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Extractive Industries

Transparency Initiative in Albania

Scoping study for inclusion of  
Hydro-energy sector in EITI report

April 2015



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## Glossary and abbreviations

|                       |   |
|-----------------------|---|
| <b>ALBEITI</b>        | The EITI secretariat in Albanian, established under the Ministry of Energy and Industry   |
| <b>Administrator</b>  | Independent company hired to perform the reconciliation of reported payments and revenues from the licensees and the government   |
| <b>Aggregation</b>    | Payments are combined so that the figures show totals per revenue stream  |
| <b>AKBN</b>           | National Agency of Natural Resources  |
| <b>ATRAKO</b>         | The Agency for Treatment of Concessions is an entity established within the Ministry of Economy of Development, Tourism, Trade and Entrepreneurship.  |
| <b>AKPT</b>           | National Agency for Territorial Planning  |
| <b>CMD</b>            | Council of Ministers Decision   |
| <b>Concessionaire</b> | Company granted with concession   |
| <b>ACA</b>            | Albanian Custom Administration  |
| <b>Disaggregation</b> | Payments are detailed per revenue stream and/ or per licensee   |
| <b>DSO</b>            | Distribution System Operator owned 100% by the Albanian Government.   |
| <b>EITI</b>           | Extractive Industry Transparency Initiative   |
| <b>EITI Albania</b>   | The EITI secretariat in Albanian, established under the Ministry of Energy and Industry   |
| <b>ERE</b>            | Albanian Energy Regulator   |
| <b>EUR</b>            | Euro  |
| <b>Government</b>     | Used in this report as a collective term comprising the General Directorate of Tax, the Ministry of Energy and industry, the Albanian Custom Administration, the National Agency of Natural Resources and ERE, when not separately disclosed. |
| <b>GWh</b>            | Gigawatt per hour used for metering larger amounts of power, where 1 GWh = 1,000 MWh.   |
| <b>HPP</b>            | Hydropower plant  |
| <b>IFRS</b>           | International Financial Reporting Standards published by the International Federation of Accountants (IFAC).  |
| <b>INSTAT</b>         | National Institute of Statistics  |
| <b>IPP</b>            | Independent power plants  |
| <b>KESH</b>           | Albanian Power Corporation  |
| <b>KESH Gen</b>       | KESH Gen is a structure within KESH licensed to produce electricity   |
| <b>KTOE</b>           | Kilo tonne of oil equivalent (toe) used to measure unit of energy defined as the amount of energy released by burning one tonne of crude oil.   |
| <b>KW</b>             | Kilowatt used as a unit of electric power.  |
| <b>KWh</b>            | Kilowatt per hour used a measure energy   |
| <b>KV</b>             | Kilovolts   |
| <b>Licensee</b>       | Company that has been awarded a license interest in an exploration and / or production in the Albanian territory  |
| <b>License</b>        | License awarded by MEI to perform exploration and production in the Albanian territory  |
| <b>LGU</b>            | Local Government Unit   |
| <b>M<sup>2</sup></b>  | Meter square  |
| <b>MEI</b>            | Ministry of Energy and Industry   |
| <b>ME</b>             | Ministry of Environment   |
| <b>MEDTTE</b>         | Ministry of Economic Development, Tourism, Trade and Entrepreneurship   |
| <b>MSG</b>            | Multi-stakeholder working Group   |
| <b>MW</b>             | Megawatt used as a unit of electric power, where 1 MW = 1,000 KW  |
| <b>MWh</b>            | Megawatt per hour used for metering larger amounts of power, where 1 MWh = 1,000 KWh.   |
| <b>Licensee</b>       | Company appointed by MEI to operate the activity in accordance with the license permit  |
| <b>Petroleum</b>      | Collective term meaning oil and gas   |
| <b>PPP</b>            | Public-private partnership  |
| <b>Reconciliation</b> | The process of comparing reported data from licensees and the Government, and explain any discrepancies   |
| <b>RPS</b>            | Retail Public Supplier  |
| <b>SPP</b>            | Small power plant   |

|            |   |
|------------|---|
| <b>GDT</b> | General Directorate of Tax  |
| <b>TPP</b> | Thermal power plant   |
| <b>TSO</b> | Transmission System Operator owned 100% by the Albanian Government.                                       |
| <b>UKT</b> | Ujësjetllës Kanalizime Sh.A. is the water and wastewater company owned 75% by the Municipality of Tirana. |
| <b>USD</b> | US dollar   |
| <b>VAT</b> | Value added Tax   |
| <b>WPS</b> | Wholesale Public Supplier   |

The Albanian Working Group  
c/o Ministry of Energy and Industry  
"Deshmoret e Kombit" Blv.  
Tirana, Albania

**Subject: Scoping study for implementation of the transparency initiative in the hydro-energy sector**

We have completed the scoping study in the hydro-energy sector as agreed in our consultancy agreement dated February 11, 2015 and the terms of references attached thereto. We present hereby in this report our analysis and recommendations.

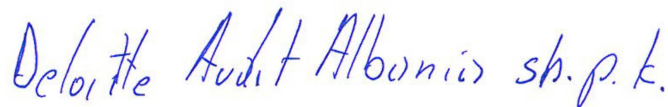
This report summarizes main facts over the hydro-energy sector in Albania and presents an analysis of the related benefit streams received or contributed from the Government and the state-owned companies. Chapters 1 and 2 present an overview of the hydro-energy sector, contribution to the economy and legal and fiscal governing regimes. Main identified reporting entities, benefit streams and barriers are presented in chapter 3 of this report.

The report aims to provide you with a basis for decision on inclusion of the Hydro-energy sector in the "cadre" of the EITI reports.

Our responsibility is limited to providing an analysis and recommendations based on information available at the date of this report. The decision to implement them or not, as well as the methods of implementation, are of your responsibility.

We would like to take this opportunity to thank you and the Albanian EITI Secretariat for the assistance during the course of this engagement. We would be pleased to discuss further with your our analysis and recommendations.

Your faithfully,



April 7, 2015  
Tirana, Albania

## Executive summary

### *Snapshot of the hydro-energy sector*

The hydropower production in Albania is dominated by the public sector. Albanian Electrical Power Corporation (KESH) is the largest producer in the country with a total installed capacity of 1,448 MW, According to data published by ERE the net domestic power generated in 2013 amounts at 6,956 GWh. KESH generated 6,070 GWh or 87% of this production and private HPPs generated 886 GWh or 13%.

The hydro-energy sector contributed only with 2% to the GDP, while reported revenues accounted for 2.7% of the State Budget.

Domestic power production covered 89% of domestic needs including technical and financial losses which comprised 42% of total domestic needs. Power exports remain at minimal level at Lek 4.1 billion or 1.6% of total exports.

Data reported from AKBN show that a large number of HPP granted on concessions have not yet commenced the construction or are still under construction as at the date of this report, showing delays of two years and above. More specifically, out of 501 HPPs under concession, 307 HPPs with installed capacity of 1,127 MW and forecasted energy at 5,288 GWh have not yet started the construction phase. The remaining of 84 HPPs are in the construction phase. If assumed that all HPPs were completed within two years from the concession date and produced the energy foreseen in the concession contract the concession fee for the year 2013 would be 1.78 billion Lek (or 17% of total reported revenue), which is at least ten times higher than the actual revenue received from this benefit stream.

Based on data reported from MEI contracted cost installed capacity varies from Lek 5 million per MW installed to Lek 400 million per MW installed, while cost of energy per MWh varies from Lek 1 thousand to Lek 131 thousands. No clear trend can be derived from the comparison of installed capacity with the contracted investment costs. The analysis shall be further substantiated based on the characteristics of the HPPs and surrounding area.

### *Implementation of the Transparency Initiative*

Despite the relatively low share of contribution to the GDP and the State budget, the analysis of the hydro-energy sector has shown that it would be beneficial to implement the transparency initiative in this sector.

The hydro-energy sector is a vital contributor in the sustainable economic development of the country and its contribution is expected to grow in mid and long term. This fact highlights the importance of making transparent details of the relations between the State and the sector including:

- Relations between the State and the state-owned companies (including costs spent in subsidizing the sector through transfers made to the State-owned companies);
- Relations between the State and the key private investors engaged in complex concession and PPP agreements;
- Energy transactions within the country and imports and exports with other countries;
- Cost of energy and impact of different factors such as network losses;
- etc.

Implementation of such initiative may require additional reporting from the Ministry of Energy and Industry, AKBN and ERE.

An analysis of the structure of the hydro-energy sector and recommended reporting entities and benefit streams are presented in chapter 3.

## 1. Overview of the hydro-energy sector in Albania

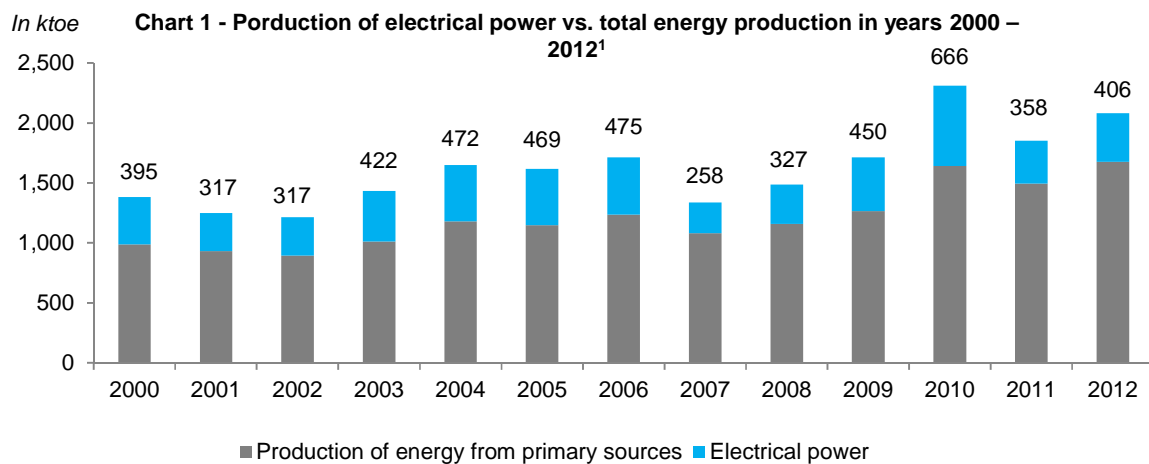
### 1.1 Hydro-energy sector in Albania

#### *Hydro-energy production and consumption in Albania*

Based on data reported by INSTAT<sup>1</sup>, in the period from 2009 till 2012 production of hydro-energy comprised the second most important source of energy produced in the country after crude oil.

Hydropower plants generate almost all electrical power in Albania. Electricity production from thermo-power plants has been at minimal level during the last 20 years. Accordingly, the level electricity production in Albania varies to meteorological conditions and rainfall throughout the year.

Due to favourable meteorological conditions, net electrical power output reached the peak in 2010, with about 7,674 GWh<sup>2</sup> or 666 *ktoe*. In 2010, hydro-energy production accounted at about 41% of total energy production measured in *ktoe*. In 2011 and 2012, production fell to 358 *ktoe* and 406 *ktoe*, representing about 24% of total energy production in both years.



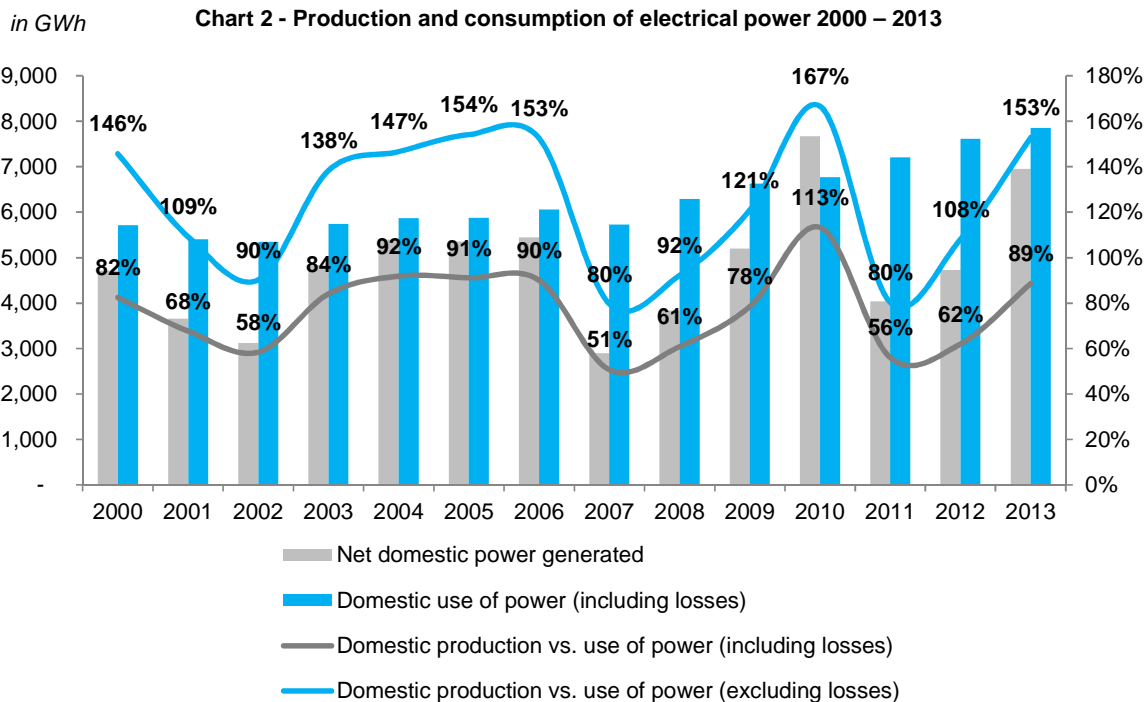
**Source: INSTAT – Production and consumption of energy**

Consumption of electrical power has shown an upward trend during 2000 - 2013<sup>2</sup>. The domestic usage of electricity in year 2013, including network losses, was 7,857 GWh or 38% higher than in year 2000. This trend was affected from the general increase in energy consumption which is estimated to be 40% higher than in 2000 and increased losses in the network by 33% compared with year 2000. Energy losses in the network in 2013 accounted for about 42% of the total energy available for use (2000: 43% of the total energy available for use).

