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THE 2007 ENERGY CRISIS

Bujar Nepravishta
ERE Chairman

Why is Albania in crisis?

1. The energy system is not able to meet normal domestic demand for energy.
2. KESH supplies the country with electric power and applies scheduled cuts due to the difficult situation in the power sector.

The Energy System

The Unique Energy System was established in 1957.

Until 1990, the installed capacity was 1,660 MW, of which 1,446 MW came from Hydropower Plants and 219 MW from thermal plants, which is 85% and 15%, respectively.

Thermal Plants closed after 1990.

In 2007, the total capacity of the Energy System is 1,446 MW.

Characteristics of the Energy System

In 2007, Hydropower Plants generate 100% of power in Albania.

As a result, power generation depends completely on weather conditions, thus reducing the installed capacity of generation resources to 1,446 MW or 15% less.

From a hydrological point of view, the majority of the Albanian river flows do not come from natural water springs, rather, they are created from water collectors that gather rain and melted snow during the year.

Due to the specific nature of our rivers, the range of river flows change from maximum to minimum over 100 times.

Characteristics of the Energy System

The before stated reasons determine the state of the energy system in Albania. It is a system which is completely dependent on the weather conditions, and as a result, power generation cannot be stable.

As for the 50% reliability and probability scale, the annual power generation is estimated to be 5.5 TWh, at 4.3 TWh for a 75% reliability scale, and at 3.4 TWh for a 90% reliability scale.

Some Conclusions

- Characteristic of the Albanian energy system is that it is 100%-reliant on Hydro resources.
- The power generated by our electric system is completely dependent on Hydro conditions. Since Hydropower is so dependent on weather conditions, it is unstable.
- No generating source has been added to our energy system since 1986.
- From 1990 until now, the generating capacity of the Albanian electric system dropped by 15% and is increasingly more dependant on weather conditions for generating electricity.

Some Conclusions

- Since 1998, the Albanian power system has not been able to satisfy domestic demand for power, and as a result, Albania has become a net power importer.
- Since 1985, no new interconnection lines have been constructed in the Albanian electric system.
- Considering the above reasons, management of the Albanian Electric System is highly risky.

Why Are New Resources Not Built?

- Until 1998, the Albanian Electric System satisfied the country's demand for electric power and even exported certain amount. Power cuts occurred due to the overload in the fragile distribution system and network defects.
- Until 2001, the World Bank suggested that Albania not set up a new power generation resource, based on the rationale that power losses in the system that are avoided would equal a power generation resource with a capacity of over 2 TWh.
- Following the 2001-2002 winter crisis, and noticing a positive trend in regard to power loss reduction, the World Bank released funding and allowed the construction of new power generation resources—
- mainly thermal plants.

Why Are New Resources Not Built?

- From 2001 to 2007, the government was not able to build new thermal plants.
- In 2002, work started on building the Kalivac Hydropower Plant at 80 MW capacity, which is still under construction.
- This year, the contract was signed for the construction of Vlora Thermal Plant, with 97 MW installed capacity, and is expected to finish within 24 months.

Why Are New Interconnection Lines Not Built?

- Since 1995, the National Power Strategy, and all subsequent parts of this strategy planned the construction of 400kV interconnection lines, Elbasan-Tirane-Podgorice (Montenegro line) and Tirane-Vau i Dejes – Prishtine (Kosovo line), as well as of the 400/220 kV Kashar substation, and the new National Dispatch Center.
- The construction of these facilities, except for the Kosovo line, is funded by German and Italian Governments via credits. These facilities are not yet built due to extremely long administrative procedures.
- In July of this year, the agreement was signed for the construction of a 400 kV Tirane-Podgorice segment that is expected to last 24 months. The procedure is underway for the other parts of the project that is funded by the Italian Government.

The Map of Interconnections



Why did the 2007 power crisis occur?

When analyzing the causes of the energy crisis that Albania is currently experiencing, it is necessary to take into consideration two important factors:

First, the preventative factor, or what the Albanian government has done so far to avoid the crisis.

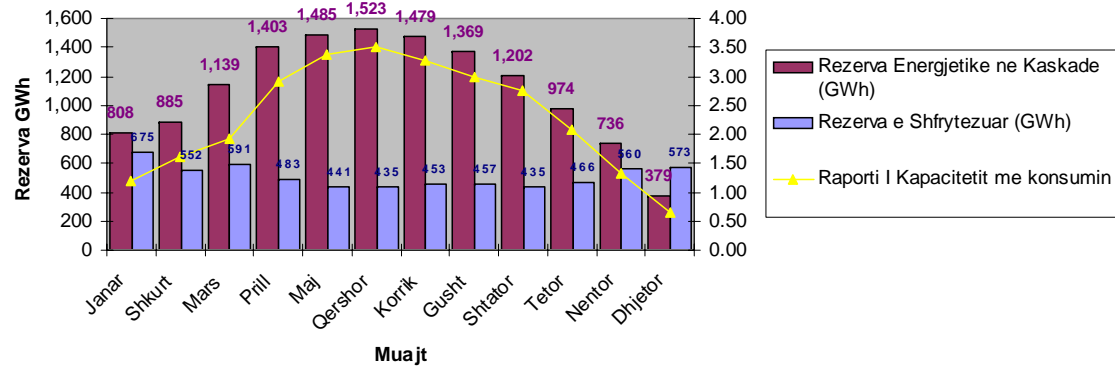
Second, how the Public Company (KESH), which is responsible for the country's power supply, is managing the crisis.

