THE ENERGY IN ALBANIA

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(NEWSLETTER)

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RESULTS FROM THE PROJECT "IMPACT OF THE WITHDRAWAL OF MODERN ENERGY ON URBAN POOR"

(.....Continued from previous issue.....)

Payment Patterns

Only 7 % of the households sampled claim to always to be able to pay their electricity bill, indicating that many people would benefit from flexible payment systems. At the time of the survey, 25 % claimed to have outstanding electricity debts, compared with 6 % having debts for food, which indicates there may be scope for tightening up payment procedures. 35 % claim to make no payments, yet 99.5 % of respondents feel that consumers should pay for their electrical consumption, so there is plenty of scope for improving recovery rates.

The average proportion of total household expenditure spent on energy was 10 %, but the figure increases with total household expenditure (those with the lowest household expenditure are only spending 6 % on energy in contrast to 14 % by those with the highest overall expenditure). Electricity bill payment patterns indicate that this may be due to non-payment rather than lower levels of energy consumption.

Households with metered connections spend a greater proportion of their energy budget on electricity than those with a forfeit bill. However, more of those receiving "a forfeit" bills tend to use electricity for energy intensive applications

(cooking and heating), so there is considerable scope for rationalising energy use by installing meters.

It is interesting to see that whilst 22 % of the sample has stopped paying electricity bills, most within the last 5 years (people stop when they see others get away with not paying), another 29 % have started paying, most within the previous year (presumably as a result of improved procedures for enforcing payment). The payment of electricity bills is sensitive to both social and economic status - those in weaker socio-economic groups tend to demonstrate weaker payment behaviour. Households with "a forfeit" bills are most likely to have stopped paying.

Changes to Date

A number of questions were asked regarding perceived changes in the living conditions, including housing, health (child), employment, water and sanitation, education (schooling), communications, security, food and entertainment. Positive changes relate to security, communications and education. In contrast, deterioration is noted regarding employment and water and sanitation services. A more positive view is expressed by those with legal tenure (as opposed to those with illegal tenure), and those with larger dwellings e.g. things are improving for those who are more secure.

The main reason given for inability to pay electricity bills was employment problems (74 %) rather than increased prices (mentioned by only 19 %). This indicates that reforms are taking place in a context of deteriorating employment conditions, which is likely to cause problems for those in insecure employment.

A large number of respondents have changed fuels (whilst in their existing home). 32 % of the respondents claim to have made a change in the fuel used for cooking; the majority were using electricity before and have now changed to gas. 25 % have changed the fuel commonly used for space heating; again, the majority were using electricity while others (24 %) were using wood and most have changed to LPG. Cost and accessibility were clearly the main reasons given for changing; cost appears to be more important in choice of space heating fuel as would be expected (heating uses a lot of energy).

Households which have changed cooking fuels tend to have a higher total household expenditure, indicating that those with greater means are more likely to change fuels, reflecting an ability to pay for replacement of equipment (especially when converting to LPG). The main change has been from electricity to gas.

The following tables and the graphic show these changes:

Fuel use prior to change

	Cooking %	Space heating %
Electricity	83.6	70.0
LPG	3.0	6.0
Wood	13.4	24.0

Fuel use for cooking

		main cooking fuel			Total
		elec	LPG	wood	
What fuel did you use before - cooking	elec	9	45	2	56
	LPG	0	2	0	2
	wood	0	9	0	9
Total		9	56	2	67

Fuel use for heating

		main space heating fuel		Total
		LPG	wood	
What fuel did you use before - heating	elec	26	9	35
	LPG	3	0	3
	wood	12	0	12
Total		41	9	50

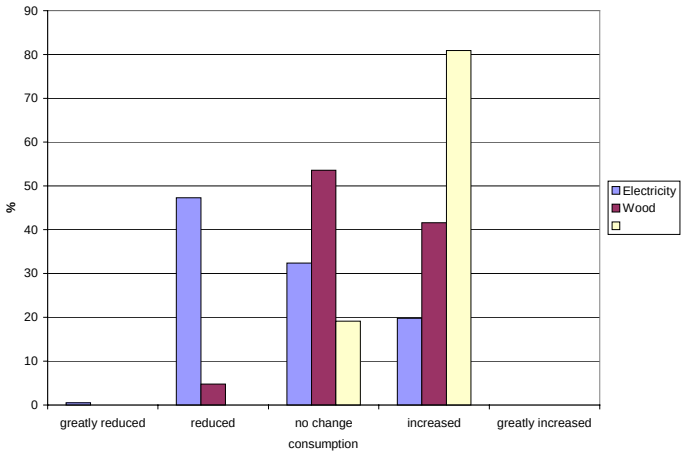


Fig. 1 Perceived change in fuel consumption over last 5 years

Figure 1 illustrates how, respondents feel that their consumption of electricity has reduced over the last 5 years, whilst their consumption of gas in particular has increased. Problems with access to electricity and reliability of supply were given as the reason for the shift away from electricity, along with the installation of meters; cost was rarely mentioned in response to open questions.