The power balance report shows that the total electricity produced in the country, in year 2013, covered 89% of the electricity usage including domestic energy consumption and losses in transmission and distribution networks. Data reported from INSTAT show a negative energy balance throughout the period 2000 - 2013, except in year 2010 when domestic production comprised at 113% of the total the energy consumption in the country and network losses.

<sup>1</sup> "Production and consumption of primary energy sources" - [www.instat.gov.al](http://www.instat.gov.al)

<sup>2</sup> "Power balance, 2000 -2013" - [www.instat.gov.al](http://www.instat.gov.al)



Source: INSTAT – Electricity balance, 2000 -2013

The negative power balance resulted mainly due to high level of losses in the network. The annual average production for the period from year 2000 to year 2013 comprises 77%<sup>3</sup> of the total energy needs (including losses) in the country. If we assume that technical and financial losses in the network are completely eliminated, as shown in Graph 2, the energy balance would improve significantly to an average production at 124%<sup>4</sup> of the total energy needs. Graph 2 shows a positive power balance throughout the period, with the exception of years 2002, 2007, 2008 and 2011 when production could not cover total energy needs. This resulted due to the unfavourable meteorological conditions and underutilisation of energy potentials in the country.

### The structure of hydropower sector

Hydropower production in Albania is dominated by the public sector. Albanian Electrical Power Corporation (KESH) is the largest producer in the country with a total installed capacity of 1,448 MW, of which the installed capacity of HPP is 1,350 MW and TPP 98 MW.

**Table 1- Public Sector – Installed power in years 2011-2013<sup>5</sup>**

|                                 | HPP Fierz    | HPP Koman | HPP V.Dejes | HPP Ulez | HPP Shkopet | HPP Bistrice 1 | HPP Bistrice 2 | TPP Vlore | HPP Lana-bregas |
|---------------------------------|--------------|-----------|-------------|----------|-------------|----------------|----------------|-----------|-----------------|
| Administered by                 | KESH         | KESH      | KESH        | KESH*    | KESH*       | KESH*          | KESH*          | KESH      | UKT             |
| Installed Power of the plant MW | 500          | 600       | 250         | 25       | 24          | 24             | 5              | 98        | 5               |
| <b>Total capacity in MW</b>     | <b>1,531</b> |           |             |          |             |                |                |           |                 |

\* HPPs of Ulëz, Shkopet, Bistrice 1 and Bistrice 2 were administered by KESH until the first semester of 2013. In the second semester of 2013 these HPPs were transferred to Kurum International Sh.a.

<sup>3</sup> Calculated as a simple annual average of the ratio production / usage during years 2000 - 2013. Data sourced from "Power balance, 2000 -2013" - [www.instat.gov.al](http://www.instat.gov.al).

<sup>4</sup> Calculated as a simple annual average of the ratio production / consumption during years 2000 - 2013. Data sourced from "Power balance, 2000 -2013" - [www.instat.gov.al](http://www.instat.gov.al).

<sup>5</sup> Report "On Power sector situation and ERE's activity" published by ERE for year 2013 – [www.ere.gov.al](http://www.ere.gov.al).



TPP of Fier is out of service since 2008 and not included in the table shown above. TPP of Vlora was built in 2009 and did not operate due to a defect in the cooling plant turbine.

The total installed production capacity in the country accounted to 1,878 MW<sup>6</sup> in year 2013, considering both public sector and private hydro-power producers with a total installed capacity of 430 MW.

Total domestic electricity output in 2012 and 2013 was produced from hydropower plants (HPPs). Hydropower plants in the Drin River, respectively Fierza, Koman and Vau Deja, with a total installed capacity of 1,350 MW, generated about 83% of net electricity output in 2013.

### Hydropower potential

According to the National Energy Strategy<sup>7</sup>, total annual potential production from hydropower plants in Albania is estimated at 10,000 GWh. This can be derived from an installed capacity of 3,000 MW.

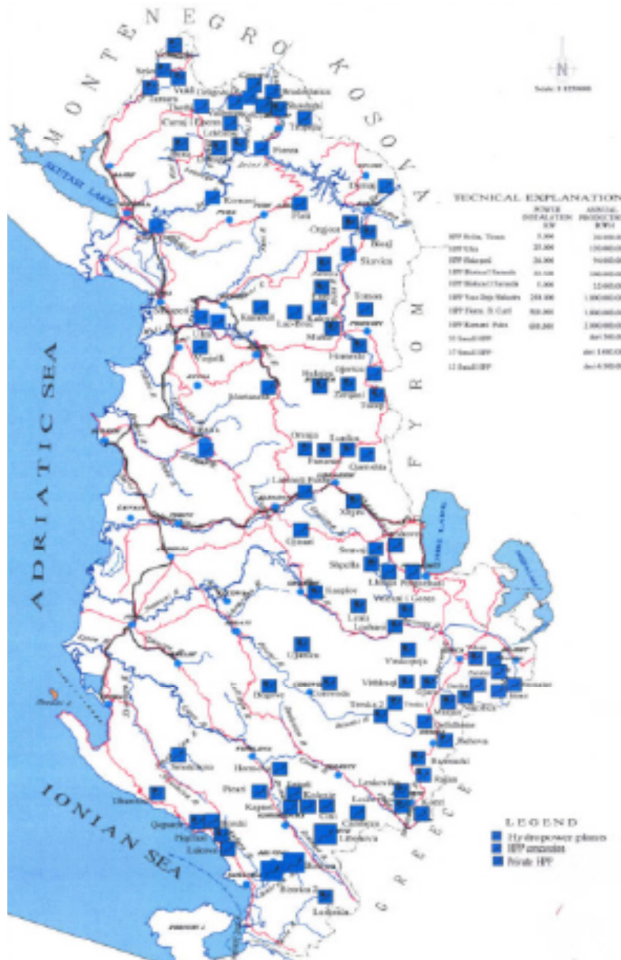
Based on these estimates, total installed capacity of HPPs in 2013 represented about 60% of total capacity, while power production accounted at about 77% of annual potential production.

In order to improve geographic balance of production with demand for electricity, building of new plants in the southern part of the country in the rivers of Devoll and Vjosë are considered as high interest projects.

AKBN reports that during the years 2008 - 2011<sup>8</sup> Albanian State signed concession agreements for the construction of six large hydropower stations as follows:

- HPP “Ashta 1 and Ashta 2” in Drin river with installed power of 48 MW
- HPP “Lozhaj”, “Grabovë” and “Skënderbegas-Çekin” over the Devoll river with installed power of 319 MW, and
- HPP “Kalivaç” with installed power of 100 MW.

Ashta HPPs were completed and started production in 2012.



<sup>6</sup> Report “On Power sector situation and ERE’s activity” published by ERE for year 2013 – [www.ere.gov.al](http://www.ere.gov.al).

<sup>7</sup> National Energy Strategy, adopted in July 2003 can be found on the website of AKBN: [www.akbn.gov.al](http://www.akbn.gov.al).

<sup>8</sup> Hydro-energetic potential published by AKBN: [www.akbn.gov.al](http://www.akbn.gov.al)

## **Membership in Regional Energy initiatives**

Albania is a member of the Regional Energy Community since 2006, part of European Union initiatives for the creation of the European energy market. Energy Community, as an international organization, has as its basis the development of a common energy policy in the region of Southeast Europe and its integration into the energy market of the European Union (EU).

The organization was founded by an international treaty in October 2005 in Athens, Greece, which entered into force in July 2006. Its objectives are:

- Attract investments in power generation and networks to ensure stable and continuous energy supply that is essential for economic development and social stability;
- Create an integrated energy market allowing for cross-border energy trade and integration with the EU market;
- Enhance the security of supply;
- Improve the environmental situation in relation with energy supply in the region; and
- Enhance competition at regional level and exploit economies of scale.

Presently the Energy Community has 8 Contracting Parties - **Albania, Bosnia and Herzegovina, Kosovo, Former Yugoslav Republic of Macedonia, Moldova, Montenegro, Serbia and Ukraine**. While, the European Union is permanent party of the Energy Community Treaty.

By signing the Energy Community Treaty, Albania, like any other Contracting Party, is committed to the implementation of the relevant *acquis communautaire* by developing an appropriate regulatory framework and the liberalization of the energy market in line with the *acquis*.

### **1.2 Key public institutions**

**Ministry of Energy and Industry** ("MEI" or "Ministry") is the Ministry responsible for making public policy and monitoring the implementation of legislation in the hydropower sector. MEI is responsible for evaluating applications and granting concession rights for the construction of hydropower plants in Albania.

The mission of the Ministry in the energy sector is to promote constant and sustainable economic development through:

- encouraging private investment, domestic or foreign, in the energy sector with an attractive legal climate for these investments;
- development of market reforms in the energy sector to achieve national objectives for EU integration and the development of a Regional Electricity Market;
- preparation of public companies in the sector for privatization.

In reaching its primary mission in the Energy sector, the Ministry is supported by several national institutions and agencies:

**National Agency of Natural Resources** (AKBN), aims to develop and monitor the exploration and exploitation of natural resources in the mining sector, hydrocarbons, hydropower and other renewable sources of energy.

AKBN supports the Ministry, in designing and implementing energy strategy. Through a dedicated structure for hydropower, AKBN serves as technical expert for MEI in the evaluation of the project proposal and implementing projects on small and medium hydropower plants; and as a monitoring institution during construction and production activity of the concessionary hydropower plants.

**The Agency for Treatment of Concessions** is an entity established within the Ministry of Economic of Development, Tourism, Trade and Entrepreneurship (MEDTTE) in accordance with DCM Nr.150, dated March 22, 2007 "On the organization and functioning of the Agency for treatment of concessions (ATRAKO) ", as amended by Decision 191 dated 13 March 2012. This agency supports the Contracting Authority for evaluation and negotiation of concessions, including hydro-energy concessions.

**Ministry of Environment (ME)** is responsible for the development of policies, strategies and action plans for protection and management of environment, forestry, and fishing waters in order to achieve sustainable development and improve the quality of life. ME issue licenses for the use of water and environment for all plants including hydro, wind and biomass, subject to the approval of environmental impact assessment in accordance with Law No. 10440, dated July 7, 2011 "On environmental impact assessment" performed by licensed professionals in accordance with procedures established and approved by the Council of Ministers.

ME is also responsible for policies related to climate change, and serves as the main liaison for the Albanian government under the Protocol of UNFCCC and Kyoto.

**National Agency for Territorial Planning (AKPT)** is a public institution responsible for the coordination of national and local authorities of territorial planning, in order to harmonize and address important national issues in different fields and sectors, bringing together the competent authorities and interested parties and being present in resolving disputes between them.

**Local and regional authorities** regulate energy services on local and regional level, including the production and supply of heat and public lighting. Local authorities are also involved in the decision-making process, in terms of location and type, on the construction of new facilities and infrastructure in the area under their jurisdiction.

**Albanian Energy Regulator (ERE)** is an independent public body responsible for the regulation of activities in the power and natural gas sector, organized in accordance with the provisions of Law No. 9072 dated May 22, 2013 "On power sector", amended, and Law No. 9946 dated June 30, 2008 "On gas sector". ERE is directed by a Board of Commissioners appointed by the Albanian Parliament. ERE is the competent authority for issuing licenses for the generation, transmission, distribution, supply and trading of power.