The 2007 crisis management

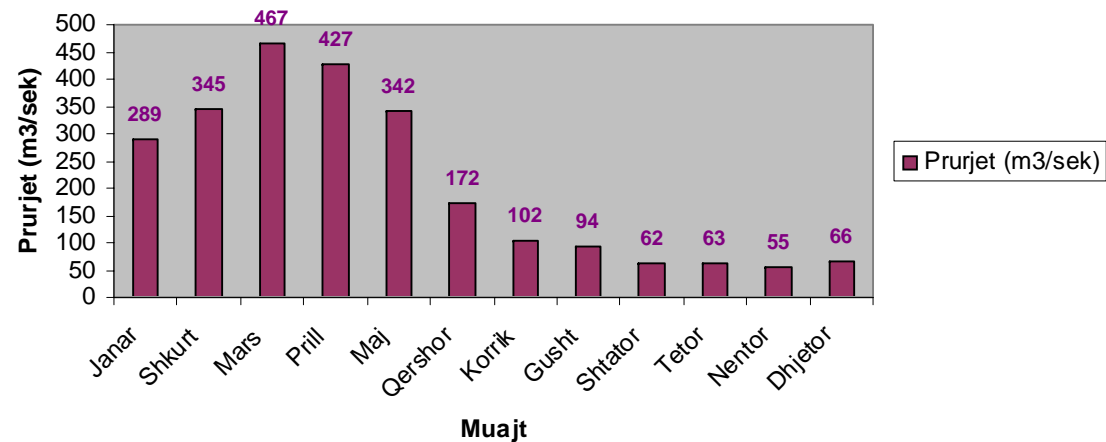
- The Albanian Electric System is moving toward a dire crisis since it depends totally on water resources. It lacks new generating resources, new interconnection lines, and energy imports.
- Until October 2006, water reserves and the Fierza Lake were at optimal levels; however, the Drini river flows dropped significantly at the beginning of June 2006, signaling a dry season.
- On January 1, 2007, the Fierza Lake reached the most critical level for the season, at 255 m and a minimum water reserve estimated at 130 GWh.

The Management of 2007 Crisis

Shfrytezimi i Rezerves Hidroenergetike te Kaskades se Drinit gjate vitit 2006



Prurjet e Lumit Drin ne Fierze gjate vitit 2006 (m3/sek)

