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THE ENERGY IN ALBANIA

Qendra e Efiçencës së Energjisë Shqipëri-BE
Albania-EU Energy Efficiency Centre

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PROJECT PRINCIPLES FOR PRIVATISATION AND CONCESSION AWARD FOR SMALL HYDRO POWER PLANTS IN ALBANIA

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

Principle 3. Legal and Contractual Framework Governing SHPPs PP/CP - The SHPPs PP/CP should be awarded upon a legal & contractual basis that is fully consistent with the Albanian general legal system in order to avoid conflicts of laws and inconsistency in their application. Where inconsistencies exist, appropriate amendments have to be made to ensure the coherence & consistency of the legislative basis.

Principle 4. Legal and Contractual Framework Governing SHPPs PP/CP - The SHPPs PP/CP should also be awarded on a legal & contractual basis that is clear in terms of its sco-pe of application and clear in terms of its institutional structure. The relevant SHPPs Law on Concessions together with the respective CA should in this respect clearly define the general maximum duration of SHPPs privatisation/concessions projects, the basic technical characteristics of SHPPs within the scope of the law.

Principle 5. Legal and Contractual Framework Governing SHPPs PP/CP - The SHPPs PP/CP should further be supported by a legal & contractual framework that is stable and predictable. Characteristically privatisations establish long lasting relations between the contracting parties based on a concessions agreement/ concessions contract. Typically the economic feasibility of a PP/CP depends strictly on that the contractual obligations are complied with throughout the defined life cycle of the PP/CP

as defined in the CA. In the case of SHPPs the economic feasibility in addition depends specifically on the buyers obligation to buy the produced energy and on the long-term reliability of the tariff finding formula.

Principle 6. Legal and Contractual Framework Governing SHPPs PP/CP - The SHPPs PP/CP should also be based upon a legal & contractual framework that throu-ghout its different procedural stages (identification/publication/selection/evaluation/award/implementation) is fair, transparent and accessible. So, the legal and contractual framework should e.g. provide for: A transparent, comprehensive and competitive selection process, Equal treatment of interested parties, Equal opportunity to challenge the rules and decisions, Competitive rules for unsolicited proposals, and Transparency of the contracts.

Principle 7. Legal and Contractual Framework Governing SHPPs PP/CP - The SHPPs Concessions Project should be supported by a legal & contractual framework that contains an effective dispute resolution mechanism in order to settle potential disputes between the parties as efficient as possible. While ideally no disputes should arise, in reality disputes about mutual rights/obligations routinely arise of a the long duration of any PP/CP. It is thus of utmost importance for all the parties that legal & contractual framework governing SHPPs PP/CPs defines a set of efficient dispute mechanisms.

Principle 8. Legal and Contractual Framework Governing SHPPs PP/CP - The SHPPs Concessions Project should be supported by a legal & contractual framework that sufficiently accommodates/covers relevant security interests/step-in rights. In this respect as a rule, only approximately 30 % of a concession project is financed by the concessionaire itself. The other 70 % is usually borrowed from the banks (lenders) under a security arrangement according to which the concessionaire gives to the lenders security over its rights under the concession agreement. However, in order for this security to be effective, the state should also provide an assurance that in case of the security's enforcement, the proper procedures would allow the concession to be carried out and the lenders to "step-in" to the concession agreement. Thus, this mechanism guarantees the continuation and sustainability of the concession project and effectiveness of the investment.

5. Success Factors for Private SHPPs

The evaluation of international experience resulted in the identification of 6 Success Factors for a successful SHPPs promotion:

1. Off-take Obligation - The grid operator is obliged to purchase the entire production of a SHPPs at a point closest to the grid.

2. Long-term Off-take Tariff - The electricity delivered by SHPPs is remunerated with a tariff fixed for a period of minimum 15 years, but better over the SHPPs project live. The rather capital intensive projects usually are financed through a loan. The economics of a SHPPs requires that these loans have a maturity of 15 to 20 years. To make a long term loan possible it is essential that a minimum tariff is secured at least for this maturity period.