ERE is responsible for:

- Establishing rules and requirements for licensing, transfer and withdrawal of licenses in power generation, transmission, distribution, supply and trading of electricity;
- Establishing wholesale and retail sales tariffs, as well as the terms and conditions attached to power services;
- Protection of the energy consumers' interests;
- Resolution of disputes between licensees and customers and between the licensees;
- Maintaining the balance between the interests of licensees, consumers, state and other participants in the energy sector;
- Promotion of competition in the energy sector;
- Establish market rules, grid codes and other codes governing the activities of the licensees in the energy sector.
- Determination of tariffs for all renewable energy sources (RES) in general and power generation in particular;

ERE reports annually to the Albanian Parliament "On Power Sector Situation and ERE's Activity". The report approved by the Parliament, is published in the ERE's website: [www.ere.gov.al](http://www.ere.gov.al) within three months from the end of the reporting period.

### 1.3 Operating framework of the power market

Law No.9072, dated 22.05.2003 "On power sector" amended, defines the basic principles for the development of the power sector, including renewable energy from thermo-power plants, power transmission and distribution networks. This law also contains requirements and criteria for granting licenses to perform an activity in the power sector. Currently, the Government is in the process of development of a new law of the energy sector in order to reflect the EU Directives on power sector.

Albania power market model ("Market"), approved by decision of the commissioners No. 338, dated 19.03.2008, establishes the legal framework for the organization and restructuring of the electricity market in Albania. The model, ratified by the Albanian Parliament in 2006, is developed in accordance with EU Directives on Power and requirements of the Energy Community Treaty of Southeast Europe for establishment of the Regional Energy Market.

The Market Model also addresses the responsibilities and relationships between market participants and the ERE. In general, the Albanian Market Model is characterized by bilateral contracts between market participants. The Transmission System Operator (TSO) performs ancillary services for power transmission.

According to the Law on Power Sector, ERE is responsible for determining the rights and obligations of market participants, and ensuring regulatory control in Albanian power market.

Market Rules along with the Grid Code, Distribution Code, Metering Code and Market Model are part of the acts that regulate the power market. They are published in the official website of Commissioners <http://www.ere.gov.al/>.

### ***Albanian power system***

The country's power system comprises of power generation plants, transmission system and related interconnection and information system facilities, distribution networks and customers electrical equipment's. Albanian power system is linked to electrical power systems of other countries through interconnection lines. These lines are constructed based on the decision of the Council of Ministers.

At the end of 2013, except for few private and concession HPPs, the Albanian power system including main hydropower plant producers, transmission and distribution system, was owned and operated by companies owned 100% by the Albanian State.

Article 31/1 of the Law on Power Sector provides terms and conditions for the construction of commercial interconnection lines. Building of commercial interconnection lines is approved by the Council of Ministers. The investor has the right to use 80 percent of the capacity of the line for a period of 20 years. While 20 percent of the capacity of the commercial interconnection lines shall be made available for public use to the TSO. After 20 years, the lines are transferred to the Transmission System Operator.

Ministry of Energy and Industry approves the construction of new power plants through concession and Public Private Partnership (PPP) agreements, according to the law on concessions and PPP.

### **Market Participants**

#### ***Transmission System Operator (TSO)***

TSO is an independent State-owned company that operates of the transmission network including ownership, maintenance and expansion of the network. TSO also collects and provides information for the liquidation of contracts in force. This information can later serve the energy stock market.

TSO, in accordance with the regulations for the Market and legislation for the power sector, guarantees long-term capacity of the system and manages efficiently and without discrimination energy flows of the system, for exchanges within the system and other systems of the region.

TSO is responsible for managing and organizing payments and exchanges of power between market participants on the market imbalances. TSO charges system users for the transmission system services, ancillary services, payments under the Interconnection Agreement and for the purchase of balancing power under the Market Rules. Fees for transmission service are regulated by the ERE.

### **Albanian Power Corporation (KESH)**

Albanian Power Corporation JSC with sole owner Albanian state is the leading and most important power generation entity in Albania. KESH is divided into two main operating units: KESH Gen and Wholesale Public Supplier.

#### **a) Generation of production (KESH Gen)**

KESH Gen is a structure within KESH licensed to produce electricity. KESH Gen sells electricity to Wholesale Public Supplier in accordance with the quantity and price approved by ERE. To fulfil its obligations for supply, KESH Gen imports power in the international market with market prices. At the same time, sells to the domestic or international market the energy surpluses beyond the requirements for public supply.

#### **b) Wholesale Public Supplier (WPS)**

Wholesale Public Supplier is a structure within KESH with responsibility for the purchase of power and ensure sufficient supply for Retail Public Supplier in order to ensure a continuous and secure supply to tariff customers.

Accordingly, the Wholesale Public Supplier has the right to purchase all power generated in the country by KESH Gen and by private traders and manufacturers. Wholesale Public Supplier, also imports power in the international market or purchases it from local traders at market prices to meet the needs of public supply and avoid power interruptions on demand picks.

Upon ERE's approval, the Wholesale Public Supplier may not purchase of power when the cost of extra power supply exceeds the cost of undersupply to retail customers, as determined by ERE in accordance with government policy and in consultation with the Council of Ministers.

### **Distribution System Operator (DSO)**

DSO owns, maintains, expands and operates the distribution system across the country. DSO buys energy from any market participant at market prices to cover all losses in the distribution network. DSO must ensure the reduction of technical and financial losses according to the plan approved by ERE.

DSO provides connection and distribution services Tariff Customers, SPPs and Eligible Customers connected to the distribution, on a non-discriminatory basis. Fees, terms and conditions of distribution services are regulated by ERE.

DSO is currently operated by the Operator for Distribution of the Electrical Power (OSHEE) owned 100% by the Albanian State.

### **Retail Public Supplier (RPS)**

Retail Public Supplier is a separate structure within DSO that supplies power to tariff customers under contract terms and rates regulated by ERE.

Retail Public Supplier (RPS) buys electricity from the Wholesale Public Supplier (WPS) with tariffs approved by ERE. RPS is responsible for reducing losses from non-collections from tariff customers under conditions determined by ERE.

*Wholesale Public Supplier, DSO and RPS operate under special licenses issued by ERE.*

### **Private power producers**

Private power producers are divided into small and large producers. **Small Power Producers** (SPPs) are the small power generating plants, linked to the distribution system. **Independent Power Producers** (IPPs) are independent producers that relate directly to the transmission system. SPPs and IPPs can sell electricity to the Wholesale Public Supplier with regulated prices, or to the other market operators based on market negotiated terms.

ERE establishes the unified regulated tariffs for the power sold by small and large power producers.

### Retail Customers

**Tariff Customers** purchase electricity by Retail Public Supplier at prices regulated by ERE.

**Eligible customers** are those who can freely choose the energy supplier, including the Retail Public Supplier. According to the definitions of Article 48 eligible customers can be consumers connected to 110kV tension line and above and all other consumers who have a higher consumption of 50 million kWh per year.

### Other market operators

Energy traders purchase and wholesale power to other market operators, with the exception of Retail Public Supplier and Tariff Customers.

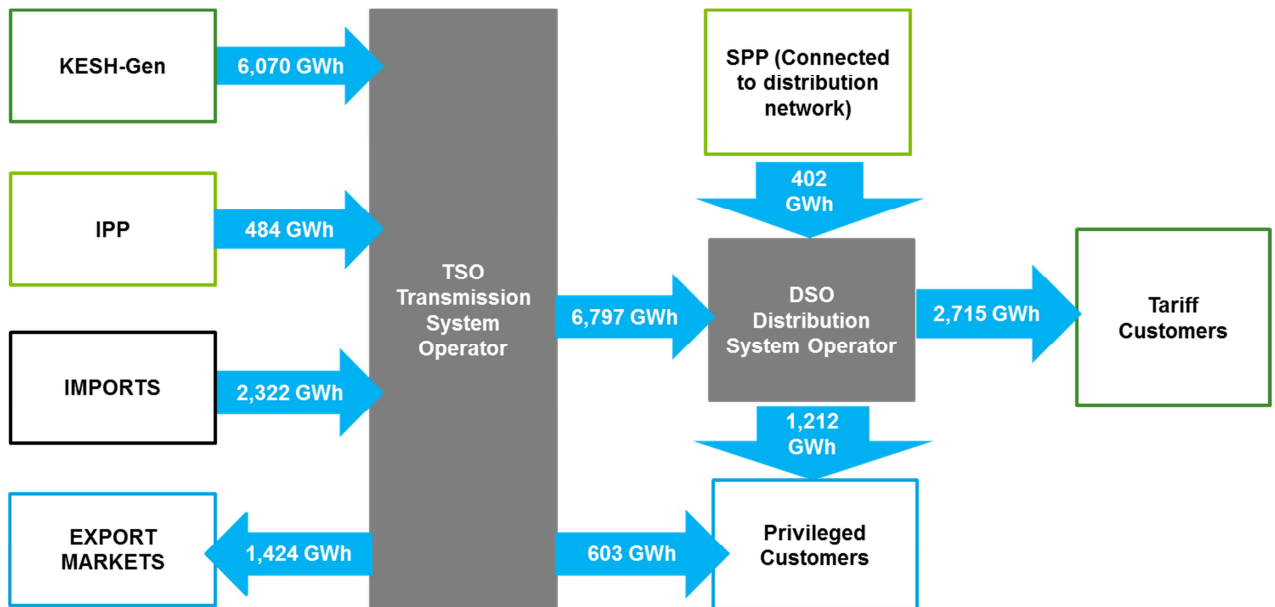
Traders may purchase power from KESH Gen (for the surpluses), SPPs and IPPs and sell power to the Qualified Suppliers, Wholesale Public Supplier or DSO.

Qualified Suppliers are domestic or foreign suppliers licensed by ERE, who may purchase power from traders, SPPs or IPPs and sell to the Eligible Customers. Qualified Suppliers may also sell power to the Public Wholesale Suppliers, Traders or other Qualified Suppliers. SPPs and IPPs must be licensed in order to act as Qualified Suppliers, if they wish to sell power directly to the Eligible Customers.

Regulation of tariffs and other terms and conditions under Albanian Market Model is significant. It reflects the near monopoly situation of the main participants in the production and supply of power. However, the regulation has in focus only public power supply. Albanian market model leaves space for the development of free trade between domestic and foreign operators for power surpluses. If the power generation exceeds the use of domestic use of power, our country could act as an exporter of power and free interconnection capacity in the region,

The figure below presents the structure of production and power flow through the transmission and distribution systems in year 2013.

**Figure 1 – Energy production, transmission and distribution structure<sup>9</sup>**



<sup>9</sup> Report "On Power sector situation and ERE's activity" published by ERE for year 2013 – [www.ere.gov.al](http://www.ere.gov.al).

## 1.4 Hydropower concessions

The Ministry responsible for energy acts as the Contracting Authority for all concessions granted in the hydropower sector. Legislation and regulations for concessions define the principles and procedures for the evaluation and granting of the concession opportunities in the hydropower sector. According to the concession law and regulation, all concessions in Albania are granted for a period not longer than 35 years.

Until May 2013, the construction and operation of hydropower plants in Albania was regulated by Law No. 9663, dated 18 December 2006 "On Concessions" (Old Concessions Law) and accompanying regulation "On the evaluation and granting of concession", approved by Decision No. 1701, dated December 17, 2012.

The provisions of the old concession regulation establish organisation of hydropower concessions as Build-Operate-Transfer. According to this regulation, the operator finances the construction of the power plant and benefits from operation of the plant. The sale of power generated by the Operator is guaranteed through the Power Purchase Agreements signed between the Operator and Wholesale Public Suppliers with tariffs regulated by ERE using the "feed in" model.

In May 2013 the old concession law and regulation was replaced by Law No. 123/2013 "On Concessions and Public-Private Partnership" ("Law on Concessions and PPP") and accompanying Regulations "For the evaluation and granting of concessions and public-private partnership" approved with CMD. No. 575 dated July 10, 2013 ("New Concessions Regulation"). In attempt to harmonize with the EU Directive 2004/18/EC<sup>10</sup>, the new law and regulation introduced the concept of Public-Private Partnership (PPP) and the extension of rights, responsibilities of each party and risk allocation during the concession period.

### *Definition of public private partnership*

According to the Law on Concessions and PPP, Public Private Partnership establishes a long-term cooperation, regulated by contract, between the contracting authority (public partner) and one or more economic operators (private partner), where the private partner undertakes the obligation to provide public services within the competencies of the public partner and / or the obligation to provide to the public partner the necessary prerequisites for providing public services. These prerequisites include the construction or renovation of public infrastructure and / or its operation and maintenance.