Impact of Changes in the Future

Enforcement of bill payments is seen as the most likely change in the future, and it is also regarded as likely to have the greatest impact. The perception of the impact of enforcement is consistent across most groupings, indicating that even the better off and those who do pay their bills regard this as a threat. This indicates that the enforcement of paying bills on time will cause problems amongst most groups. Of the three suggested coping strategies, changing to a cheaper fuel is clearly the favoured option, followed by a reduction in energy consumption (Table 1 presents people's first second and third choices).

Table 1: Ranking of proposed coping strategies

First	1.00	57.10	25.20
Second	1.90	32.40	22.40
Third	21.00	2.40	3.30
% Response	23.80	91.90	51.00

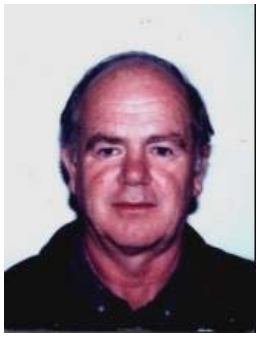
Those with lower household expenditure say they are more likely to change fuels, which contradicts behaviour to date (fuel changes have occurred amongst better off households). The main choice of alternative fuel is electricity, which makes sense given that most people are currently using LPG for heating and cooking. However, those who are currently using electricity for space heating claim they will continue to use electricity, indicating they feel they have no alternative (it is not possible to install wood stoves in flats, and LPG equipment is expensive). Note that only those in a strong material position have a stronger preference for wood. This may reflect financial barriers of equipment costs, or a lack of awareness of fuels costs. The main reason given for these choices of alternative fuels is cleanliness of fuel (26 % of sample); economic considerations are second (8 %). However, this is only true given the current mix of fuel costs i.e. cost could become a more influential factor if the cost of the preferred alternative (electricity) became prohibitively high.

When considering reduced use (energy conservation), space heating is clearly the application where people are most likely to make savings, followed by water heating and lighting. Households in the strongest material position show strikingly higher opportunities to make savings in lighting and cooking (indicating poor management at present), and a reluctance to sacrifice entertainment and household appliance use. There appears to be a greater willingness to pay amongst groupings where non-payment is higher e.g. those that have not been receiving bills, those with lower household expenditure, and households where people have moved from rural villages (associated with illegal tenure). In order to pay more for energy, savings will need to be made elsewhere in the household budget - housing expenditure is the main area for savings, followed by clothing, travel and telephone expenditure. Questions were posed to assess the strength of belief and the importance given to a number of possible outcomes regarding the impact of increased energy costs. Respondents felt that negative impacts on education and health are most likely, but they regard health as the most important issue, so negative impacts on health are likely to be the most important outcome of cost increases (e.g. not having hot water, not cooking food properly, lack of space heating). This is evident across all groupings. Overall, people do not fear consequences of non-payment, indicating a degree of confidence in their ability to pay.

4 Policy Recommendations

A set of policy recommendations has been drafted.

- The forfeit form of billing for electricity consumption should be removed as soon as possible as it is one of the ways of significantly reducing electricity consumption. The meters installation will positively affect the payment.
- The high level of low-income families in Albania indicates that a very small number of households are comfortably able to pay the electricity bill (most probably less than 10%). The amount of the subsidy should be increased by considering a more accurate social policy. Also, ways of eliminating the two-tier tariff for the households that doesn't enter in the low-income level should be found.
- The policy of increasing electricity prices and decreasing LPG prices should be encouraged, as it encourages people to use cheaper fuels. This is more important if we consider that LPG could be used for heating, cooking and maybe for hot water production. Prices can be brought down by reducing the customs tax, vat, excise and imposing a price ceiling. A great role in the medium-term price decrease can play the creation of a LPG stocking terminal, probably in the new industrial-energetic zone in Vlora, to allow bulk importing from abroad that will reduce import and transport costs. Big storage facilities would also enable seasonal fluctuations control.
- The legalization process of people and houses should be accelerated, as there is a tendency towards improved payment patterns where people have legal tenure.
- A clear policy for introducing energy efficiency lighting (through both fluorescent and compact fluorescent lamps) it is a simple and fast way of bringing consistent savings. Public awareness is a recommended way to achieve this, together with some possible duty taxes reduction.
- The possibility of promoting water heaters using non-electrical fuels should be investigated, as should cheaper LPG space heaters.
- In general, awareness campaigns for household energy savings should be promoted. An increasing number of households intend to deal with energy saving strategies. It is accepted by almost all that electricity should be paid for, and KESH will become increasingly severe in enforcing payment.
- The biggest energy consumption services are space heating and water heating so different measures should be taken in order to promote efficient energy use mainly for these two services. Thermal insulation of dwellings should be the target for the near future. Building codes are currently being developed which will improve thermal standards, but there is a need to ensure that enforcement procedures are adequate (at all levels of the building planning process).



