

WORKSHOP

A possible way forward to a
well-integrated and competitive
market in South-East Europe

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ERE Chairman

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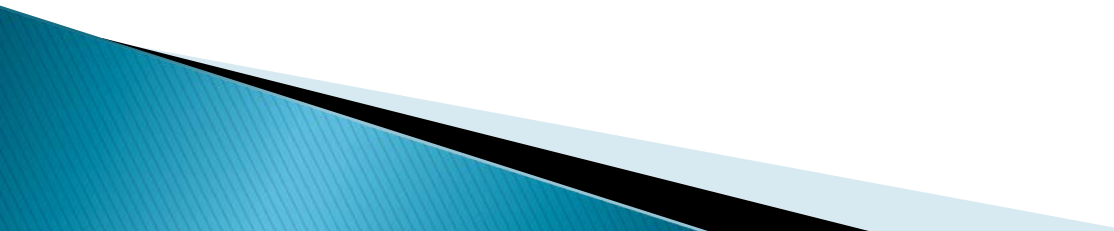
Legal Framework

- Law nr. 9072 of May 22, 2003 “On Power Sector”, which sets the main rules on electricity market functioning in Albania as well as the duties and responsibilities of market players.
- Government Decision nr. 338 of March 19, 2008 “The Albanian Market Model”, which states:
 - Electricity market development based on very clear market rules and grid codes as minimum technical requirements for a efficient functioning of the system.
 - Maximize the customer profits in terms of the security of power supply as well as a steady and qualitative power supply.
 - Settling the third party access in order to participate in the electricity market as well as setting the conditions for a transparent and non discriminatory market.
 - The liberalization of electricity market by founding a market structure that increases the number of market participants.

Market Participants

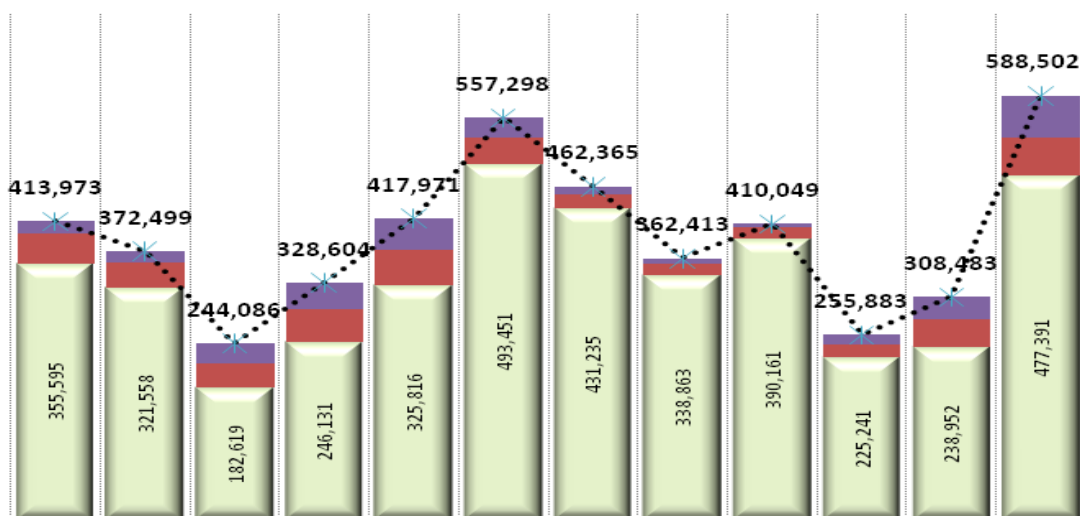
KESH Gen

KESH GEN is in charge of:

- Supplying electric power to WPS in order to fully cover the demand of tariff customers.
 - Supplying electric power to TSO in order to cover the technical losses while transmitting energy to KESH Gen and WPS according to Market Model as well as supplying ancillary services to those participants.
 - Selling electric power to domestic market and foreign markets (exports).
 - Exchanging power in the market according to the rules and procedures approved by Albanian Regulatory Entity (ERE).
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Net domestic production for 2012