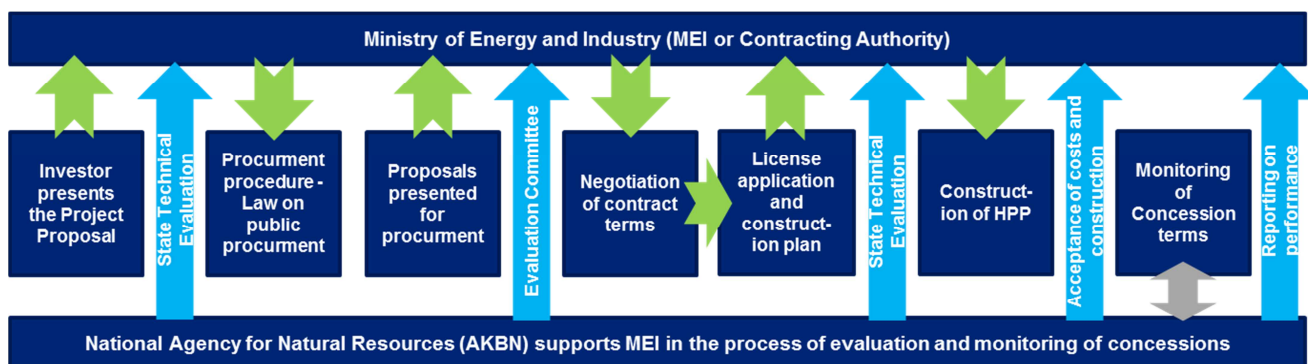
Under the contract terms, the private partner is rewarded through payments by the public partner and / or payments from users of the public service which are regulated by the public partner.

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<sup>10</sup>DIRECTIVE 2004/18/EC OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of March 31, 2004 on the coordination of procedures for the granting of public works contracts, public supply contracts and public service contracts.

## Concessions granting and contracting of Public Private Partnership

Figure 2 – Granting and monitoring process of concessions



Ministry of Energy and Industry may identify areas for concessions through review of submissions received (unsolicited proposals) from private investors or other government institutions and non-governmental organizations.

Before announcing the concession opportunities, MEI will ensure on the technical feasibility and economic, environmental and social impact of any agreement, in accordance with the applicable laws.

When private investors initiate unsolicited proposals, they need to carry out and presents a feasibility study in their project proposal in accordance with minimum requirements of the applicable laws. The project proposal undergoes through a technical evaluation in accordance to CMD. No. 191, dated March 22, 2007 "For the establishment of state technical opposition for to construction projects of HPP under concession". This evaluation is carried out by the group of hydro-energy, geology and the environment experts appointed by the Minister responsible for the economy and approved by AKBN in accordance with Law No. 8093, dated March 1, 1996, "On water reserves" and the Law No. 8402, dated September 10, 1998 "On the control and regulation of construction works"<sup>11</sup>.

When project proposals turn into concession opportunities the Ministry invites all interested applicants to a tender procedure published through a contract notice, in accordance with Law No. 9643 November 20, 2006 "On Public Procurement" ("The law on public procurement").

According to Concession law and regulation each applicant shall be treated fairly, however Article 7 of the new concession law allows evaluation committee to assign a bonus up to 10% credits to the project proposer. If the concession is assigned an investor other than the initial proposer, the new regulation provides compensation for the concession project proposer that varies from 0.5% to 2% of the concession based on the extent of the feasibility study carried out in the initial project proposal.

The concession price is assessed against:

- Greater technical and economic advantages as assessed by the Contracting Authority, or
- Higher concession fee offered for the technical specifications required in the contract notice.

The operator must guarantee the performance of his duties up to 10% of the investment, guarantee executable in cases of termination of contract or violation of contractual terms.

Upon signing of the concession contract, the operator develops the detailed construction plan, which undergoes to the state technical evaluation before being approved. Construction of hydropower plants is subject to 10 up to 20 permits and licenses from various regulatory bodies, including: environmental permit (annual), permits for construction (preconstruction), permission for the use of water resources (annual), license for power generation (before start of operations), permission to connect to the transmission etc.

<sup>11</sup> DCM No. 191 dated March 22, 2007 "For the establishment of state technical opposition for to construction projects of HPP with concession"



### *The main terms of the concession contract and the PPP agreements*

The main terms and conditions of the concession agreements for the construction of hydropower plants are listed as follows:

#### **1. Object of agreement**

The object of the concession agreement includes financing, design, construction, operation, management and maintenance of hydropower plant and at the end contract term transfer of plant to the Contracting Authority (Ministry of Energy and Industry) at the terms and technical conditions agreed.

#### **2. Duration of the Concession**

The concession is granted for a period up to 35 years. The concession period may be extended only in case of an Event of Force Majeure for a period equal to the time the event lasted, provided that the event lasted a period exceeding one month.

#### **3. The Concessionary Company**

Upon signing the concession agreement the concessionaire must establish a special purpose entity and pass all rights and obligations of the under concession contract to the new Concessionary Company. The Concessionary Company shall be organised as a Limited liability company or Joint stock company in accordance with the Albanian laws and shall conduct solely commercial activities under the terms of the concession contract. This company will operate until the duration of the concession agreement.

#### **4. Features of the hydropower plant**

The concession is clearly determines the name, location, number and technical terms of the hydropower plants and forecasted annual power production. The contract also determines the installed capacity plant.

#### **5. Investment Value**

The concession agreement clearly states the total value to be invested by the Concessionaire in monetary terms and also part that will be investment in machinery and equipment. Because of the estimate risk, the actual investment may change from the forecasted investment, however cannot be lower than 95% of the forecasted value.

#### **6. Concession fee and re-investment value**

Concession fee is expressed as a percentage (%) of the forecasted annual power production. The fee is fixed and not changes apply until the end of the concession agreement. After 15 up to 25 years from contract signing the concessionaire shall reinvest a portion of the initial investment (given in percentage) for machinery and equipment.

#### **7. Contract guarantee**

The Concessionaire must issue a performance on behalf of the Contracting Authority at an amount that varies form 5% to 10% of the total investment value, depending on the contract negotiations. Such will guarantee the proper construction of the plant and adherence to operation, maintenance and other the contract terms for the concession period.

#### **8. Guaranteeing of Concession benefits**

In accordance with the market rules the operator may sign a power purchase agreement with the Public Wholesale Supplier and will sell the electricity to the latter with applicable tariffs, set by ERE.

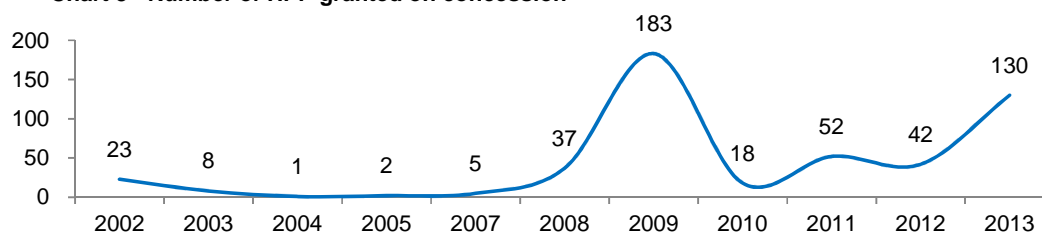
## 9. Other terms related to the projects risks

In the case of complex and risky projects, the contract foresees allocation of certain risks and related costs associated to construction of the plant and other project features between the public and private partners.

### Concessions granted during years 2002 - 2013

Based on data reported by AKBN<sup>12</sup>, the Albanian state signed about 170 concession agreements for the construction of 501 HPP across the country during the period from 2002 to 2013.

Chart 3 - Number of HPP granted on concession



The value to be invested under the concession agreement in force is estimated to be above Lek 377 billion for an installed capacity of 2,088 MW and estimated annual power production about 9.055 GWh. If we take into consideration the annual power production of KESH Gen with an average of 4,000 GWh, the total domestic annual output forecasted including KESH Gen and HPPs under concession exceeds the country's energy potentials of 10,000 GWh presented in the National Energy Strategy in 2003<sup>13</sup>.

In 2013, AKBN reported 110 HPP in the production phase with an installed capacity of 295 MW and an estimated annual production of 1,337 GWh (Table 2). According to the ERE, in 2013, private and HPP under concession (excluding HPPs transferred from KESH to Kurum International Sh.A. in 2013) had an installed capacity of 299 MW and produced about 759 GWh.

Out of 501 HPPs under concession, 307 HPPs with installed capacity of 1,127 MW and forecasted energy at 5,288 GWh have not yet started the construction phase. The remaining of 84 HPPs are in the construction phase.

Table 2 – Granted concessions and the concession phase<sup>12</sup>

| Concession phase and the year when HPPs were granted | Number of HPPs | Installed capacity in MWh | Expected annual output in GWh | Contracted investment value (in Lek billion) |
|--|----------------|---------------------------|-------------------------------|--|
| <b>In the construction phase</b>                     | <b>84</b>      | <b>666</b>                | <b>2,490</b>                  | <b>182.0</b>                                 |
| 2007   | 2              | 105                       | 372                           | 18.4   |
| 2008   | 17             | 53                        | 266                           | 8.2  |
| 2009   | 52             | 411                       | 1,438                         | 138.1  |
| 2010   | 4              | 4                         | 16                            | 0.5  |
| 2011   | 9              | 94                        | 398                           | 16.8   |
| <b>Pre-construction phase</b>                        | <b>307</b>     | <b>1,127</b>              | <b>5,228</b>                  | <b>150.0</b>                                 |
| 2008   | 2              | 4                         | 9                             | 0.4  |
| 2009   | 83             | 341                       | 1,623                         | 44.0   |
| 2010   | 14             | 11                        | 64                            | 1.1  |
| 2011   | 37             | 211                       | 1,008                         | 24.8   |
| 2012   | 41             | 76                        | 345                           | 9.3  |
| 2013   | 130            | 484                       | 2,179                         | 70.4   |
| <b>In the production phase</b>                       | <b>110</b>     | <b>295</b>                | <b>1,337</b>                  | <b>45.3</b>                                  |
| <b>Total</b>   | <b>501</b>     | <b>2,088</b>              | <b>9,055</b>                  | <b>377.4</b>                                 |

<sup>12</sup> AKBN officially sent this information to AlbEITI Secretariat for the purpose of this study and the latter authorised its presentation in this report.

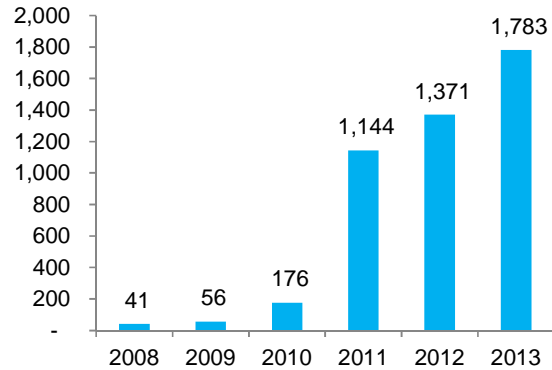
<sup>13</sup> National Energy Strategy, Tirana, July 2003 can be reached in AKBN website: [www.akbn.gov.al](http://www.akbn.gov.al)

Under the normal concession terms, the construction of the plant shall be completed within two years from the concession date. Table 2 above shows that almost all concessions are either in the pre-construction phase or construction phase although two years have passed from the concession date.

Chart 4 presents an estimation of what would have been concession fees generated from the granted concessions if the following conditions were met:

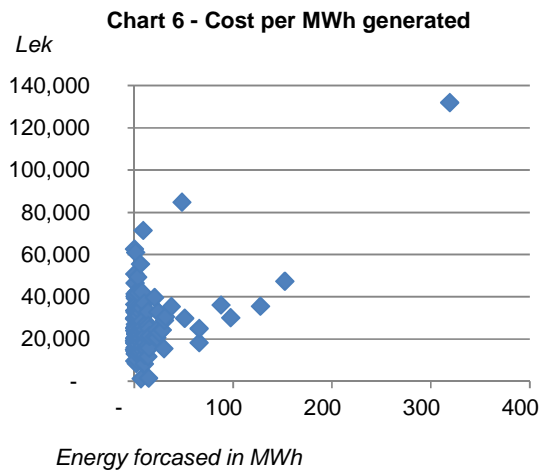
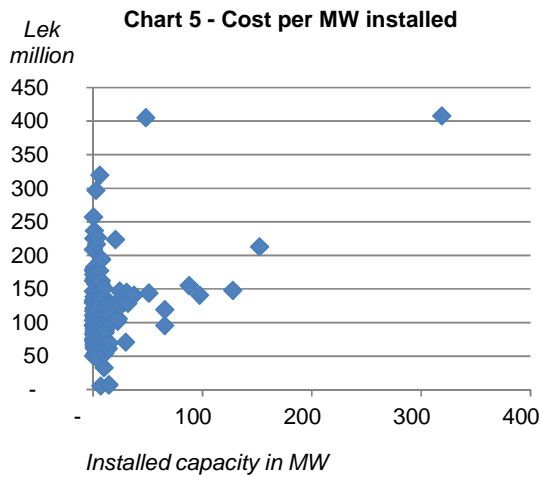
- HPPs would have been constructed in two years, started operations in the third year and generated the forecasted power as set in the concession contract;
- average prices<sup>14</sup> set by ERE were applied for the sale of power generated from private and HPPs under concession;
- concession fee percentage was applied to the forecasted power;

**Chart 4 - Assumed income from concession fees - in million Lek**



As presented in the chart based on such estimations income from concession fees would be about Lek 1.78 billion in 2013.