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CONFERENCE FOR DEVELOPMENT OF ALBANIAN POWER SECTOR

Albanian Power Sector Conference of Donors was held in Sheraton Tirana Hotel on July 15, 2004. In the Conference participated Vice Prime Minister of Albania Mr. Namik Dokle, Minister of Industry and Energy Mr. Viktor Doda, Minister of Economy Mr. Anastas Angjeli, KESH's General Director Mr. Andis Harasani, and specialists of other Albanian Energy institutions. Also, in the Conference participated the Missions of World Bank, EBRD, EIB, USAID, Italian Cooperation, KfW, the Austrian Government, the Swiss Government, SEETEC Project and other donors. The main goal of this Conference was to monitor and discuss with Government and KESH the progress achieved in implementation of the Action Plan to im-

prove power sector performance, implementation of the sector reforms included in the National Strategy of Energy and the Power Sector Policy Statement adopted by the Government in June 2003 and April 2002, the projected electricity supply situation in 2004, and KESH's financial performance. General Director of KESH have informed that the overall implementation of the Action Plan, adopted by the Government and updated annually thereafter, was proceeding very satisfactorily. The targets for the first and second quarter of 2004 have been met, and the overall performance in the first six months have been as shown below:

	Actual	Target
Losses	38.8 %	39.1 %
Collections	93.2 %	92.9 %

Thus, the collection and losses targets have been met in 13 of the 14 quarters since implementation of the Action Plan was undertaken at the start of 2001. All the Donors congratulated the Government and KESH on this performance. Also all the Donors stressed the need to sustain implementation of the required measures in order to ensure that performance is maintained at a consistent level, subsequent quarterly targets are achieved and sector performance improves as quickly as possible. Both the Government and KESH assured the mission that the highest priority was being assigned to ensuring this. The Donors noted that overall payment of current electricity bills and arrears of budgetary and non-budgetary consumers were satisfactory, with total arrears reducing from 4,294 million Lek at the end of 2003 to 3,325 million Lek at the end of June 2004.

A review of the billing data by KESH indicated that the average tariff realized during the first six months (6.05 Lek/kWh) was significantly good and for the first time is higher than the cost of electricity generation (including import), transmission and distribution. The Donors reviewed with KESH the program for providing all household consumers with meters. KESH had purchased 25,000 meters with its own financing, 80,500 meters were procured with EIB financing, and 75,000 with IDA financing. A further 75,000 meters were being procured with Italian financing, thereby completing the outstanding requirement for household meters. KESH stated that the program to install all required household meters by the end of 2004 was progressing satisfactorily.

KESH presented that the overall situation of electricity supply during the first six months of 2004 was very good, and the forecasts were very good also for the rest of the year based on very good management of water resources by KESH. Also in this good supply situation has helped the favorable hydrological conditions from 2003 into the first half of 2004 resulted in continued high domestic generation. During the first six months of 2004, net domestic generation was 3,078 GWh with net imports of 49 GWh and estimated load shedding of about 300 GWh. Assuming 75 % probability for the rest of the year, it is projected that net domestic generation for the whole year would be around 5,100 GWh, with anticipated net imports of about 850 GWh.

The Donors reviewed that good steps have being taken to implement the sector reforms included in the National Strategy of Energy and the Power Sector Policy Statement. In addition to continuation of the reorganization of KESH and preparation for its unbundling, the following were the main tasks accomplished in 2004:

- Establishment of the Transmission System Operator (TSO) as a joint stock company with KESH as the holding company. The TSO was registered on July 14, 2004. The assets of the TSO cover the 400, 220, 150 and 110 kV transmission lines, and eleven 220/110 kV substations, including three generation substations.
- A decision to further consolidate the 8 existing distribution zones into a reduced number of distribution districts.
- Development of a Transitional Market Model and its submission for Government approval.
- Implementation of various elements of the National Energy Strategy adopted by the Government.
- Implementation of the COM Decision to provide a subsidy to mitigate the impact of electricity tariff increases on socially vulnerable groups.
- Continuation of the work of task forces to deal with (i) property ownership issues in the power sector; (ii) water rights; (iii) the preparation of the grid code; and (iv) the preparation of efficiency labeling standards for electric appliances.

In addition, the Government is proceeding with implementation of its commitments under the Athens MOU in terms of primary and secondary legislation, electricity market implementation, energy efficiency and environmental legislation, and investment projects needed for market opening. The Donors pointed out that an essential step in the restructuring process would be the allocation of existing assets and liabilities of KESH to the successor companies to be formed after restructuring, and that this would require revisions to the existing loan/credit/project agreements. It was recommended that immediate action be undertaken by KESH to review the existing loans/credits and prepare a proposed allocation to successor companies. Based on this proposed allocation, the Government could then initiate discussions with the IFIs/donors that had provided the loans/credits regarding the revisions required to the loan/credit/project agreements to provide for the transfer of assets and liabilities to the successor companies of KESH created during restructuring.

One of the most important successes of power sector is signing the loan agreement with the World Bank, the EBRD and the EIB regarding the construction of new Combined Cycle Gas and Steam Turbine Power Plant with an installed Capacity 135-150 MW and a total investment 140 Million USD. In the Power Plant project are included US$ 3 million for refurbishment of the existing oil tanker terminal near the project site. This terminal is owned by ARMO (Albania Refinery & Marketing of Oil).

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