3. Attractive Off-take Tariff - The tariff is set to allow an attractive return on investment over the project live. The tariffs for SHPPs must have a level which results in a return of investment comparable with alternative investments. This is possible if external cost is internalised.

4. Adoption of Specific SHPP Promotion Laws - Successful concepts have made items 1 through 3 provisions of a law. Success Factors 1 to 3 are basic conditions for the financing of SHPPs. To make this possible it is essential that the economic income is secured over a long period. The safest way to reach this is to fix these conditions in the law.

5. Credit Facilities, Subsidies & Tax Reduction are Facilitating Long-term Financing - Purchase obligations at a guaranteed fixed tariff are enough to promote SHPPs development on a significant scale. But if it will be possible for Albanian Government a mixture of subsidies, tax reductions & attractive and specialised credit facilities together with the legal & regulatory framework conducive to SHPPs are also with importance to private sector engagement.

6. Licensing Procedure is Standardised and Transparent - In most EU countries it is the complicated and time consuming licensing procedures which are the main impediment of RES development. To remove this barrier a lot more needs to be done to standar-dise and thus make these procedures transparent to new comers. Sri Lanka and Nepal offer good examples of such a development.

6. Recommendations on SHPPs Draft Law and Contractual Framework

The Draft Law on SHPP Concessions marks a major step forward towards compliance with international legal standards and will provide Albania with a **clear, stabile, fair, transparent and secure** legal framework for SHPP Concession awards. Those recommendations are listed below.

1. Introduce of an Off-take Obligation and Define a Standar-dised Off-take Tariff - The SHPP Draft Law on Concession should define the off-take obligation for the regional electricity distribution company and the tariff should be specified in the Law on Concession.

- The law needs to define a minimum tariff to be paid for the power and guarantee it for at least 15 years.
- The uniform tariff must consider the economic situation of the projects and based in the decision of ERE for existing SHPPs for the year 2007 is 6.2 lek/kWh.

2. Strengthen Role of Concessions Agency - According to the Law on Concessions, the Concessions Agency would play the role of a facilitating/guiding/assisting throughout the concessions process. Unfortunately in the draft SHPPs Law on Concessions, the concessions agency is not assigned a significant role. With a view to the past problems it could in the interest of legal certainty, security and transparency be a highly feasible recommendation to assign the procurement agency advisory and review tasks throughout the concessions process. In this respect the procurement agency could e.g. be assigned tasks as: Independent monitor in the evaluation process, Advisor in the SHPP concession agreement negotiation, Central co-ordinator to obtain and to facilitate required secondary licenses, General contact point of information.

3. Clarify Composition of Evaluation Commission - While the role of the evaluation commission is of utmost importance for any concession award and tendering procedure no procedure seems to be established, in the SHPPs law or beyond, that would clarify how this Commission is established, by which members it is composed, and how it would evaluate bids exactly. While this should be regulated by a secondary procedurem, the SHPPs law is already a sector specific law that

should-in terms of transparency and legal certainty and efficiency, not require a furthers series of subsectoral working procedures. It may thus be recommendable to establish the basic method for selection/composition of the commissioning the SHPPs Law on Concessions.

4. Specify the Advantages for Proponents of Unsolicited Proposal - The SHPPs Law on Concessions in its present draft importantly foresees that the proponent of an unsolicited proposal receives a competitive advantage in the evaluation procedure if the contracting authority decides to tender the proposed project by means of a solicited proposal. However, the exact scope of the competitive advantage remains unclear (10 % in technical and/or financial evaluation). SHPPs Law on Concessions should not leave a margin of uncertainty but provide proponents with a reliable basis on the advantage they would receive.