**Concessions granted – cost of energy**



Based on information provided by MEI<sup>15</sup> investment cost per MW installed varies from Lek 5 million to Lek 400 million, while cost of energy per MWh varies from Lek 1 thousand to Lek 131 thousands.

Chart 5 and 6 above shows data as per concession contracts. AKBN and MEI could not provide information on factual invested costs and installed capacity. No clear correlation can be derived from a simple comparison of the investment level and installed capacity and energy expected to be produced as shown in the charts above. The analysis shall be further substantiated based on the characteristics of the HPPs and surrounding area. Such analysis may serve also as the basis for analysing the viability of the HPPs.

<sup>14</sup> Average prices are derived as a linear average of the tariffs applied by ERE for the private HPPs and new HPPs under concession. These tariffs are constantly published in ERE-s website: [www.ere.gov.al](http://www.ere.gov.al).

<sup>15</sup> MEI officially sent this information to AlBEITI Secretariat for the purpose of this study and the latter authorised its presentation in this report.

## 1.5 Transparency over concessions and licensing for power generation

### **Concession and public-private partnership agreements**

An overview of sites opened to hydropower concession is presented in the AKBN official website: [www.akbn.gov.al](http://www.akbn.gov.al). Investors can consult AKBN on the process and submit their applications at any time to the Contracting Authority - MEI. No fees apply in this phase.

Concessionary companies are selected in accordance with the provisions of the Law No. 9643, dated 20 November 2006, amended "On Public procurement". By the decision No. 130 dated 12 March 2014 the Council of Ministers decided that the procurement of concessions, including acceptance of the projects and communication with the operators will be carried out via the official website of the Public Procurement Agency [www.app.gov.al](http://www.app.gov.al).

Until year 2013, the register of concessions was kept by the Contracting Authority in accordance with the old legislation of the concessions. The new law defines the Ministry of Finance as responsible for maintaining the Concession Register. This register, along with a list of hydropower concessions in force is not made public.

*Technical and non-technical terms of the concession agreements and public-private partnerships are confidential and cannot be disclosed by any party without the consent of all parties to the concession agreement.*

### **Regulation of the power market**

Regulations and licensing practices for the production, trading and supply of power and the register of licensees for each type license is continuously published on the official website of ERE: [www.ere.gov.al](http://www.ere.gov.al). In the first quarter of the following year, ERE publishes a comprehensive report on the state of the power sector through the reporting period. This report includes information on:

- Generation, transmission and distribution of power
- Regulation and monitoring of operators in the power market
- The activity of licensing and handling of conflicts
- Legislation developments
- Institutional and international relations on the power sector etc.

### **Ownership of private companies**

Information on the shareholders and activity of all companies operating in the Republic of Albania can be accessed at the National Registration Centre website: <http://www.qkr.gov.al/nrc/default1.aspx>.

This information extends to the direct shareholders of the company. The Ministry does not maintain a register listing the all beneficial owners when companies have complex ownership structure and are not listed on the Stock Market.

## 1.6 Monitoring the Concession

MEI in association with AKBN are responsible for monitoring the implementation of concession and public private partnership contracts. AKBN reports to the Contracting Authority the situation of the concessions in the construction phase and related violations on quarterly basis. Currently, AKBN is in the process of evaluation of actual investment and installed capacity for concessions that have completed the construction phase and are in operation.

### 1.7 Audit requirements in Albania

In Albania, every limited liability company (“Ltd” or “Sh.p.k.”), except for small companies, is subject to statutory audit. Law on Audit no. 10091 “On Statutory audit, organization of the registered auditor and chartered accountant profession”, dated 5 March 2009 defines as small companies those that meet two of the following criteria:

- 1) Total assets are lower than Lek 40 million
- 2) An average of no more than 30 persons are employed, and
- 3) Annual revenue does not exceed Lek 30 million.

Limited liability companies electing to report under IFRS for statutory purposes are subject to audit requirements regardless the thresholds set above. Joint stock companies (“JSC” or “Sh.a.”) are subject to statutory audit regardless of their size.

The audit is based on laws, regulations, and auditing standards and practices generally accepted in Albania, including International Standards on Auditing. The Financial statements are submitted to the National Registration Centre ([www.qkr.gov.al](http://www.qkr.gov.al)) within July 31 of the subsequent calendar year.

At present, there are requirements on the independent audit of the performance of the concession and public-private partnership terms in Albania, not even as part of the annual statutory audit.

The Supreme State Auditor in Albania performs audits on the State’s activities and accounts. The audit is performed in accordance with laws and regulations for the Office of the Supreme State Auditor, and with the standards and guidelines of the Office of the Supreme State Auditor in its website: <http://www.klsh.org.al/>. The auditing standards and guidelines are based on the INTOSAI standards for government auditing.

## 2 The contribution of hydropower sector to the Albanian economy

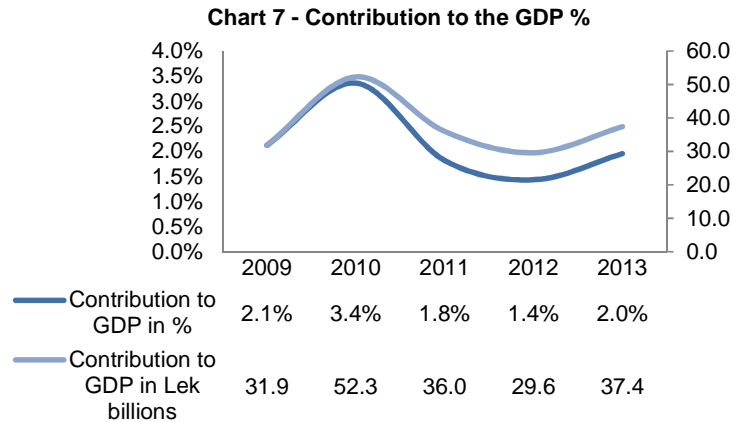
### 2.1 Contribution to gross domestic product

The contribution of the hydropower sector, including generation, transmission and distribution is estimated to be about 37 billion Lek or 2% of GDP in 2013. During the last 5 years, the highest contribution was recorded in 2010 with 52 billion Lek or 3.4 %, when net production reached the maximum level at 7,674 GWh.

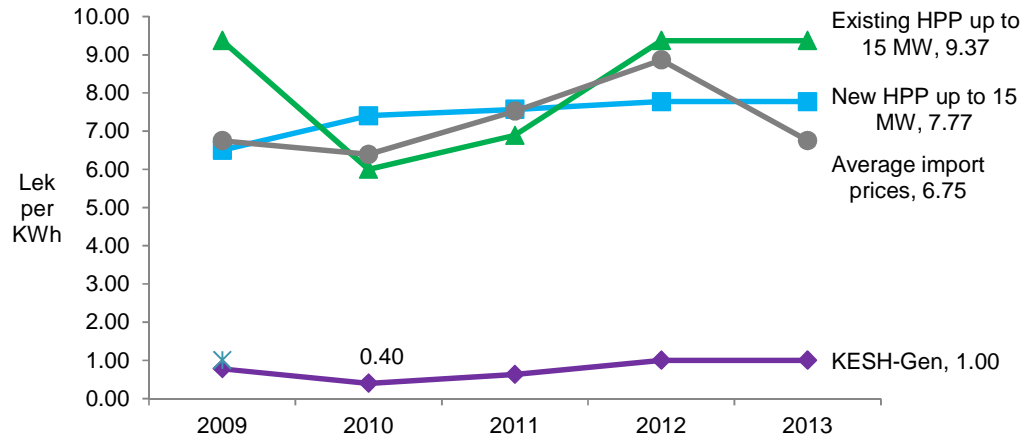
This relatively low contribution is the result of the dominant position of the regulated market where tariffs applied are several times lower than average export or import prices<sup>16</sup>.

In 2009, 97 percent of net domestic power output was generated by KESH-Gen. This ratio gradually decreased to 87 percent of net domestic power output in 2013.

In accordance with market rules, due to a continuous deficit in the power balance, the leading power generator - KESH-Gen sells almost all its production with prices regulated by ERE, which are several times lower than average export prices and regulated tariffs for the HPPs under concession.



**Chart 8 – Tariffs regulated by ERE and the average import price in Lek/KWh**



During these years, KESH-Gen sold power to the Wholesale Public Supplier with regulated tariffs ranging from 0.4 Lek per KWh in 2010 to 1 Lek per KWh in 2013. These prices are several times lower than the prices KESH would have benefited from export over these years as presented in graph 6.

Had all power produced been sold with the international market prices, contribution to GDP would have grown beyond 2%

<sup>16</sup> Import and export prices vary to the demand and supply of power in the international market.

## 2.2 Foreign trade balance

In 2013, power exports were about Lek 4.1 billion or 1.6% of total exports<sup>17</sup>, while imports were at Lek 11.3 billion of 0.3% total imports<sup>16</sup>.

KESH Gen exports daily power surpluses in exceed of the needs for public use. When domestic power generated cannot fulfil the public demand for power and network losses, KESH Gen, WPS and RPS import power in the international market. Serbia and Switzerland were the main import and export partners in the international power market with above 70% of imports and exports during the period from 2009 to 2013.

**Table 3 – Exports and imports of power during 2009 - 2013<sup>18</sup>**

|  | 2009        | 2010        | 2011        | 2012        | 2013        |
|--|-------------|-------------|-------------|-------------|-------------|
| <b>Exports</b>                         |             |             |             |             |             |
| Power exported in GWh                  | 440         | 1,764       | 1,225       | 288         | 938         |
| Value of power exported in million Lek | 2,882       | 10,546      | 6,671       | 1,970       | 4,117       |
| <b>Average export price in Lek/KWh</b> | <b>6.54</b> | <b>5.98</b> | <b>5.45</b> | <b>6.85</b> | <b>4.39</b> |
| <b>Imports</b>                         |             |             |             |             |             |
| Power imported in GWh                  | 2,147       | 1,853       | 3,003       | 3,394       | 1,674       |
| Value of power imported in million Lek | 14,492      | 11,842      | 22,594      | 30,086      | 11,308      |
| <b>Average import price in Lek/KWh</b> | <b>6.75</b> | <b>6.39</b> | <b>7.53</b> | <b>8.86</b> | <b>6.75</b> |

## 2.3 Opportunity cost of network losses

Network losses increased with about 42% in year 2013 compared to year 2009. Had these losses been exported in 2013, missing contribution would be:

- Lek 14.5 billion or 0.7% of GDP estimated with the average export prices and
- Lek 22.3 billion or 1% of GDP estimated with the average import prices

**Table 4 – Opportunity cost of network losses**

|   | 2009   | 2010   | 2011   | 2012   | 2013   |
|---|--------|--------|--------|--------|--------|
| Network losses in GWh <sup>19</sup>                                   | 2,328  | 2,167  | 2,179  | 3,250  | 3,306  |
| In % to domestic power needs  | 35%    | 32%    | 30%    | 43%    | 42%    |
| Contribution estimated with the average export price (in Lek billion) | 15,235 | 12,956 | 11,866 | 22,253 | 14,505 |
| Contribution estimated with the average import price (in Lek billion) | 15,718 | 13,849 | 16,398 | 28,810 | 22,329 |

<sup>17</sup> Foreign trade balance (1993 – 2014 ) - [www.instat.gov.al](http://www.instat.gov.al).

