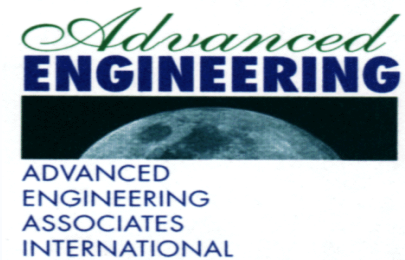




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Albanian Energy Regulatory Framework

***Zija Kamberi
Chief of Party
AEAI Inc.***

ERE Conference “Albanian Energy Sector, Challenges and Regulation”
Tirana, 7 October 2010



Primary Legislation

- Law no. 7970, dt 20.07.1995 “On regulation of power sector” and Law no. 7963, dt 17.07.1995 “On power sector”; (*Electricity Regulatory Authority – ERE was initially established*)
- Law no. 9072, dt 22.05.2003 “On power sector”, as amended (*with USAID technical assistance*)
- Law no. 9946, dt 30.06.2008 “On natural gas sector”; - (*Responsible for regulation of electricity and gas sectors*)
- A new power sector law is under preparation by METE with USAID technical assistance – *EU Third Legislative Package (Electricity Directive 2009/72/EC)*



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Regulator's areas

- **Economic regulator for “natural monopoly” activities (transmission & distribution) – after unbundling and introduction of competition**
- **Protection of customers interests in services of continuous supply (electricity & gas) while ensuring regulated utilities have sufficient revenues for providing service, investment, and a fair profit**
- **Shared responsibilities with other institutions (Competition Authority & Ombudsman office)**



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Regulator's features

- Independence
- Transparency
- Impartiality
- Competence





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An Independent Regulator

- » Created by statute – not decree (PSL no.9072, dt 22.05.2003)
- » Multiple commissioners (Five commissioners) with Staggered terms (PSL, Article 4)
- » Removal only for cause (PSL, Article 5)
- » Power to issue regulations / secondary legislation (PSL, Article 8)
- » Control own budget / license and regulatory fees (PSL, Article 12)



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A Transparent Regulator

- **“Sunshine” Deliberative Sessions**
 - **Deliberative sessions open to public (including all parties and media)**

(PLS, Article 9(1); ERE Rules of Practice and Procedure, Articles 10 and 12)
- **Public consultation (PSL, Article 16, ERE RPP, Article 19 – License application and 26 - ERE rule-making process)**
- **Public hearings open to public**

(PSL, Article 9(1); ERE RPP, Articles 27, 28 and 29)
- **Publication of ERE decisions (Official Journal, ERE website)**

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An Impartial Regulator

- **Board of commissioners and technical staff free of conflicts of interest**

(PSL, Article 6 - No member of the Board or of technical staff may be:

- a) owner, shareholder or holder of assets property of any licensee
- b) employee or contractor of any licensee
- c) member of the boards or supervisory boards or other relevant governing bodies
- d) director or president or other manager of any licensee, nor shall he has a material interest or other interest in the energy area

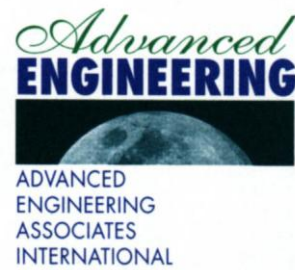
(ERE Code of Ethics, Article 19 - Declaration of the interests by commissioners)

- **Ex parte communication restricted**

(ERE Code of Ethics, Articles 15 and 16 - Commissioner will defend independence of his function from outside interference and avoid placing himself in situation of vulnerability)



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Responsibilities of ERE

Article 8 of PSL

- Licenses: granting, modification, transferring, renewal, supervision, revocation
- Tariff regulation and review
- Investment program review
- Market development and monitoring
- Consumer protection against excess charges
- Promotion of competition
- Promotion of energy efficiency
- Power to adopt rules of practice and procedure



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Licensing

- **A specific regulation on licensing procedures for granting, modification, transfer, renewal and revocation of a license adopted (Article 14 of PSL)**
 - Fair, non-discriminatory, transparent and fast process
 - Public consultation before a license is granted (two months)
 - Different term for different types of license (Generation, transmission and distribution licenses longer term than supply and trade licenses)
- **Template licenses for generation, transmission, distribution, supply (WPS, RPS and QS) and trade of electricity developed**
- **ERE monitoring and periodic reporting by licensees**

