SUPPLY						
01	DSO sha	Distribution	Decision no. 8 dt. 25/01/2008 Decision no. 114 dt.01/10/2008	25/01/2038	Distribution network in Albania Districts: Fier, Burrel, Tirane, Elbasan, RMU Sarande	
02	OSSH sha	Retail Public Supplier	Decision no. 09 dt. 25/01/2008 Decision no.58 dt.03/06/2008	25/01/2013	Supply of all tariff customers in Albania in each level of voltage	
03	GSA shpk	Qualified Supplier	Decision no. 2 dt.25/01/2005	25/01/2010		
04	ACR Energy shpk	Qualified Supplier	Decision no.28 dt. 04/03/2008	04/03/2013		
05	KESH sha	Wholesale Public Supplier	Decision no.11 dt. 23/02/2006 Decision no.59 dt. 03/06/2008	23/02/2011		
06	Gen – I Tirana shpk	Qualified Supplier	Decision no.129 dt 02/12/2008	02/12/2013		
trADE						
01	GSA shpk	Trader	Decision no. 79 dt.21/12/2007 Decision no.116 dt. 01/10/2008	26/01/2011		
02	Spahiu Gjanc shpk	Trader	Decision no. 34 dt. 08/06/2007 Decision no.35 dt. 08/06/2007 Decision no.116 dt. 01/10/2008	07/06/2010		
03	Universi shpk	Trader	Decision no.113 dt. 24/09/2008	24/09/2013		
04	Gen – I Tirana shpk	Trader	Decision no.130 dt 02/12/2008	02/12/2013		

4.3. ERE-s monitoring activity.

One of the main successes of ERE for 2008 is the establishment of the market and licensees monitoring in the electricity sector, through the specialized monitoring structure that starting functioning by June 2008 in compliance with the new structure of ERE approved by the Parliament.

The monitoring has been carried out by a preliminary thematic plan and it was focused first of all, on the DSO performance.

In table - 4.5 - are shown the main monitoring activities carried out till the end of 2008.

The main scope of the monitoring programs has been the control of implementation of the primary and secondary legislation and standards of the service provided to the customers in all aspects of electricity supply. Monitoring activities enabled ERE to be in direct contacts with the actual situation regarding the distribution service in DSO zones and those of other monitored subjects. Through the analysis of the gathered data for separate zones and for DSO as a whole, a number of problems and flaws were evidenced. In this aspects, the ERE set tasks that these subjects must accomplish in order to improve the future performance.

The evidenced flaws are expressed shortly below:

- Periodic obligatory report by DSO to ERE is not made regularly and no deadlines are met. Frequently there are discrepancies between the data reported to ERE and those gathered directly in the zones. Frequently there is no coordination between the technical and billing units.
- Apart from customers without meters for a considerable number of customers, the great part of the transformer cabins is missing, which impede DSO to prepare an accurate energy balance in LV. Also the meters for reactive energy and peak energy

are not yet installed.

- The laboratories for testing of meters in most of the cases are in inappropriate conditions regarding the standards that are to be completed and there is no a periodic planned control of meters.
- The electricity bills in most of the cases do not respect the periodic reading, but exceed that period. On the other hand the billing of electricity consumed for company's own needs is not done applying the tariff for nonbudgetary customers, but with a tariff not approved by ERE. Sometimes there are billing values not real that affect customers.

Table – 4.5 – (Source: ERE)

Monitoring Activity	Period	Monitoring subject
Monitoring of KESH-GEN and TSO sha activity	July 2008	• Contracts of import and electricity exchange for 2008. • Programs of Drini cascade exploitations and generation of electricity for 2008. • Implementation of license conditions for generation and transmission for 2008
Monitoring of subject"ALBWIND" "HERA" (wind energy)	July 2008	• Implementation of license conditions • Investments performance • Monitoring of preliminary results of feasibility study
Monitoring of DSO activity (Comparison of information)	July-Dec 2008	• Preliminary study of the reports for the zones programmed to be monitored • Verification of data taken from the monitoring of programmed zones • Discussion of different sectors for the problems encountered in DSO zones
Monitoring of DSO Fier zone	August 2008	• Monitoring of distribution activities for 2007 • Monitoring of distribution activities from beginning of 2008 • Monitoring of sales and debt situation • Control of billing accuracies according to the levels of voltage and blocks of tariffs • Defects for 2008 (reporting) • Load shedding for 2008 • Performance of metering installing for reduction of customers without meters • Results of annual investment plans and their implementation • New connections and the implementation of the regulation in force.
Monitoring of DSO Burrel zone	Sept 2008	
Monitoring of DSO Shkoder zone	Oct 2008	
Monitoring of DSO Korce zone	Nov 2008	
Monitoring of DSO Gjirokaster zone	Dec 2008	

4.4. Developing and reviewing the ERE secondary legislation.

In the ERE activity an important responsibility is the reviewing and developing of the secondary legislation in the energy sector in compliance with the provisions of Law no.9072 date 22.05.2003 " On Power Sector", Law no.9946, date 30.06.2008, "On Natural Gas Sector" and other by-legal acts in force.