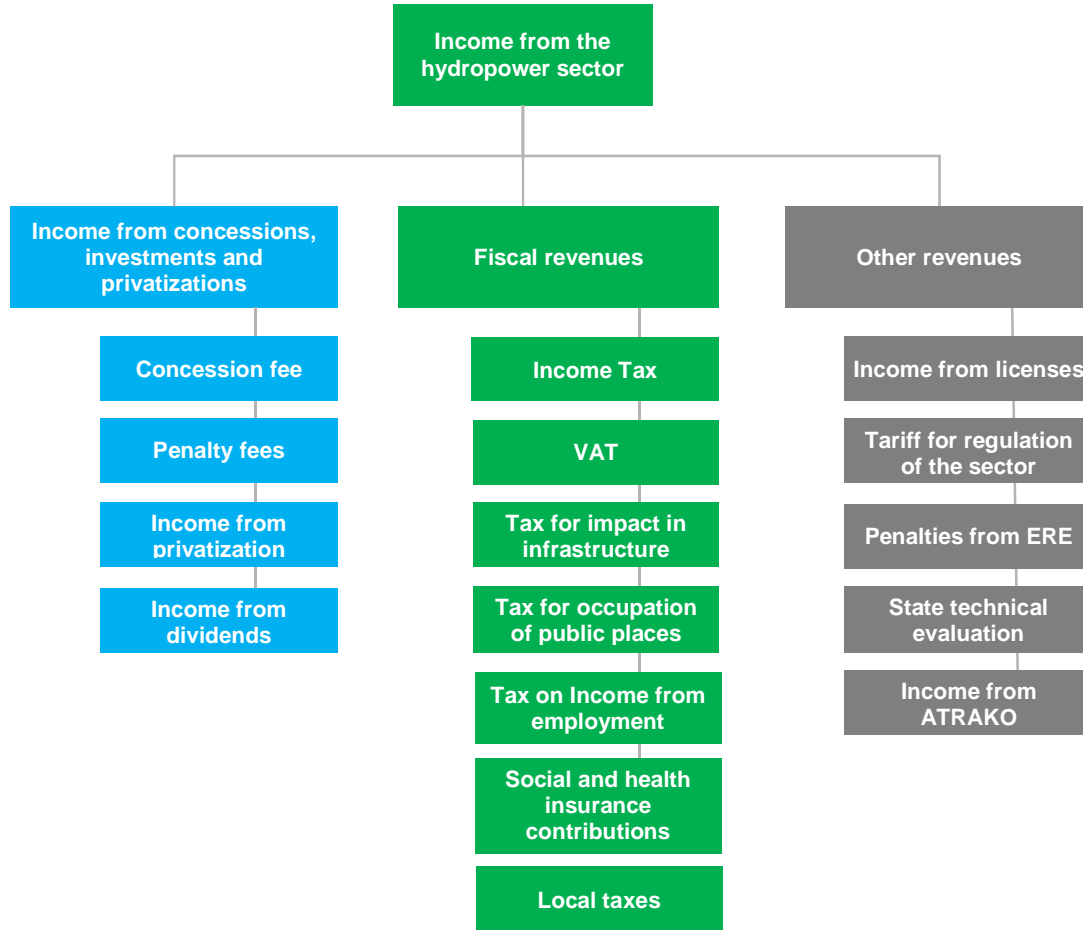
<sup>18</sup> Indicators on imports and exports of power according to the Centre for International Trade [www.open.data.al](http://www.open.data.al).

<sup>19</sup> "Energy balance, 2000 -2013" - [www.instat.gov.al](http://www.instat.gov.al).

## 2.4 Revenues in the State Budget

The Albanian Government receives its share of the value created from the extractive industry through:

- Taxation of activities
- Tariffs / fees and
- Dividends or profit from selling of direct investments in hydropower sector



Main revenue streams contributed by the hydropower sector are described briefly in the following:

### Income from concessions, investments and privatizations

#### Concession fee

Concession fee is paid to the Contracting Authority as a percentage of the value of annual power output generated from the HPP and any other benefit arising from the agreement. This percentage is confidential part of the agreement and differs in various concessions. The fee is calculated as a percentage on each monthly bill for power sold to KESH, and is collected by KESH on behalf of the Contracting Authority, in accordance with Order No. 4 dated January 9, 2012 of the Ministry of Economy, Trade and Energy, responsible for the energy sector at that time.



## **Penalties for non-compliance with concession and PPP agreement**

The concession agreement stipulates penalties for:

- Breach of the deadlines for the submission of the construction project;
- Breach of the terms and conditions of the contract;
- Failure to invest at least 95% of the contracted value;
- Failure to install capacity agreed;
- Failure to produce of the annual power output compared to forecasted output, etc.

Penalties are negotiated as part of the contract negotiations. Contracting Authority benefits the contract guarantee up to 10% of the investment value, if terminates the contract, as a result of the failure of the private partner to fulfil the contractual terms.

## **Income from investments and privatization of state-owned companies**

Power sector is dominated by corporations owned by the Albanian State, represented by the Ministry of Economic Development, Tourism, Trade and Enterprise. As a Shareholder, the State receives dividends distributed out of the companies' net profit and income and revenues from partial or complete sale of its shares.

In March 2009 the Albanian Government sold 76% of shares in the Distribution System Operator priced at 102 million euros to the strategic investor CEZ SA, in attempt to optimize the distribution costs, reduce technical and financial network losses and secure a sustainable supply of power for tariff customers. Privatization was conducted through an international tendering procedure and on which, inter alia, CEZ SA committed to fulfil the minimum technical conditions to improve the supply network and financial situation of DSO.

CEZ operated in Albanian from 2010 to 2012. The Board of Commissioners governing ERE, by the decision No. 158 dated November 16, 2012, decided to start the procedures for the withdrawal of license of retail public supplier and power distribution. In January 2013 the company was sent on temporary administration till the total liquidation in accordance with Law no. 9901, dated April 14, 2008 "For commercialists and trading companies", amended.

On July 31, 2014, under Law No. 114/2014 "On approval of the agreement for settlement negotiations between the Republic of Albania and the company CEZ AS" the Albanian Parliament approved the transfer the shares of DSO from CEZ AS to the Albanian State with a nominal value of 1 euro, provided that the Albanian State should pay to CEZ AS liabilities for loans in the total amount of EUR 95 million.

This amount is payable in five instalments: EUR 10,000,000 upon of the approval of the agreement, EUR 21,750,000 in year 2015 and EUR 21,083,333 in the years 2016, 2017 and 2018.

## **Fiscal revenue**

### **Tax on profit**

Profit tax is levied from the General Directorate of Taxes as a percentage of each company's net profit. Up to December 2013, in accordance with "Law on Income tax" No. 8438, dated 28 December 1998, amended, profit tax in Albania was charged at 10% on net profit. Starting from 1 January 2014 profit tax rate increased to 15% of the company's net profit. Full requirements of this Law apply to the hydropower sector.

### **Value Added Tax (VAT)**

Value added tax applies at 20% of the power supply and services related to power transmission and distribution in accordance with Law No. 92/2014 dated July 27, 2014 "On value added tax" and Law No. 7928 dated April 27, 1995 "On value added tax". Law No. 7928 dated April 27, 1995 was abrogated on January 1, 2015 with the entry into force of the new Law on VAT.

### **Social insurance and personal income tax**

Contributions for social and health insurance are payable in accordance with the Law No. 9136, dated 11 September 2003, amended "On collection of compulsory contributions for the social and health insurance in the Republic of Albania" and Law. No.10383 dated 24 February 2011 "On compulsory insurance of health care" in Albania, amended. Personal tax on income is payable in accordance with the "Law on Income Tax", amended.

#### **Tax on infrastructure impact**

According to Law No. 9632, dated 30.10.2006, amended, "On the local tax system" tax on infrastructure impact is applied at the rate from 2 to 4 percent of the value of the new investment for constructions in Tirana and from 1 to 3 percent for constructions in other districts.

#### **Taxes on occupation of public spaces**

According to Law no. 9632, dated 30.10.2006, amended, "On the local tax system," Municipal Council or Communal Council decides on the level of fee for the use of public space for business purposes and the level of the table tax. They are derived as monthly contribution from the taxpayers in amount of Lek 120/m<sup>2</sup> per month for municipality of Tirana and Durres, Lek 90/m<sup>2</sup> per month for other large municipalities and Lek 60/m<sup>2</sup> for the remainder.

#### **Other local taxes**

Other local taxes of Local Government Units include taxes in accordance with Law No. 9632, dated 30.10.2006, amended, "On the local tax system.

#### **Other tariffs derived from services and regulation of the sector**

##### **Tariffs for licensing and regulation of the power sector**

All tariffs for licensing on production, trade, supply and distribution of power are paid at the time the license is granted, modified or transferred in the amount of Lek 10,000. ERE collects annually by the licensee regulatory fees which are derived on the basis of revenue generated from under the licensed activity. These revenues are part of the budget of ERE and are used to cover the operating costs of the institution.

##### **Penalties for non-compliance with ERE rules and guidelines**

Penalties for administrative offenses are enforced by ERE in accordance with Article 64 of the Law on Power Sector in force, in case of failure to submit the regulatory reports and the lack of violations of market rules. They range from 0.1% to 3% of annual income.

##### **Service tariffs for Technical Evaluation**

AKBN collects fees for the technical evaluation services in accordance with CMD. No. 191, dated March 22, 2007 "For the establishment of state technical evaluation for construction projects of HPP under concession". Fees for technical evaluation are determined in accordance with CMD no. 444, dated September 5, 1994 "On the study fees for the design, supervision and acceptance of construction works". These fees range from 2.1% to 8.4% of the value of the construction project, in example: for construction projects budgeted at Lek 300 million fees are estimated to be Lek 7.5 million (2.5% \* 300 million).

## Tariffs for ATRAKO's services

Following to the CMD No.150, dated March 22, 2007 "On the organization and functioning of the agency for concessions' treatment (ATRAKO)", as amended by Decision 191 dated March 13, 2012, ATRAKO supports the Ministry in evaluating and negotiating concessions and is rewarded by the winning concessionaire when the contract is signed with an amount that ranges from 5,000 euros for projects up to 5 million euros to 30,000 euros for projects over 50 million euros.

Until February of 2012, ATRAKO benefited a fee ranging from 1% to 2% of the investment value.

Table 3 below summarizes the income reported for the purposes of this study, by collecting institutions from the production, transmission and distribution entities operating in the power sector.

**Table 5 – Summary of revenues from the hydropower sector**

|   | Beneficiary Institution | Allocation according to Budget | 2011           | 2012           | 2013           |
|---|-------------------------|--------------------------------|----------------|----------------|----------------|
| <b>Income from concessions, investments and privatizations</b>  |                         |                                | <b>232.6</b>   | <b>353.9</b>   | <b>981.1</b>   |
| Concession fee  | MEI                     | State Budget                   | 12.1           | 35.9           | 134.3          |
| Penalties for non-compliance with concession and PPP agreement  | MEI                     | State Budget                   | 92.3           | 178.4          | 191.9          |
| Penalties for non-compliance with ERE rules and guidelines      | MEI                     | State Budget                   | -              | -              | 430.0          |
| Dividends   | MEDTTE                  | State Budget                   | 128.2          | 139.5          | 224.9          |
| <b>Fiscal revenues</b>  |                         |                                | <b>9,461.4</b> | <b>7,034.2</b> | <b>7,718.0</b> |
| Income tax  | DPT                     | State Budget                   | 3,417.5        | 1,971.7        | 1,653.6        |
| VAT collected   | DPT                     | State Budget                   | 4,488.8        | 3,580.2        | 4,559.5        |
| Social insurance and tax on income from employment              | DPT                     | State Budget                   | 1,555.0        | 1,477.1        | 1,504.2        |
| Other taxes   | DPT                     | State Budget                   | 0.1            | 5.1            | 0.8            |
| <b>Other tariffs from regulation and services of the sector</b> |                         |                                | <b>75.4</b>    | <b>135.9</b>   | <b>144.9</b>   |
| Tariffs for licensing and regulation of the power sector        | ERE                     | ERE                            | 67.9           | 97.2           | 84.2           |
| Tariffs for State Technical Opponent                            | AKBN                    | AKBN                           | 7.5            | 29.6           | 10.9           |
| Tariffs for services performed by ATRAKO                        | ATRAKO / MZHETTS        | State Budget                   | -              | 9.0            | 49.8           |
| <b>Total of reported revenues</b>                               |                         |                                | <b>9,769.4</b> | <b>7,523.9</b> | <b>8,844.0</b> |
| <b>Total of revenues allocated to State Budget</b>              |                         |                                | <b>9,694.1</b> | <b>7,397.1</b> | <b>8,748.9</b> |
| <b>Total of revenues allocated in State Budget in% of total</b> |                         |                                | <b>99%</b>     | <b>98%</b>     | <b>99%</b>     |

Based on the sector's revenue as summarized above, the contribution to the state budget is estimated at 2.9% in 2011, 2.2% in 2012 and 2.7% in 2013. The revenue summarised above do not include local taxes such as tax on infrastructure impact and tax for occupying public spaces. At the date of publication of this study we do not have information on the size of these revenue streams; however, we believe that local taxes could be material because of the value of the investment and the space occupied by HPP.

Fiscal revenues comprise about 87% of total revenues reported in 2013 (2011: 97%, 2012: 93%). VAT applied to the production, transmission and distribution of power consist in the main revenue stream in year 2013 with about 52% (2012: 48%, 2011: 46%), followed by tax on profit with 19% (2012: 26%, 2011: 35%).

Concession fee represents 1.5% of revenues summarized in Table 6 (2012: 0.5%, 2011: 0.1%). If assumed that all HPPs with concession have completed construction within two years and have produced the level of power as provided in the contract in the third year, concession fee for the year 2013 would be ten times higher as shown below:

**Table 6 – Assumed Concession fee versus the factual concession fee:**

|  | Year 2011 | Year 2012 | Year 2013 |
|--|-----------|-----------|-----------|
| Assumed concession fee in <i>Lek million</i> | 1,143.9   | 1,371.0   | 1,782.9   |
| Factual concession fee in <i>Lek million</i> | 12.1      | 35.9      | 134.3     |
| Size of assumed fee compare to total income  | 11%       | 16%       | 17%       |
| Size of factual fee compare to total income  | 0.1%      | 0.5%      | 1.5%      |

Penalties for breach of contract terms may also be of considerable value in the event that delays or violations have been substantial.

