

ALBANIAN ELECTRICITY REGULATOR (ERE)

**ERE AND THE REGULATORY  
FRAMEWORK FOR THE  
PRIVATIZATION OF DSO**

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12-16 May, 2008

# ERE and the Electricity Sector

- The Electricity Sector in 2008 is in the end of a difficult energy situation and faces a new and more optimistic situation

With low risk:

a - Energy

b- Politics (Membership in NATO)

# Privatization of DSO

- Natural Continuance of the national strategy for economic development of the country.
- Logical flow of a process of transformation in KESH (Albanian Power Corporate).
- A process supported by a contemporary legal framework under the balancing and regulatory effect of ERE

# ERE and the role of investors

- ERE considers the role of investors in DSO privatization as highly important
  - More investments,
  - A more advanced managerial culture,
  - Better energy supply,
  - High customer service standards.

# Guiding Principles of ERE

- An independent and strong ERE is a guarantee for development and creates greater opportunities for the investors.
- In exercising its authority, ERE is guided by:
  - Transparency.
  - Competence.
  - Impartial judgment.
  - Balancing of factors.
  - Creation of a more competitive and attractive environment in the sector.
  - Respecting of the requests of Acquis Communautaire of EU.

# **The role of ERE in developing and implementing the privatization process**

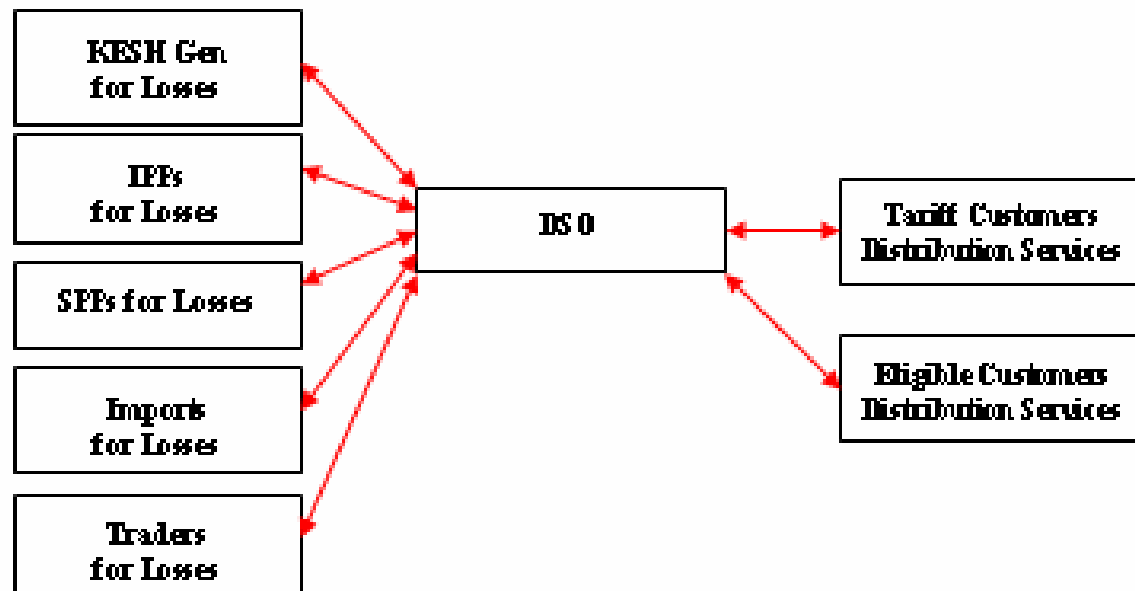
- 2004-2007, The Transitory Market Model.
- The functioning principle, one single buyer regulated.
- 2008 - The Albanian Market Model.
- The functioning principle, regulated third party access

# Priorities of the Albanian Market Model

- Suitable conditions for privatization and competition
- Avoid the role of TSO from buying and selling of electricity.
- Priority in supplying tariff customers from energy coming from hydro.
- An authority such as ERE with the qualified expertise and transparent activity.
- Strengthening of the role of DSO and its preparation for a quick privatization.



## DSO Contract and Tariff Relationships to Other Market Participants





# ERE and the Regulatory Framework

The Regulatory framework drafted by ERE with the USAID assistance contains:

1. The Albanian Market Model of Electricity.
2. The Market Rules of Electricity.
3. Licenses for Wholesale Public Supply, Retail Public Supply and for Distribution.