The ERE has revised the legislation of other developed countries in order to benefit from their experience in the energy legislation.

A great assistance in developing and reviewing the secondary legislation has been given by the American consulting company "AEAI" financed by USAID especially for the reviewing of the Market Model, licenses in the distribution, retail and wholesale supply activities, agreement for the electricity supply between the retail and wholesale supplier.

During 2008 have been reviewed and developed most of the secondary legislation in compliance with the amendment made to the Law "On Power Sector" such as:

- Electricity Market Rules;
- License for distribution of electricity;
- License for retail public supply;
- License for wholesale public supply;
- Standard agreement between the retail public supplier and wholesale public supplier;
- Unified standard of accounts for the licensees in the power sector;
- Methodology for calculation of electricity tariff for wholesale public supplier;
- Methodology for calculation of electricity tariff for distribution;
- Methodology for calculation of electricity tariff for retail public supplier;

- Code of Transmission of electricity;
- Code of Distribution of electricity;
- Metering Code of electricity;
- Rules and procedures for licensing, modification, transfer and renewal of licenses;
- License for electricity trade;
- Regulation on internal organization and functioning of ERE.

All the legal acts approved by the Albanian Parliament, the Market Model approved by the Decision of Council of Ministers and all the secondary legislation approved by the Board of Commissioners of ERE make the regulatory framework in the energy sector. The regulatory framework facilitates the legal, administrative and financial relations between all the licensees in the energy sector, from one side and customers from the other. This regulatory framework served also as the basis for privatization process of DSO well-organized from the legal point of view and complying with the best international practices.

Meeting with Chairman of Pennsylvanian Regulator, Mr. Wendell F. Holland, Harrisburg 14 May

Meeting with the Chairman of Washington D.C Regulator 16th May

Meeting with ERRA-s chairman Z. G. Szoreney Madrid 26th May

Meeting with chairman of Spanish Regulator Mrs. Maria Theresa Campi Madrid 26th May

Experience exchange on privatization issues with Macedonian Regulator 8th May

Experience exchange on privatization issues with Macedonian Regulator 8th May

Site visit in Vlora TPP under construction. Vlora 28th October

Site visit in Bistrica HPP after construction. Bistrice, 11th December

Site visit in Bistrica HPP after construction. Bistrice, 11th December

4.5. ERE relations with the customers.

One of the main duties based on the institutional functions of the ERE is the protection principle of customers from the arbitrary acts of the monopolistic subjects in the electricity market. For this ERE has reviewed with great responsibility all the customer complaints filed. They have been analyzed from the technical and legal aspects based on verification, confrontation and unbiased judgment complying with the procedural deadlines, but also informing and providing explanations to the complaining part.

In compliance with the authority given by law, ERE has also solved with competence the complaints and conflicts between the licensees, or the licensees and other institutions.

In dealing with customer complaints, it can be seen that mainly they have to do with over-billing of electricity by DSO compared to the metered consumption, in cases when the customer is equipped with meter, while in cases when the customer is without meter the utility has over billed more than the amount charged with flat rates approved by the ERE, and the load shedding The problem of not opening new contracts because of bad debt of the customers has been encountered also. In the process of dealing with the complains only 7 of them has resulted unbiased from 42 treated during the year. In all the cases for solving a customer complaints the ERE has proceeded by taking the customer concern to DSO and by asking explanations from the DSO. Following this have been reviewed the customers claims from on side and when it was considered necessary there have been confrontations of the opinions of the parties in hearing sessions. Finally, based on the legislation in force for the electricity sector it has been preceded to the resolution of these complaints.

It is important to emphasize that there have been no objections by from the parties with the resolutions of the ERE, on the contrary

the ERE has been appraised for treating and solving correctly the complaints from the customer part.

Following the work for informing the public, ERE has paid attention to provide information for customers in the official website. This information is also provided to the interested persons presented to ERE for different issues. In this brochure published by the ERE the customers find information on their rights and obligations, how to complaint for issues related to the electricity supply etc.

In the view of resolution of disputes between the licensees, their concerns have been addressed and many times hearing sessions has been organized. The disputes have consisted in setting the regulations in the ancillary service contract that is signed between the parties, or in the case of small producers, where a concerning issue for them was the disagreement in the quantity of electricity delivered to them, or the non payments of the electricity sold.

As in the case of explanatory information for the public, for the licensees or applicants for a license we have offered our assistance to clarify certain procedures such as: for licensing we have described that documents are required for a license application etc.

An important relation of the ERE with the licensees is the application review and decision making for license granting in the energy sector but also for other issues regarding the following:

- Review of DSO application for setting of electricity tariff for tariff customers;
- Review of KESH application for setting of tariff for generation of electricity;
- Review of TSO application for setting the transmission tariff for electricity;
- Review of license applications for several subjects interested to exercise their activity in the sectors licensed by ERE.

An important aspect of the ERE transparent relations with the public and the public opinion in general is the publication in the official website (www.ere.gov.al) special columns on legislation, actuality, publications etc. A wide and detailed information on the activity of our institution has also been made public. Continuously, ERE has been transparent to the electronic and written mass media to response to their interest and to the public opinion on all the issues related to our institutional functions and competences.

