



THE ENERGY IN ALBANIA



Qendra e Eficiencës së Energjisë Shqiptari-E
Albania-EU Energy Efficiency Centre



THE ENERGY IN ALBANIA (NEWSLETTER)

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NATIONAL AND REGIONAL ACTIVITIES RELATED TO THE ELECTRICITY AND GAS TRANSITION STRATEGY

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

The second priority is to begin the process of distribution companies consolidation. After this phase, distribution sector has to operate in a regional context and therefore distribution companies have to be restructured, to take account of the larger market.

The third priority is investments in the energy sector. The power generation facilities considered necessary as result of the Generation Investments Study (GIS) through the relevant financial institutions could be a first priority, but only if there is general and shared consensus on how these investments are identified.

The fourth priority is to put in place incentives to develop reasonable levels of reserve generation capacities. In this case Regulators have to prepare and put in place incentives or facilities.

Fifthly, putting in place mechanisms to bring about compatible national market design and make this work transparent.

The other priority is to work on the coherence and development of statistics, and energy information, within Regional Energy Information center. Another priority is to have the Regulatory Body more independent, better capable of deal-

ing with concrete problems, sufficiently resourced having an operational autonomy and a democratic accountability. Within this broad prospective active promotion of transmission and distribution system unbundling is another priority, within the scope of the EU Directives and interpretative notes.

The monopoly parts of distribution and transmission to be subject to regulation relating cost and incentives, but the fuel price and retail tariff might not. Technical approximation and rule making for the operation of the market could be devolved to technical organizations and communities. In this frame UCTE, CEER, ETSO, SETSO, regional Regulatory Board, are playing an active role.

Lastly, but not the last, all remaining customs and other duties on energy products should be abolished in this period.

4. Second Phase

In the second transition phase, the institutions of the regional energy market (Regulatory Board, PHLG, etc.) should have a legal basis and some operating experience. It is very important that they become involved in deciding priorities for investments across the region. As long as the means of awarding contracts is compliant with best practice and EU norms for public procurement, they do not have large role to play in this process. They might ensure that the criteria for the determination of investments priorities are fair and transparent and are correctly applied as the European Union Internal Market Institutions do within the European Union.

Given the size and the development of the national markets, moving to a single market design for the region during this phase is an option. Based on standardized trading contracts a functioning contract exchange, acting as a clearing mechanism as well, should be set up. Mutual recognition of licenses might apply at this phase and Regulatory Board might establish minimum criteria for license awards.

Environmental aspects of the Energy Community member countries are an immediate priority. For the countries like Albania, which are covered by the Stabilization and Association process (SAP), it is SAA to form the legal basis for relations between the country and the European Union, on environmental aspects.

Finally the energy efficiency is an essential issue for the market reform process and market opening in each member country. A national energy efficiency policy covering energy efficiency energy conservation and renewable energies is required to be in all countries of SEE region.



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MARKET TRANSFORMATION FOR SOLAR WATER HEATING (SWH) IN ALBANIA

The Mediterranean climate gives Albania more than average potential for solar energy utilization and the examples of the other Mediterranean countries would appear to suggest that there is a strong a priori case for thermal solar energy use in Albania.

At present time there is only a limited market potential for solar thermal energy utilization, because the current situation with regards to energy economics limits the economic feasibility of solar thermal energy use for domestic water heating compared to conventional energy resources. However, judging from the present trends, solar water heating systems will become a highly attractive alternative to conventional energy forms in both economic and environmental terms:

- In accordance with the National Energy Strategy, 82 % of domestic hot water is covered by electricity, while demand for hot water in residential sector only is projected to grow from 600 GWh in 2000 to 875 GWh in 2015. 67 % of electricity consumption comes from household sector. In these conditions, the promotion of SWH systems is recommended especially for the private sector and coastal area, aiming at 62.9 kTOE from these systems in 2015. The application of this measure will have a positive impact on the reduction of electricity and fuel wood used actually for preparation of hot water. In order to achieve the above mentioned, the continuity of the tariffs reform regarding the increase of the electricity prices is needed, the implementation of the fiscal incentives to promote the solar energy and the public awareness increase as well.

- In accordance with the First National Communication to United Nations Framework Convention on Climate Change and Albania's Technology Needs Assessment, the introduction of Solar Water Heating Systems in households/service (public buildings), is recommended as one of the key technologies instead of electric boilers as energy source to meet the energy demand for hot water preparation. The criteria behind for selection of the key technologies implies among others: the contribution to the achievement of most of the MDGs; social applicability and suitability for country conditions; market potential; and most important their contribution to Climate Change: Green House Gases emissions reduction potential.

