

Privatisation of Electricity Distribution in Albania - Was it Worth it?

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1. Privatisation and its Objectives

- What is privatisation – the legal transfer of property rights from public to private subjects
- Main reason for privatisation – firm efficiency (*other reasons include raising revenue for the state, promote wider share ownership, put SOEs under market discipline, reduce government interference in the economy*)
- Private ownership is more efficient than public ownership (*property right and public choice theory*)
- Empirical evidence for developed economies is not conclusive

- Aims of privatisation in transition economies – firm efficiency, enterprise restructuring, to facilitate the development of the market economy, etc.
- The extent to which privatisation resulted in improved performance vary widely from country to country
- Reasons – different corporate governance regimes, different types of owners, weak and underdeveloped institutional framework

- Privatisation process all over the world have its success stories and failure stories
- Success stories have one thing in common – the state is strong and capable in defying policies and rules of the game (*Ulrich et al., 2005*)

2. Restructuring and Privatisation in the Power Sector

- Liberalisation, restructuring and privatisation of electricity sector have been in the agenda of many governments since the beginning of 90's.
- UK is the leader that have privatised all segments of the sector
- Firm efficiency was the main reason behind (apart from other reasons)
- Mixed evidence – privatisation improve performance only if it is associated with effective regulatory regime and competition is promoted (Megginson, 2005).

3. Privatisation of Electricity Distribution in Albania

- Main Objectives
 - Firm efficiency (*the performance of the distribution company was disappointing under the state management*)
 - Attracting private strategic investors in the sector
 - Reducing the role of the state in the sector and reducing budgetary expenditures

- **The process of privatisation**

- The establishment of the distribution system operator as a separated company in December 2006
 - IFC as the transaction adviser
 - The regulator obligations: to prepare and submit to the government the new AMM and revise all secondary legislation
 - The form and the formula of privatisation of OSSH were defined in the law no. 9889 dated March 2008 – open international tender with a prequalification phase
 - In June 2008 was decided that 76% of shares of the company were to be offered for privatisation
 - The transaction was closed on 29th of May 2009

4. Some Performance Indicators of the OSSH Before Privatisation

- Financial performance
 - net profit margin
 - return on assets
- Distribution network charges
- Reliability
 - SAIFI
 - SAIDI
 - CAIDI

Some Performance Indicators of the OSSH Before Privatisation

- Service quality
- Productivity
- Labour productivity
- OPEX efficiency
- Capital stock efficiency
- Capital expenditure efficiency
- Total losses (technical and nontechnical)

Some Performance Indicators of the OSSH Before Privatisation

- Regarding the financial performance - the company was in a very bad financial situation before privatisation (a loss making company and a big burden to the state budget)
- Regarding the reliability and service quality indicators – difficult to measure due to the lack of data before privatisation