4.6. International activity of ERE.

For 2008, the Albanian Energy Regulator has considered as very important the development of its institutional and international relations as well. This has served also to the increase and strengthening of the professional capacities of our human resources, so that the ERE can exercise its regulatory authority of the energy sector in Albania in compliance with the best experiences in the regional countries and wider.

ERE has made efforts in regional level for the creation of a transparent and competitive regional electricity market, and also for the integration of our country in the European market. ERE in its activity has taken into consideration and complied with the EU Directives requirements and, the Energy Community Treaty on electricity and natural gas.

ERE has regularly participated in the Athens Forums and the Energy Community activities organized by Vienna Secretariat, such as the Working Group meetings on customer issues, allocation of interconnection capacities, regional energy market and (with the competences given by the Law on Natural Gas) the meetings on gas issues. These are considered very important meetings that encourage the participation of South East Europe countries in the establishment of a transparent competitive and non-discriminatory regional

market with the final goal their integration in EU.

One of the most important objectives of the ERE international activities for 2008 has been the strengthening of the technical and professional capacities of its staff. ERE has participated in different trainings, conferences, workshops held in the regional countries and wider. In close partnership with USAID and the National Association of Regulatory Utility Commission (NARUC) and with the Italian Regulator in 2008 the representatives of ERE have participated in two meetings for exchanging the mutual experience in the regulation of electricity and gas sectors.

Important training and qualification institutions for ERE has been the Florence School of Regulation and Budapest trainings for Commissioners and staff of different levels by direct participation or through e-learning. Trainings on energy market monitoring, system of accounts, on tariff regulation, licensing procedures, on secondary legislation and regulatory legislation in general could be mentioned as very productive trainings...

ERE is a full member of the Energy Regulators Regional Association for Southeast Europe and Eurasia countries (ERRA) and attends the meetings of the ERRA permanent Committees on Tariff and Prices and on Licensing and Monitoring, and also is member of the ERRA Lawyers Working Group. These Committees organize 2-3 meetings per year based on an annual program, where the most important issues of concern for the regulators are discussed. Regarding the ERRA training programs ERE has participated in the new Commissioners training, new regulatory staff training and a specific training on gas and its regulation.

ERE is a member of MEDREG (Mediterranean Energy Regulators) and attends regularly the working group meetings on renewable energy, on gas issues and the General Assembly meetings of MEDREG. Through this organism, the work for identifying the energy possibilities and potentials of the Mediterranean Countries and the

Energy Conference for Central & Eastern Europe, Prague 26-27 February

General Assembly Meeting of MEDREG Madrid 26th May

Economic European Commission of UN for Energy Geneva , 19-21 November

Meeting with Ministry for Energy in Kosovo Ms Justina Shiroka Pulaj

Meeting with Ministry for Energy in Kosovo Ms Justina Shiroka Pulaj and the Director of Transmission System Operator "KOST" Pristine 2nd April

Meeting with the chairman of Energy Regulatory office Of Kosovo Mr. Ali Hamiti Pristine, 3rd April, Pristine

ERRA-s 7th Investment Conference Budapest, 21-24 April. Mrs. Erideta Basha, Speaker

Chairman Committee meeting of ERRA, in Vilnius 20-21 October

creation of an understanding and cooperative climate between the regulators of these countries for problems of common interest such as the cooperation towards the harmonization of regulations, access to the network and exploitation of resources are coordinated.

For 2008, ERE has continuously demonstrated a strong interest in the European energy experiences and in a wider scale to the global experiences through its participation in international activities such as the energy Conference for South East Europe countries, the European Energy Forums, the Crans Montana Forum, Conference on European markets, and the Conferences on gas issues in the regional countries. Based on the bilateral agreements signed with homologue regulators in the region, ERE has been benefiting the technical assistance, study tours and qualifications for the capacity building, such as the meetings with the Italian Regulator and Macedonian Regulator which have been especially useful for the privatization process of DSO.

4.7. ERE relations with Albanian Parliament.

For 2008 there has been a further improvement on the institutional relations of the ERE with the Albanian Parliament, in general, with the Parliament Committee on Producing Activities, Trade and Environment in particular.

For important issues related to the developments in the energy sector, ERE has kept the Parliament informed on the way there were treated. In addition to the annual report of 2007, ERE has informed the Parliament on the Albanian Market Model, on the secondary legislation developments, on the privatization process of the distribution, on electricity tariff and prices etc.

An important step in establishing setting the institutional relations between ERE and the Parliament in a stronger basis and closer cooperation was of course the Decision of the Parliament Bureau

No.29, date 09.07.2008 „On the establishment of the service for monitoring the institutions that report to and inform the Parliament".

With the establishment of this service ERE has established a new relationship of cooperation and periodic information. Based on this relationship the institutional activity of the ERE is more reflective and on the other hand the Parliament exercises better its direct parliamentary control over ERE.

In this frame, the expert of this service, that covers the ERE activity, has been informed in details on the correct activity of the ERE, and from the other side, she has attended several Board meetings.