- Regarding policy and legislative development, Albania is expected to gradually move towards adoption of EU directives and legislation. In particular the Energy Performance for Buildings Directive (EPBD), which has been implemented in the EU in January 2006 may give a further impulse to adapt building codes and regulations forcing in particular the new building sector into more energy conservation and use of solar water heating. Other new and upcoming EU directives which may lead to Albanian follow up are the Energy Services Directive and the Renewable Heating Directive which could ultimately lead to 25 % of renewable energy in the overall heating sector (including hot water preparation).

Based on the above, through the Climate Change Program/ Ministry of Environment, Forestry and water Management and

Ministry of Economy, Trade and Energy, Albania applied for and it has been approved the GEF-UNDP PDF-B Project "Albania - Market Transformation for SWH". The project preparatory phase (PDF - B) which is currently under implementation aims to assist the Government of Albania to formulate the full size GEF project that will accelerate the market development for solar water heating with the objective to achieve an additional level of 50,000 m² of installed solar water heating capacity by the end of the project and a sustainable growth of the market at the average annual rate of 20 % after the project has ended, to reach 540,000 m² of installed SWH capacity by the end 2020. By this, the project will reduce the use of electricity for hot water preparation with the estimated, cumulative GHG reduction potential of over 189,000 tons of CO₂ by the end of 2020.

Three mikro-studies have been performed under the PDF-B project in order to ensure the best picture regarding the current solar energy utilization for hot water preparation, to assess the future potential, to analyse the market and the consumers affordability for the installation of SWH, to evaluate the capacities of SWH installers and vendors, to assess the solar thermal technologies as well as available public support and purchasing modalities and finally to make the financial analysis and find out the ways for promotion of SWH:

1. Market Survey and Market Analysis as per three climatic zones and different consumers' types:

- Commercial and Service Sector (existing & new buildings for hotels, recreational facilities & restaurants, hospitals, schools & other public buildings); and
- Residential Sectors (existing & new household buildings).

2. Manufacturing Survey.

3. Financial analysis.

Based on the results of the above-mentioned studies, the Situation Analysis has been completed, which implies:

- Climate Change;
- Energy Sector;
- National Policy Framework (legislative and institutional);
- Technology Introduction and Supply Chain;
- Financing Environment for SWH Financing (banks and other lender loans, leasing, vender financing, guarantees, interest rate subsidies, other financial incentives to be considered).

The full-size project document has been drafted and submitted already. Because of the similarities in approach with a global SWH project already submitted to GEF Sec for approval; and benefits of having stand alone projects versus a global project - we have been advised not to proceed with a stand alone Albania project, but to fold it into the global SWH project and have Albania as one of the first countries to benefit from this global initiative. UNDP is closely working and communicating with the GEF Secretariat on its finalization for the upcoming GEF June Council meeting. According to the draft ProDoc, the expected outputs of the project "Albania-Market Transformation for SWH" are listed as following:

- Enhanced awareness and an enabling policy framework in place to stimulate demand for SWH systems;
- Leveraged financing to reach the set target of 50,000 m² of new installed SWH capacity by the end of the project (including the establishment of a supportative financing mecha-

nism);

- Successful introduction of a certification and quality control scheme applicable for Albanian conditions;
- Enhanced capacity of the supply chain to offer products, delivery models, installation and after sale services that are conducive to the overall market transformation goals of the project;
- The provided support, institutionalized and the results, experiences and lessons learnt documented and disseminated.

The Albanian Government is expected to provide cost-sharing, which goes beyond in-kind contribution, once there is also confirmed contribution from the Italian Government through their Ministry for the Environment and Territory, Austrian Government through the ADA - Austrian Development Agency and some expressed interest for a future contribution from the Swiss Government.



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ELECTRICITY TARIFF REFORM - A STEP ON RIGHT DIRECTION

1. Introduction

Electricity tariff reform has been and remains one of the most complicated and sensible issues for any country in transition from centralized economy to a free market economy, which is accompanied with considerable political, economic and social consequences.

As a matter of fact the electricity tariff reform has started since 1994 with the substantial increase of residential customers' tariff to 4.5 lek/kWh. During following years while the tariff rates of other non-residential customers were increasing steadily the tariffs of residential customers continued to remain in most of the cases unchanged. This tariff policy was characterized from one side with an increase of average tariff of electricity supplied by KESH utility while on the other side was creating more problems with the cross-subsidization phenomenon. Taking into account that the category of residential customers consumed around 60-65 % of total electricity consumption the increase of the average tariff was associated with a considerable increase of tariffs for industrial and other private customers.