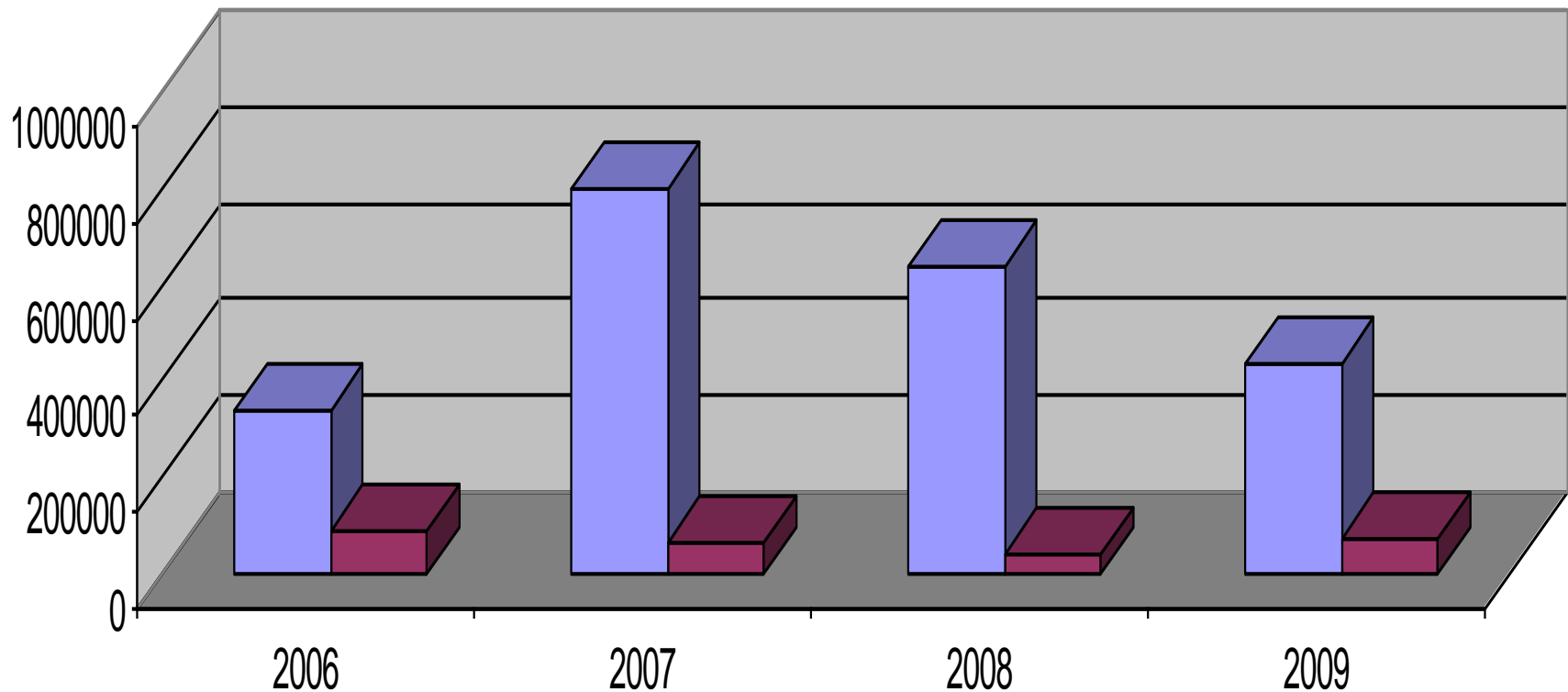
Labour Productivity

- In Bulgaria, Macedonia and Romania customers per employee range between 300 to 460, while GWh per employee range between 1.3 to 1.9 (in 2005-2006).
- The OSSH indicators are very low figures compare to some companies in developed economies.