ERE would like to thank the Parliamentary Committees and the whole Parliament for their support in its activity, but from the other hand the ERE considers necessary to stress as very important the approval of an addition number of staff in the existing structure with 6 employees without changing the existing structure approved before, which is a request derived from the Law No. 9946, date 30.06.2008 "On Natural Gas" according to which ERE takes over the responsibilities and the competences for the natural gas sector in Albania. Unfortunately the request no.702, date 5.11.2008 filed by the ERE to the Parliament has not yet been considered.

ERE is committed that in the future will take to the next level the cooperation practice with the Parliament and will consider it as up to now one of the priorities in their work.

4.8. Organizative chart and functioning of the ERE.

The ERE existing structure is organized in three main units:

a- Board of Commissioners
b- Technical staff
c- Supporting staff.

4.8.1. Board of Commissioners.

The Board of Commissioners is composed of:

1- Chairman of the Board.
2- Four Members of the Board.
3- Advisor of the Board.
4- Secretary of the Board.

In total 7 persons.

In compliance with the Law no.9072 date 22.05.2003 "On Power Sector" as amended, the Chairman and the four Board Members are appointed by the Albanian Parliament and represent the decision-making body of the institution. For 2008 the Board of Commissioners made 144 decisions.

Based on this law, the Chairman is also the executive manager of the ERE.

4.8.2. Technical staff.

It is organized in three directories and one office:

1. Directory of Tariff and Prices of electricity, with 5 employees.
2. Directory of Licensing and Monitoring, with 7 employees.
3. Directory of Legal Issues and Customer Protection, with 5 employees.
4. Foreign Relations Office with one employee.

In total 18 employees.

4.8.3. Supporting staff.

The supporting staff is organized under the Directory of Administration-Finance and Human Resources with a total of 7 employees.

1. Director, 1 Cashier-archivist-storehouse employee, 1 IT specialist, 3 drivers and cleaning person.

The ERE existing structure, according to the decision of the Albanian Parliament No 181, date 5.5.2008 , is made of a total of 32 employees.

In Annex –A-, attached there is the organizative chart and the number of employees in the ERE existing structure.

The average age of the employees for 2008 was 38.4 years.

With the exception of 4 service employees, all the staff of 28 employees has high education. All the employees speak English language and 30% have a degree in science (3 doctors in science and 3 have a master degree).

From 28 technical-administrative employees, 17 of them or 60.7% are females. In the decision-making position 20% are females, while in directing positions 53.8% are females. 5 from our employees are part of the academic structures as external lectors.

The whole decision making employees have followed training programs in the most specialized European schools of regulation in the energy field. The same principles have been followed for the remaining employees, by attending the same schools in different levels, from beginners to senior level.

70% of the financing needs for qualification and training of the staff have been born by the ERE budget, while the rest has been sponsored by European and American associations for regulators such as ERRA, NARUC, MEDREG and other Regulators with whom ERE has cooperation agreements.

All the logistic basis of the ERE has been built according to the contemporary concepts and state of the art technology. The work premises are equipped and refurnished to create the optimal conditions in order that each employee carries out successfully its duties and tasks.

4.9. Human resources in ERE.

In 2008 for the human resources the Law No.9367 date 07.04.2005" On preventing the conflict of interest in exercising the public functions" and Law No.9049, date 10.04.2003" On declaring and controlling of property, financial obligations of appointed and other public employees" have been rigorously applied.

There have been completed the private interest declarations periodic/annual from 9 high employees (that have this obligation), within the deadline and there is no law breaching regarding the deadlines set in the law. Also we have attended regularly the training organized by the declaration Inspectorate (ILDKP).

In February, a control by the inspectors of ILDKP was made, and no breaching of law requirement was evidenced.

In compliance with the Decision No.181, date 05.05.2008 of the Albanian Parliament on the approval of structure and organizative chart is implemented rigorously the Law No.9584 date 11.07.2006, "On salaries, bonuses and structures of the constitutional institutions and other independent institutions established by law" and the Decision No.901, date 19.12.2007 amended with Decision No.1001, date

Social activity in ERE

2.7.2008" On approval of structure and level of salaries for public servants/cabinet employees and supporting staff in the administration of some independent institutions".

In compliance with the Law No.9072, date 22.5.2003 " On Power Sector" as amended, have been implemented the requirements of the Law No.8549, date 11.11.1999 "Status of civil servant" on selection, appointing and promotion in duty of the staff.

4.10. Administration of financing resources of ERE.

As to administration and finance activities the respective legislations on finance administration of the ERE, such as Law No.9072 date 02.05.2003 " On Power Sector" as amended, Law No.9643, date 20.11.2006 " On Public Procurement" as amended, the Law No.7661 "On accounting", and other legislation have been rigorously applied.

