“Challenges of the Development of the Natural Gas Infrastructure in Albania”

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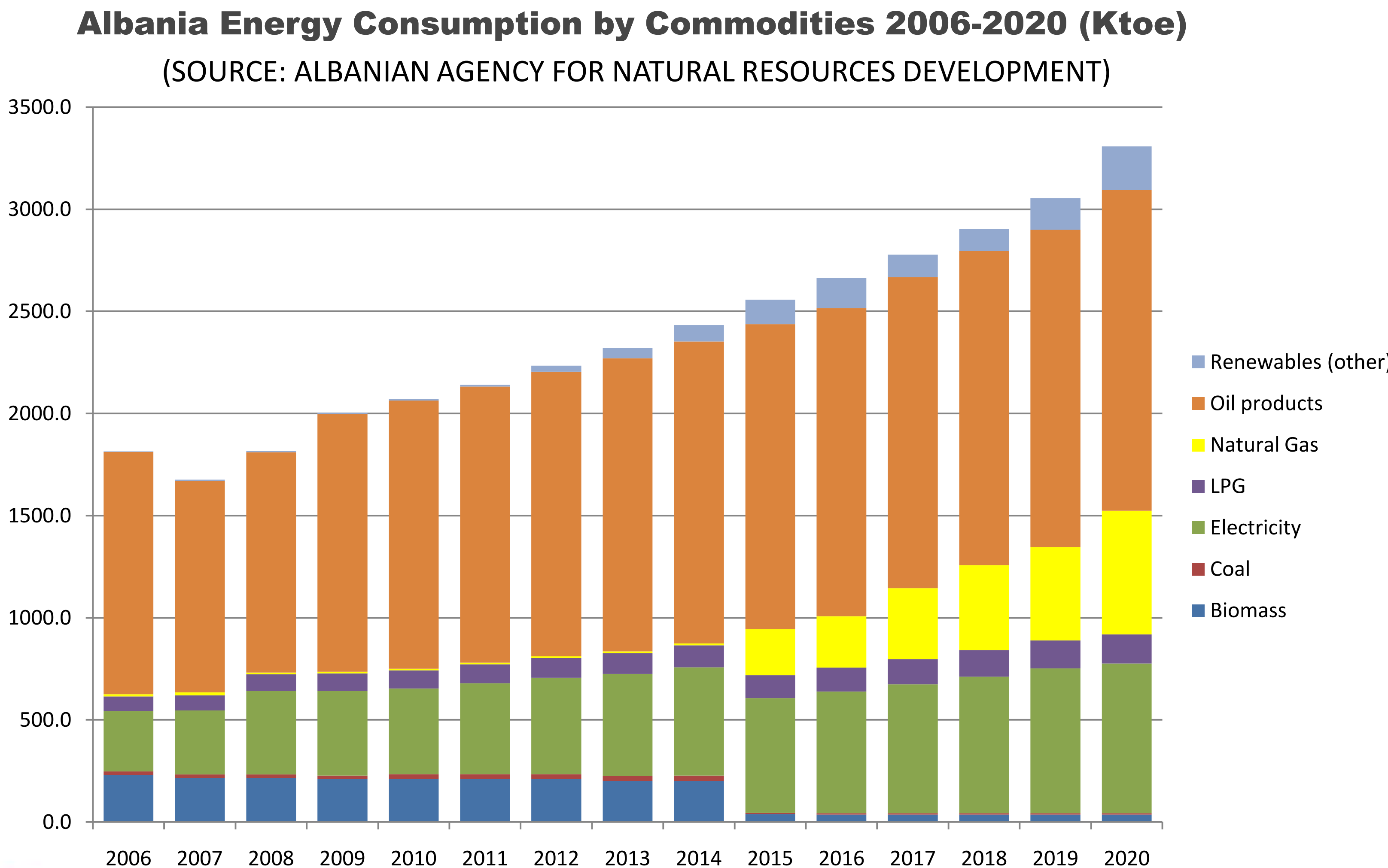
Tirana, Albania October 7, 2010

