

Albanian Electricity Market Model

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Market Characteristics

- Population of Albania: 3,114,000 inhabitants
- Installed capacity: 1,684 MW
- Generation mix: 98% of domestic generation is from HPP and 2% from TPP
- So far only one customer is an eligible customer. From 1st of January 2008, ERE has granted the right to become an eligible customer to all non-household tariff customers.

Legal Framework

- Requirement of Law No. 9072, dated May 22, 2006 (Article 53)
 - ERE and other participants in the sector, together with the consultants, drafted the Market Model - the Ministry of Industry and Energy presented the draft to the Council of Ministers

Approval

- Decision of Council of Ministers No. 628, dated October 3, 2007,
“On the Approval of the Albanian Market Model”

The Albanian Market Model

- **Market Rules**
- **Licenses**
- **Tariff methodologies**

The Albanian Market Model

- Market participants
- Relations among market participants
- Market Structure

Market Participants

➤ Transmission System Operator (TSO)

The TSO is an independent state-owned company that performs the following functions:

- Transmission Network Operator function (TNO) (ownership, maintenance and expansion);
- System Operator function from the dispatching perspective (SO);
- Market Operator function (MO) (ensuring that the information flows to settle various contracts are available and present; may later serve as a power exchange).

Market Participants

- **Public Generation Company (KESH-Gen)** - is a division of KESH for the production of electrical power.
 - KESH-Gen will sell electrical power to Wholesale Public Supplier at prices approved by ERE, under annual contracts and contracts for other periods, all subject to the approval of ERE.

Market Participants

- **Small Power Producers (SPPs)** - Small Power Producers are power generators that are connected to the distribution system.
 - SPPs shall be licensed to sell electrical power to the Wholesale Public Supplier, to the export market, or to Eligible Customers at commercially agreed terms, or, if no agreement can be reached, on terms approved by the ERE.

Market Participants

- **Independent Power Producers (IPPs)** - are independent producers that are connected directly to the transmission system.
 - IPPs must be licensed by the ERE and may sell capacity or energy to the export market, the DSO (to cover distribution system losses), or to Eligible Customers, Qualified Suppliers and Traders at market prices, or to the Wholesale Public Supplier with a contract price approved by the ERE.

Market Participants

- **Qualified Suppliers** - include licensed domestic or foreign suppliers who may buy power from outside of Albania, or from SPPs or IPPs, and sell it to Eligible Customers.
 - SPPs and IPPs may obtain licenses to be Qualified Suppliers if they choose to sell directly to Eligible Customers.

Market Participants

- **Traders** - are domestic or foreign entities that buy and sell electric power at wholesale market.
 - Traders shall be licensed by the ERE.
 - **The ERE shall ensure that licenses and licensing procedures for Traders are simple, non-discriminatory, and do not create an undue burden on the entry of Traders into the Albanian market.**

Market Participants

- **Wholesale Public Supplier** – is the entity or division within KESH that purchases the electricity supply from KESH-Gen, SPPs, IPPs and Traders that is required by tariff customers and sells that supply to the Retail Public Supplier.
 - Wholesale Public Supplier has the obligation to serve as the provider of last resort for all customers.

Market Participants

- **Distribution System Operator (DSO)** - shall own, maintain, expand and operate the distribution system throughout Albania
 - DSO has the responsibility to purchase the energy from any market participant at market price to cover losses in the distribution system.
 - Tariffs, terms and conditions of distribution service provided by DSO shall be regulated by ERE

Market Participants

- **Retail Public Supplier** (RPS) - is an entity that performs the function of purchasing electricity supply from the Wholesale Public Supplier and sells that supply to tariff customers. The Retail Public Supplier may be part of the same company as the DSO.
 - RPS will sell electrical power only to tariff customers, under tariffs approved by ERE.
 - RPS will purchase electric power from the Wholesale Public Supplier at rates approved by ERE.
 - RPS shall be responsible for reducing non-collection under conditions determined by ERE.

Market Participants

- **Tariff Customers** - Tariff Customers are those customers that purchase electricity from Retail Public Supplier at rates regulated by ERE.
- **Eligible Customers** - Eligible Customers are those customers that have the ability to purchase electricity from SPPs, IPPs and Qualified Suppliers according to the

Market Participants

- Any customer is free to choose whether to be a tariff customer or an eligible customer if he meets the conditions.
- ERE will develop rules to determine the conditions on which a customer may return to the category of tariff customer after having chosen to become an Eligible Customer.