All the deadlines for the submission and completeness of the procurement register for public funds, in compliance with the public procurement law and the respective procedures have been applied,

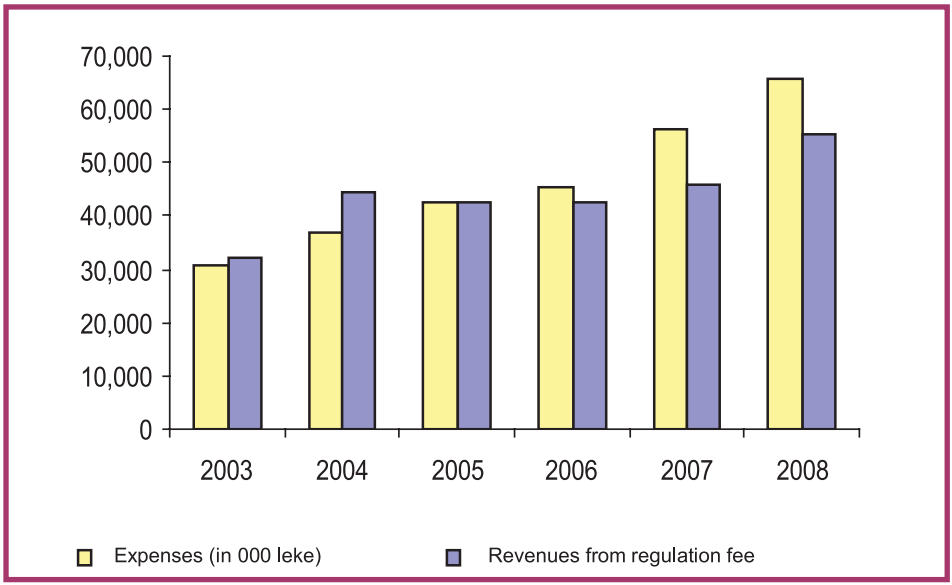
By the beginning of 2009 the balance statement of ERE for 2008 was prepared, and as a follow up the project-budget for 2009 was prepared. The plan of revenues and expenses has been approved by the Board of Commissioners which has been informed periodically about it. The ERE balance statement has been audited by an accounting expert authorized and the result has been approved by the Board of Commissioners.

The institution also made the inventories of the property under the ERE administration. Regarding the monetary funds they come from regulations fees that ERE has set for the licensees. For 2008 the revenues planned from regulation fees have been collected in 70%. The regulation fee from KESH for 2008 was collected in 67%. Regarding the other licensees the collection of the fee is realized in 100%.

The expenses balance carried by the ERE, as part of the legal obligation to guarantee a normal institutional performance, as before have consisted in completion of the most necessary needs of ERE for the year, such as:

- Salaries of staff, social insurance contribution and health care income tax, for which our institution have paid all its obligations
- Payment for consultancy
- Publications for informing the public opinion
- Payments of water, electricity and telephone bills, which our institution has fully paid, and for other necessary services for the daily work, depreciation of tangible assets etc.

	A SSETS	31.12.2007	31.12.2008
I	SHORT TERM ASSETS	29,072,596.00	24,903,254.00
	Monetary assets	27,753,419.00	5,820,611.00
	Other short term assets	89,332.00	16,563,447.00
	Inventory	1,229,844.00	2,519,195.00
	a) Share and financial accounts		
II	LONG TERM ASSETS		
	MATERIAL LONG TERM ASSETS	21,544,413.00	20,253,716.00
	More than one year		
	TEMPORARY SECURITIES		
	PREPAID EXPENSES OR REG IN ADVANCE		
	TOTAL ASSETS	50,617,009.21	45,156,970.00
	LIABILITIES	31.12.2007	31.12.2008
	Short term liabilities	1,628,109.00	18,868,148.00
	Loans and prepaid accounts	1,628,109.00	2,308,148.00
	Taken from this		
	Grand and payable accounts		16,560,000.00
	SHARE EQUITY	48,988,900.00	26,288,822.00
	T O T A L LIABILITIES	50,617,009.21	45,156,970.00


70,000
60,000
50,000
40,000
30,000
20,000
10,000
0
2003
2004
2005
2006
2007
2008
Expenses (in 000 leke)
Revenues from regulation fee

V. CONCLUSIONS AND RECOMANDATIONS.

1.1. Conclusions and recomandations.

In conclusion of this analysis on the electricity sector in general and of ERE activities in particular, it is appropriate to synthesize some conclusions and make some recommendations that will be useful to be considered in the ERE activity and in that of other institutions in this sector.

As we have expressed every year the main challenge and the most determining one in the whole effectiveness of the sector remains the significant reduction of electricity losses, technical and non-technical ones. If up to 2008 this was a responsibility of KESH as a vertically integrated company, in 2008 it belongs specifically to DSO. The distribution losses are around 96% of the total losses in the electricity sector.

Up to date the teams that have managed KESH and especially the distribution sector have not been successful in the reduction of losses. Although the challenge to eliminate the electricity thefts and nonpayment's is not only a challenge of the DSO managing skills. It is a challenge for all the state institutions that prevent and fight the economic crime. It is a challenge for the whole society in Albania.

ERE evaluates as one of the main flaws of KESH and DSO the non completions with meters of tariff customers. KESH and DSO have not been able to secure the sufficient quantity of meters to complete all the tariff customer requests and in a repetitive way in December 2008, DSO has applied to ERE continuously in December 2008, DSO has applied in ERE for the extension of the flat rate billing until December 2009. ERE attracts the attention of DSO, that in the future will remain the only responsible body for the achievement of this duty, because with the flat rate is paid only a part of the electricity consumed without limit from customers without meters. DSO from the non complement of tariff customers with meters has a considerable financial loss, that's why it is necessary that this practice should be finished forever within 2009.