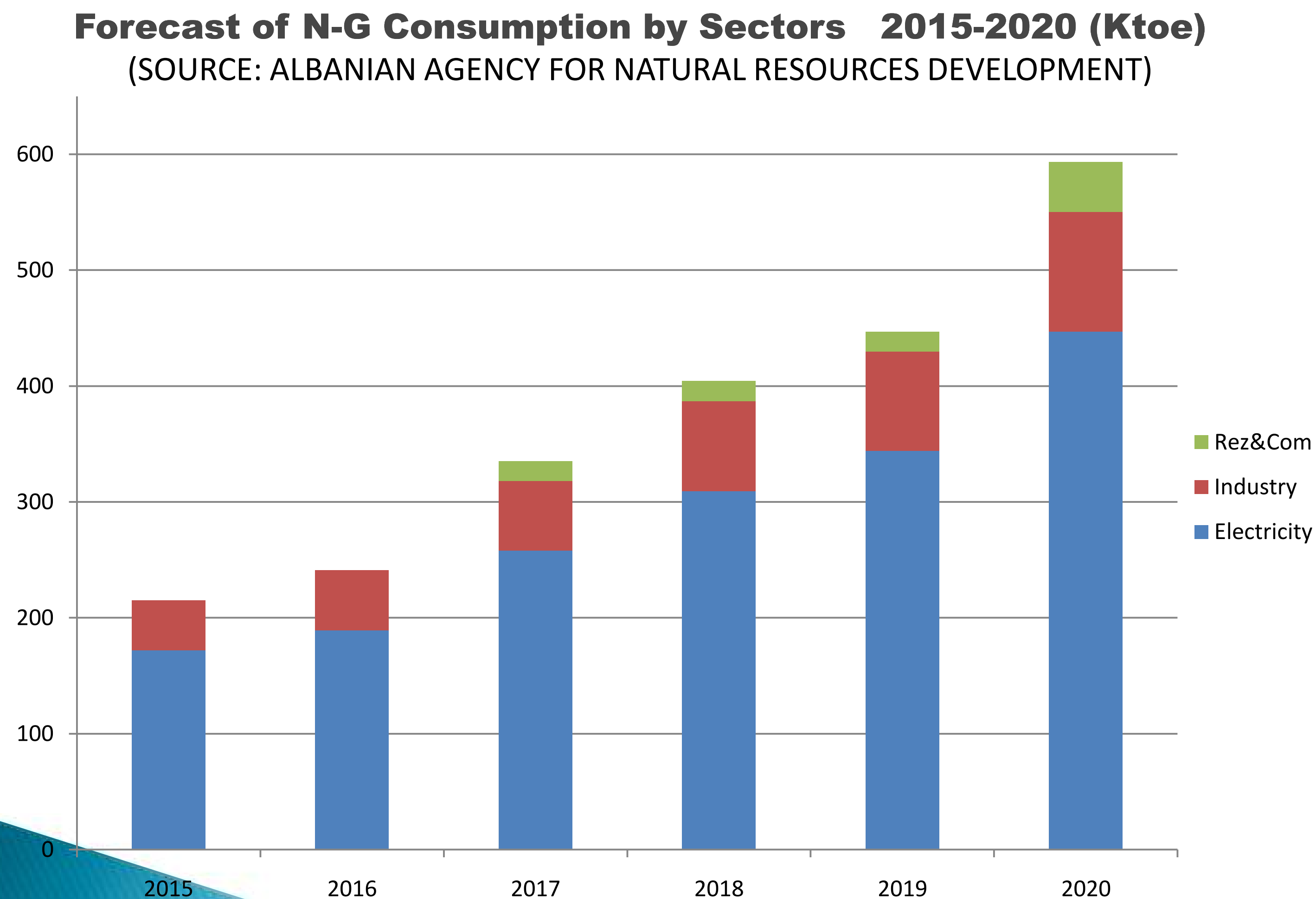
Content:

- Importance of Natural Gas for Albania and recent developments in its energy market.
- Update on regional developments related to Natural Gas infrastructure plans and projects.
- Challenges for the development of the Albanian Natural Gas sector.

N-Gas in the Albanian Strategy of Energy



Expected role of Natural Gas in the Albanian economy!



- Generation on base load.
- Security of supply.
- Primary energy for industry, SME
- Residential

Recent Developments in the Albanian Energy Sector:

- Restructuring (unbundling) of the electricity sector KESH-> KESH-Gen. TSO, DSO
- Privatization of the Electricity distribution sector completed in 2009 (CEZ)
- Clear time schedule and incentives for losses reduction (technical and non technical).
- Electricity market open to Competition.
- Diversification of the energy sources (RES, thermal).