### Guaranties and other transfers between State and State Companies

Alongside the benefits in the form of taxes and fees from hydropower sector, the State injects funds into the sector through investment in equity and direct lending to state-owned companies. The Albanian State, also guarantees the banking and other loans granted to the state-owned companies KESH and TSO. At the end of 2013 loans taken by KESH and OST for the improvement of power generation and transmission infrastructure were as follows:

**Table 7 – Loans taken by KESH in Lek million:**

|  | December 31<br>2011 | December 31<br>2012 | December 31<br>2013 |
|--|---------------------|---------------------|---------------------|
| Ministry of Finance                                | 14,124              | 17,891              | 17,325              |
| Loans from third parties (guaranteed by the State) | 46,568              | 56,082              | 61,996              |
| Sub-loan agreement with TSO                        | (13,167)            | (12,853)            | (13,001)            |
| <b>Total</b>                                       | <b>47,525</b>       | <b>61,120</b>       | <b>66,320</b>       |

**Table 8 – Loans taken by TSOH in Lek million:**

|  | December 31<br>2011 | December 31<br>2012 | December 31<br>2013 |
|--|---------------------|---------------------|---------------------|
| Ministry of Finance                                      | 433                 | 325                 | 218                 |
| Loans from foreign governments (guaranteed by the State) | 7,213               | 8,005               | 9,473               |
| Sub-loan agreement with KESH                             | 12,556              | 12,059              | 12,126              |
| <b>Total</b>   | <b>20,202</b>       | <b>20,389</b>       | <b>21,817</b>       |

Following to the financial difficulties encountered by the power public sector, State guaranteed borrowings are expected to increase further. These loans will be used to finance investments in improving efficiency of the power generation, transmission and distribution and also improvements in measurement of power consumption by the tariffs customers and collections of bills for the power consumed.

In September 2014<sup>20</sup>, the World Bank approved financing of USD 150 million from the International Bank for Reconstruction and Development (IBRD) to be disbursed for the Project of Energy Sector Recovery approved by CMD no. 171, dated February 25 2015 “On Approval of the Plan for the financial recovery of the Power Sector”. The Project will support reforms in the Albanian power sector, particularly those undertaken to improve the reliability of power supply and financial sustainability of the sector, including reforms to diversify the sources of energy production, reduce losses and improve collections, and improve energy market model in accordance with EU directives.

<sup>20</sup> <http://www.worldbank.org/sq/news/press-release/2014/09/29/world-bank-approves-us150-million-project-for-albanias>

### 3 Implementation of the transparency initiative in the hydro-energy sector

#### 3.1 EITI and the hydro-energy sector

##### What is EITI?

The Extractive Industries Transparency Initiative (“EITI”) is a voluntary international coalition of governments, extractive industry companies and civil society organizations engaged in management and use of natural resources, such as oil, gas and minerals (see also: [www.eiti.org](http://www.eiti.org)). EITI’s final aims, is to promote transparency in order to prevent corruption as well as provide citizens with a basis for demanding fair use of revenue.

Alongside other efforts to improve transparency in government budget practice, the EITI begins a process whereby citizens can hold their governments to account for the use of those revenues.

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**A country’s natural resources belong to its citizens. Citizens should have the right to see what their government is receiving from these resources. However, in too many countries this information is not publicly available.**

The transparency initiative is regulated through an international standard that ensures more transparency around countries’ oil, gas and mineral resources, the “EITI Standard”, which replaced the “EITI rules” on July 2013. The EITI standard is developed and overseen by a coalition of governments, companies and civil society. It is based on the belief that prudent use of natural

resources contributes to economic growth, sustainable development and reduction of poverty in resource-rich countries.

Under this standard, companies declare what they pay and governments declare what they receive. These payments are disclosed in an annual EITI Report which shall be comprehensive and actively promoted to allow citizens to see for themselves how much their government is receiving from their country’s natural resources and demand for fair use of the revenue.

##### EITI in Albania

The Extractive Industries Transparency Initiative in Albania (ALBEITI, [www.albeiti.org](http://www.albeiti.org)) was established in 2009 by the Government of Albania with the purpose of promoting good resource governance through the implementation of the international criteria and principles of the EITI. Albania joined EITI as a candidate in May 2009 and obtained the EITI compliant status in May 2013. Four annual reports were produced for the years 2009, 2010, 2011 and 2012.

The process is overseen by the Albanian Multi-stakeholder Group (“MSG” or the “Albanian Working Group”), regulated by Public Order No. 71 dated 21 July 2011, chaired by the Deputy Minister of the Ministry of Energy and Industry and composed of various EITI stakeholders including the Government, extractive companies, civil society etc. The Albanian Working group is the decision-making body supervising the implementation of EITI in Albania. The Albanian MSG is supported in its work by the EITI Albania Secretariat (“ALBEITI”).

Alongside, implementation of this initiative in the extraction of oil, gas and mining the Albanian Working Group aims to implement this transparency initiative also in the hydro-energy sector.

Albanian Working Group is comprised as follows:

#### Government of Albania

- Mr. Ilir Bejtja Deputy Minister of Energy and Industry – Chairman
- Mr. Dritan Spahiu Ministry of Energy and Industry
- Mr. Mehmet Hasalami Ministry of Energy and Industry
- Ms. Arjana Dyrmishi, Ministry of Finance
- Ms. Ermonela Xhafa Ministry of Justice
- Ms. Alketa Knuti General Directorate of Tax
- Mr. Bislim Boshnjaku Albanian Geological Service
- Mr. Jorgo Thanas National Agency of Natural Resources
- Mr. Pandi Duro Albanian Custom Administrate

#### Civil Society Organizations

- Mr. Ilir Aliaj Centre for Development and Democratization of Institutions
- Ms. Anila Hajnaj Albanian Centre for Development and Integration
- Mr. Sami Nezaj Centre for Transparency and Free Information
- Mr. Erald Kapri Youth Media Albania
- Mr. Fatbardh Zeneli Albanian Centre for International Rights

#### Interest Groups

- Mr. Omer Dashi Bankers Petroleum
- Mr. Saimir Boka Albchrome
- Mr. Perparim Alikaj FIAA
- Mr. Fatbardh Ademi Stream Oil and Gas
- Mr. Dritan Dervishaj Antea Cement
- Ms. Migela Xhani Beralb
- Ms. Andia Beluli Petromanas

#### Annual Reporting

According to the EITI Standard, licensees and the Government bodies shall report payments made and revenues received annually and these shall be reconciled by an independent administrator as part of continuous implementation.

#### Scoping of hydro-energy sector

The hydro-energy sector, despite the relatively low contribution to GDP and to the State Budget, has shown to be a vital contributor in the sustainable economic development of the country. Alongside with its direct input in the economy through domestic product, generation of fiscal and other budget revenue, employment of workforce and foreign trade balance etc., the hydro-energy sector has a crucial impact in the cost of doing business and living in the country though the sustainable supply of power and related cost.

The power generation and distribution sectors are currently regulated by an independent body. The Government of Albania is working towards liberalization and competition in accordance with EU directives.

The market is dominated by state-owned companies that provide generation, transmission and distribution of electric power in the benefit of the Albanian citizens. Opening towards privatization and public to private partnership to improve the quality and cost of energy in general, makes this sector susceptible to transparency on the private partners' performance.

In this context, the implementation of the initiative in this sector would be beneficial through making transparent the key drivers of the sector performance and its contribution to the Albanian economy. Accordingly the report shall disclose:

- **Relations between the State and the state-owned companies, including costs spent by the State budget in subsidizing the sector through transfers made to the state-owned companies**

This would include revenues the State derives from direct participation in the sector but also investments and funds injected in form or quasi-fiscal expenditures, such as subsidized lending to the state-owned companies, funds disbursed for indemnification etc.

As a result the state-owned companies including KESH, TSO and OSHEE shall report the following:

- Loans from the State budget or guaranteed from the State and related terms;
- Dividends paid to the State budget;
- Subsidies obtained to cover operations' deficit and or indemnification for damages caused etc.

Depending on their materiality or sensitivity these transactions could be reconciled to the counterparty's disclosure.

- **Relations between the State and the key private investors**

The State shall disclose the strategy for the sector development and the progress of strategic private investments. For main concessions / public to private partnership agreements the State shall also disclose the criteria followed for awarding the contracts, key terms and key performance indicators, the progress of any strategic private investment and benefits derived it, etc.

The State shall disclose the terms of acquisition or disposal of shares and major privatisations. Revenues derived from privatisations and cost of acquisition shall be separately disclosed in the report including details of the business valuations attached to the transaction.

Major privatisations give rise to significant transfer of revenue to the State budget. The State shall disclose allocation of these funds to the State budget's programs and specify if remarked to any specific investment program.

- **Energy transactions within the country and imports and exports with other countries**

The report must disclose volumes and value of main energy transactions the State-owned companies performed outside the regulated market including internal transactions, imports and exports and related counterparties. This may require additional reporting from the TSO which regulate the energy flows and payments in the network.

- **Cost of energy and impact of different factors in the network losses**

Operations inefficiencies and financial losses affect significantly the cost of energy. The level of losses shall be disclosed and compared to the State's program for the reduction and management of these losses. ERE could extend this analysis to show the key drivers impact the components of energy and regulated tariffs.

### 3.2 Leading production companies

The analysis of payment streams in 2.5 shows that the main flows from taxes and tariffs are generated by the activity of production, transmission and distribution. Year 2013 counted about 50 power production companies, of which the largest producers, with an annual output of above 30 GWh were as follows:

**Table 9 – Largest power production companies<sup>21</sup>**

| No.                              | Company                      | Sector  | Installed capacity in MW | In % to total installed capacity | Production in GWh | In % to total sector output |
|----------------------------------|------------------------------|---------|--------------------------|----------------------------------|-------------------|-----------------------------|
| 1                                | KESH Gen                     | Public  | 1,350                    | 71.9%                            | 6,070             | 87.2%                       |
| 2                                | Energji Ashta shpk           | Private | 48                       | 2.6%                             | 211               | 3.0%                        |
| 3                                | Kurum International sh.a     | Private | 78                       | 4.2%                             | 127               | 1.8%                        |
| 4                                | Balkan Green Energy sh.p.k   | Private | 18.5                     | 1.0%                             | 55                | 0.8%                        |
| 5                                | Energy Plus shpk             | Private | 30.6                     | 1.6%                             | 53                | 0.8%                        |
| 6                                | Erdat Lura                   | Private | 9.68                     | 0.5%                             | 53                | 0.8%                        |
| 7                                | "Gjo.Spa.POWER sh.p.k        | Private | 20.16                    | 1.1%                             | 43                | 0.6%                        |
| 8                                | HEC Tervoli shpk             | Private | 10.6                     | 0.6%                             | 40                | 0.6%                        |
| 9                                | Albanian Green Energy sh.p.k | Private | 9.2                      | 0.5%                             | 36                | 0.5%                        |
| 10                               | Power Elektrik Slabinje shpk | Private | 13.8                     | 0.7%                             | 38                | 0.5%                        |
| <b>Total 8 largest producers</b> |                              |         | <b>1,589</b>             | <b>84.6%</b>                     | <b>6,682</b>      | <b>96.0%</b>                |
| <b>Total annual power output</b> |                              |         | <b>1,878</b>             | <b>100.0%</b>                    | <b>6,956</b>      | <b>100.0%</b>               |

Power generated from the public sector accounts for about 87% of total power production in the country. Production from private HPP listed above constitutes about 74% of the total output of the private sector in 2013 of 886 GWh.

In addition to revenue streams generated from production activity, concessionaries in the construction and pre-construction phase can result in significant payments of penalties due to delays and other fees for local taxes such as tax impact on infrastructure etc. In selecting reporting companies not in the production phase, an analysis shall be conducted on the size of the concession and breaches in contractual terms.

<sup>21</sup> Report "On Power sector situation and ERE's activity" published by ERE for year 2013 – [www.ere.gov.al](http://www.ere.gov.al).