ERE appreciates the good work of KESH in exploiting the power reserve of the Drini river cascade, through the successful harmonization of domestic generation with import, by preserving for the whole year high quotas of explotatition in the Fierza lake and as a consequence by producing around 30% more electricity compared to 2007, for the same water amount in the Fierza lake.

ERE encourages KESH to exploit further the advantages given by the electricity generation from one cascade with annual regulation, to further increase the generated electricity efficiency, from the exploitation of the difference in the electricity tariff, in the regional market, during peak and off peak hours. ERE, with the authority granted by the law, shall establish the appropriate rules and procedures that such advantage can be implemented.

ERE evaluates as an important achievement, the implementation from KESH and DSO supported by the Government, the supply with electricity to tariff customers, without programmed load shedding, in particular in the disadvantaged conditions of the regional market conjunctures, with high import prices.

The electricity tariffs approved by the ERE for 2008 reflect the important principles published in 2007 and are in compliance with the best international practices and EU Directives. Through the tariff system approved, the ERE paid attention to the preserving of the necessary balance by annual expenses coverage for KESH, DSO and TSO companies from one side and the paying ability of customers, in particular households from the other side, so that the tariffs were not shocking for them and would not increase non collections.

The electricity tariffs are interrelated mainly with the import quantity and prices and the general level of losses. Under these conditions, the supply without outages of electricity has a higher cost than the supply with programmed outages in block. Especially the "crazy" pace of the electricity import prices brings a higher increase in the expenses of DSO and KESH companies which are covered by the electricity sale in order to survive as companies. Although the role of ERE to set the necessary balances in the regulated electricity market from the interaction of the abovementioned factors is difficult, ERE shall make all the efforts for the optimization of these solutions.

Every citizen, that obtains illegally the electricity, every citizen that does not pay the electricity bill, contributes to the increase of electricity price. The non payment of electricity is one of the gravest economic crimes in our country. Every indifference, neglecting or no action towards this phenomena, from the electricity companies, from the competent state bodies, but also from the media, which influences the formation of the public opinion, penalize the greatest part of the society that pays for the electricity it consumes.

ERE appreciates in particular, the great work made in 2008, for the establishment of a legal primary and secondary framework, in the electricity sector, that created the appropriate legal path for the successful development of the important challenge in the Electricity Sector. ERE appreciates the transparency, nondiscrimination, fair competition and professionalism during the promotional and com-

petitive process until the notification of the winning company in the international tender for this purpose was made. ERE also appreciates the Czech company "CEZ", winner of the tender, as a company with international credibility and excellent financial, managing and professional skills.

ERE considers an important achievement in the electricity sector in 2008, the great number of private investments for the construction of new power sources. The giving by concession of 31 hydro power plants with medium and small capacity 530 MW and expected generation 1,760 GWh, also the licensing for construction of 7 wind farms for the electricity generation with a capacity of 1367 MW and expected generation 3,100 GWh, are an important guarantees for the successful solution of energy demand from local sources in mid-term.

ERE pursuant to Law No.9946, date 30.6.2008, "On Natural gas Sector", is the authority for regulation of the natural gas sector. The re-establishment of the natural gas in Albania is considered by ERE an important factor that will influence the pace of economical-social development of the country and in particular of the electricity sector. In this view, ERE shall be very active and shall make all the efforts within its competences and activity for the connection of Albania with the international natural gas network, according to the most profitable projects for our national interests.

Being a state expertise institutions in the energy field, ERE supports the Government policy for the long-term solution of the electricity demand in the country through the construction of a nuclear plant for electricity generation by private investments. The nuclear alternative for generation of electricity, is friendly to the environment, a generation of electricity with relatively low cost and with a technical-constructive evolution of these objects that guarantees a high security scale from the nuclear accidents, it is worldwide accepted today from the European and global energetic developments strategies.

ERE maintains a consistent attitude, thus underlines one more time, that to operate successfully in the Regional Electricity Market, a priority of the public and private investments in the electricity transmission sector, remains the realization of interconnection lines with Monte Negro, Kosovo, Macedonia and Italy, and of the whole infrastructure connected to them.(sub/Stations and National Dispatch Center). ERE evaluates the starting of work for the construction within 2009, of the interconnection line with Monte Negro and the permissions given by the Council of Ministers for the construction of the two underwater merchant lines with Italy as an important integrating step in the Regional and European electricity networks.