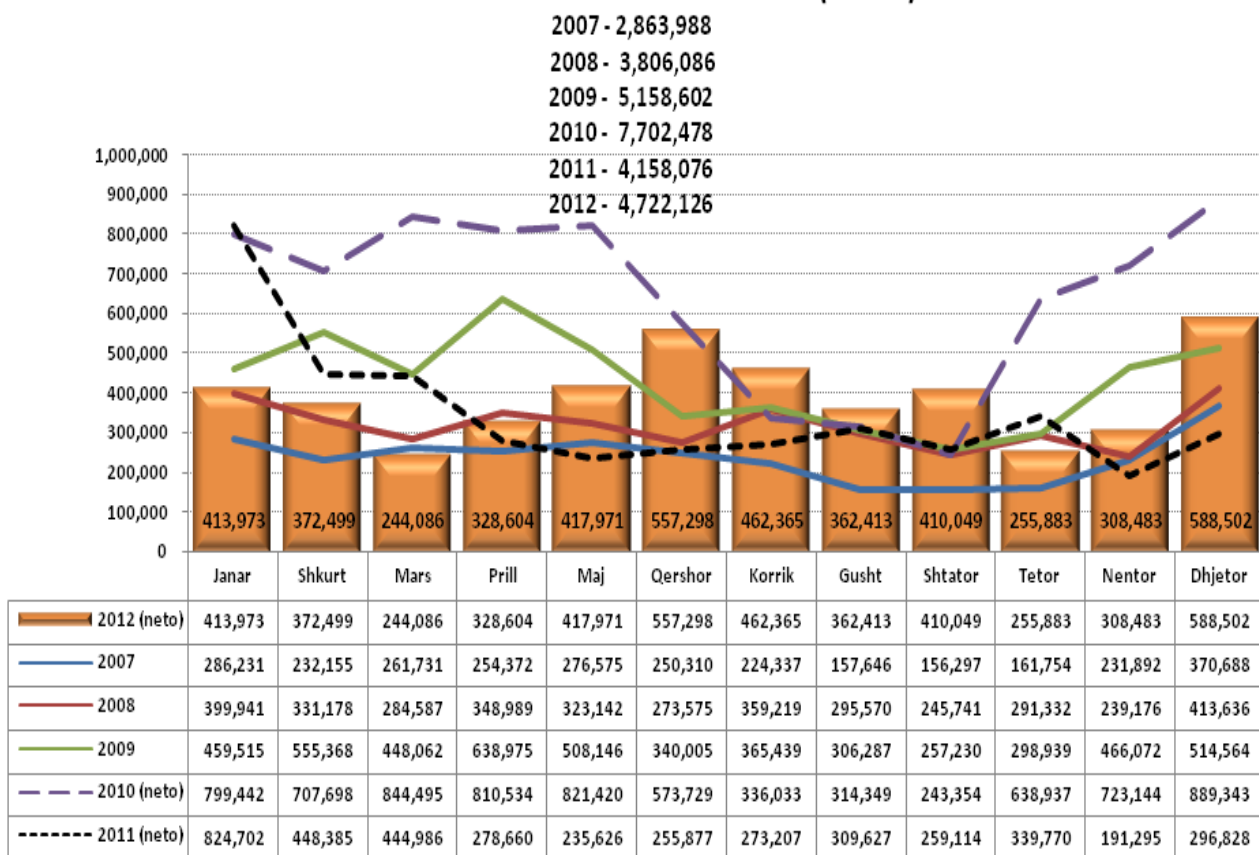
PRODHIMI NETO VENDAS GJATE VITIT 2012 (MWh)



Prodhimi netonga H/C-et Private/Konc	17,507	16,564	27,988	37,764	44,332	28,105	11,514	8,007	4,188	13,787	30,640	59,499
Prodhimi netonga TEC-Vlora	-296	-245	-266	-209	-234	-189	-215	-196	-186	-195	-215	-230
Prodh Net nga H/C e shkeputur nga KESH	41,167	34,622	33,744	44,918	48,057	35,932	19,830	15,738	15,886	17,050	39,106	51,842
Prodh. Neto nga KESH Gen.	355,595	321,558	182,619	246,131	325,816	493,451	431,235	338,863	390,161	225,241	238,952	477,391
Prodhimi Neto vendas	413,973	372,499	244,086	328,604	417,971	557,298	462,365	362,413	410,049	255,883	308,483	588,502

