

The Structure of Electricity Costs and Pricing Policies in Albania

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Role of ERE in Electricity Structure

- ERE plays a key role in the strategic structure of the electricity sector. It is armed with substantial powers including licensing of market operators, review and approval of electricity tariffs, and monitoring of all licensees. It is empowered to issue regulations enforcing the Law, to protect consumer interests, resolve disputes between market operators or between operators and consumers, and to co-operate with other electricity regulators on the international level.
- ERE's primary goals are to protect consumers, licensees, and market competition. One of the main tools to achieve and maintain this objective is through tariffs. In its activity to rationalize the tariffs, ERE should consider that:
- Price signals have to reflect costs, demand, and lead to efficient uses of electricity.
- Supply costs should be fairly allocated among customer categories.

Role of ERE in Electricity Structure

- Tariffs must reflect cost differences between various categories of customers.
- ERE should ensure that tariffs are non-discriminatory, transparent, and reasonable based on widely recognized ratemaking principles.
- ERE maintains a uniform accounting system in compliance with international standards, which applies to all annual financial and economic reports of the electricity sector. Annual accounts of licensees must be separate and must provide information on costs and revenues for each activity in the electricity market chain and any other external activity.
- ERE should take into consideration the National Energy Strategy and the Document on the Power Sector Policies.

Legal Framework

In regard to the procedures on tariff structure analysis and pricing, the Tariffs and Prices Department relies on the legal framework and approved methodologies.

1. Law No. 9072, dated 22 May 2003 "On the Power Sector"

Article 8, paragraph 2(b) states that ERE sets, regulates and reviews wholesale and retail tariffs and the terms and conditions of power service proposed by a licensee or reviews them according to circumstances.

Article 26 defines the authority of ERE for tariff setting, upon which:

The ERE is the responsible institution for setting tariffs in all activities carried out by the licensees in the electricity sector.

In particular, the Law on the Power Sector (Law No. 9072, 22 May 2003) has been subsequently amended on 10 April 2006 for the purpose of clarifying the definitions, scope, organization and independence of the regulatory authority.

Legal Framework

2. Methodologies:

- The methodology for estimating tariffs of power generation (approved by the decision of the Board of Commissioners, No. 28, dated June 26, 2005)
- Methodology for estimating tariffs of electricity transmission service (approved by the decision of the Board of Commissioners, No. 59, dated 29 December, 2005)
- Methodology for calculating tariffs of electricity distribution service (approved by the decision of the Board of Commissioners, No. 29, dated 26 June 2005)
- Methodology for estimating the electricity sales tariff/prices to captive customers (approved by the decision of the Board of Commissioners, No 30. dated 26 June 2005)

How is the power tariff structure organized in Albania?

- The customer tariff structure should reflect the structure of costs incurred while using the electrical system. Thus, from a theoretical point of view, the tariff structure might consist of several components:
- A capacity related charge, reflecting generation and network costs associated with each customer's demand for network capacity. This charge should be based on the capacity of each customer's connection, or on his annual maximum demand.
- An energy charge reflecting variable costs associated with providing additional energy. This charge is based on metered consumption.
- A flat charge, reflecting customer costs associated with metering, billing and collection.

How is the power tariff structure organized in Albania? (continued)

- Costs to be included in tariff calculation that are covered through payments for capacity-related charges and energy-related charges consist of capital costs, operational costs, and taxes.
- Only reasonable economic costs, related to regulated service insurance, will be included in the tariff calculation.

How is the electricity tariff structure organized in Albania? (continued)

- While reviewing tariffs proposed by a licensee, ERE will consider all kinds of reasonable costs inherent in electricity business, fuel and generation or purchase costs, stock costs, depreciation, taxes, environmental protection costs, additional fees, return on investments, as well as costs of compliance with public service obligations and energy savings/conservation.
- Tariffs may increase once a year and all tariff changes have to be approved by ERE in advance.

Electricity tariffs approved by ERE for the period 1 January – 31 December 2007

Type of Customer	Tariff (ALL/kWh)
Customers supplied in HV (400/220/110 kV) with their own assets.	4.50 (\$ 0.05)
Customers supplied in MV (35, 20, 10, 6 kV)	
Budgetary	9.40 (\$ 0.11)
Budgetary - Water Supply	7.00 (\$ 0.08)
Non-budgetary - Water Supply	7.00
Private - Water Supply	7.00
Private - Industry	7.00

Tariffs of Electricity approved by ERE for period 1 January – 31 December 2007 (cont.)

Non-budgetary - Industry	7.00 (\$ 0.08)
Other Non-budgetary measured in MV	7.00
Other Non-budgetary measured in LV	7.00
Other Private measured in MV	7.00
Other Private measured in LV	7.00
Flour mills and Bakeries	7.00
Pumping Stations	7.00
Religious Institutions	7.00
Media	7.00

Tariffs of Electricity approved by ERE for period 1 January – 31 December 2007 (cont.)