Market Participants

➤ Albanian Electricity Regulatory Authority (ERE)

ERE responsibilities:

- Defines the rights and obligations of market participants according to the rules and transparent and non-discriminatory regulations that secure and grant a third party access

Market Participants

ERE responsibilities (continued):

- Provides regulatory control for the electrical power market;
- Consistent with the Power Sector Law, ERE shall require licensees to act in a manner consistent with ensuring both short and long-term security of supply.

Market Participants

ERE is responsible for:

- Consistent with Power Sector Law, ERE may require the execution of power purchase agreements by the Wholesale Public Supplier, so long as those requirements are consistent with the national strategy as developed by the Council of Ministers and any governing privatization agreements.
- The legal basis for the exercise of ERE's responsibilities is provided by Law No. 9072, dated May 22, 2003 "On Power Sector", as amended.

The relations among Market Participants

- The relationships among, and the role of, market participants in the physical operation of the Market Model are to be set forth in bilateral contracts between the various participants as follows:
 - ❖ Regulated
 - ❖ Unregulated

Contractual Relations

- **Regulated market** – contractual relations between
 - KESH-Gen and Wholesale Public Supplier (at least for the purpose of making transparent the prices charged by KESH-Gen to the Wholesale Public Supplier);
 - TSO and market participants for transmission and related services;
 - DSO and market participants for distribution and other related services;