5. Define the Scope and Object of the Concessions Agreement - While the draft SHPPs Law on Concessions is very detailed and complete in terms of listing the items that have to be covered by any SHPPs concessions agreement it is recommendable to a requirement that the CA defines the basic technical characteristics of the SHPPs concessions project such as: Point of water intake, End of tailrace, Feed in point of the grid, Land belonging to the project, Access rights to the site, Maximum design water flow to be allowed, Stream-flow data, Available max. gross head, Expected electricity production, Rights for upgrading and modifications.

6. Allocation of Land Use Issues and Expropriations - Land use issues/expropriations were not considered in the prior SHPPs privatisation that is subject to this review. While land use issues/expropriations are of utmost importance for the operation of SHPPs and should thus be considered appropriately, they fall outside the scope of the SHPPs law and relevant contractual legal frame. With a view to this importance, it should be studied where land use issues/expropriations for the purpose of SHPPs would have to be addressed adequately in the legal framework of Albania.

7. Definition and Use of Standard Concessions Agreement (CA) - Apart from the actual Law on Concessions, the quality of the concessions agreement is of central importance for contracting parties and for potential lenders as it governs the specific details of the long-term contractual relations between concessionaire and contracting authority. With a view to the poor quality of CA in the last round privatisations - specifically with a view to the fact that lenders did not regard the contractual arrangements as sufficiently secure to grant financing - and with a view to the general CA importance of the CA, the provision of a **Standard SHPPs CA** could be a highly recommendable option. Evidently parties could change the standard CA in line with their freedom to contractual disposition.

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PROJECT "INTRODUCTION OF ENERGY EFFICIENCY MEASURES IN RESIDENTIAL LOW-INCOME BUILDING NO. 624"

1. Background

The households and public buildings are between the biggest energy consuming sub-sectors in Albania. They consume large quantities of electricity, fuel wood and LPG, which has contributed to the country's current severe energy situation. Around 67 % of electricity and 30 % of all energy sources is consumed only by the residential sector, and most of it (26 %) is used to provide the space heating. During the last years, in Albania, more and more energy is consumed also for air-cooling. Buildings in Albania have been constructed with little concern for energy efficiency, since before 1990 the main driven factor has been the construction of buildings with the lowest costs. The improvement of thermal insulation of the existing buildings and construction of the new public buildings based on the new Albanian Energy Building Code will make possible the reduction of the energy used for space heating & cooling in buildings. This will not only help to smooth the electricity supply difficulties, but the energy savings will make possible to use less energy commodities in order to fulfil the heating and cooling needs and, consequently less polluters will be thrown on the environment. Thermal insulation of external surfaces in existing buildings stock is the biggest concern and should be addressed in order to change the situation in buildings heating sector. The existing buildings do not fulfil the Albanian Energy Building Code conditions, they have walls with a high coefficient of thermal losses and bad insulated windows & doors, and consequently they result with great energy/heat losses. Under such circumstances, feeling the responsibility of the role to play, the Albania-EU Energy Efficiency Centre (EEC) in collaboration with International Resources Group (IRG) in Washington, DC and financially supported by USAID-Tirana Office, in the framework of the project "Introduction of Energy Efficiency Measures in Residential Low-Income Building No. 624", has carried out actions to support the solution of the above-mentioned issues.

2. Project Description & Preparation

The project aims to mark a shift and shows the ways to reduce the energy consumed for space heating and cooling in existing buildings stock. The overall objective is the promotion and introduction of thermal insulation of existing buildings stock as a way to reduce the energy consumption for space heating and cooling. At the end of 2005, the EEC team has started the work for conducting an Energy Survey and Audit on the low-income Building No. 624, "Piro Shuteriqi" Street - Elbasani Municipality, in order to clarify if low cost energy efficiency measures could be applied. The EEC team has organized meetings with District, Prefecture and Municipal's officials, KESH's branch, and Local Social Assistance's Agency of Elbasani. The main aim of such meetings was to introduce the low-income/affordability project and work, to obtain necessary support & commitments from the above-mentioned officials and, to review with them the demonstration program design and objectives. Based on the data received from the officials of Elbasani Municipality and the local KESH branch, interviews of the respective low-income families, the measurements of the building's geometry and site visits to the Building No. 624, the EEC team has completed the third Energy Survey and