Customers supplied in LV (0.4 kV)	
Budgetary	10.00 (\$ 0.11)
Budgetary - Water Supply	7.50 (\$ 0.08)
Non-budgetary - Water Supply	7.50
Private - Water Supply	7.50
Non-budgetary - Industry	8.00 (\$ 0.09)
Other Non Budgetary	8.00
Private	8.00
Flour mills and Bakeries	7.50
Pumping Station	7.50
Religion Institution	8.00
Media	8.00
Households Customers	7.00 (\$ 0.08)

Why is the tariff structure approved by ERE considered appropriate?

- The average financial tariff approved by ERE for the above structure is based on:
- The cost of existing resources and the costs of new generation and distribution capacities.
- Financial planning for the construction of these capacities and.
- The ability of KESH to continue a reliable commercial function, based on sufficient revenues.

Why is the tariff structure approved by ERE considered appropriate? (cont.)

- The approved tariff structure avoids double standards in setting the prices for different categories of customers ensuring that tariffs are non-discriminatory.
- Customers that incurred low costs for Utility in HV and MV do not pay for technical and non-technical losses incurred by other consumers in LV.
- The approved structure encourages technical and financial efficiency in the sector; it increases profits by improving technical issues and reducing the costs, issues included in approved Action Plan as a condition determined by donors who fund the rehabilitation and reconstruction projects in the energy sector.
- The structure complies with the National Strategy of Energy to encourage the efficiency in the energy sector.

Why is the tariff structure approved by ERE considered appropriate? (cont.)

- It takes into account the results of previous studies conducted in this field (such as DECON and LAHMEYER).
- The above structure avoids cross-subsidization between different groups of customers.
- It sends the right pricing signals for different level of voltage, which means that prices reflect real costs in each level of voltage where a utility company offers its service.
- The approved structure intends to unify sale prices of power within each level of voltage.

Categories of customers in previous structures

CUSTOMERS	
Volt. Level	Type
HV	Budgetary
	Non-budgetary - Water Supply
	Other Non-budgetary
	Private

Categories of customers in previous structures

MV	Budgetary
	Non-budgetary - Water Supply
	Non-budgetary - (Oil, Chrome, etc.)
	Other Non-budgetary
	Subsidized Private
	Common Private
LV	Budgetary
	Non-budgetary - Water Supply
	Other Non-budgetary
	Subsidized Private
	Common Private
	Domestic (Block 1, Block 2)

Differences between the previous and current structures

By comparing structure presentation, it is obvious that:

- The new structure re-groups existing customer categories with the same characteristics of supply. This is important to the Albanian Utility (KESH) in its process of re-organization.
- Separation of transmission from generation and distribution activities imposes the re-grouping of consumer categories that are supplied with different voltage levels respectively. For the first time, the current structure considers the category of tariff customers of transmission, which are supplied with 110/220/400 kV voltage levels.

Differences between the previous and current structures

- Regarding household customers, the current structure includes only one tariff (separation in blocks is eliminated). This is an important step because it avoids the subsidies between two blocks of household customers.
- The Government of Albania has the responsibility to mitigate the effects of price increase on customers in need.
- The current structure also avoids cross-subsidization between different categories of consumers.

Further steps for improving the current structure

- To this end, the Tariffs and Pricing Department has studied and analyzed the experiences of other countries in the region.
- There are many countries that apply different complex structures of tariffs compared to our simple structure.
- In general, we have noticed that:
 - a. There are different tariffs for different voltage levels.
 - b. There are different tariffs for different load factors, referring to different zones and hours.
 - c. There are different tariffs applied at on-peak and off-peak hours.
 - d. There are different tariffs applied during the seasons of the year.

Further steps for improving the current structure

- The analysis of tariff structure of other countries in the region shows that the application of different tariffs during 24 hours (time-of-day tariffs) can make the price structure quite attractive to different categories of consumers, thus leading to a low power consumption during the peak hours and the willingness to use electricity in the off-peak hours due to differences in tariffs.

Pending Case

Level of service	Average tariff (ALL /kWh) and % of increase regarding the level of service								
	Jan 1 – June 30, 07	Action Plan 2008		Version No I		Version No II		Version No III	
Customers in HV	4.50	7.00	55.6%	5.15	14.4%	5.15	14.4%	8.70	93.3%
Customers in MV	7.12	8.08	13.5%	8.66	21.6%	7.19	1.0%	10.76	51.1%
Non residential Customer s in LV	8.30	10.00	20.5%	15.3	84.3%	11.03	32.9%	12.68	52.8%
Residential Customer s in LV	7.00	7.50	7.1%	15.48	121.1%	11.2	60%	8.43	20.4%
Average total tariff	7.10* (\$ 0.08)	8.04 (\$ 0.09)	13.2%	13.08 (\$ 0.16)	84.2%	9.78 (\$ 0.11)	37.7%	9.78 (\$ 0.11)	37.7%

Conclusion

- ERE has made good progress toward the improvement of tariff structure, thus giving the proper signals regarding pricing policies in the electricity sector.
- The Tariff and Prices Department is also responsible for assessing changing circumstances and for further improving the current tariff structure.

THANK YOU !