

PARTNERSHIP PROGRAM  
IURC - ERE

# The Current Situation and Challenges in the Privatization of the Distribution Sector in Albania

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TIRANA



# CURRENT SITUATION



Currently achieved:

*FUNCTIONAL SEPARATION OF ACTIVITIES*

*ACCOUNTS SEPARATION*

To be achieved in 2007:

LEGAL SEPARATION OF DISTRIBUTION/SUPPLY

FINANCIAL SEPARATION OF OSSH (Distribution company) FROM KESH SH.A

**THE PRIVATIZATION OF DISTRIBUTION IS EXPECTED TO TAKE PLACE BY THE END OF 2008**

# Government Objectives for Privatization

- To transfer responsibilities and obligations.
- To improve technology and the system.
- To ensure private investments in the power industry in Albania.
- To participate in the regional energy market.
- To improve environmental standards.
- To increase commercial effectiveness.
- To reduce the influence of the government in the energy market.
- To ensure revenue from privatization.



# The Goal of Privatization Policies

- The goal of this policy is to ensure economic growth and benefits for Albanian citizens, in the present and in the future, by improving the quality of service and supply via investments, as well as management and modern technologies.
- Government policies in regard to the power sector, including the separation of KESH, the approval of a modern market model in the sector, as well as privatization of the distribution sector, will encourage investments that have been lacking for decades, will improve bad operation and will alleviate chronic financial problems in the Albanian energy market.
- Government policies intend to improve consumer reliability on power by optimizing Hydro generation of power and imports.
- The sale of KESH distribution activities will immediately pave the way to new capital sources, international experience, and management skills, as well as modern technology.

# The Goal of Privatization Policies (cont.)

- It will release government funding for use in addressing other priority issues.
- This policy will not immediately avoid previous shortages in generation and transmission that existed for decades, but it will enable the Government and KESH to continue working on these issues.
- This policy will also encourage Albania to be incorporated into regional and European power networks and to achieve goals and commitments as stated in the ratification of the Energy Community Treaty.
- It will enable investors to get reasonable returns on their investments.



# Legal Authorization

The privatization process is in compliance with:

- The Privatization Law No. 8306, dated March 14, 1998, "On the privatization strategy of sectors that are of specific significance."
- The Law No. 7512, dated August 1991, "On the sanction and protection of the Private Property, Free Initiatives of the Power Activities and Privatization." All sectors of the economy may be subject to privatization.
- The Law "On the power sector" No. 9072, dated May 22, 2003.
- The National Power Strategy as amended.
- The Document on Power Sector Policies.
- The Market Model of the Power Sector.

# Privatization Method

- The Government approves privatization policies on distribution activity of KESH by selling its shares and adopting privatization policies for the distribution company.
- Privatization will be carried out through a transparent, international bidding process. Such processes have been successfully applied by many other countries in Europe and the region.
- The Ministry of Economy, Trade, and Energy will guide the implementation of the bidding process. The Government established a working group, lead by the Minister, along with the support of an **advisor**, to coordinate and implement the transaction. After the bidding process, the advisor will deal with these issues in the near future.

## Privatization Method (cont.)

- The working group will solicit public comments in all aspects of the privatization process. The public contribution process will be open to experts, potential investors, land owners, trade unions, and other stakeholders.



# Organization of the Distribution Company and Objectives for Privatization

- The establishment of a single distribution company (OSSH)
- The organization principles of the distribution company
- Fee policy - National uniform fee
  - Scale economy for the distribution network
  - Effectiveness of the rules of line business
  - The amount of revenues from privatization of the distribution transaction.
- Separation in 110 kV lines in 110 kV substations is accepted as a norm in the European practices.
- The objective in regard to distribution losses
- Taking into account new management and practices as well as the investment level in the TU networks, the objective for distribution losses with the purpose of estimating fees is as follows:
  - 15% - 17% in the first three years (T0+3), below 10% - 12% for a five-year period (T0+5)
- The objective for fee collection
  - It will be up to the private investor to set its own objective (a norm from 90-95% is expected in the first two years and over 97-98 % in three years' time).