Demand for N-G already present in Albania

1. One Combined Cycle power generation plant of 97 MW convertible to NG and expandable up to 300 MW was completed near Vlora town in year 2009.
2. Large capacity factories for construction raw materials (cement, bricks etc) already functional in Albania.
3. The LPG annual consumption in household and services nearly 100,000 ton/y.
4. Positive economic growth despite global crisis.

Alternatives of N-G supply for Albania

- Eventual new HC (Oil, N-Gas) discoveries
  - SHALE GAS revolution (30% of own NG prod. in US)
  - Albania should have great chances for development.
- Southern corridor (EU diversification of supply).
  - TAP
  - Energy Community Ring
- LNG re-gasification plant ?

Important Meetings of Regional, EU, USA and other global actors.

- GWG of the Energy Community in Slovenia and
- Energy Community 5th Gas Forum of September 14, 2010, Brdo Slovenia.
- Investment Conference, September 23, 2010 Skopje.
- 18th meeting of the European Gas Regulatory Forum, Madrid, September 27-28, 2010
- Atlantic Council's Black Sea "Energy & Economic Forum", Istanbul Sept. 29-Oct. 1st, 2010

Caspian developments & Southern Corridor;

- Development of the SEE N-Gas infrastructure (incl. Community Ring) closely related with developments in the Caspian region.
- Decisions related to Shah Deniz II development and gas allocation expected to come during the next 6 months or along 2011.
- No gas available earlier than 2016 – 2017
- More competing projects than gas available (South Stream, White Stream, Med-Stream, Blue Stream II, an Arab pipeline, pipelines from Qatar, from northern Iraq, from Samsun to Ceyhan and Burgas to Alexandroupolos, from Turkmenistan to India, and of course Nabucco, ITGI, and TAP)

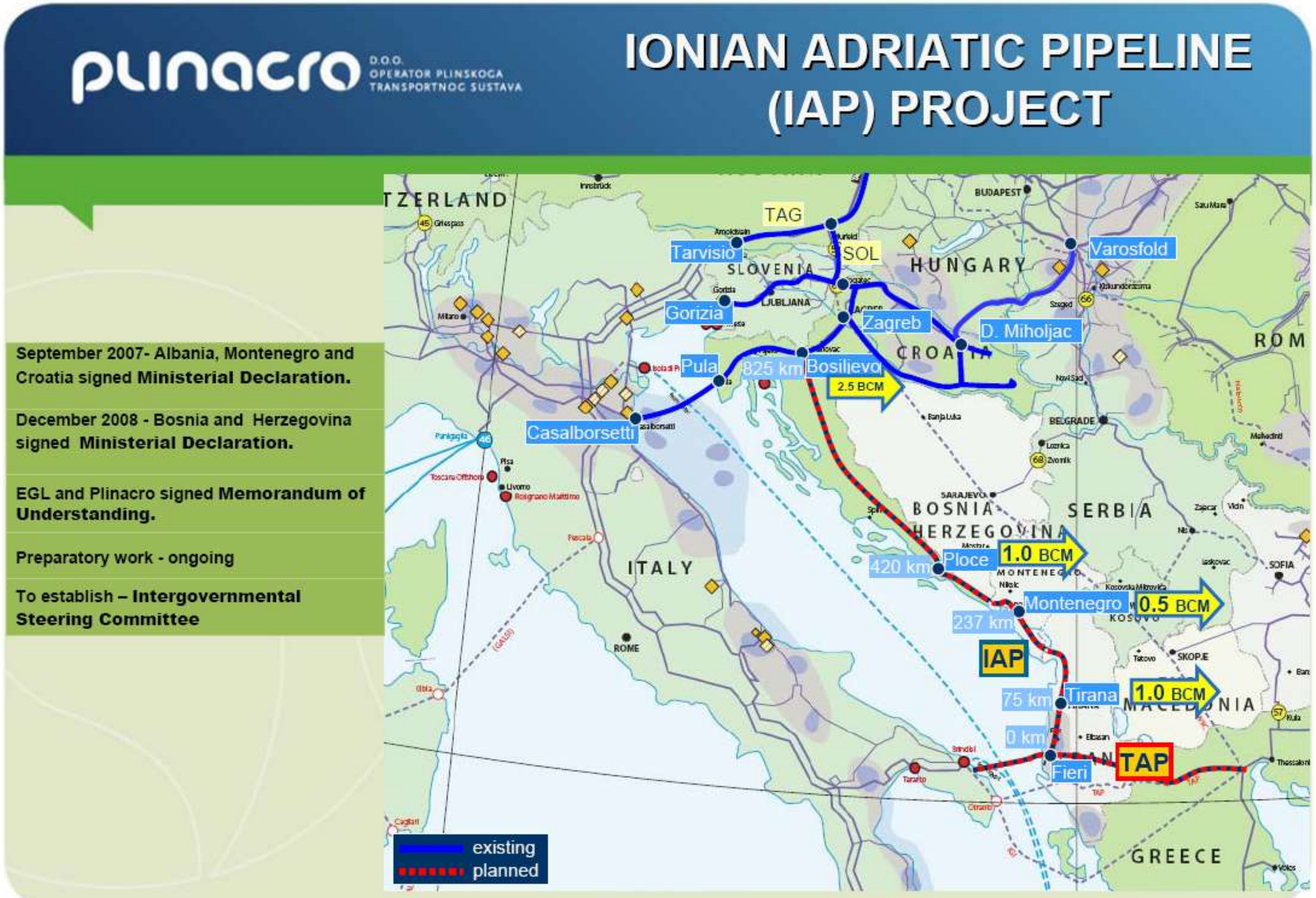
SEE Regional Challenges to develop the N-Gas Infrastructure