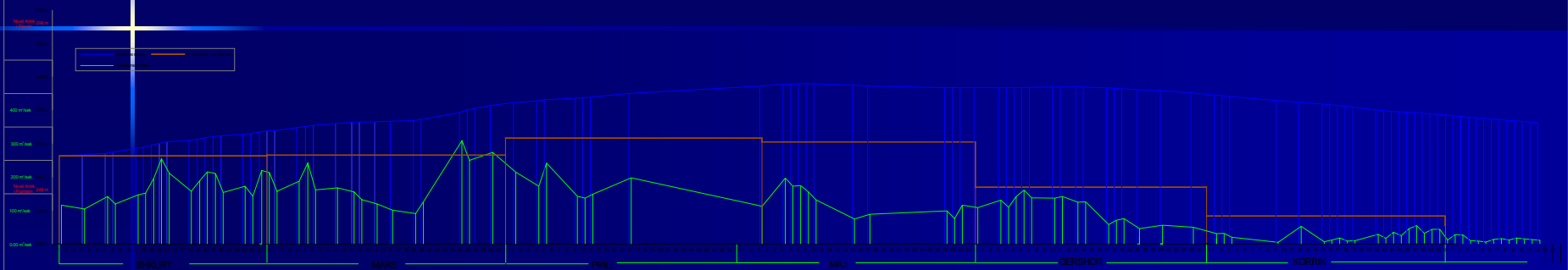


The Management of 2007 Crisis

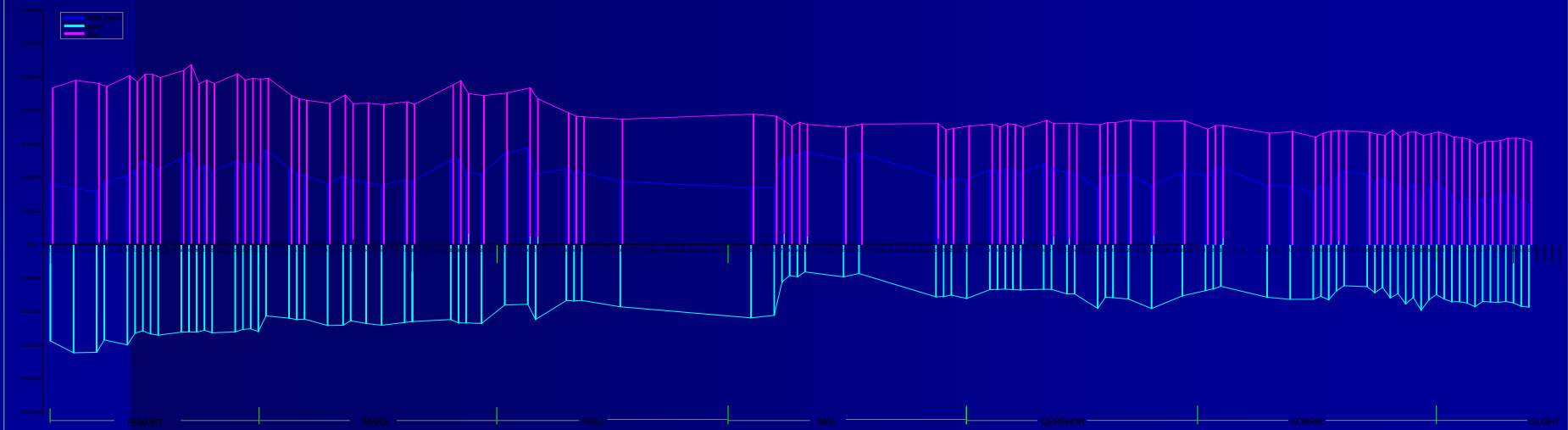
- KESH increased power imports to 10 -12 GWh a day.
- The Fierza Lake level began to increase, and in May 2007, it reached 277.95 m with water reserves at about 650 GWh.
- Later, due to draught and high temperatures throughout the Balkans, KESH had to reduce power imports to 4-6 GWh a day. Subsequently, the Fierza Lake level and the water reserves dropped.
- In order to prevent the quick decrease in the level of the Fierza Lake, in mid-June, KESH imposed a limited power supply regime for the customers, and applied scheduled interruptions.

2007 Crisis Management

NIVELI DITOR I LIQENIT TE
PIERZES NE METRA.



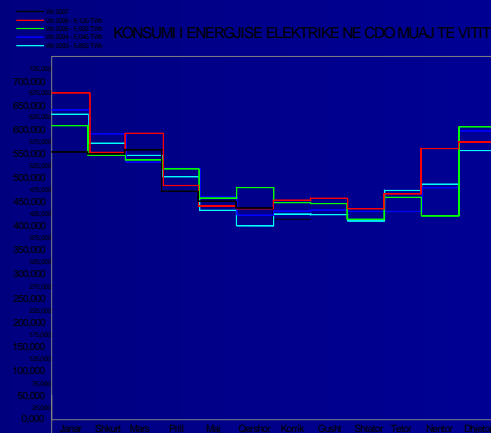
PRODHIMI, IMPORTI DHE KONSUMI
DITOR I ENERGIJE ELEKTRIKE



2007 Crisis Management

- KESH supplies power for customers and, despite extraordinary difficulties, has recorded an average supply level in the last five years.
- In July 2007, due to scheduled power cuts, user supply was 20.7% lower.
- On August 8, 2007, progressive power generation from the beginning of the year was 1.79 TWh, imports were 1.65 TWh, and the power supply was 3.53 TWh. Imports accounted for 47% of the total power supply.

Muaji	Konsumi Energjise Elektrike ne kWh spas viteve					Vlera Mesatare kWh
	2003	2004	2005	2006	2007	
Janar	630,375	639,357	606,835	674,681	552,639	620,771
Shkurt	570,428	589,968	545,621	551,748	548,558	561,243
Mars	545,498	534,166	536,277	591,248	557,046	552,843
Prill	501,387	518,701	517,734	483,170	471,250	498,448
Maj	431,805	460,311	456,923	440,842	450,761	448,128
Qershor	400,341	421,882	478,978	435,302	435,524	434,401
Korrik	423,940	430,411	447,716	452,836	348,519	420,684
Gusht	423,119	432,267	445,963	456,826		
Shtator	409,964	411,325	413,424	435,391		
Tetor	473,010	429,530	458,631	466,030		
Netor	485,790	478,910	420,324	559,624		
Dhjetor	555,419	538,215	604,600	573,139		
Totali Vjetor	5,851,075	5,945,022	5,932,946	6,120,819		



2007 Crisis Management

The crisis management by KESH has shown positive results. Similarly, there have been encouraging results achieved with respect to fee collections, which in June 2007 reached 92.7% compared to 70.4% in January this year. The losses reduction by 32.1% in June as opposed to 41.6% in January this year, have also been encouraging.

Under current circumstances, the most rational alternative to coping with the crisis is to further increase the electric power imports, to continue scheduled cuts, and in September, expand it also to resorts.

2007 Crisis Management

Under continuing draught conditions, it is necessary to install and rent diesel generation equipment in certain centers of the power system.

It is necessary to launch a broad awareness campaign to achieve consumer understanding of strict power savings regime of electricity.

If the draught deteriorates, a state of emergency has to be declared as far as the power supply is concerned.