Net domestic production for 2012

Prodhimi Neto vendas 2007-2012 (MWh)

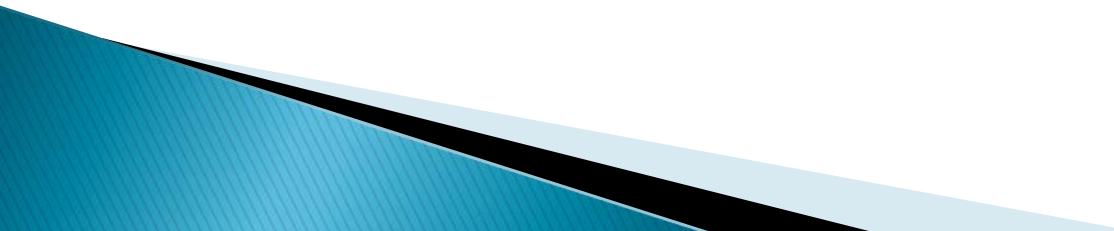


Wholesale Public Supplier

- WPS is in charge of purchasing electric power in order to fully cover the demand of RPS for a continuous supply of energy for tariff customers.
- WPS is entitled to purchase all the energy generated by KESH Gen from its hydro sources and other generators like IPP, SPP, Eligible Producers and energy traders so that WPS can comply to its obligations to RPS in order to supply the tariff customers.

Transmission System Operator

TSO is in charge of:

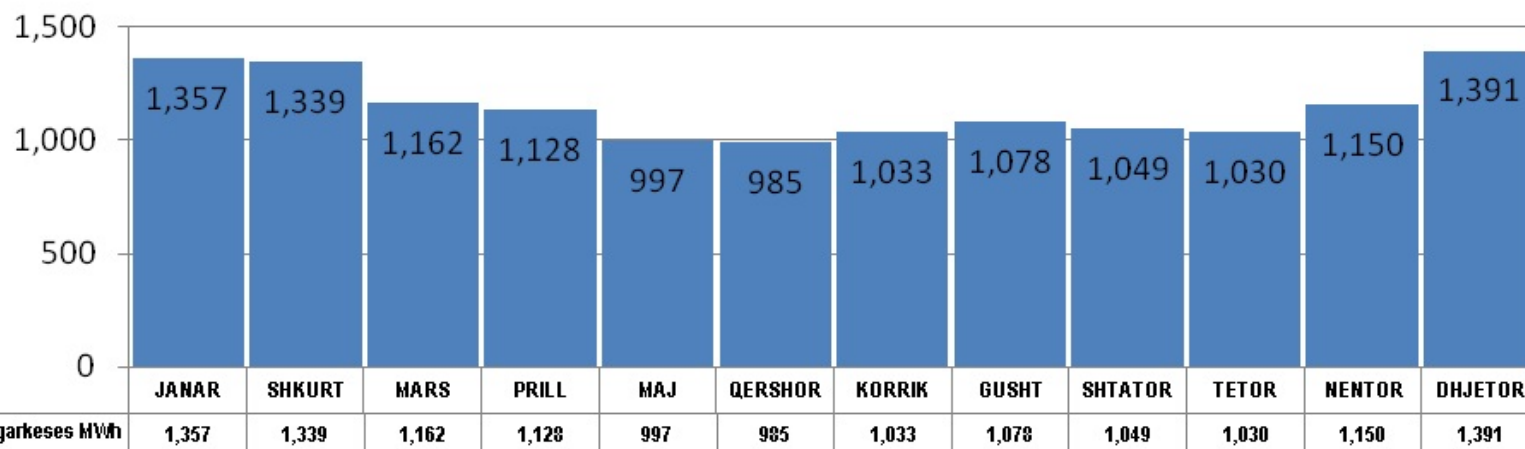
- Running the transmission grid (owning, maintaining and expanding it).
 - Running the transmission grid in terms of dispatching operator.
 - Market Operator (settling the transactions and contractual obligations between market participants by that the information they have will help them to later act as a power exchange).
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Transmission System