- Development/adjustment of a Legal & Regulatory framework in compliance with the EU Acquis Communautaire for N-Gas (3^d package)
- Harmonization of;
  - Regulatory mechanisms for Cross-Border Investments
  - Regulation on Access and Operating rules
  - National development plans with the regional project (Community Ring).
- Energy Community Secretariat leads & facilitates the process

Most important N-G Projects related to Albania

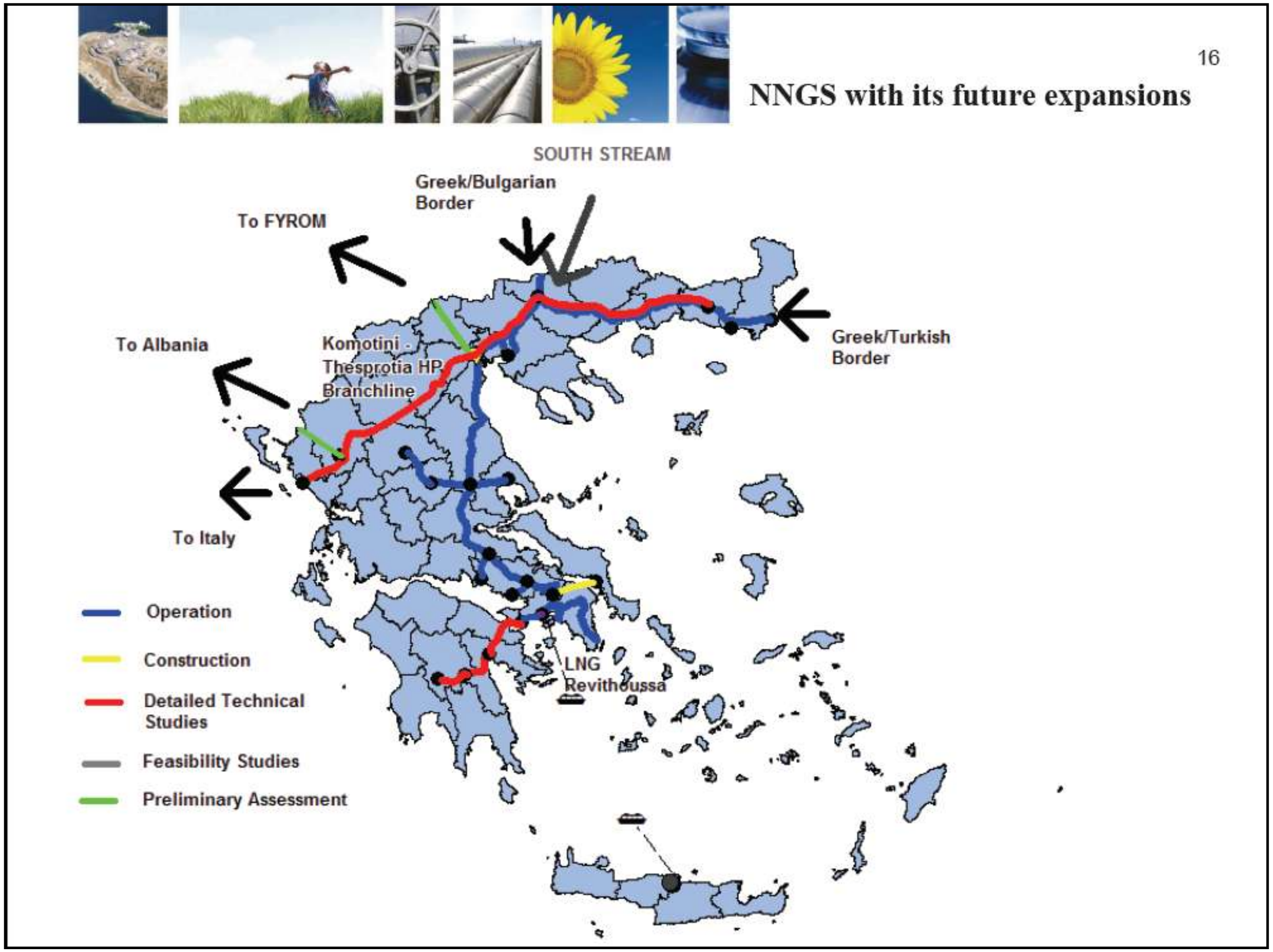
Trans Adriatic Pipeline

Croatian N-G Network Development Plan



Source: PLINACRO ,Goran Francic, Director of Development Division.
5th Gas Forum Brdo, Sept 14, Slovenia .

Future plans for the development of the Greek N-G network



Source: DESFA, Nikos Katsis presentation made in Gas Forum, Brdo September 14, 2010

Existing and Future interconnections of the Macedonian N-G Network

Feed In Lines – Southern Branch (*under discussion*)

Source: Michael Thomadakis

FYROM looks forward to be part of South Stream

(*oilandgas.einnews.com)*

Summary of Supply Options for the Gasification of Albania

map source: www.gie.eu

(Geo)Politic vs. Commercial Decisions

PIPELINE (GEO)POLITICS

ERRA
ENERGY REGULATORS REGIONAL ASSOCIATION

- Pipelines are often influenced more by political rather than commercial factors
- Energy has become a main component of the geopolitical struggle and also the currency of power