## Current Organization of Distribution Compared to Other Countries in the Region

Characteristics at the time or upon privatization	Albania	Bulgaria			FYR of Macedonia	Romania	Greece	Czech Republic Regional Distribution Companies (2003)				
	KESH	EONAG (2005)	EVN (2005/06)	CEZ Group (2006)	EVN (2005/06)	CEZ Group (Nov. 2006)	PPC Dist. & Supply	SME	STE	VOE	ZOE	SOE
Sales (or Supply) (TWh)	3.5	4.9(b)	7.2(a)	7.9	4.5	4.1	50.8	7.8	6.0	6.8	4.2	6.4
Number of customers (million)	0.90	1.13	1.50	1.90	0.72	1.36	7.20	0.94	0.67	0.65	0.49	0.66
Number of Employees	6,490	3,768	3,803	4,693	3,550	2,999	10,285	1,696	1,548	1,532	1,332	1,409
Service area		29,368	42,794	39,521								
Distribution networks length (km)	35,104		55,951									
Energy losses	36.4%	22.4%	21.6%	21.8%	22+%							
Shares in Distribution company				67%	majority	51%						
<b>Ratios</b>												
Energy Sales/Employees	0.5	1.3	1.9	1.7	1.3	1.4	4.9	4.6	3.9	4.4	3.2	4.6
Customers/Employees	139	300	393	405	203	458	700	551	432	426	369	470
Dist. Network length km/Employees	5.4	0.0	14.7									

(a) 5.1 TWh in 2004/05; i.e. an increase by more than 40% in 2005/06

(b) 5.2 TWh in 2006; i.e. an increase by 6%

Sources: Annual reports and information from various the websites

# Organizational Structure of Distribution

- **Restructuring:**
  - Separation of OSSH from KESH sh.a (legal, functional, financial)
  - Separation of Distribution Activities (network) from Supply
- Curtailment of distribution staff in cooperation with trade unions (KESH currently has more employees than other companies in its field).
- **Necessity to organize the Public Supplier** (to define its obligations for a reliable supply of end users as well as the relations with users and other market operators).



# Division of the Corporation

- Following the Decision of the Council of Ministers, dated December 2006, on "The establishment of the Shareholding company, the Distribution System Operator", the separation of the distribution sector from KESH was initiated. The distribution company, OSSH, is registered as a shareholding company with 2mln lek (\$22,700) capital, divided in 2,000 shares with a nominal value of 1,000 lek (\$12) each.
- The Government owns 100% of OSSH shares, with KESH being the only shareholder.
- The decision has been made to liquidate the three pilot companies in Shkoder, Elbasan, and Vlora.
- Until 31 December 2006, KESH had the ownership of assets as well as the rights and obligations. Now the process is underway to divide the assets and accounts.
- Ministry of Economy, Trade and Energy (METE) has assigned auditors to prepare the opening balance in order to establish the new distribution company.

# Organization and Legal Separation

- On May 30, 2007, the Supervisory Council approved the establishment of OSSH and the new structure of distribution branches:
  - 8 branches (Tirana, Durres, Elbasan, Korca, Fier, Berat, Shkodra, and Burrel)
  - Distribution Director, Secretariat Services, Human Resource Department, Department of Economics, Department of Engineering, and Sales and Services Department.
- On 19 June, 2007, OSSH was registered with the Tirana District Court.



# Privatization Form

- The sale of shares in compliance with the formula approved for privatization.
- The license for Distribution/Supply will be issued to OSSH for a 20-year period for distribution, and a 5-year period for supply.
- *The approval of the New Privatization Law.*



# Regulatory Role in Privatization

- Adapted the Law "On the energy sector" to new circumstances, created after the establishment of private companies
- Licenses - issue term licenses
- Fee adjustment - elaborate on current methodology in order to reflect changes in the energy market, aiming at full cost coverage
- Draft and approve agreements for energy purchases
- Review codes
- Unify the accounts of licensees