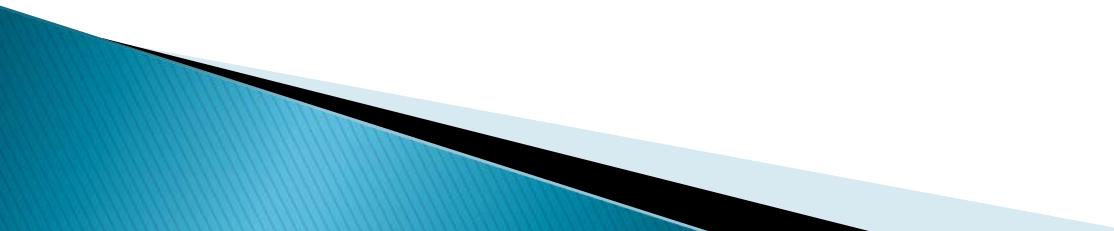
- The Number of Substations:
 - 2 (400/220 k)
 - 1 (400/110 kV)
 - 12 (220/110 kV)
- Length of the lines:
 - 294 km (400 kV)
 - 1,128 km (220 kV)
 - 1,251 km (110 kV)
- Peak load:
 - 1,050 MW summer season
 - 1,400 MW winter season
- Interconnection capacity:
 - 2,600 MVA (~2,210 MW)
- Installed capacity:
 - 1,450 MW (hydro sources)
 - 100 MW (thermo sources)

Peak Load for 2012

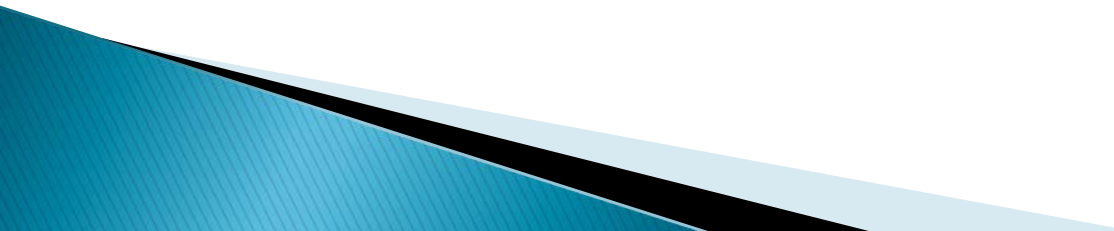
Piku i ngarkeses mesatare mujore gjate vitit 2012 MWh



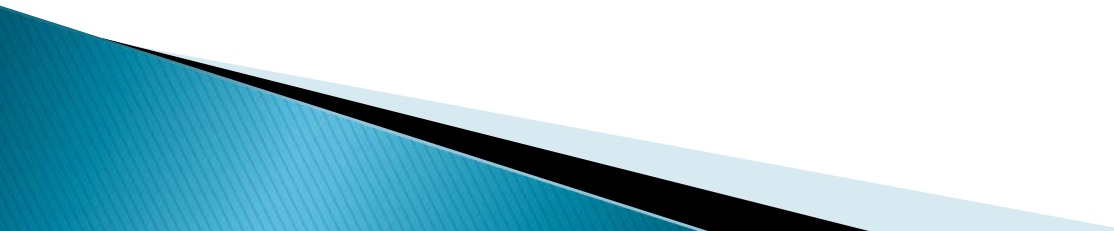
New Projects for the Transmission Network

- New Dispatching Center
 - Rehabilitation of 400/220 kV & 220/110 kV existing substations
 - Updating the 400/110 kV of Zemblaku substation as well as developing the 110 kV transmission grid in the south of Albania.
 - Constructing the 400 kV Albania – Kosovo interconnection line.
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Distribution System Operator (DSO)