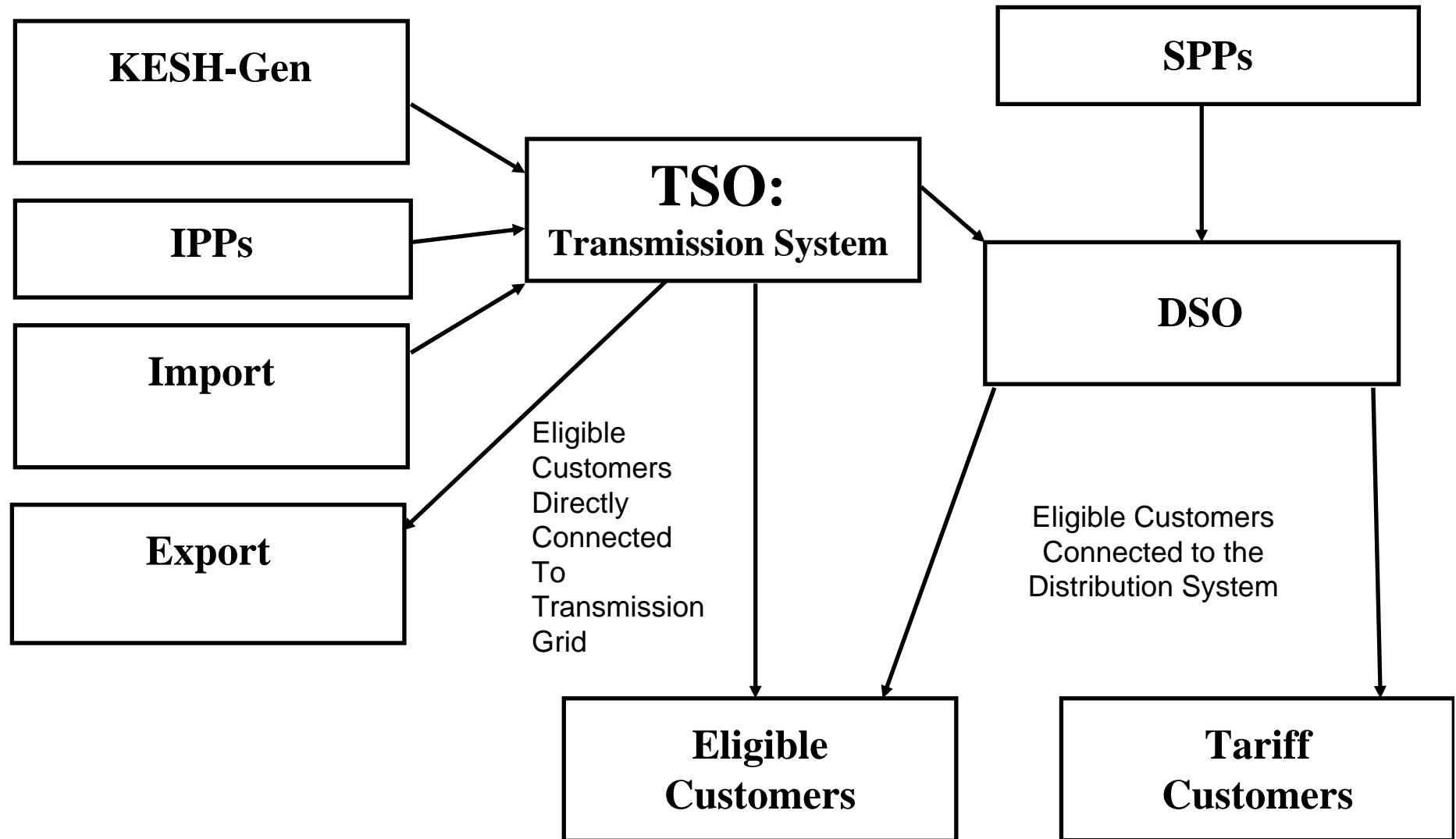
Contractual Relations

- SPPs/IPPes and the Wholesale Public Supplier;
 - Retail Public Supplier and its tariff customers;
 - KESH-Gen and imports contracts for the exchanges of power; and
 - TSO and KESH-Gen, SPPs, IPPs, and Traders for the transmission losses

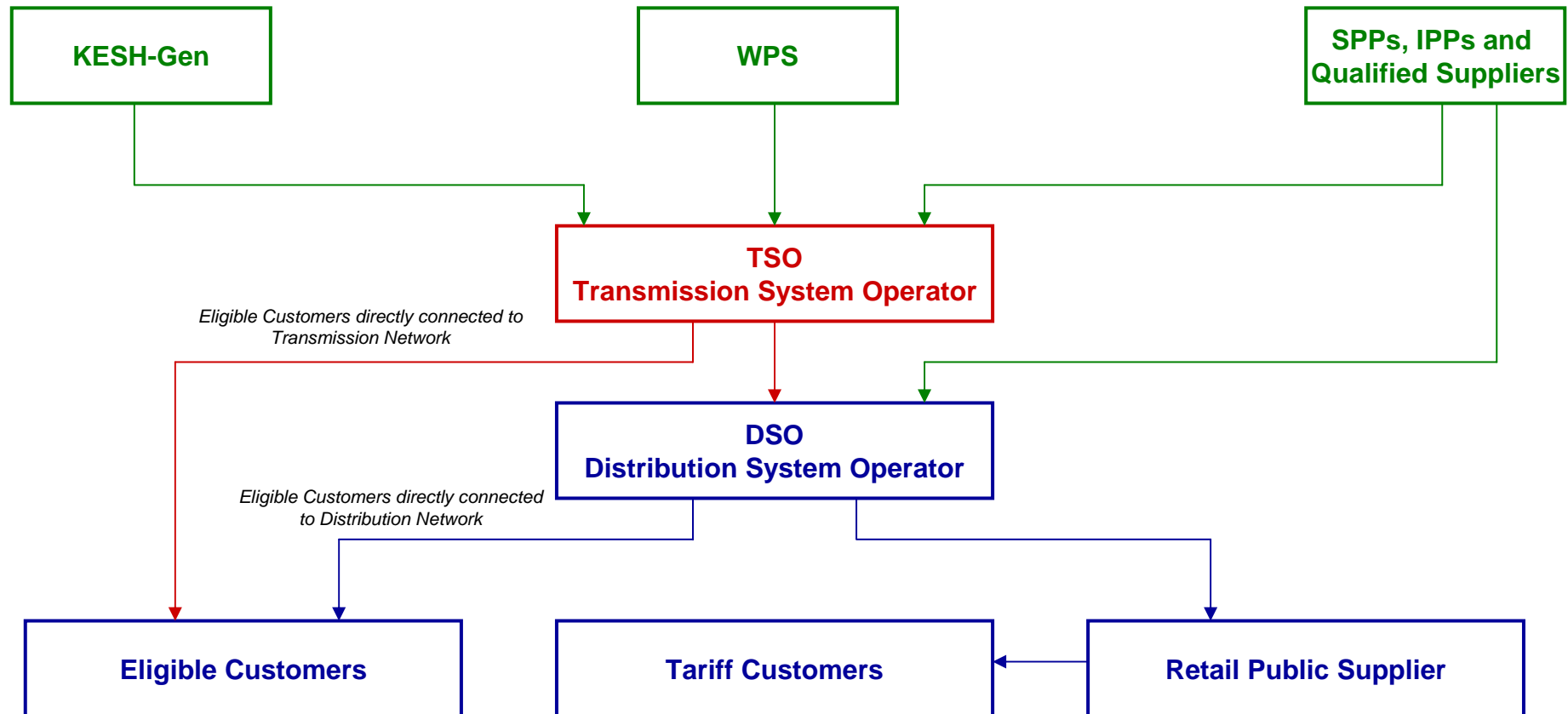
Contractual Relations

- Unregulated market - contractual relations between
 - Qualified Supplier and Eligible Customers;
 - SPPs/IPP, Qualified Suppliers and Traders;
 - Wholesale Public Supplier and Traders; and
 - DSO and Traders for energy needed to cover losses in the distribution system.