# Future Steps

September '07    Implementation until January '08    Implementation in June '08

Designing of AMM

Distribution  
company

Public supplier in the  
distribution company

International  
Accounting  
Standards

Market Rules

Review the Distribution  
Code

Review the Distribution Fee

Licensing of Public Supplier

Contract between Generation-  
Public Supplier

Contract between  
Generation-Public Supplier

End users fee

Public supply fee

Review the generation  
fee

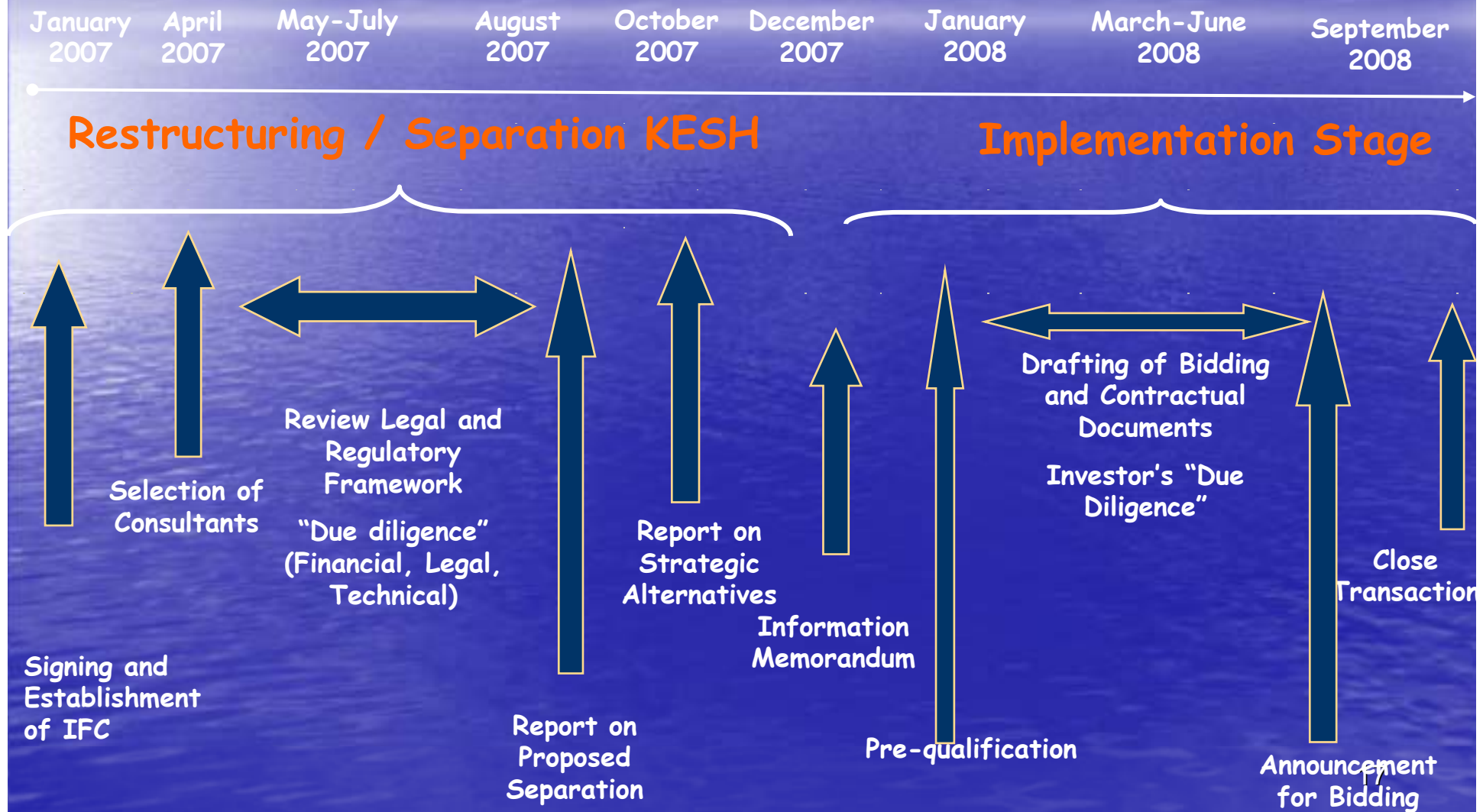
Contract between Generation  
– TSO

Review the Network  
Code

Transmission fee

# Future Steps

## Original Transaction Schedule





# What is Expected to Happen?

- A privatized KESH that will operate in a commercial and transparent manner, in compliance with all Albanian laws and regulations.
- Increased efficiency of the company by reducing losses and increasing payment collections.
- Improved quality of service.
- Increased investment potential in generation and distribution sectors.
- Establishment of clear rules is a responsibility of the government, and ERE as an independent regulatory authority.
- Necessary resources will be available to ensure that regulatory skills improve adequately in order to protect both investors and customers.



THANK YOU!