- Are political decisions being formulated by looking through the pipelines ? Or vise versa ?
- Not only war but many of today's pipeline projects are the extension of politics by other means

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Source: Sohbet Karbuz OME Head of HC Division
"Security_of_gas_supply_Investment" ERRA_9th Investment Conf
Budapest_April_04_2010.

Big Projects need to be bankable !

Citation from Ambassador Richard L. Morningstar speech; **"The U.S. Perspective on Eurasian Energy"** in the Atlantic Council's Black Sea "Energy & Economic Forum", Istanbul Sept. 29-Oct. 1st, 2010.

"There may have been moments over the past decade when one or another player had the cash or clout to pull others along with it on a specific project or projects. Not anymore. Political will is a necessary but not sufficient condition for realizing major projects…… big ideas need to be bankable"

Advantages of transits routes across Albania

Albania offers to N-Gas pipes bringing Caspian and Middle East natural gas to EU markets via South Italy:

- the **shortest** and the **most cost efficient link** and
- potential **underground storage !**

Albania is a reliable partner because;

- member of **NATO** and is actually involved in the **EU membership** process.
- a **factor of peace** in the region and
- has a **stable democracy.**

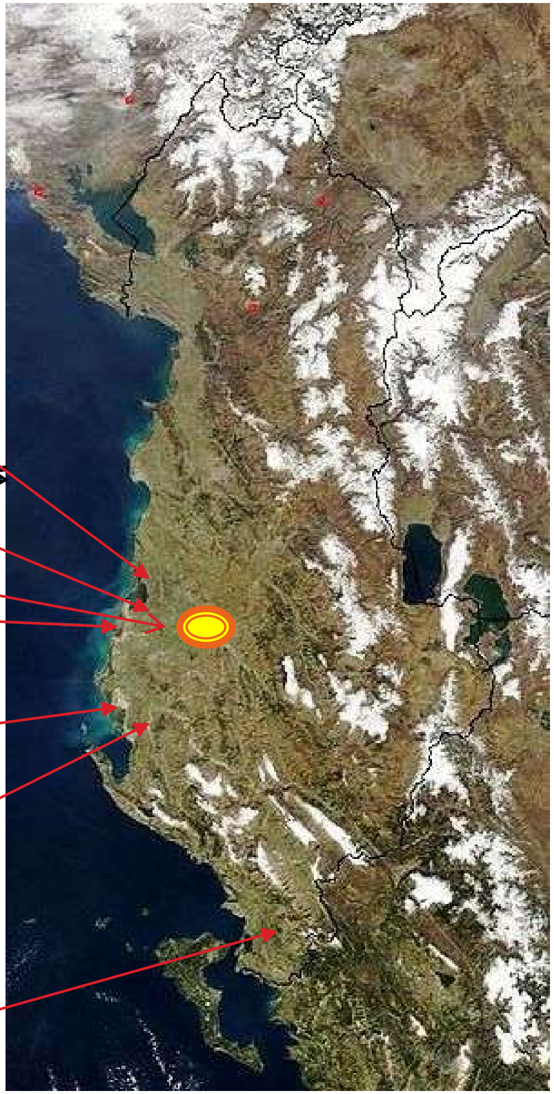
Underground Storage Capacity of Albania is larger than 2Bcm !