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Tariffs (1)

- **ERE, the only institution with authority to establish tariff in power sector (PSL, Article 24)**
- **The principles of tariff making (PSL, Article 27):**
 - a. Protect customers from monopoly pricing*
 - b. Cost recovery/financial viability – regulated entities should be permitted to recover their (efficient) costs, including a reasonable rate of return on capital*
 - c. Signals for investment – prices should encourage an efficient level of investment in the industry*
 - d. Promote economic efficiency in the sector*
 - e. Transparent process (Publication of rate filings, public hearings etc)*
- **Specific proceeding rules for rate-making process (ERE RPP, Articles 21 and 22)**
- **Public consultation and public hearings**



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Tariffs (2)

- **Unbundled tariff methodologies adopted (PSL, Article 28)**
- **Price-cap methodologies (but not yet fully implemented) for transmission and distribution; Cost+ methodologies for publicly-owned generation, WPS and RPS**
- **Feed-in tariff methodology for SHPPs**
- **Regulatory Statement establishing some tariff elements for privatized distribution company for the transitory period was approved by the Parliament as part of privatization package**
- **Tariffs set annually**



Tariffs (3)

Regulated Tariffs/Prices

- Publicly-owned generation
- Wholesale and Retail Public Supply to Tariff Customers
- Renewable resources (SHPP)
- Transmission services
- Distribution services
- Ancillary services (initially)

Competitive Pricing

- Sales to eligible consumers
- Non-public generation sales in wholesale market
- Energy Imports
- Purchases to cover distribution losses



Market Regulation (1)

- AMM developed by ERE and approved by the CoM (Decree no. 338, dt 19.03.2008) as required by PSL
- Essentially Bilateral Market
- OST not involved in contracting for supply
 - *Role limited to transmission, dispatch and ancillary services, including balancing energy*
- Non-eligible customers served under Tariff by OSSH/RPS; OSSH/RPS has right to recover all prudently incurred costs of securing supply
- Preserves domestic hydro generation benefits for tariff customers
- Provides platform for opening market for eligible customers



Market Regulation (2)

ERE 's role in the market:

- **Broad power concerning rates and terms and conditions for transactions involving KESH Gen, OST, and Distribution/RPS**
 - *Develop and approve tariff methodologies and rates*
 - *Approve contracts among market participants*
- **Develop and adopt market rules**
- **Develop and adopt transmission, distribution and metering codes**
- **Set consumption threshold for Eligible Customers;**
- **Establish rates for imbalance services**
- **Broad power to gather needed information for market monitoring**



Market Regulation (3)

- Market Rules and Codes approved
- Regulation for market participation and financial guarantees approved;
- A number of standard contracts approved
- Unbundled tariffs approved
- All customers can opt to become eligible
- Regulation on procedures for granting the status of Eligible Customer approved
- Specific regulation and rules for KESH sales to the market and OSSH purchases for distribution losses approved
- Interconnection capacity allocation rules under review
- Contract and tariffs for Ancillary Services and Balancing Energy under review

Challenge remains: **Reservation of hydro resources for benefit of tariff customers**



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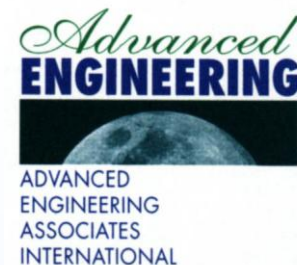


Customer Protection

- Specific rules for customers complaints (ERE RPP, Article 22), 80 complaints were filed with ERE in 2009
- Electricity Supply Contracts for household and non-household customers contain a number of requirements as to quality service
- Distribution Code requires OSSH to provide to ERE data and information on the quality of service
- No standards for quality of service yet developed and adopted
- Combination of tariff setting with some standards of quality of service necessary



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Future Regulator's Challenges

- Make the privatization of distribution succeed
- National Market development and functioning
- Market monitoring with the goal to avoid market abuses and promotion of competition
- Completion of the process of standards of quality of service
- Development and improvement of regulatory framework for promotion of RES and energy efficiency
- Regional Energy Market development
- Compliance with EU third legislative package



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Thanks for Your Attention!

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