- DSO owns, maintains, expands and runs the distribution grid throughout Albania.
 - DSO is in charge of purchasing energy in order to fully cover losses in the distribution grid. DSO can purchase this amount of energy in the market (with market prices) from every market participant.
 - DSO ensures power connection and distribution to tariff and eligible customers connected in the distribution grid on non discriminatory basis.
 - DSO is in charge of technical and non technical loss reduction in the distribution grid, based in terms and conditions imposed by ERE.
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Retail Public Supplier (RPS)

- Retail Public Supplier sells energy only to tariff customers based on contractual terms and conditions and with regulated tariffs approved by ERE.
 - RPS purchases energy from WPS with regulated tariffs approved by ERE.
 - RPS is in charge to provide annual, monthly, weekly and daily load schedules to OST and WPS in advance in order to enable them to comply.
 - RPS is in charge of debt collection from tariff customers according to the terms and conditions approved by ERE.
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Relations between Market Participants


The role and relation between market participants is based in bilateral contractual agreements between the parties.

The regulated market includes:

- KESH Gen & WPS (for at least clearing the prices KESH Gen will charge WPS);
- Wholesale Public Supplier (WPS) and Retail Public Supplier (RPS).
- Transmission System Operator (TSO) and other market participants that provide ancillary services;
- DSO and other market participants for distribution and other related services;
- Small Power Producers (SPP-s), Independent Power Producers (IPP-s) and Wholesale Public Supplier (WPS);
- Retail Public Supplier (RPS) and its tariff customers;
- KESH Gen and energy traders, including imported energy contracts, energy exchange which are subject of monitoring and procurement rules approved by ERE;
- TSO & KESH Gen, SPP-s, IPP-s and energy traders, transmission losses and ancillary services.

Relations between Market Participants

Unregulated market includes:

- ▶ Eligible suppliers and eligible customers;
 - ▶ SPP-s, IPP-s, Eligible Suppliers and energy traders;
 - ▶ Wholesale Public Supplier (WPS) and SPP-s, IPP-s, eligible suppliers and energy traders;
 - ▶ DSO and energy traders, eligible suppliers, IPP-s and SPP-s for the amount of energy required in order to fully cover the losses in the distribution grid.
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Access to the power market

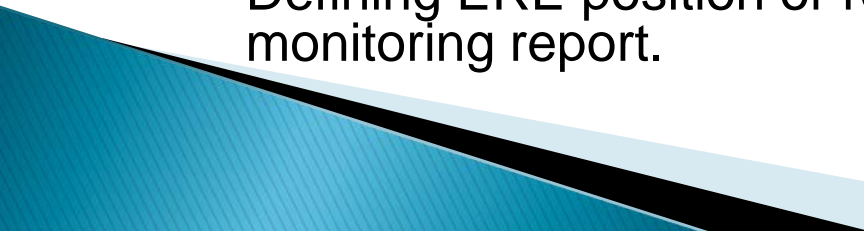
Can be evaluated by the following indicators:

- ▶ Standardized contracts are in place only for the below mentioned types of regulated transactions:
 - Contracts of energy purchase from by WPS from HPP-s up to 15 MW of installed capacity;
 - Energy exchange contracts between WPS and RPS;
- ▶ There might have been standardized contracts for the following transactions as well:
 - Between WPS and generators with more than 15 MW of installed capacity and energy traders;
 - Between energy generators and energy traders;
 - Between energy traders and energy suppliers;

Generally, standardized contracts helps the transactions and reduce costs and obstacles for small market participants.



Electric Power Market Monitoring Principles

- The monitoring process is based in the market rules as well as respective regulations based on which the market players act.
 - The inquiries are based on preliminary issues and are managed in such a way that can continuously monitor the performance of the electric power market participants.
 - The monitoring process is managed by periodically following the below mentioned steps:
 - Gathering and analyzing periodic (monthly) data and information;
 - Processing the results and setting the values for performance indicators;
 - Reporting performance indicator analysis of electric power market participants to the ERE Board of Commissioners.
 - Defining ERE position regarding their performance and setting the recommendations or charges to them.
 - Identifying and performing on site monitoring and analyzing them;
 - Defining ERE position or recommendations based on the monitoring report.
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Monitoring Process during 2012

➤ **Monitoring of KESH Sh.a.**

ERE has mainly monitored energy exchanges (import/export) and the investments.