Audit in low-income Buildings of Albania. This building has the highest electricity and LPG consumption per inhabitant among the three surveyed buildings, the first two were low-income Buildings in Korca Municipality. At the end of March 2006, the EEC team has completed the Report on Energy Survey and Audit in Low-income Building No. 624. The report together with the recommended energy efficiency measures to be implemented has been sent to IRG and USAID for their comments and approvals. Most of the recommended energy efficiency measures save the LPG and electricity, which have a higher actual price compared with the Energy Survey and Audit in low-income Building of Korca Municipality. That's the reason why the resulting savings are promising in terms of the money saved and the payback period. In conclusion, the EEC team have identified a cost-effective building in the Elbasani Municipality.

3. Project Implementation

In October 2006, the EEC team has received the approval of IRG and USAID as well as the Contract of Collaboration between EEC and IRG has been signed. This contract is related to the implementation of the Report on Energy Survey and Audit on the low-income Building No. 624 in Elbasani Municipality. For this building, a total budget of 27,275 USD has been allocated for the implementation of three recommended energy efficiency measures and interventions as it was foreseen in the Energy Survey Audit conducted by the EEC team. The energy efficiency measures and interventions to be implemented in low-income Building No. 624 in Elbasani Municipality have included:

1. Thermal insulation of the outside/external walls,
2. New double glass windows,
3. New double glass balcony doors.

During September 2006, the EEC team has completed the procedures for identification and training of installation subcontractors. At the end of November 2006, the EEC team has completed the procedures for subcontracting the company for implementing the energy efficiency measures and interventions in this building. After the contract between the EEC and the subcontractor has been signed, the work for implementing the energy efficiency measures has started. According to the contract, all the work has to be completed within 5-6 weeks.

During this period, the EEC team has coordinated and controlled the quality of the materials used and the performance of the energy efficiency measures and interventions implemented. The work has started from the southern façade of the building. After the work on this façade was completed, the work on eastern façade has started and so on with other façades. After the work on outside has been completed, the subcontractor has started to work on inside of the building. The EEC team has travelled 12 times to the site for coordinating and controlling the quality of the materials used and the performance of energy efficiency measures and interventions implemented. Doing this, the EEC team has found a good collaboration/understanding from the subcontractor and the required improvements has been completed.

The following photos illustrate all the implemented energy efficiency measures and interventions as well as all the steps undertaken.

Photo 1. View of the Eastern Facade - Before the EE Interventions

Photo 2. View of the Eastern Facade - After the EE Interventions

Photo 3. View of the Western & Southern Facades - Before the EE Interventions

Photo 4. View of the Western & Southern Facades - After the EE Interventions

Photo 5. View of a Wooden Frame & Single Glazed Window - Before the EE Interventions

Photo 6. View of a Aluminium Frame & Double Glazed Window - After the EE Interventions

4. Final Remarks

The project has started in November 2006 and it is completed in January 2007. The EEC team is satisfied with the quality of the materials used and the performance of the energy efficiency measures and interventions implemented in the Building No. 624. This project can be considered as an important step in introducing to the Albanian residential sector issues such as efficient management of energy resources, thermal insulation of existing buildings stock and consequently bring steady improvements in the long term. The EEC will promote and advocate the efficient management of energy resources and the energy conservation in buildings through- out the country. In accordance with the self-governance law for municipalities and related obligations, the thermal insulation can also help Albanian municipalities to reduce their expenses for space heating and cooling in municipality buildings, and to allocate the sa-ved money for other necessities. Also, it could become a way how to cope with energy poverty and to improve the social welfare on the municipal level. The successful implementation of this project is very crucial to the further development of municipal energy efficiency networks and the improvement of energy supply in Albania.

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