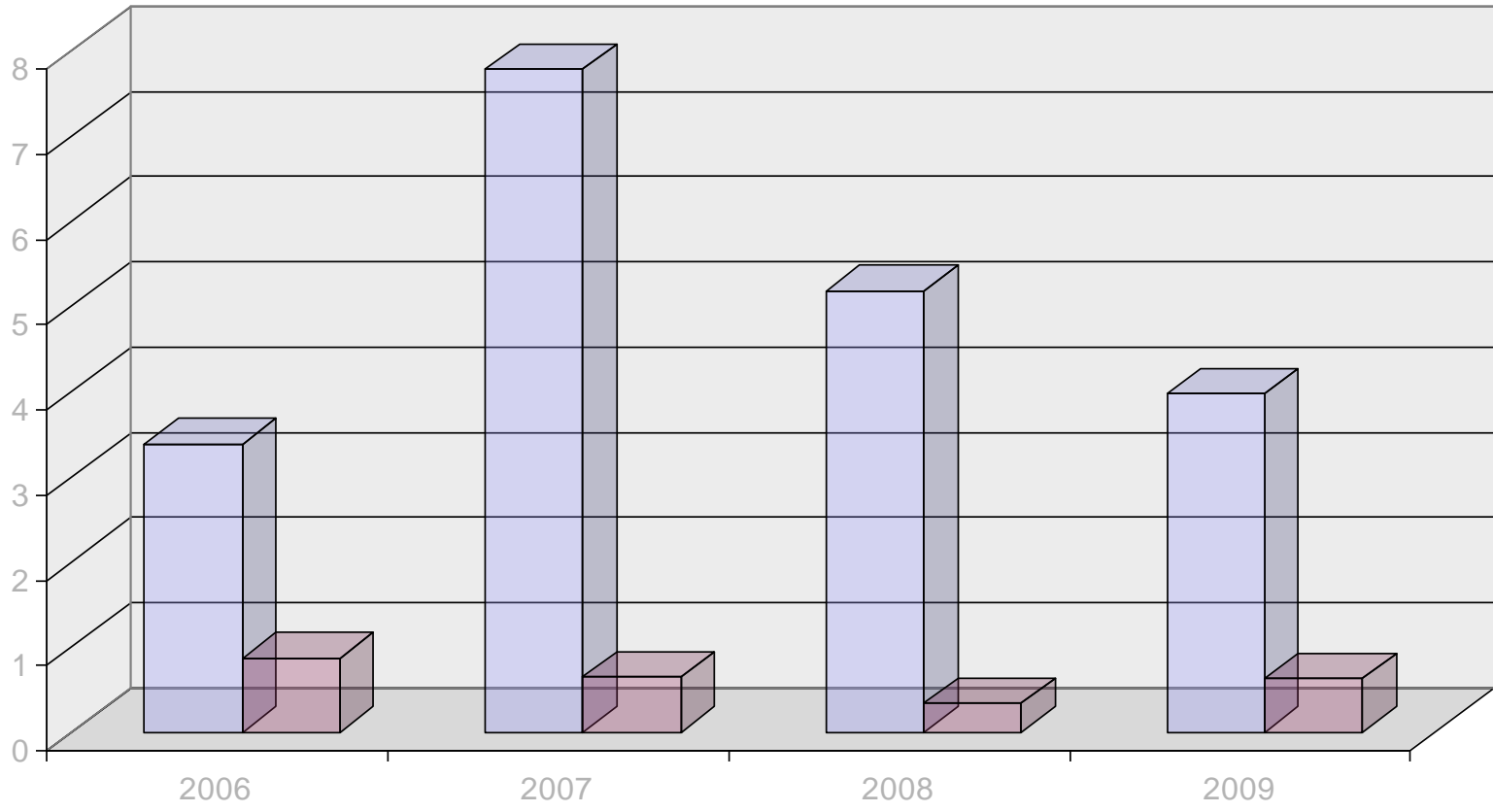
	2006	2007	2008	2009
Customers per employee	167.6	156	162.9	184.7
GWH per employee	0.62	0.5	0.7	0.8