➤ **Monitoring of TSO Sh.a.**

Investment Plan


Realization of the investments has been one of the main issues of ERE monitoring process. From this monitoring, we have observed that, the investments have been realized according to the schedule approved by ERE (about 25.82%).

Imbalances

Since 2012 was the first year that balancing rules were implemented, this process was specifically observed by ERE. From this monitoring we noticed some problems regarding the imbalances caused in the grid from the energy exchange between Eligible Customers and Qualified Suppliers, arising from non-compliance between the declared program of Qualified Suppliers and real consumption of Eligible Customers.

Monitoring of CEZ Shpërndarje sh.a

ERE has pursued continuously monitoring regarding the activity of CEZ Shpërndarje, more specifically in the following issues:

- ▶ Implementation of the Investment Plan for 2012
 - ▶ Temporary Contracts with the “0” consumption customers;
 - ▶ The way this company bills customers in different regions of Albania.
 - ▶ The quality of service in terms of power supply;
 - ▶ Identifying the debtors in different regions of the country;
 - ▶ Problems with power failures;
 - ▶ Investigating the violations made by CEZ Shpërndarje of the contract terms and obligations between CEZ Shpërndarje and KESH sh.a.
 - ▶ Handling the customer complaints
 - ▶ Massive power failures in some areas of the country
 - ▶ Cash Flow of the Company
 - ▶ Analyzing CEZ Shpërndarje reports on debt collection issues.
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License Removal of ÇEZ Shpërndarje

On January 21, 2013, Board of ERE, while noticing:

- ▶ Terms of license violations
- ▶ Lack of will by ÇEZ Shpërndarje to properly run their activity in Albania, clearly visible from their refusal to make investments in the distribution grid and/or purchase the necessary equipment for a smooth running of the company;
- ▶ Deformation of energy market caused by their failure to import electricity ;

ERE decided to remove the licenses of ÇEZ Shpërndarje for the activities of electricity distribution and retail public supplier as well as setting the Company under temporary administration status.

Tariff review process for 2013

- ▶ The uncertainty regarding the expected net electricity production for 2012 as well as their forecast for 2013 and 2014, which was confirmed later by the actual data through their periodic reports for 2012, which highly deviate from their application for tariff review.
- ▶ Uncertainty and non compliance between KESH Sh.a. and CEZ Distribution regarding energy demand for the supply of tariff customers for 2012.
- ▶ Failure of CEZ Distribution to present in time additional information and the presentation of significantly different tariff components related to the electricity demand, which prevented ERE to get the real indicators needed in the reviewing tariff process for 2012.
- ▶ ERE had initiated the procedures for removal of the license of CEZ Distribution for failure to fulfill obligations under the law.

For these reasons, ERE decided to apply the existing tariffs until 30 June 2013.



Latest Developments in the Market (Balancing mechanism)

- ▶ By its decision Nr. 23 of February 24, 2012 ERE introduced the implementation of imbalance regulation. The scope of this regulation was to set a definition for balancing, identifying the parties that are in charge of balancing, balancing of energy and balancing payment methods, etc. This decision marked another important step in the retail electricity market balancing.
- ▶ After the requests of some market players and after noticing the inefficiency of the previous market rules, by ERE decision Nr. 93 of July 16, 2012, there was a change in market rules regarding energy balancing issues.

Latest Developments in the Market

(Balancing mechanism)

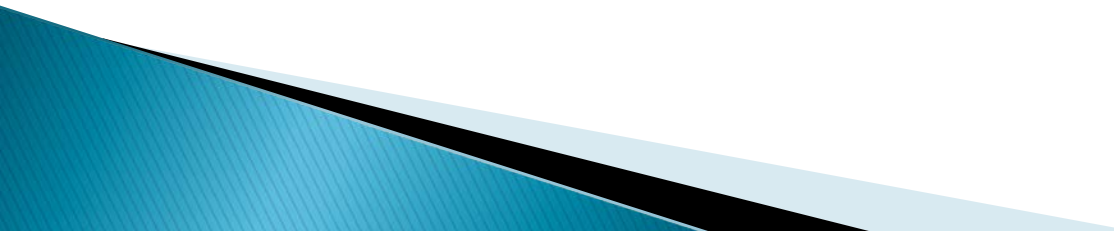
Through this decision, was imposed the obligation to calculate energy imbalances on hourly basis and billed on monthly bases. It was also decided that the energy imbalances should be separately calculated in terms of their flow directions (positive or negative) by adding the following definition in the Market Rules:

- The energy delivered in the border of the parties responsible for balancing (the balancing group) is bigger than the energy scheduled, the imbalance is considered as “negative”.
- The energy delivered in the border of the parties responsible for balancing (the balancing group) is smaller than the energy scheduled, the imbalance is considered as “positive”.
- The price of Balancing Energy is calculated each month and it is the weighted average of the prices of energy purchased by KESH sh.a or, if not, the price of energy purchased by WPS from SPP-s, IPP-s with an 10% incentive for positive imbalances.

Latest Development in the Market

ERE Board of Commissioners, by the decision nr.162, of December 7, 2012, have changed the terms of the standard purchase agreement between KESH sh.a and SPP-s.

This change of terms gives the right to the SPP-s the chance to actively participate in the electricity market by giving them the right to sell electricity to other market players as well, and not only to KESH sh.a.



Latest Development in the Market

Law nr. 9072, of May 22, 2003 “On electric Power Sector”, (as amended), state that:

- Each customer connected to the 100 kV or higher, would be automatically considered as “Eligible Customer”.
- Any other consumer of electric power that consumes more than 50million kWh of electricity despite of the level of voltage he or she is connected would also be considered as “Eligible Customer”.
- By this amendment, another important step was made towards the liberalization of electricity market and towards compliance of the Albanian energy legislation and that of EU.


Latest development in the Market

Allocation of Interconnection Capacities

- ▶ During 2012, important changes towards the opening of capacities allocation market have been made by ERE, by no further applying reserved capacities which used to favor only KESH sh.a and ÇEZ Shpërndarje Sh.a, but now they have equal rights with any other market participant.
- ▶ These changes positively affected the transmission allocation capacities (ATC) allocated in the interconnection capacities auction, the increase of the number of market players that participate in the ATC auctions as well as increasing the volume of the transactions in the market.
- ▶ There has been monthly ATC auctions and there has also been an annual ATC auction for the period between July 1, 2012 to December 31, 2012.
- ▶ This set of rules aims the harmonization with ENTSO-E standards.

Draft Law on Renewable Energy Sources

This Draft states:

- ▶ The legal framework for encouraging energy generation from renewable energy sources;
 - ▶ National goals as an obligation for using renewable energy sources in the final gross consumption of energy;
 - ▶ Developing the National Fund on Renewable Energy Sources;
 - ▶ Advantages of connecting new renewable energy generation plants to the system inside Albanian territory;
 - ▶ Advantages of purchasing and paying energy from renewable sources from the buyer of electricity;
 - ▶ Legal framework for the authorization, licensing and respective concession procedures;
 - ▶ The rules regarding “certificate of origin”, coordination of licensing requests as well as the concession agreements;
 - ▶ Modalities for encouraging the use of water heating by solar panels as well as the legal framework regarding the use of renewable energy for transportation purposes.
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Draft Law on Renewable Energy Sources

Predictions on calculating fixed tariffs of energy generated:

- ▶ By ERE proposal, the Council of Ministers will approve the electricity fixed tariff designation methodology, which will be paid to the generator on preferential basis, for all the plants that use renewable energy sources.
- ▶ The respective methodology will: (i) enable a rational rate of return on investment for the generator, (ii) will set the plant capacity and its characteristics in order to be approved for the fixed tariff; (iii) will profit from the fixed tariff and (iv) will consider its social and economic impact that will affect the final consumers from applying the fixed tariff; (v) it will consider the inflation rate in order to cover it on yearly bases and (vi) it will design a formula that will calculate every burden from the renewable energy to the final consumer tariff for all end tariff customers in Albania.

Thank You!