### 3.3 Reported payments and other relevant information

Following to the analysis in section 2.5, the following payment streams shall be included in the reconciliation process:

- revenue directly related to concessions, investments and privatizations in the sector,
- fiscal revenue, and
- other revenues from the sector regulation and other services.

|   | Frequency of payments | Basis of calculation                                    | Percentage                | Beneficiary institution |
|---|-----------------------|---|---------------------------|-------------------------|
| <b>Revenue from concessions, investments and privatisations</b> |                       |   |                           |                         |
| Income from privatisation of HPPs                               | Add hock              | n/a   | Varies                    | MEDTTE                  |
| Concessionary fee   | Monthly               | Power produced or production forecasted in the contract | Varies                    | MEI                     |
| Penalties for breach of concession terms and conditions         | n/a                   | Investment value or other basis                         | 0.1-10%                   | MEI                     |
| Penalties for violations of ERE's rules and regulations         | n/a                   | Annual revenue  | 0.1-3%                    | MEI                     |
| Dividends   | Annual                | Profit after tax  | Varies                    | MEDTTE                  |
| <b>Fiscal revenue</b>   |                       |   |                           |                         |
| Tax on profit   | Annual                | Fiscal profit   | 2013: 10% / 2014: 15%     | GDT                     |
| VAT   | Monthly               | Taxable revenue   | 20%                       | GDT                     |
| Social and health insurance and personal income tax             | Monthly               | Employee salaries                                       | Varies                    | GDT                     |
| Other taxes   | n/a                   | n/a   | Varies                    | GDT                     |
| Tax on infrastructure impact                                    | Before construction   | Investment value  | 1-4%                      | LGU                     |
| Tax on occupation of public spaces                              | Annual                | Space in meter square                                   | 60 – 120 Lek/ m2          | LGU                     |
| <b>Tariffs from other services and sector regulation</b>        |                       |   |                           |                         |
| Tariffs for licensing and sector regulation                     | Annual                | Annual revenue  | Varies                    | ERE                     |
| Consulting of public partner by ATRAKO                          | n/a                   | Investment value  | 10,000 Euro – 30,000 Euro | ATRAKO / MEDTTE         |
| Tariff for the technical evaluation                             | n/a                   | Investment value  | 8.4 – 2.1%                | AKBN                    |

Relationships and payment flows between the State and state-owned companies KESH, TSO and DSO and the relationships and transactions among these companies need to be clearly described and reconciled in the EITI report. Such payments or the lack of these might have a significant impact on the financial situation of the sector and cost of power.

### 3.4 Key steps for implementation of EITI in the hydro-energy sector:

#### 3.4.1 Communication with the interests groups and their involvement in MSG

In the context of the inclusion of this sector in the agenda of the transparency initiative, MSG and AlbEITI must communicate and coordinate the details of the implementation of this initiative and related barriers with stakeholders including production companies and regulatory institutions.

MSG must include new members representing the companies in this sector and responsible institutions and departments which monitor and regulate the industry in order to increase awareness and coordination of activities of EITI in this sector.

#### 3.4.2 Selection of the Reporting entities and materiality threshold

In accordance with the EITI standard, point 4.2, "Payments and revenues are considered material if their omission or misstatement could significantly affect the comprehensiveness of the EITI Report". A description of each revenue stream is presented in session 3.3.

In establishing proposed materiality definitions and thresholds, we considered the size of energy production to the relative to total production. Information on revenue from the sale of energy generated by each licensee could not be accessed at the date of this report.

In section 3.2 largest producers are listed based on production volumes. The largest public power generating company, KESH Gen, accounted for 87.2% of total energy produced in 2013, followed by Energji Ashta and Kurum International, accounting for respectively 3% and 1.8% of total energy produced in 2013. Accordingly the three largest producers which generated above 100 GWh during 2013, account for 92.1% of total power generated with an installed capacity of 1,476 or 78.6% of total capacity installed in the country. If the selection is extended to the 10 largest power producers in 2013, the selected reporting companies would comprise 96% of total power produced in 2013 and generated out of 84.6% of total installed capacity in the country.

In addition to the largest producers, we would recommend including also the largest investors in the construction and pre-construction phase. According data reported by AKBN<sup>22</sup>, the 10 largest concessions in the preconstruction phase, based on the size of forecast energy, are as the followings:

**Table 10 – Largest investors in the construction and pre-construction phase<sup>21</sup>**

| No. | Concessionary company   | Status             | Location                      | Concession date | Installed capacity in MW |
|-----|---|--------------------|-------------------------------|-----------------|--------------------------|
| 1   | "Devoll Hydropower" ShA   | Under construction | River Devoll                  | 2009            | 319                      |
| 2   | Joint venture of "Constructora Quebec Ltda", "Orteng Equipamentos e Sistemas LTDA", "Genosumi Ltd", "Pellumb Cela" shpk | Pre-construction   | Revier Osum                   | 2013            | 152                      |
| 3   | Joint venture of "Interenergo Albania"sh.p.k "Poteza Skupina" D.D dhe "SGP Pomgrad"D.D                                  | Pre-construction   | Cascade of HPP in river Shale | 2009            | 128                      |
| 4   | Beg S.p.a   | Under construction | Kalivaç                       | 2007            | 100                      |
| 5   | AYEN Energy A.S   | Under construction | Cascade of River Fan i Vogël  | 2011            | 88                       |
| 6   | Joint venture of "Telemenia-ALB" & "F.K Generators & Equipment" ltd & "Inter Industries" ltd                            | Pre-construction   | River Curraj                  | 2011            | 98                       |
| 7   | Joint venture of "Vellezerit Tola", "Arti" dhe "G.P.A. Konstruktion" shpk   | Pre-construction   | Egnati-Shushice               | 2013            | 65                       |
| 8   | "Valboan Project Company" shpk  | Pre-construction   | River Shkumbin                | 2011            | 65                       |
| 9   | Joint venture of Caraglio & Hertis"   | Pre-construction   | Cascade of Valbona River      | 2013            | 51                       |
| 10  | "Gener 2"   | Pre-construction   | Zalli Qarrishtes              | 2013            | 36                       |

<sup>22</sup> AKBN officially sent this information to AlbEITI Secretariat for the purpose of this study and the latter authorised its presentation in this report.

The first five largest investments amount collectively Lek 214 billion or 64% of the total investments under construction and pre-construction phase comprising collectively Lek 332 billion as shown in Table 2. If the selection is extended to the ten largest investors than the investment coverage ratio would increase to 77%.

### 3.4.3 Addressing confidentiality and regulatory matters

With the inclusion of the hydro-energy sector AlbEITI shall set the reporting requirements and framework for the collaboration through signing of Memorandum of Understandings for the key market players such as ERE, KESH, DSO, TSO, large private producers etc. and enforce reporting requirements through issue of EITI regulation for the rest of the reporting participants.

Reporting requirement for the recipient Government institutions currently conflict with their statutory duty to maintain confidentiality over the information obtained in terms of their regulatory duties in accordance with tax law and regulation and the provisions of the concession and PPP agreements. These confidentiality provisions, referred to in the laws applicable to tax and custom procedures in Albania<sup>23</sup>, allow access to the data only upon explicit consent from the Licensee. In addition, Government bodies may exchange the data under strict confidentiality terms.

If the data will be published in the report disaggregated for each company separately, MSG and ALBEITI should receive confirmation for publication for each reporting submitted by the companies. This confirmation must authorize the collection governmental institutions to present information for the respective companies in the EITI Report.

### 3.4.4 Disclosure of total government revenue

We could not obtain a full disclosure of Government revenue from the hydro-energy sector for the years 2011, 2012 and 2013. We understand that the Government revenues and expenditures are recorded through a single cash management system: the Treasury system. This system can provide information on a monthly basis on revenue generated for each tax. The current public charter of accounts set up in the system, cannot identify and separately account the revenue generated from the extractive industry as a whole and disaggregated by taxes.

Starting from January 1, 2015 the General Directorate of launched a new management information system that would account for and report comprehensive information for all taxpayers and cash flows.

We recommend EITI Albania collaborates with the Tax authorities to build in the new tax system, the EITI reporting requirements on contextual information and tax payments made from individual companies. This change requires cooperation from the Ministry of Finance and maintenance of an updated public licensees register for the licensees and concessionary companies. Same register should be furnished in real-time to all government institutions receiving and administering taxes.

### 3.4.5 Other matters

#### *Discrepancies in the concessionaries data*

During the study noted the lack of a common register between MEI and AKBN containing necessary information for monitoring of the concessions. The data obtained from AKBN showed a different number of concessions and HPP compared to data obtained from the Ministry. Comparability between the two records became difficult as a result of use of different names for the location of HPPs and the concession companies.

In the analysis presented in this study we considered:

- AKBN's data for general sectors' statistics on HPPs, Concessions and their stage; and
- MEI's data on statistics and analysis related to concession fee.

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<sup>23</sup> Law No. 9920, dated 19 May 2008 "On tax procedures in the Republic of Albania, amended" and Law No.8449, dated 27 January 1999 "Custom Code in the Republic of Albania, amended".

As part of the collaboration between the two institutions in monitoring concessions and ongoing implementation of the transparency initiative, we recommend to identify changes and correct data in both registered and using the concessionary company as the connecting point.

***Availability of information on exports***

For the purpose of this report, AlBEITI requested from the Customs authority and the TSO information on the value and quantity of power imported and exported in total and by country of import or export. Such information was not obtained until the date of this report and accordingly information on the value and prices and export destinations were not based on sources officially confirmed by the Governmental bodies responsible for accessing and management of this information.

In the light of on-going implementation we recommend AlBEITI agree the TSO and the Customs authority information requested to be presented in the contextual information in accordance with requirements of EITI Standard, point 3.5.

#### 4 Methodology and work performed

We conducted our study in accordance with the Terms of set forth in our contract (“the Consultancy contract”) dated February, 11 2015 “To perform a scoping study for the assessment of the contribution of the hydro-energy production sector to the Albanian economy and its inclusion under the “cadre” of Albania EITI reports”

The objective of our engagements was to produce a report which will inform the MSG’s on facts related to the inclusion of hydro-energy sector under the “cadre” of EITI reports with the objective to enhancing the scope of Albania EITI reports. Accordingly we:

- collated the necessary contextual information with regard to the Hydro-Energy sector in Albania and the general contribution of this sector to the Albanian economy;
- defined the companies, state-owned enterprises and government entities expected to report;
- analysed and summarised production volumes and contribution to the State Budget and i
- identified barriers to disclosure of the information in the report.

We undertook a review of all past EITI Reports and gain an understanding of the current scope and state of EITI reporting process in Albania to understand the nature of the data and information that needs to be analysed and provided with regard to the hydro-energy sector in collaboration with the following state agencies:

- Albanian Energy Regulator - ERE,
- Ministry of Energy and Industry - MEI,
- Albanian Power Corporation - KESH,
- National Agency of Natural Resources – AKBN, and
- General Tax Directorate - DPT

For the purpose of this study, the MSG and ALBEITI requested the industry regulators, and fiscal Government agents to furnish AlbEITI with macroeconomic data, production volumes, exports, and revenue collected from the hydro-energy sector during the period 2011 – 2013.

We performed our scoping study in accordance with the EITI Standard amended on January 1, 2015. Accordingly we performed the following procedures:

- Summarized the legal framework and fiscal regime governing the hydro-energy sector in accordance with the EITI Requirement 3.2.
- Provided an overview of key features of the sector in accordance with EITI Requirement 3.3.
- Summarised the contribution of the Hydro-energy industries to the Albanian economy for 2013, in accordance with EITI Requirement 3.4, including the following:

- a) Size of the domestic production, transmission and distribution of power in absolute terms and as a percentage of GDP. No accurate estimates could be found on informal sector activity.
- b) Government revenues generated by the extractive industries (including taxes, concession fee, tariffs and other payments) in absolute terms and as a percentage of total government revenues.

Total governments revenue on the sector, including central and local government cannot be easily retrieved in aggregate level due to limited MIS reporting system at Central and Local government level. AlbEITI sent official request to the DPT, AKBN, MEI, ACA in order to furnish information on taxes paid by the production companies. Where information on total revenue was not available we analysed materiality of the missing benefit streams through analyses of the basis used to derive these revenue streams.

- c) Exports and imports of power in absolute terms and as a percentage of total exports.
- d) Key regions/areas where production is concentrated.

- e) At the date of this report we did not obtain comprehensive data on employment in the sector in absolute terms and as a percentage of the total employment.
- Identified sources of information about production data and summarised production volumes, exports, power losses and key power generating regions in accordance with EITI Requirement no. 3.5. Production volumes are published in the annual report produced by ERE.
  - Identified and described State's participation in the sector and conditions governing relationships between the State and the state-own companies and between the state-owned companies in accordance with EITI Requirement 3.6.
  - Undertook a comprehensive analysis of the payments and government revenue streams related to the sector in 2013, noting in particular the revenues streams that must be covered in accordance with EITI Requirement 4.1 and made recommendations make recommendations as to which of these tax payments and government revenues streams should be considered material, including suggesting materiality thresholds for company disclosure if appropriate (with reference to the guidance note<sup>24</sup> and EITI requirement 4.1).
  - Based on the proposed materiality definition, developed a preliminary list of the companies that make material payments and should be covered in the EITI Report (EITI requirement 4.2.a).
  - Based on the proposed materiality definition, identify which government entities should be required to report and whether sub-national government entities receive direct or indirect revenues from the sector in accordance with Requirement 4.2(d) and Requirement 4.2(e).

#### **Disclaimer**

Our work is limited to gathering and analysing the information presented in this study in accordance with the terms of references integral part of the consultancy contract. Our work did not extent to providing assurance or reconciliation of on the data and information presented in this study. All sources of information are clearly referenced across the study.

#### **Acknowledgements**

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<sup>24</sup> Guidance note on defining materiality : <http://eiti.org/document/guidance-notes>