Salt Domes

Dumreja

Existing Natural Gas Fields

- Durres
- Ballaj
- Divjake
- Povelce
- Frakull
- Delvine



TAP - ITGI co-operation vs. competition ? !

Source: http://www.upstreamonline.com/live

oil prices |

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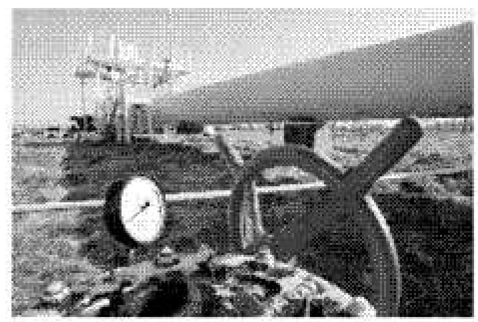
Exploration & Production Field Development Company News

TAP ready to join forces with ITGI

The Trans Adriatic Pipeline (TAP) gas consortium is ready to co-operate with Italy-Greece-Turkey Inter-connector (ITGI), a rival project in the race to carry gas to Europe from the Caspian region, its managing director said today.

News wires 30 June 2010 13:39 GMT



Thinking big: TAP and ITGI

"We are open towards ITGI to discuss mutual ways of improving the respective projects," TAP's Kjetil Tungland told Reuters in an interview. He declined to give details of what this co-operation might involve.

Future gas supplies from Azerbaijan's Shah Deniz gas fields are seen as Europe's best bet for increasing gas imports and are hotly contended by rival pipeline consortiums ITGI and the European Union-backed Nabucco link.

Shah Deniz is expected to begin producing around 17 billion cubic metres of gas per annum from 2016-17.

"We will be ready by then," Tungland said.

TAP plans to carry more than 10 Bcm of Caspian gas a year along a 520-kilometre route through Greece and Albania to Italy, extending an existing pipeline from Turkey.

RELATED STORIES

- E.ON Ruhrgas joins TAP
- Azerbaijan seals Bulgaria gas pact
- Three in the frame to fill the transport gap
- Bulgaria seals new Greece pipe link
- EU sets out on 'new Silk Road'
- EU sets sights on 'new Silk Road'
- Piebalgs punts Nabucco transit deal

Albania is also open to South Stream!

Source: http://www.south-stream.
http://naturalgasforeurope.com/albania-looking-to-join-south-stream.htm

Achievements & Challenges in the Albanian N-Gas sector ....

- Law No. 9946, dated 30.06.2008 "On Natural Gas Sector".
- Gov. Decision on new infrastructures: VKM Nr 713 date 25/08/2010 "For the Determination of the Rules, Conditions and Procedures for Granting the Permissions for the Construction and Use of the Pipes and Systems of Natural Gas Infrastructures"

Issues for consideration;

- No TSO(s) has been established yet and no clear plans on how to handle this component, therefore;
- No plan for the development of the N-Gas infrastructure,
- No Network Code can be developed and
- Preparation of Human Resources is lagging behind and not taking advantage of the opportunities available.

… Regulatory Framework;

ERE is working to develop a regulatory framework in line with the Acquis Communautaire for energy, able to attract and guarantee investments and allow smooth development of the N-Gas sector in Albania.

ERE is assisted by IRG Ltd. with funding from USAID.

Achievement so far:

- Licensing Procedures
- Third Party Access Rules
- Model License for the Transmission System Operator

Next steps:

- Model Licenses for; Storage, Supply, LNG, Distribution.
- Tariff Methodologies
- Capacity development of the N-G Sector of the ERE
- Follow of developments in the Energy Community and the EU NG sector

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