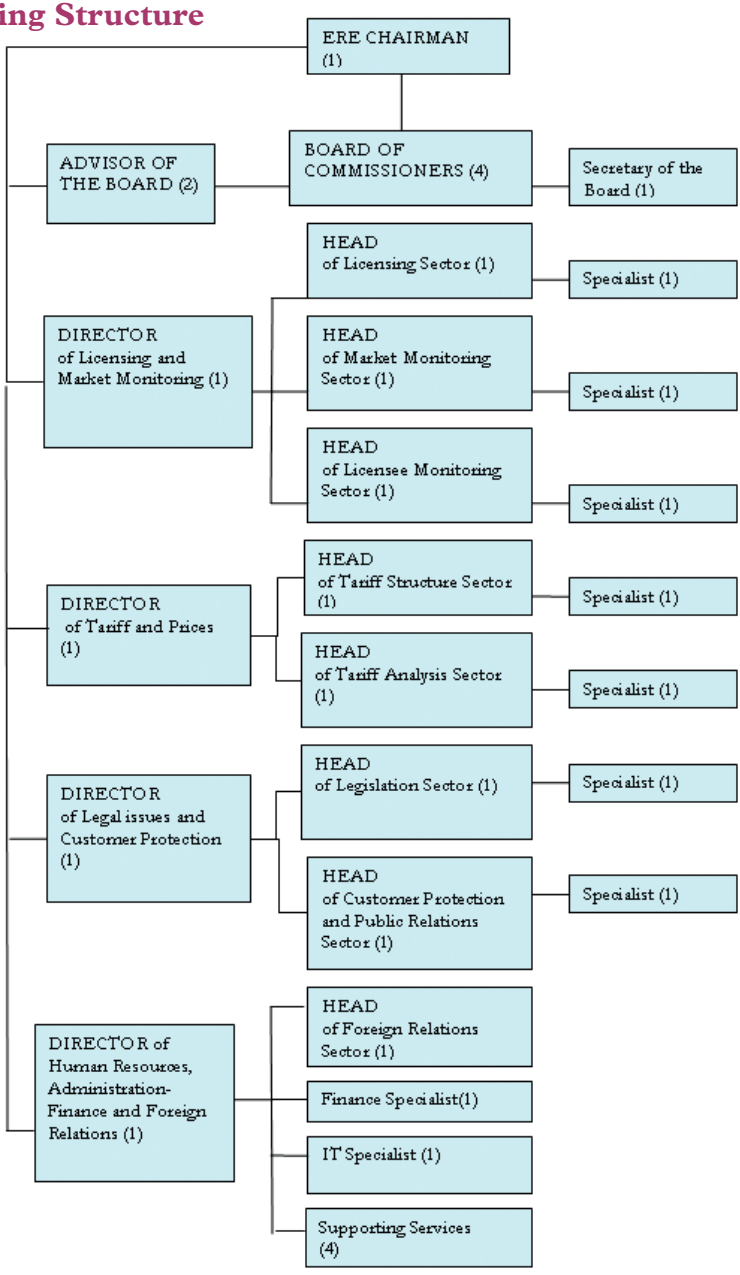
ERE in its activity, for a long time has made, as it is seen in this report, considerable amounts for qualification and training of the employees so that they have proper professional skills to encounter with the expertise always very qualified of the private licensed companies.

In the employment market competition, especially where there is the lack of a number of experts with high specific specialization which represent human assets of great value, have started to emerge the efforts to attract them, by offering high salaries.

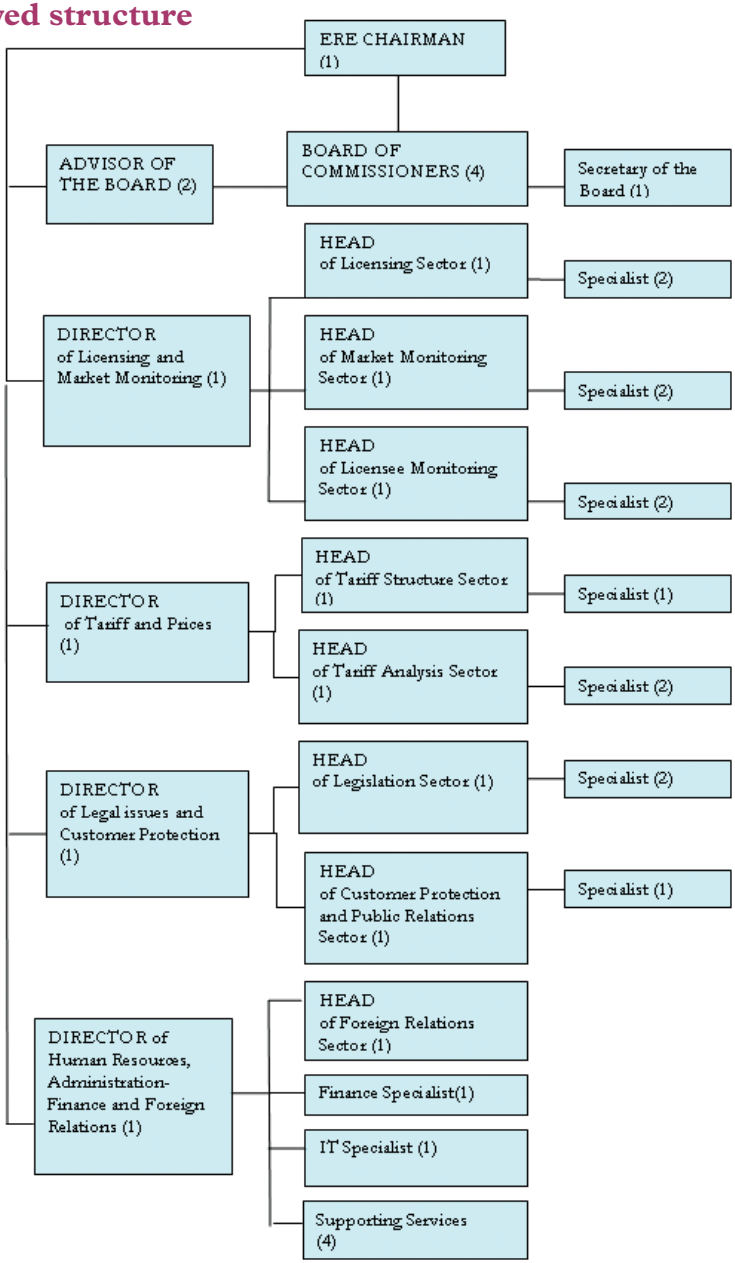
The leaving of qualified experts brings an incalculable damage not only to the respective institution but above all, in the ERE concrete case to the tariff customers. Under these circumstances we recommend to the Parliament and to the Government to adopt in the policy of salaries for institutions and bodies appointed by them, such categorizations that will avoid an hemorrhage of this kind. ERE is available to give its contribution for finding the best solutions.