2. Tariff Setting Principles

The new power sector law approved by the Parliament in May 2003, stipulated that the electricity tariffs should be just and reasonable in accordance with recognized ratemaking principles, non-discriminatory, based on objective criteria, and determined in a transparent manner, article 27 (2), and the costs shall be recovered from each customer category in proportion to the

costs of serving that category avoiding cross-subsidizations, article 27 (3). Based on these principles, at the end of 2004 and during the first half of 2005, the ERE developed and approved four methodologies for calculation of electricity tariffs, including public generation tariff, transmission tariff, distribution tariff and the tariff of electricity sale to tariff customers.

All methodologies comply with and are based on the abovementioned principles provided by the law. Leaving apart the first three methodologies, which in any case represent the main components of the final tariff of electricity sale to tariff customers, the latter methodology provides for the breaking down of tariff customers into four main categories, respectively:

- Residential tariff customers connected at low voltage,
- Non-residential tariff customers connected at high voltage (220-110 kV),
- Non-residential tariff customers connected at medium voltage (35, 20, 10, and 6 kV),
- Non-residential tariff customers connected at low voltage (0.4 kV).

However, the methodology of calculation of tariffs of electricity sale to tariff customers stipulates that within each of the three groups of non-household customers, the ERE may create customer subgroups and set different tariffs for each subgroup. However, the average revenue per kWh for each of the three groups of non-household customers should accurately reflect the true economic cost of service, on a forecast basis.

3. New Electricity Tariffs

In February 2006 KESH utility, based on the tariff methodologies approved by the ERE, filed with the ERE its proposal for the new electricity tariffs. Despite a small reduction of cross-subsidization among different customer categories, the proposed tariff structure continued to favor considerably residential customers and charge more than their service costs industrial and other private customers particularly those connected at high and medium voltage levels.

For this reason, based also on the ERE's suggestions to consolidate furthermore the number of customer categories, the Government took an important initiative asking KESH to review once more the tariff structure to be proposed to the ERE with the goal to consolidate the categories of customers in a smaller number according to voltage levels, and to reduce cross-subsidizations among different customers categories. Generally, in the proposal there are three categories of non-residential customers according to their voltage level and a category of residential customers. It should be underlined, however, that various customer groups are proposed within a customer category, for which are requested different tariff rates.

On May 29, 2006, the ERE's Board of Commissioners reviewed KESH new proposal and determined the tariff rates for all tariff customers, which shall become effective by July 1, 2006. What can be noticed on the new tariff structure is a substantial increase of tariffs for residential customers up to 7 lek/kWh for all consumed energy canceling the second tier which is actually applied.

On the other hand, a reduction of tariffs for non-residential

customers is verified. Thus, non-residential customers connected at high voltage (220-110 kV) shall be charged with a tariff rate of 4.5 lek/kWh, customers connected at medium voltage (35, 20, 10, and 6 kV) with an average tariff of 7.12 lek/kWh, while non-residential customers connected at low voltage (0.4 kV) shall be charged with an average tariff rate of 8.3 lek/kWh.

4. New Tariff Effects

The new tariffs are expected to have significant effects on Albanian economy in general and power sector (KESH utility and customers) in particular. In addition to KESH revenue increase which are expected to enable (with actual consumption pattern the average sale tariff will be increased from 7.01 lek/kWh to some 7.18 lek/kWh), these new tariffs will have other effects starting with the intensification of KESH challenge for improving of performance in energy losses and collections in residential customers, which will continue to represent the category with highest electricity consumption.

As to household customers, the increase of electricity tariffs will guide these customers to a more efficient use of electricity and utilization of other alternative energy sources especially for space heating purpose. Implementation of energy efficiency measures in dwellings may be seen as an important alternative bringing considerable benefits to the families' budget. In the same time, this increase may put in a difficult position low-income families to pay their electricity bills, therefore this increase should be accompanied with an accurate state subsidization scheme. Subsidization of 270,000 vulnerable identified families, which make 35 % of the total number of residential customers, requires a maximal commitment of structures of Ministry of Finance, Ministry of Labor and Social Affairs, local authorities and KESH.

Tariff reduction for industry and businesses shall bring significant advantages for these customers reducing the cost of their production and services and making them more competitive in the market.

However, taking into consideration the actual organization structure of the power sector, the transitory market model as well as the fact that for the moment the import market remains the only possibility of supply of eligible customers, tariff reduction may discourage large industrial customers that are expected to get the status of eligibility in the near future to decide to leave the status of captive customer and choose another competitive supplier other than KESH. It is likely that this will be short-term effect, which will depend not only from the quality of electricity supply service provided by KESH utility to these customers, but also from further future developments that may occur in the power sector.



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