# ERE and the Regulatory Framework

1. Agreement between the Wholesale Public Supplier and the Retail Public Supplier.
2. Methodologies for calculation of Tariffs for Distribution, Generation, Wholesale and Retail Public Suppliers.
3. The Grid Codes, Transmission Code, Distribution Code and Metering Code.

# ERE and the Electricity Market

The competition in the market is not fully complete;  
therefore the role of ERE remains crucial

- Transmission and Distribution activities will be natural monopolies
- Generation will continue to be under KESH
- ERE is to create the necessary conditions for competition in generation and supply
- ERE is opened and constructive with the investors
- ERE decisions during and after the privatization will take into account the interest of investors

# ERE and the Electricity Market

- ERE, through the Regulatory framework, aims to increase the prospects and opportunities for investors to assess the risk.
- The Market Model clearly stresses the role of the supplier on one hand and electricity customers on the other.
- The Market Model highlights the role of ERE as an instrumental authority in monitoring of the licensees and their activities for development, in compliance with the license requirements.

# ERE and the electricity tariffs

- The tariff and prices for 2008 exemplify an independent judgment of ERE under a complex and difficult situation.
- Hydro generation, according to the New Market Model, is preserved for wholesale supplier.
- The data supplied by KESH are not reported according to the international standards of accounting.

# **ERE and the electricity tariffs**

The lack of accurate and complete data from KESH makes the transparency difficult.

KESH must, as soon as possible, apply the international standards of accounting and unification of accounts.

The new hydro-energy situation will undergo a more detailed analysis by ERE.

ERE is not resistant to the evaluation of prices and tariffs.

Future decisions on tariff and prices will be based on tariff methodologies under way.

# ERE and the electricity tariffs

- ERE welcomes the comments and suggestions of investors on tariff methodologies.
- ERE will reflect elements of the privatization agreement in determining the tariffs for the new company that will be privatized.
- ERE is in the process of reviewing the Tariff Calculation Methodologies for:
  - Distribution of electricity.
  - Public Generation Company.
  - Wholesale Public Supplier
  - Retail Public Supplier

# ERE and electricity tariffs

The drafting of Tariff Methodologies is based on:

- The Law “On Power Sector”.
- The Albanian Electricity Market Model
- Legal acts in force in the Republic of Albania.
- The Secondary legislation approved by ERE



# ERE and Electricity Tariffs

ERE will determine the tariffs for captive customers guided by the following principles :

- There will be no cross-subsidies among different customer categories.
- Tariffs should send a signal to the customers for the efficient use of electricity.
- The costs included in these tariffs should be transparent for all parties.
- Tariffs should cover all reasonable expenses for FPP.

# ERE and Electricity Tariffs

- Tariffs will allow FPP a reasonable rate of return
- ERE will accept in the tariff only the purchase of reasonable services by FPP.
- The prices of electricity should remain relatively stable over time.
- Tariffs should encourage the reduction of electricity losses.

## Some aspects in improving the License of DSO

- One distribution zone will be established in the country, with 1 million customers.
- The license validity is 30 years.
- The operator's obligation for expanding the distribution network based on the needs.
- The obligation for access in the network of IPPs and SPPs.
- The obligation to complete modern metering of all customers.
- The obligations to reduce progressively the electricity losses according to a program adopted by ERE.

# **Standards and the optimal conditions of service to the customers**

- The obligation for developing and implementing an investment program for development, reconstruction and rehabilitation of the network, to reach the quality of service for the customer.
- The obligation for maintenance and efficient operation of the network to guarantee stability of the system and security of supply to the customers according to the quality standards.

# **Standards and the optimal conditions of service to the customers**

- Rigorous accuracy in cases of interruptions and load shedding of electricity and the respective responsibilities.
- The obligation to respect the program of supply quality and the penalties and incentives when this program is respected or not.

## **Procedure for drafting and approving the Regulatory framework**

- Procedure is carried by ERE, in consultation with qualified experts financed by USAID, and in cooperation with KESH and TSO.
- The drafts developed from this cooperation undergo an informal consultation with the Ministry of Energy and the international institutions that assist in the reforming process of the sector in Albania.

# ERE and the Regulatory Framework

- ERE expresses its commitment to work with investors and other interested parties in a transparent and impartial manner on all issues
- The Regulatory Framework and especially Tariff Methodologies, along with the attraction of experts' opinion, will be present to the public opinion for comments.
- To conclude, ERE, through the Regulatory framework, and its constructive commitment aims at performing a successful privatization of DSO

**Thank you for your attention!**