In the conclusions and recommendations given above are evidenced the issues that we judge as the most important ones to be taken into consideration in continuance until they are solved.

Existing Structure



Reviewed structure



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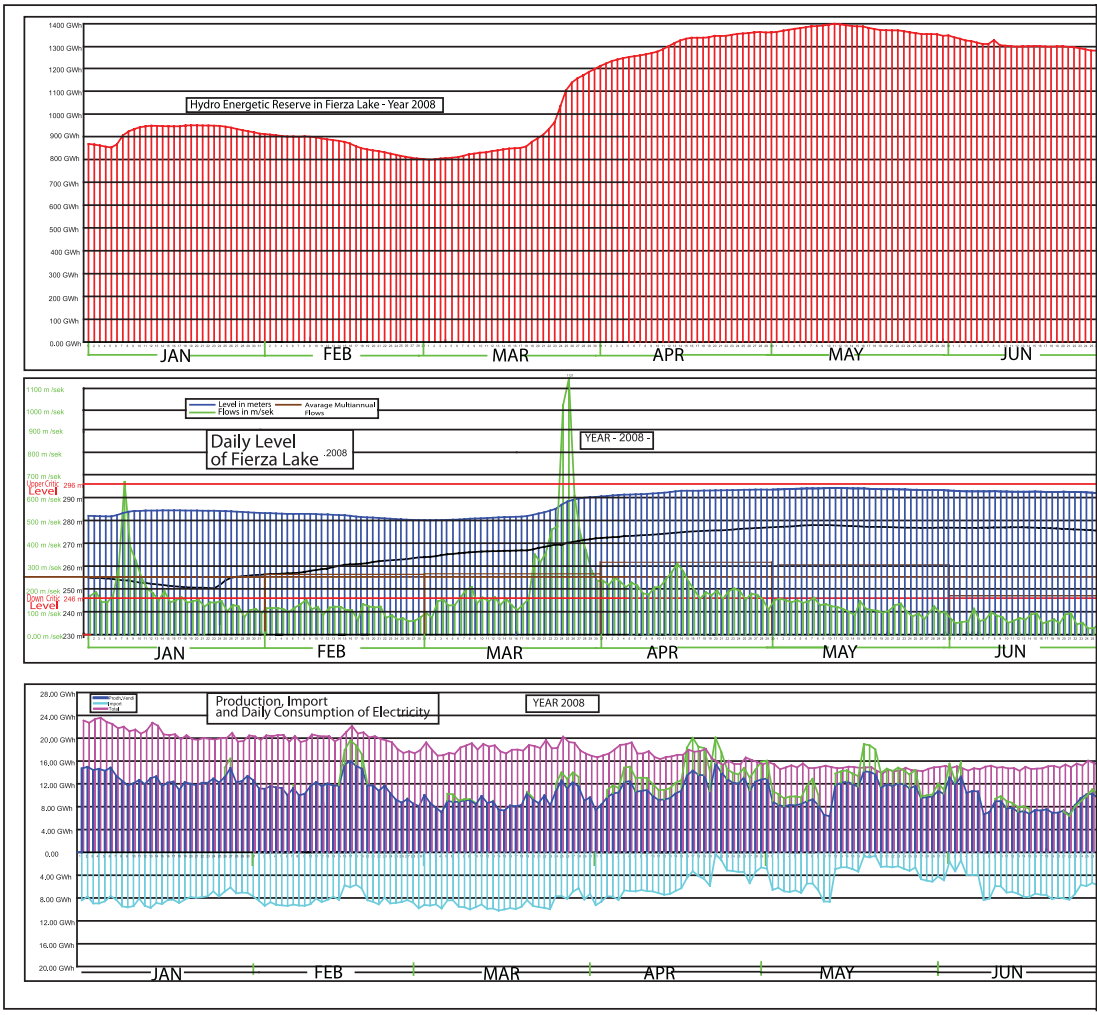

wer Sector Exploitation