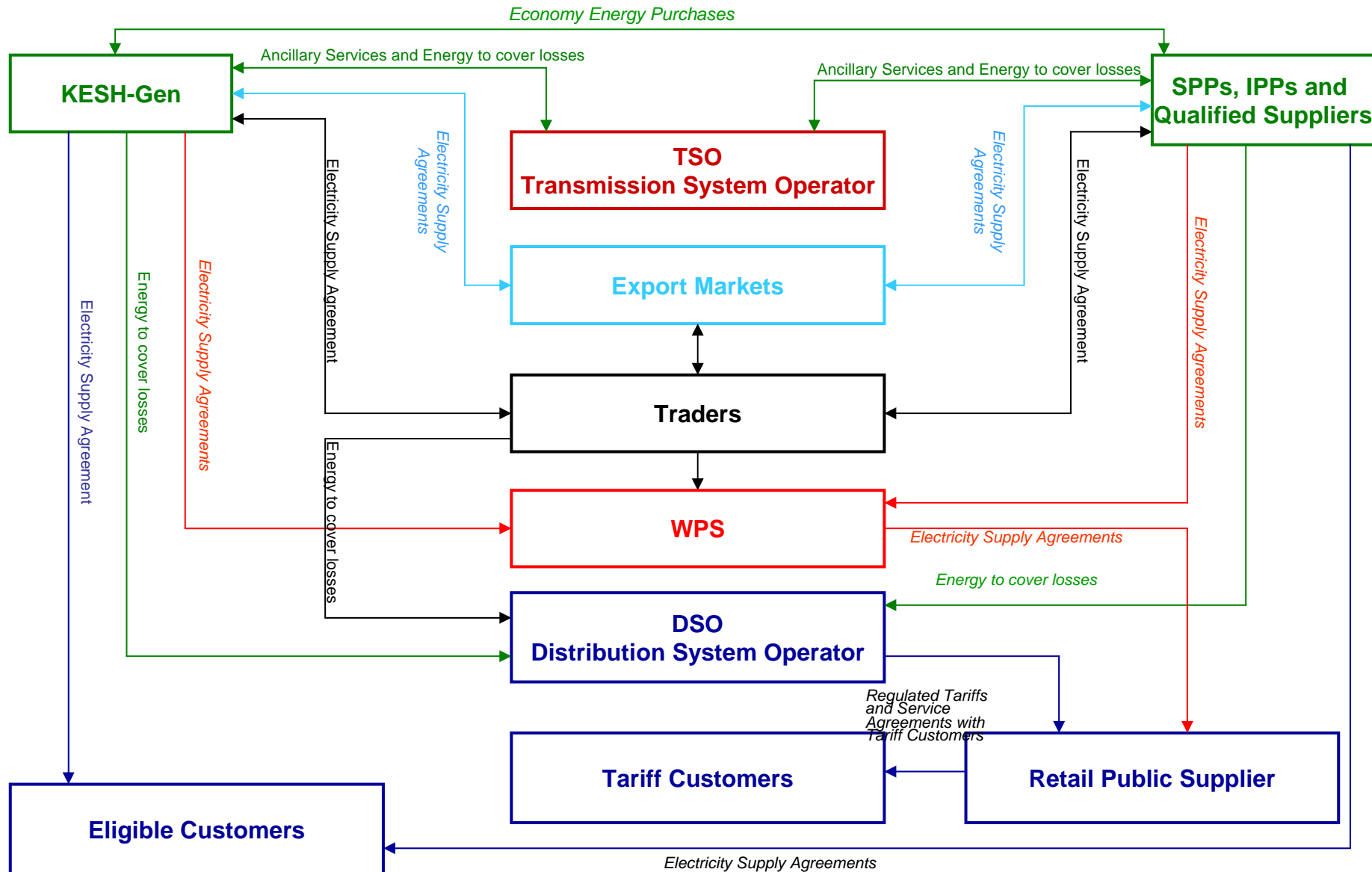
Electricity Flow



Interconnection and Transmission Service Agreements Including Ancillary Services (Provided by TSO)



Energy Supply Agreements



EU Requirements

- Unbundling
 - TSO legally, functionally and financially unbundled;
 - DSO (including Retail Public Supply function) functionally, financially, and legally unbundled;
 - Distribution and Retail Public Supply functionally and financially unbundled, but no legal unbundling;

EU Requirements

- Third party access to transmission and distribution network guaranteed;
- Tariff methodologies for transmission and distribution access approved and made public;
- TSO and DSO responsible for losses in transmission and distribution networks;
- Market fully open for all non-household customers from January 1, 2008;

Thank you for your attention!