OPEX and CAPEX efficiency

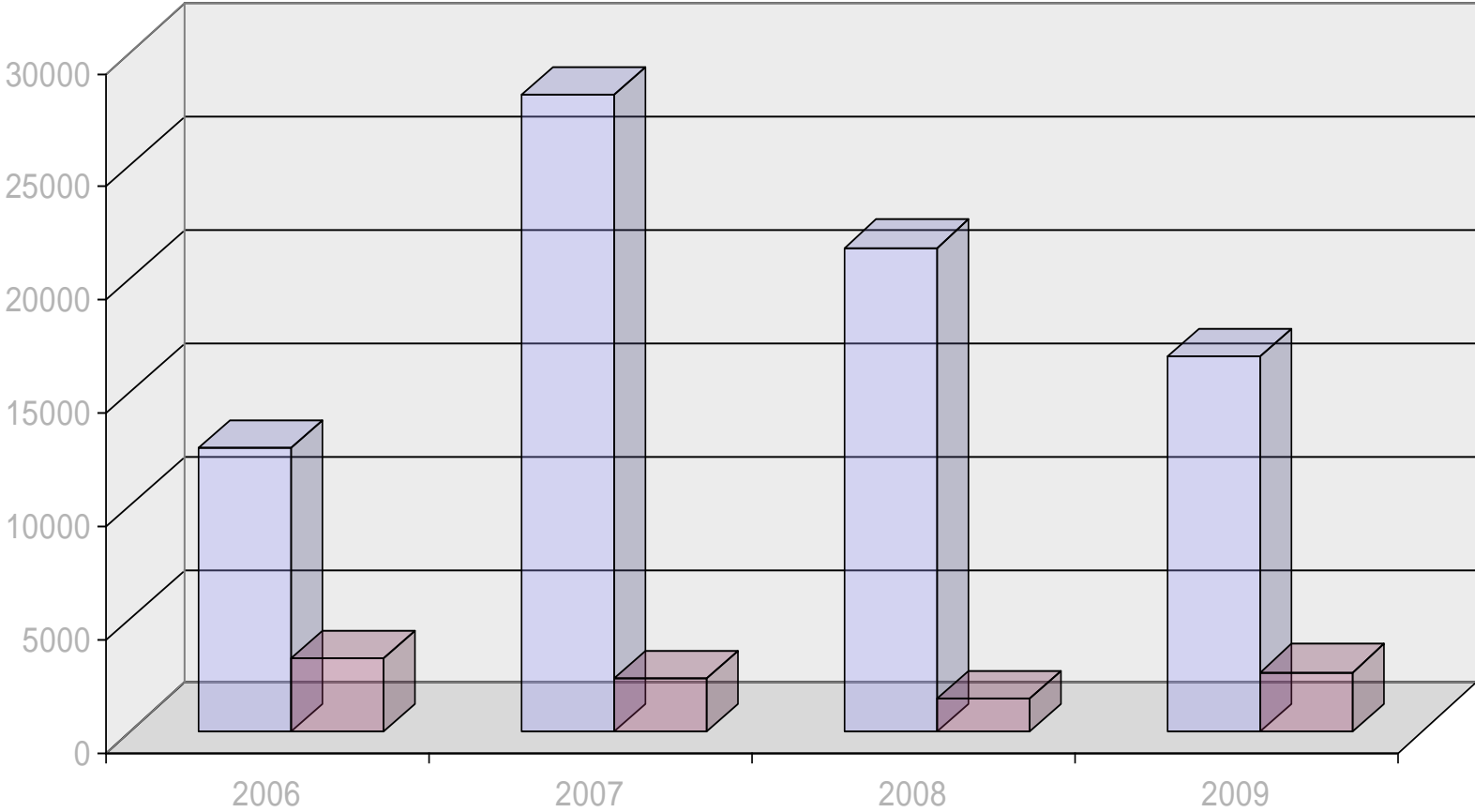
OPEX and CAPEX per network km (lek/km)



OPEX and CAPEX per kwh

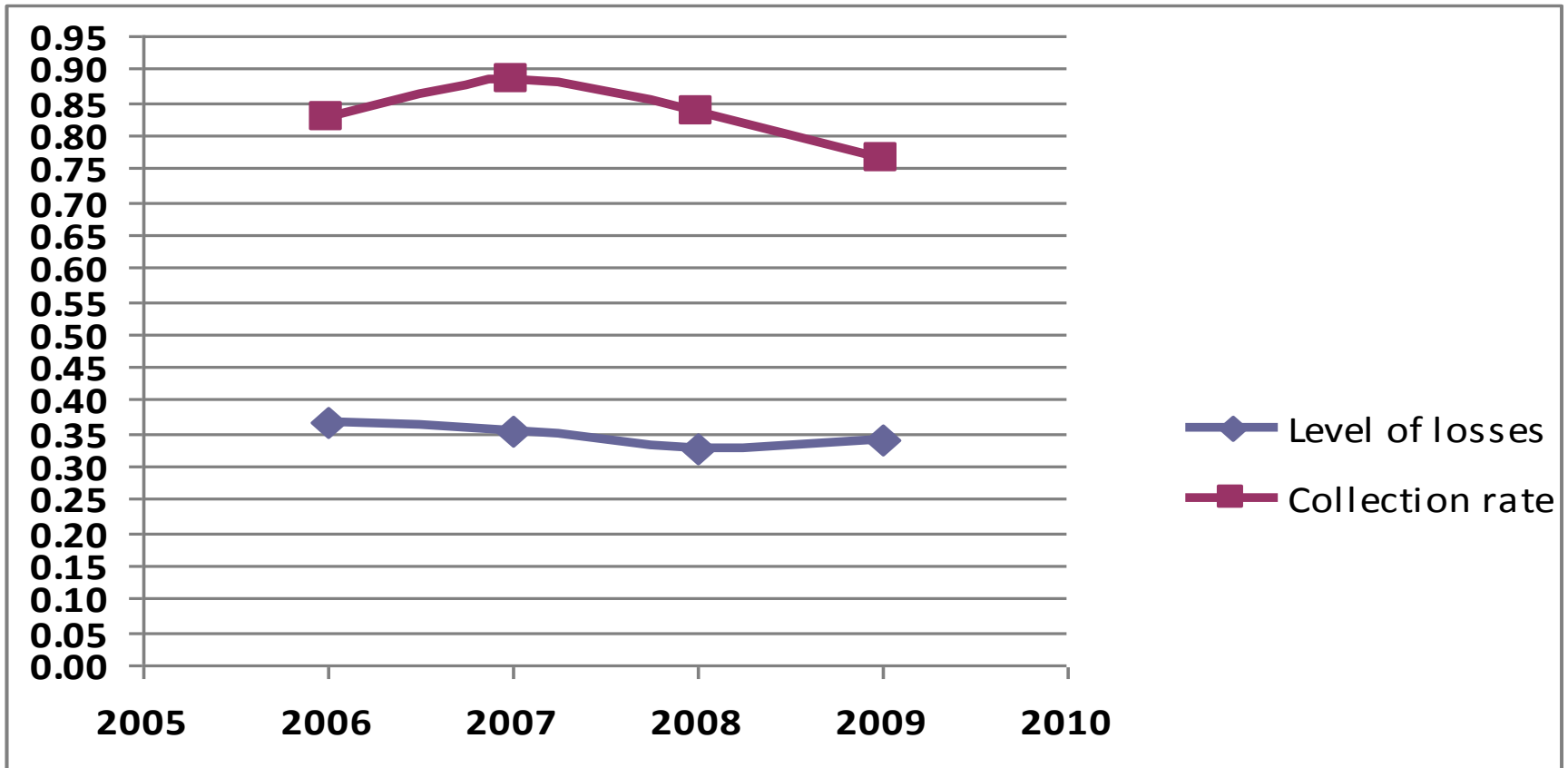


OPEX and CAPEX per customer



- High OPEX per network km, per kwh and per customer:
 - number of employees
 - losses in the network
 - technical parameters of the grid
 - number of household customers
- Low CAPEX per network km, per kwh and per customer:
 - low investment in the grid
 - low initiative to improve reliability performance
 - ROE was not included in calculations

Losses and Collections



5. The Road Ahead

- Overall the performance of the OSSH under public management was disappointing and was deteriorating during the last 20 years
- Privatisation necessary to change the shape and the fate of the company
- Improving the performance of this company requires commitments, efforts, investments, and of course time

The Road Ahead

- However the success of the private company is closely related :
 - to the efforts of the company itself to improve
 - to the effectiveness of the regulatory regime
- Benchmarking for various performance indicators important for the company and the regulator

The Road Ahead

- In the Regulatory Statement are set few performance indicators for the period 2010-2014
- Benchmarking analysis for the companies' performance is necessary from the regulator point of view – US and European regulators use such benchmarking
- The ERE should develop within its organisational structure a specific section for doing benchmarking analysis
- Benchmarking analysis is an important tool for price setting

THANK YOU!